

Debt Optimization & Debt Restructuring Update

Presented to the Energy Northwest Executive Board

Presented By

Jon M. Dull, Acting Manager

Debt and Investment Management

Bonneville Power Administration

November 2011

Agenda

- Executive Summary
- Background and Program Goals
- Supporting Details
- Debt Restructuring
- Conclusion

Executive Summary

Overview of the program goals and objectives:

➤ **Restore Treasury Borrowing Authority:**

- \$2 billion of Borrowing Authority and \$0.5 billion of Appropriations for a total of \$2.5 billion
- Extended access from FY2004 to FY2016.

➤ **Assisted in reduced debt service costs:**

- BPA's weighted average interest rate on total debt outstanding dropped by 1%.

➤ **No impact to rates:**

- Every year since 2007 BPA provided documentation to customers that the Debt Optimization Program did not put pressure on rates.

Debt Optimization Background and Program Goals

➤ Background

- Prior to Debt Optimization, Treasury Borrowing Authority was forecasted to be exhausted by FY 2004.
- Debt Optimization was the least cost alternative to extend Borrowing Authority.

➤ Program Goals

- Designed to replenish up to \$3 billion of available Treasury borrowing authority.
- BPA also stated that the program would:
 - Reduce BPA's overall debt service costs.
- Later, BPA provided documentation to customers annually to show that the program did not cause rate increases.

Supporting Details

(\$\$ in millions)

	Generation		Transmission		Total DO
	Approps	Bonds	Approps	Bonds	
FY01	95	2	-	-	98
FY02	150	116	-	-	266
FY03	-	-	-	315	315
FY04	58	83	174	31	346
FY05	6	117	-	190	313
FY06	-	133	-	204	337
FY07	-	87	-	202	289
FY08	-	101	-	110	211
FY09	4	191	-	40	234
FY10	-	39	-	-	-
FY11	-	70	-	-	-
Totals	\$313	\$937	\$174	\$1,093	\$2,408

Agency Totals

Bonds	\$2,030	81%
Appropriations	\$487	19%
	<u>\$2,517</u>	

Restore Treasury Borrowing Authority

- To date, over \$2B has been restored. Early amortization payments for FY12 will increase this amount by \$53M.**

** The remaining FY 12 additional Treasury payment is associated with the advance refundings completed in FY01-02. No additional EN refinancings for debt optimization will be completed.

Supporting Details (continued)

Rates No Higher Agreement/Pledge

- Starting in FY 2005, BPA held regular public meetings to discuss the prior year's Debt Optimization transaction and to share the projections for the upcoming year.
- In FY 2007, after the Slice Settlement, BPA also shared the results of the "rates no higher" test results during this meeting.

Reduced Overall Debt Service Costs

- Cumulative estimated interest expense savings through FY 2011 are about \$200 million.
 - These savings will carry forward into the 2013-18 period, estimated to be about \$500 million.
- At the end of FY 2000, before the Debt Optimization program began, the weighted average interest (WAI) rate on BPA's total debt outstanding was 6.6%.
- At the end of FY 2011, the WAI rate was 5.4%. While Debt Optimization was not the only factor, it did play a significant role in this reduction.

Debt Restructuring Background and Program Goals

➤ **Background**

- AT the start of IPR, there was a possibility of significant rate increases in FY 2012 and 2013, in part due to nonfederal debt service increases of \$80 million per year.
- The region looked for ways to reduce rates, including examining nonfederal debt service.

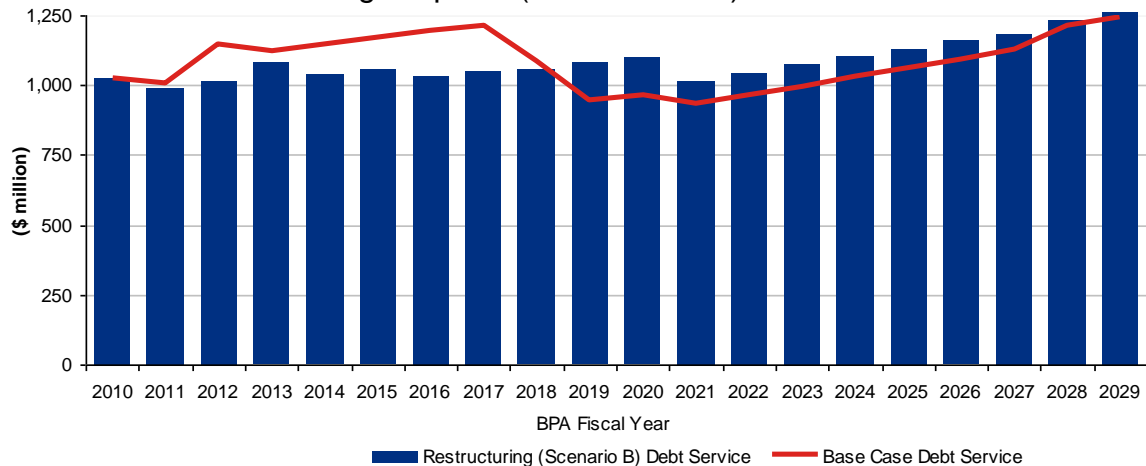
➤ **Program Goals**

- FY 2011: Restructure ~\$249 million.
- FY 2012: Restructure ~\$526 million.
- Reduce debt service by about \$100 million on average in FY 2012-2013 per year.

2011/2012 Debt Restructuring

(Before and After)

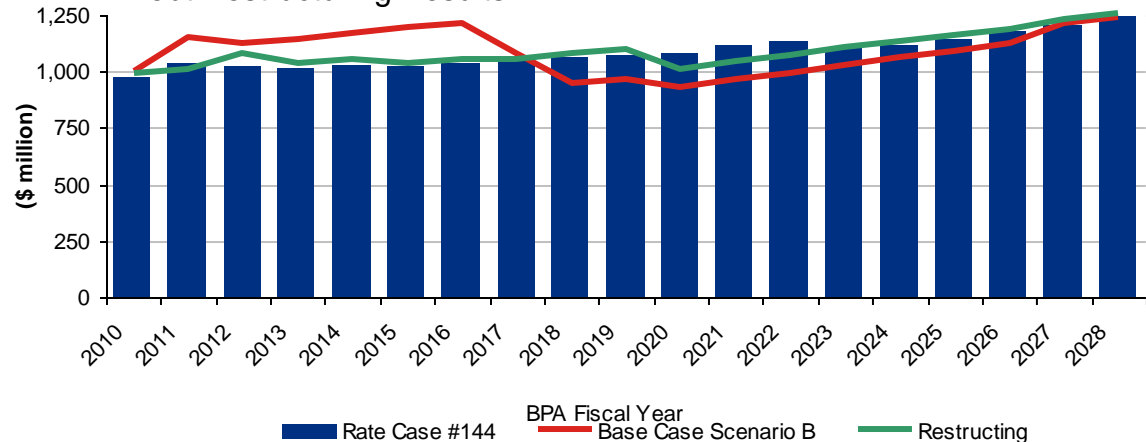
Debt Restructuring Proposal (Summer 2010)



Debt Extension and Restructuring Goals

- Extending \$775 million of CGS principal that is maturing and callable in 2011 and 2012.
- Redeem early \$274 million Project 1 & 3 principal and restructure principal maturities.

Debt Restructuring Results



Series 2011-AB Bond Sale: \$433m

- 2011 Debt Restructuring: \$322
- Refinancing for Savings: \$86m
- CGS Capital Improvements and Transactions Costs (Taxable): \$26m

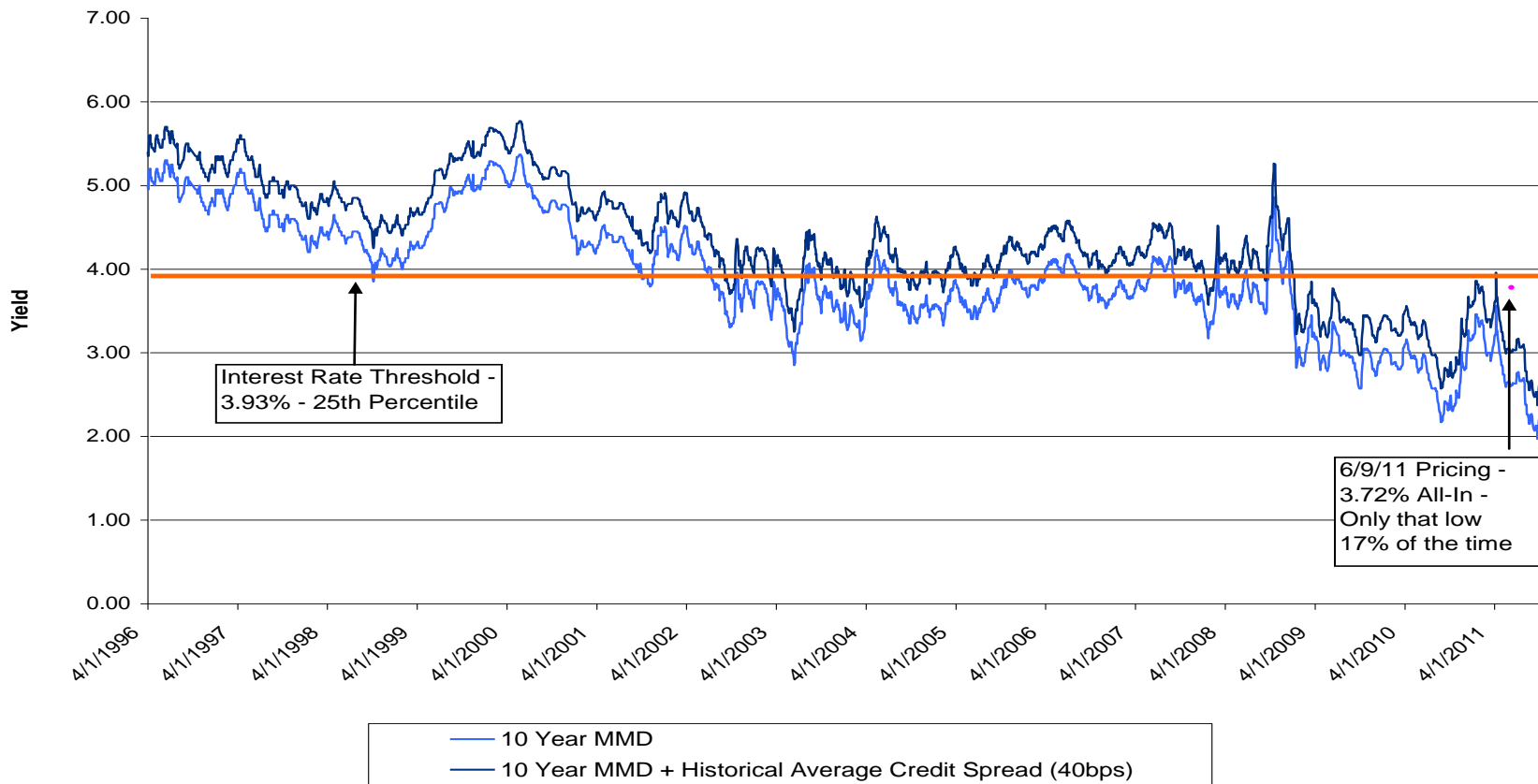
- **Included in Final Proposal**
- **Forecasted All-In Total Interest Cost: 3.75%**
- **Actual All-In Total Interest Cost: 3.78%**

- **Refinance for savings 2011 callable bonds not targeted for debt restructuring**
 - \$12.2 million present value savings

Interest Rate Threshold

➤ Energy Northwest and BPA proactively took advantage of a low interest rate environment

**Historical 10 Year MMD
1996-2011**



Series 2011-C 2012-A Bond Sale: \$669m

Extend \$200m of 2012 callable CGS principal – Closes April, 2012

- Redeem \$180m of callable Project 1 & 3 debt
- Restructure/Refinance for Savings \$267m callable EN principal
- Transaction Costs (Taxable): \$4m

- **Forecast included in Final Proposal**
- **Forecasted All-In Total Interest Cost: 3.95%**
- **Actual All-In Total Interest Cost: 3.41% - Average life 7.6 years**
 - 3.72% represents a 10 year MMD

- **Refinance for savings 2012 callable bonds not targeted for debt restructuring**
 - \$21.9 million present value savings

Conclusion

- **The Debt Optimization Program was beneficial to BPA and EN on many levels:**
 - Accomplished the primary goal of restoring Treasury borrowing authority.
 - Obtained interest savings for BPA.
 - Did not increase BPA's total debt outstanding.
 - Strengthened BPA's partnership with EN.
 - Built trust with customers through transparency and informative meetings regarding debt management actions.

- **BPA and Energy Northwest continued their partnership through the 2011 and 2012 refinancing.**
 - Provided about \$100 million in rate relief.
 - Obtained interest rates the same or lower than forecasted.
 - Refinancing for savings obtained a total of \$34.1 million of present value savings unrelated to the debt extension program.