Extension of a Portion of Columbia Generating Station Debt and Financing its Capital Investments through 2024

Bonneville and Energy Northwest Public Workshop

November 28, 2005

Today's Discussion

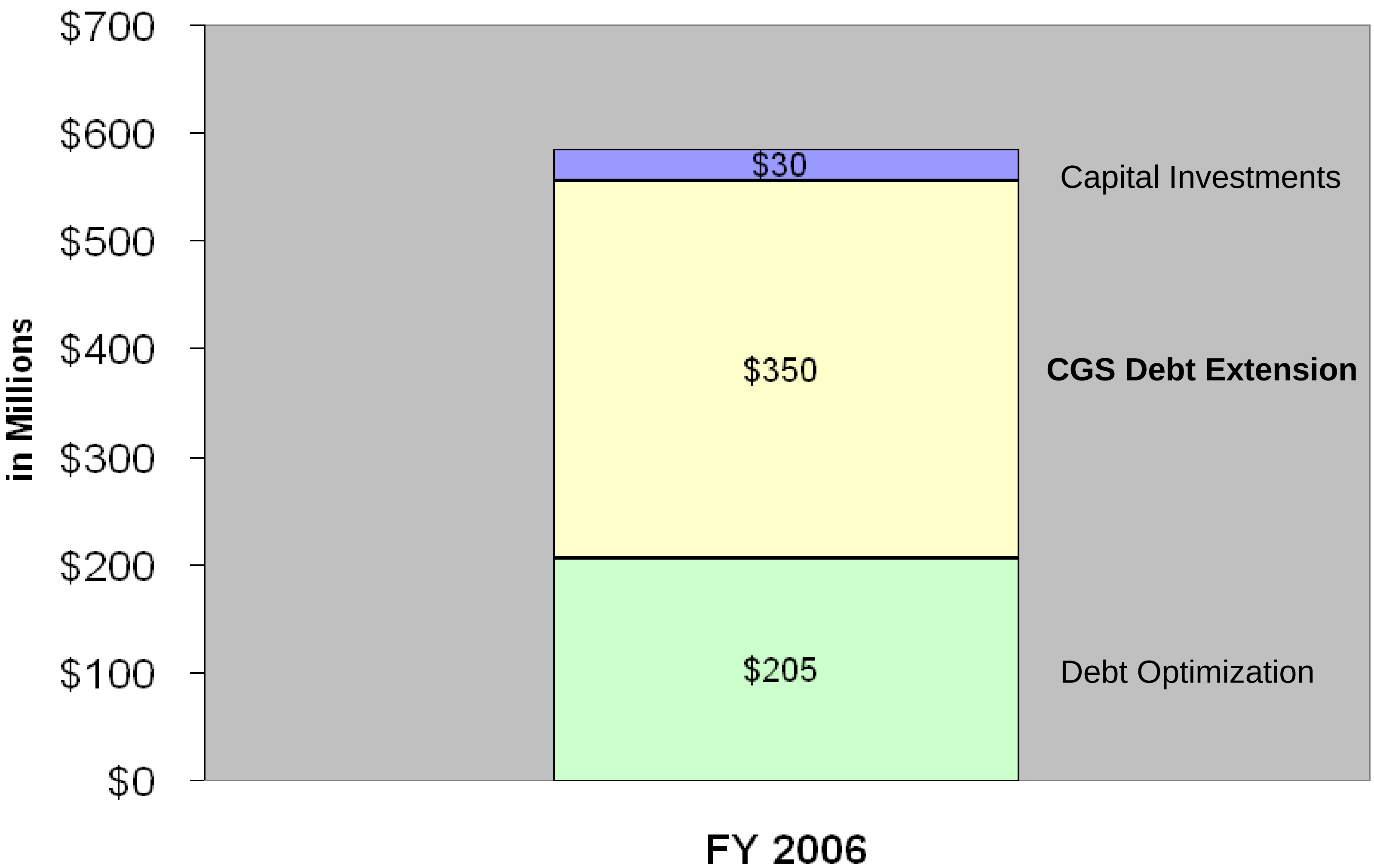
What?

- In April 2006, extend a portion of the existing CGS debt into the 2019-24 timeframe
- Finance new CGS capital investments with bond maturities through 2024

Why?

- Extending debt will save rate payers about $32m in debt service costs during the upcoming FY07-09 rate period
- Financing new capital investments through 2024 will save rate payers an additional $4-5m in debt service costs in the FY07-09 rate period

Proposed April 2006 Financing/Refinancing



Today's Discussion

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Background

EN/BPA Accomplishments

- Debt Optimization and other debt management activities since FY00:
  - Completed 16 EN financings/refinancings totaling over $3.1b
  - Prepaid $1.4b of Federal debt, significantly improving BPA's ability to borrow from the US Treasury
  - Freed up almost $300m in reserve funds of which a large portion was used in FY02-04 to lower EN debt service expenses, reducing the SN CRACs and SLICE True-up
- Between FY00 and FY04, the weighted average interest rate on BPA's total outstanding liabilities decreased from 6.6% to 5.6%, currently saving over $100m per year in interest expense.
- Single portfolio management the last few years has played a key role in strengthening BPA's financial health and maintaining high credit ratings.

Today’s Challenge

- BPA and the Region are embarking on a process to set rates for the FY07-09 period for the power business line.
- Although improving, the Northwest economy is fragile and BPA has worked diligently with EN and customers and stakeholders in the Region in an attempt to keep rates as low as possible.
- In spite of BPA’s best efforts, some customers still believe it can do more to bring the projected rate level down significantly from its most recent estimates.
- BPA’s Administrator believes it is reasonable to consider debt extension as long as it is matching debt repayment to plant life.

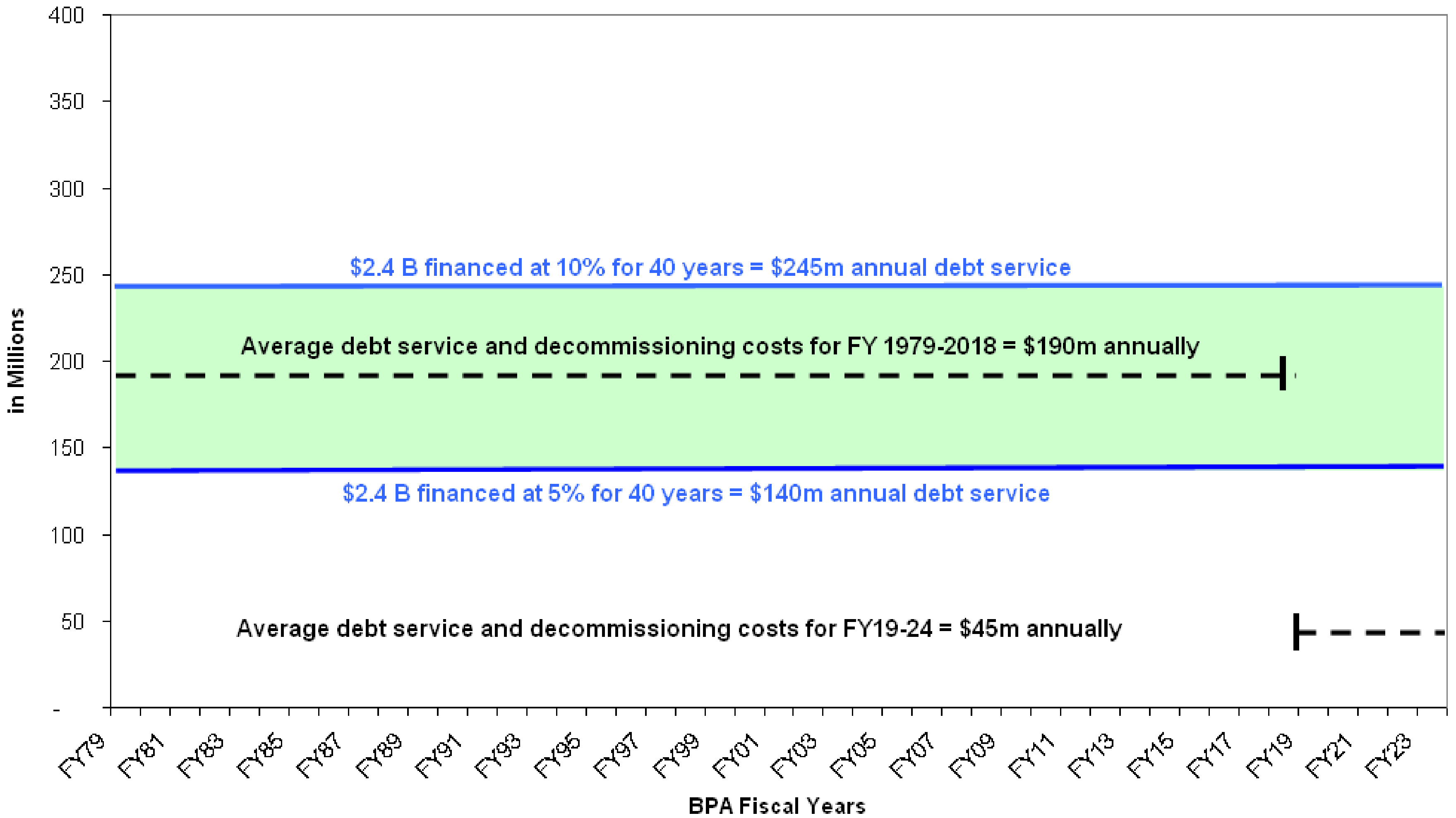
CGS Background and IRS Considerations

- CGS went into service in 1984 and if one assumes it has an anticipated 40-year life, then the expected life would be 1984-2024.
- The current license expires in FY24
- IRS allows tax-exempt bonds to be issued so long as the weighted average maturity does not exceed 120% of the reasonably expected economic life.
  - 40 Years x 120% = 48 years
  - 1984 + 48 years = 2032
  - Weighted average maturity of refunding bonds associated with the original construction bonds cannot exceed 2032
  - Some bonds could mature after 2032
- BPA analyzed extending bonds to 2024 because the current operating license expires at that time, coinciding with the originally anticipated 40-year expected life

How much should post-2018 ratepayers pay towards CGS debt service?

- There is not a right, perfect, or precise analytical answer, but different perspectives and viewpoints.
- One perspective is to assume level debt service for the originally anticipated 40-year life of the plant. The weighted average interest rate for CGS debt has gradually come down, primarily as a result of declining interest rates.
  - 1989 (start of the refinancing program): Averaged about 10%
  - Today: Averages slightly over 5%
- Another perspective is to look at actual data and make comparisons throughout the originally anticipated 40-year life of CGS.
- The following chart provides actual data and also illustrates a possible range (assuming level debt service for 40 years somewhere between 5% and 10%) one might consider as acceptable ratepayer financial responsibility over a 40-year period.

CGS Debt Service and Decommissioning Costs [1/]



1/ This chart isolates CGS for illustrative purposes. BPA manages all parts of its outstanding liabilities using a holistic approach.

This information has been made publicly available by BPA on October 27, 2005. Actuals may vary from this forecast.

Proposed CGS Debt Extension

Why Are We Considering CGS Debt Extension?

- Customers requested an analysis of CGS debt extension for rate relief.
- The PFR Final Report stated that BPA would not include the debt extension assumption in the initial rate proposal but that BPA and EN would jointly consider and evaluate its feasibility and value. BPA committed to review alternatives with customers and others before requesting EN to take action.
- This debt management idea contributes to meeting the challenge of setting rates as low as possible.

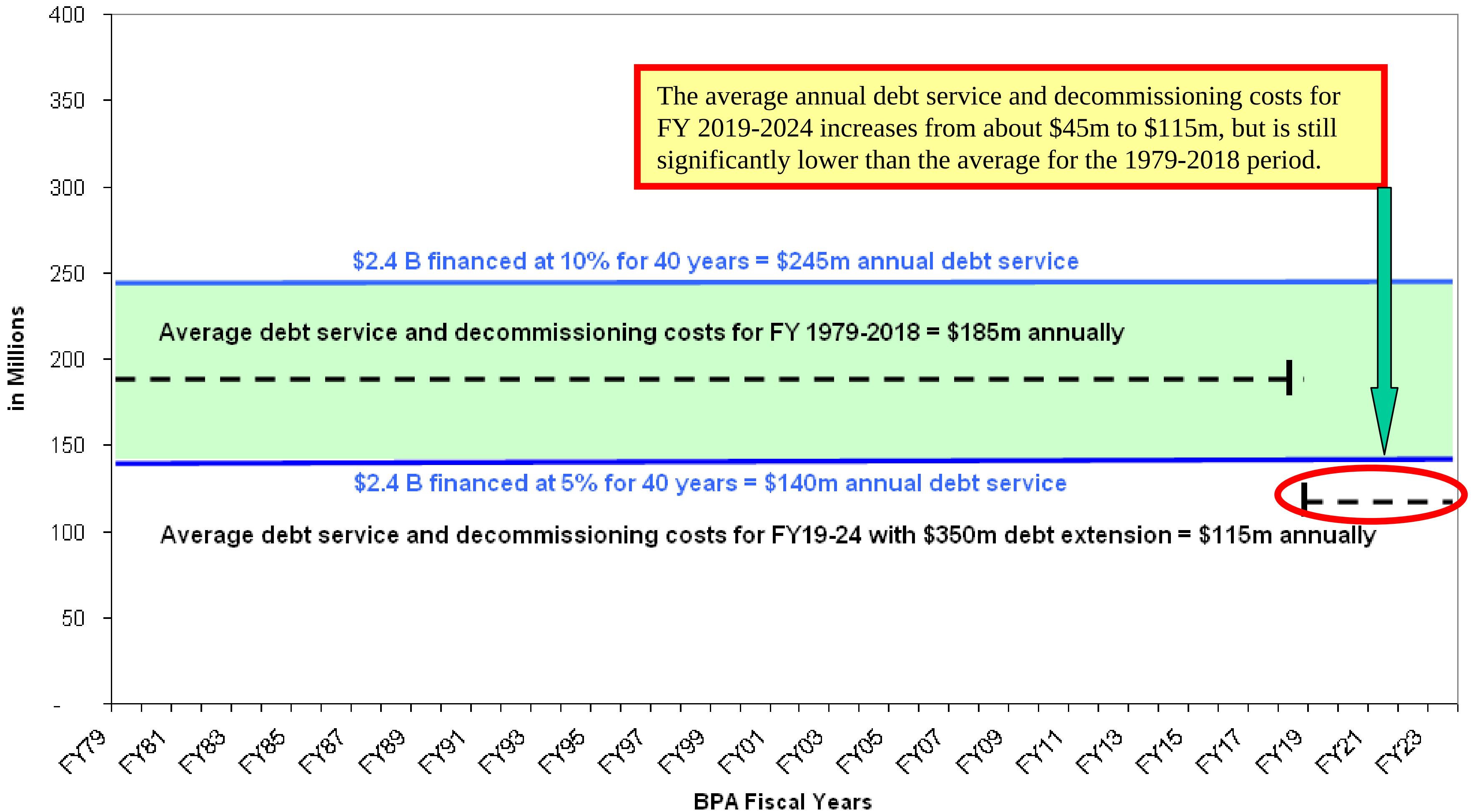
Why $350 Million?

- To ensure savings are captured in the final power rate proposal for BPA's power business line, the transaction must close in April 2006.
- Only bonds that mature, are callable, or are advance refundable in 2006 are available to extend at this time.
- $350m represents a modest amount of the over $2b of outstanding CGS debt maturing between 2006 and 2018.

Schedule of CGS Debt Maturities (not including new money financings)
(in millions by EN Fiscal Year)

FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	**TOTAL**
105	156	139	136	216	136	338	46	35	134	72	107	459	**2,079**

CGS Debt Service and Decommissioning Costs After $350m Debt Extension [1/]



1/ This chart isolates CGS for illustrative purposes. BPA manages all parts of its outstanding liabilities using a holistic approach.

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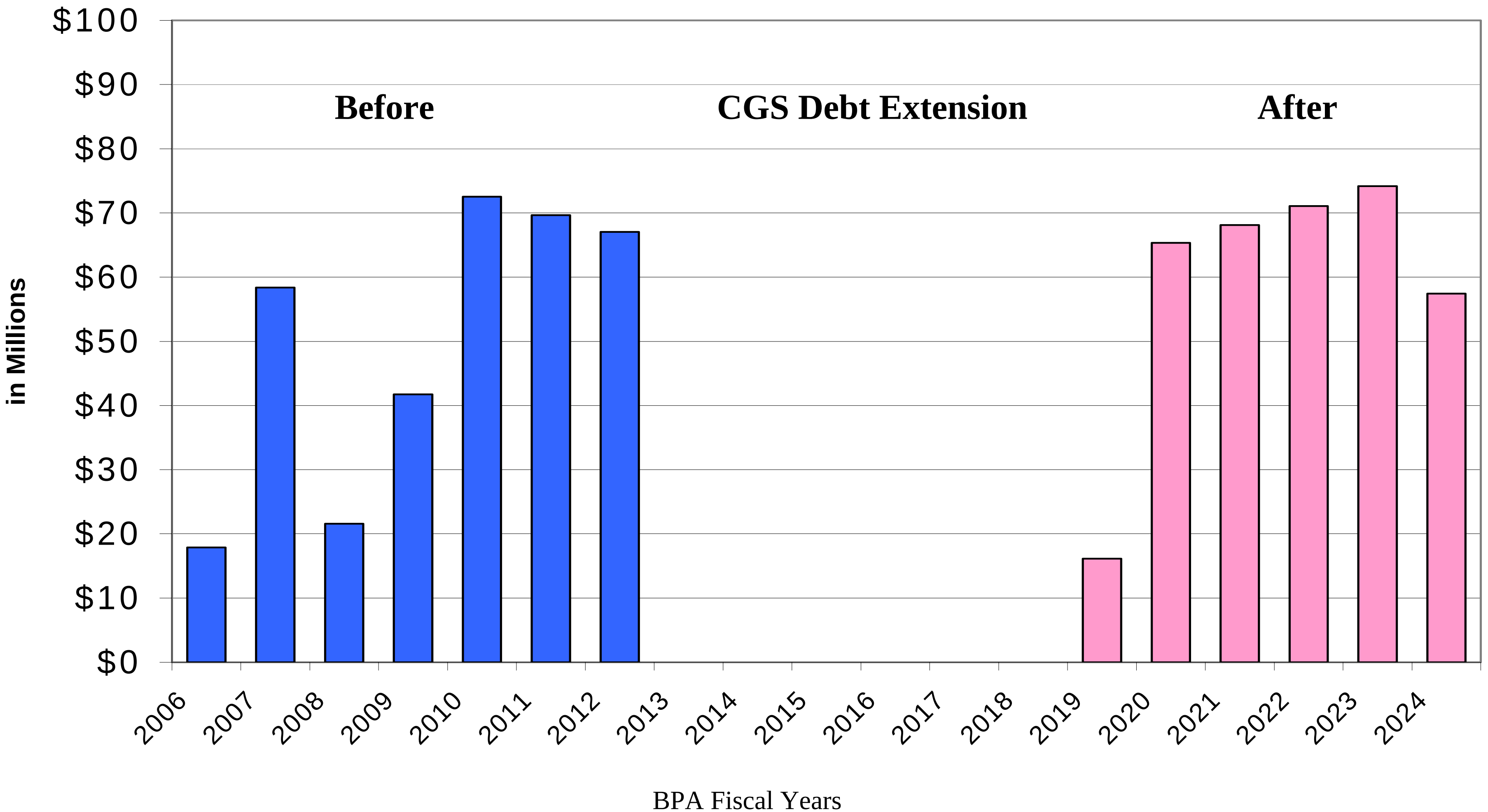
We modeled moving $350m from the 2006-2012 period into the 2019-2024 period.



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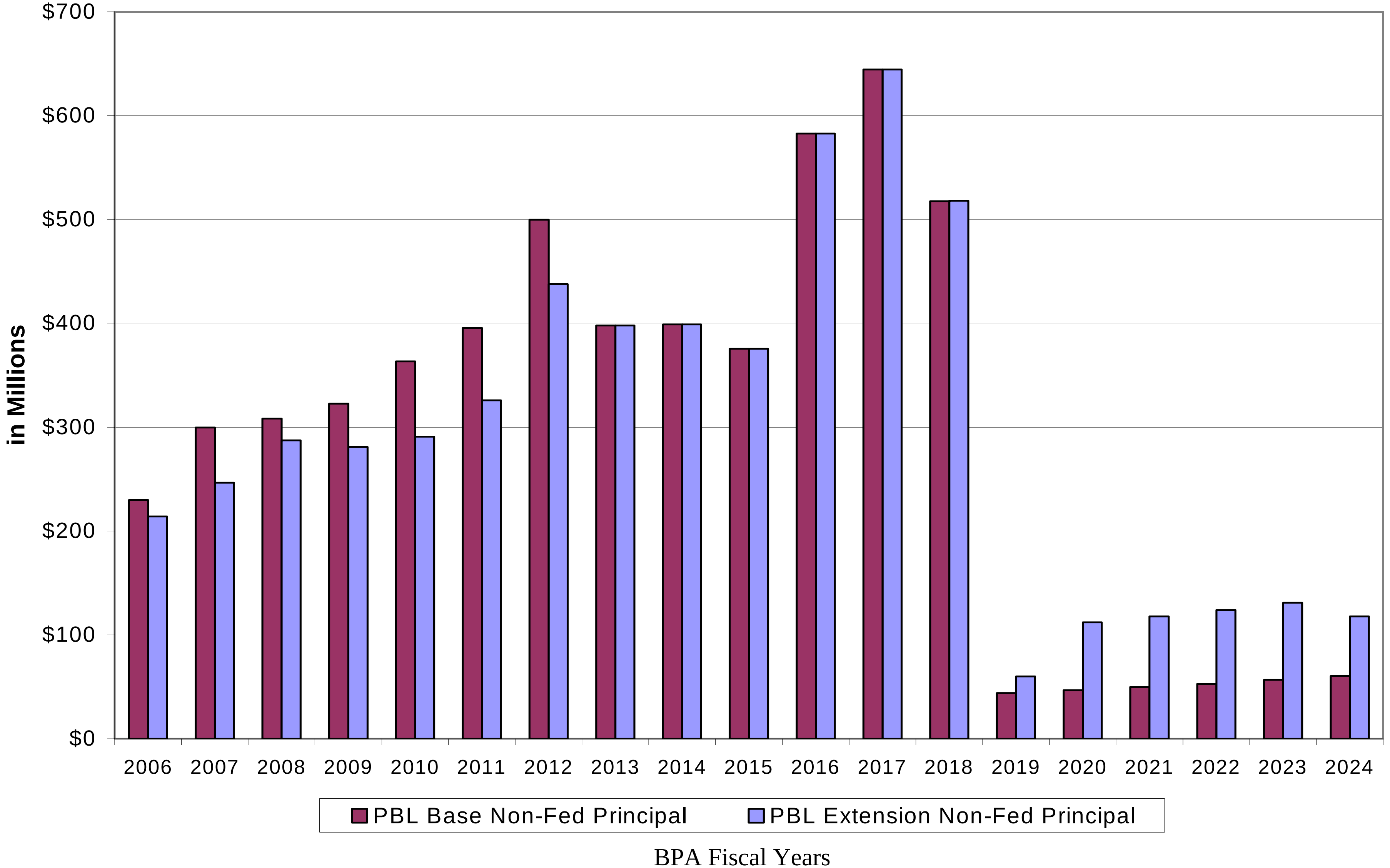
Although BPA manages all parts of its outstanding liabilities (Federal debt, EN debt, other third party debt and liabilities) using a holistic approach, this chart isolates the change in CGS principal payments for simplicity in explaining the idea.

PBL Non-Federal Principal Before and After



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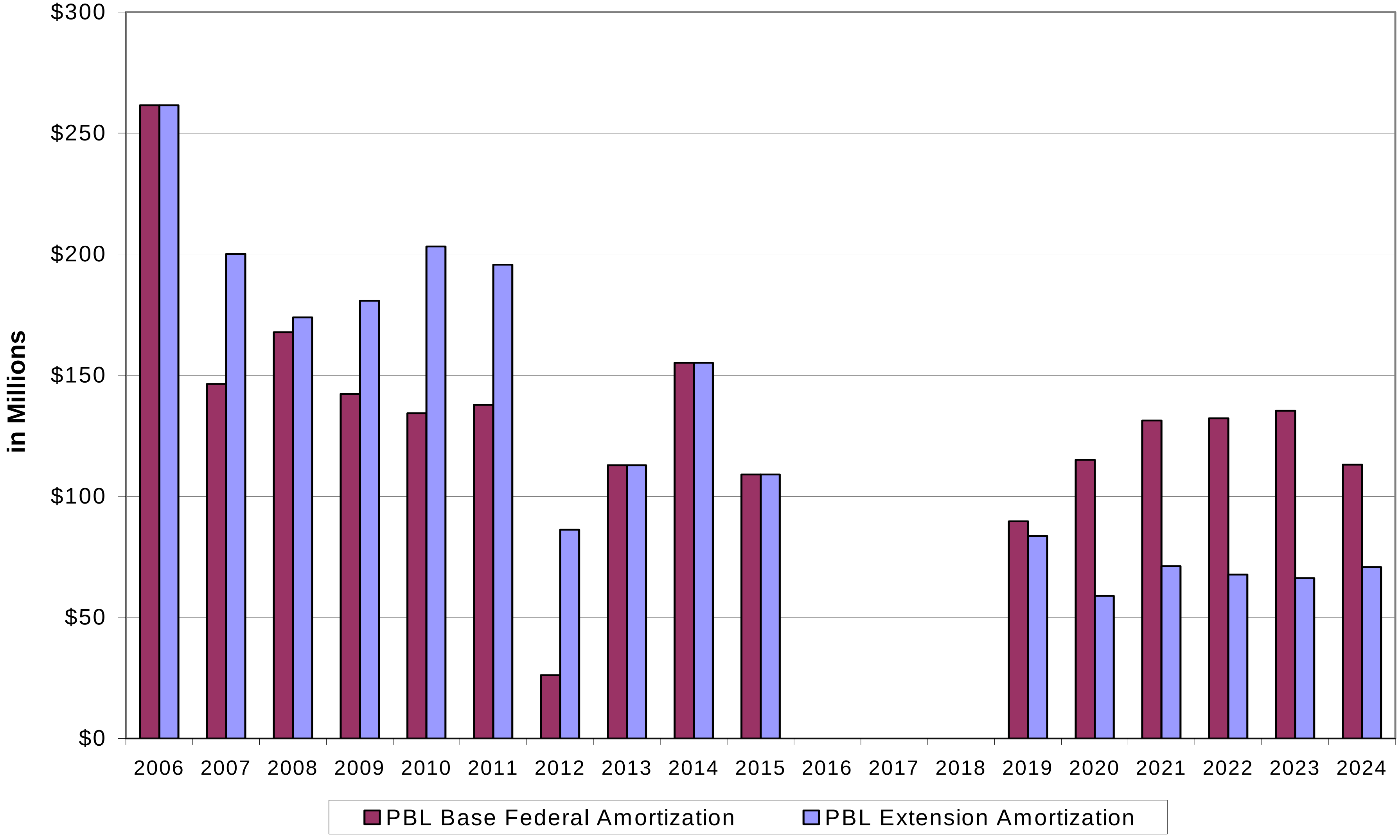
PBL Federal Amortization Before and After



BPA Fiscal Years

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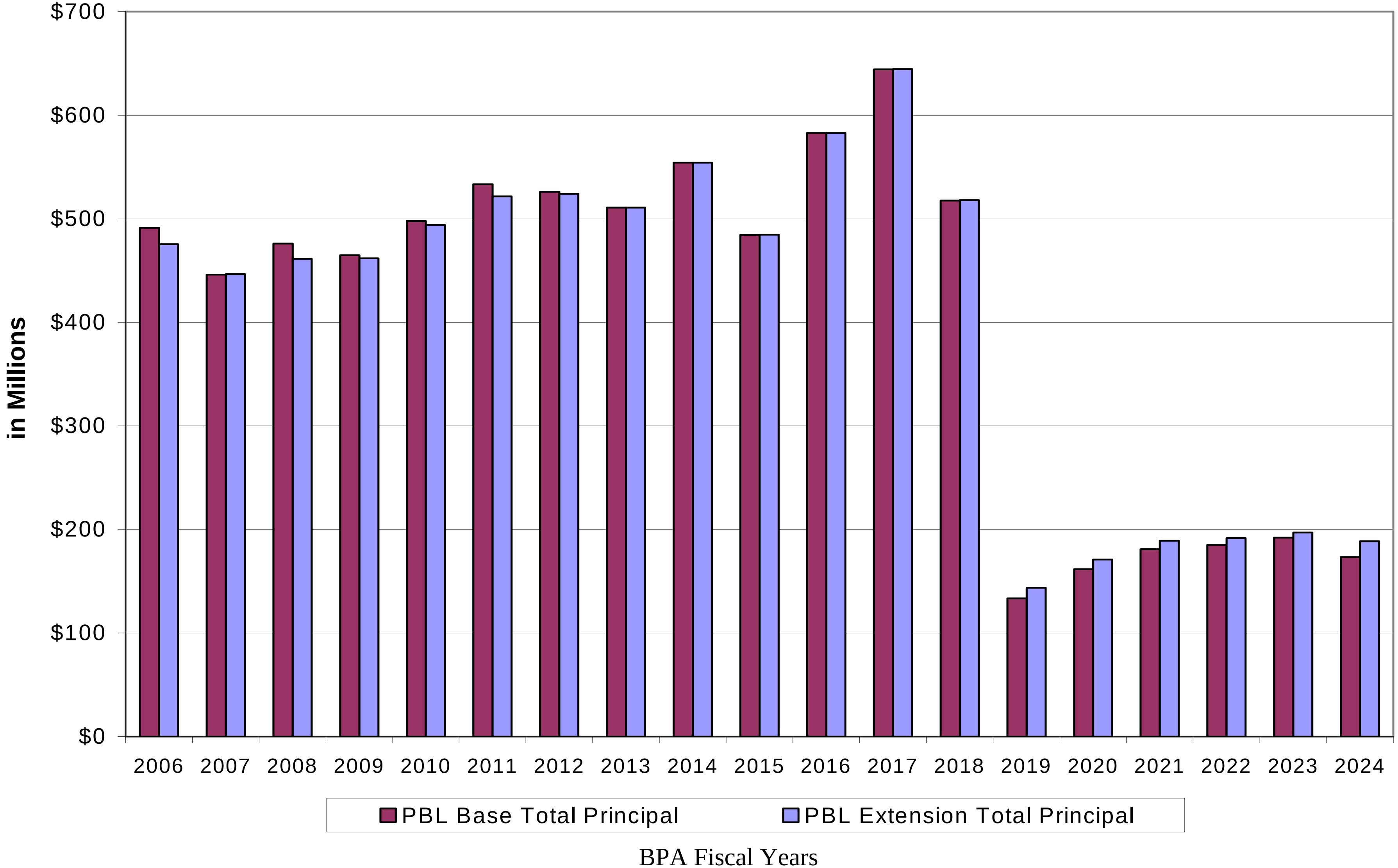
PBL Total Principal Amortization Before and After



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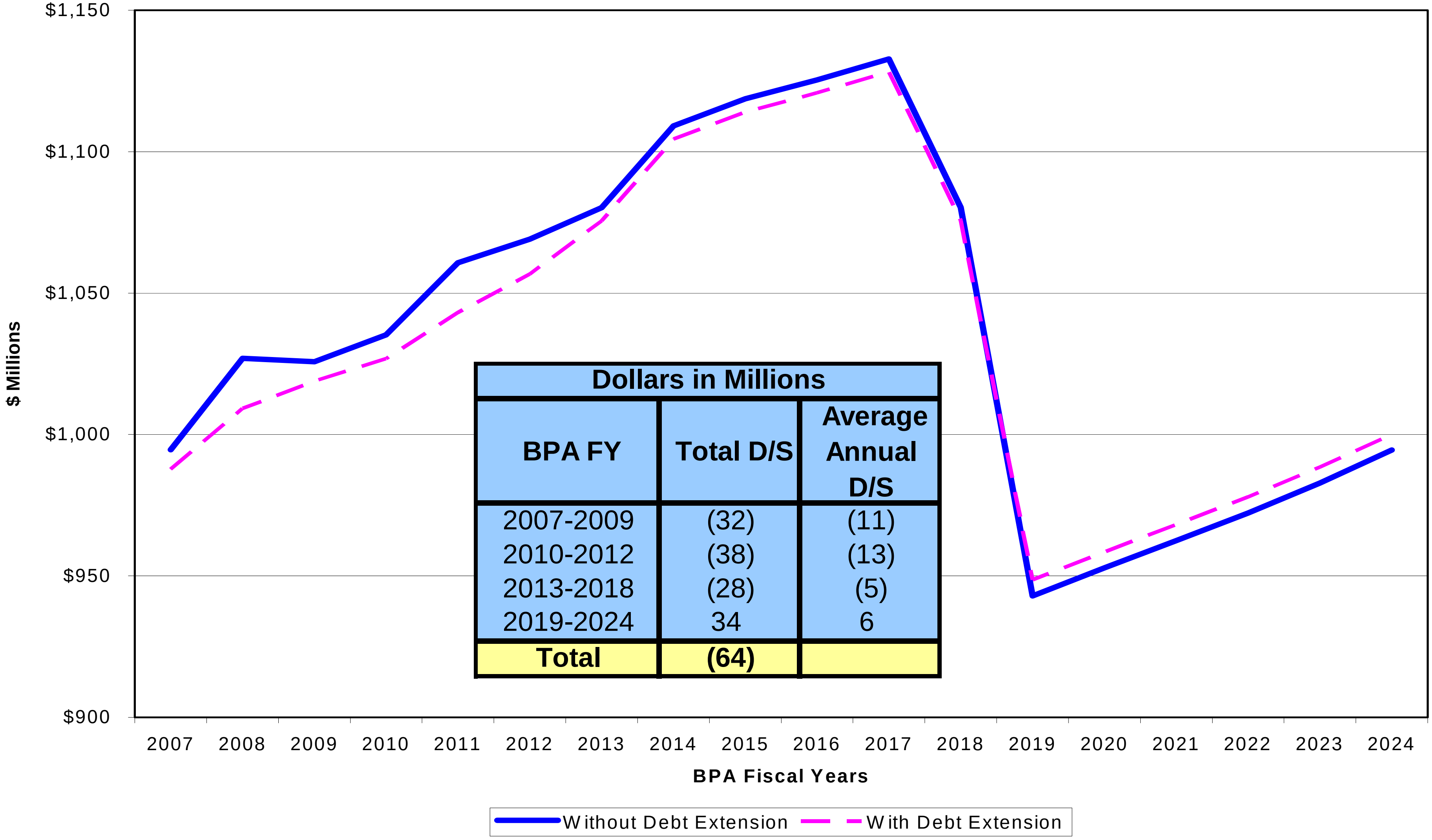
PBL Total Annual Federal and Non-Federal Debt Service Before and After $350m Debt Extension



Dollars in Millions		
BPA FY	**Total D/S**	**Average Annual D/S**
2007-2009	(32)	(11)
2010-2012	(38)	(13)
2013-2018	(28)	(5)
2019-2024	34	6
Total	**(64)**	

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Debt Optimization Program Considerations

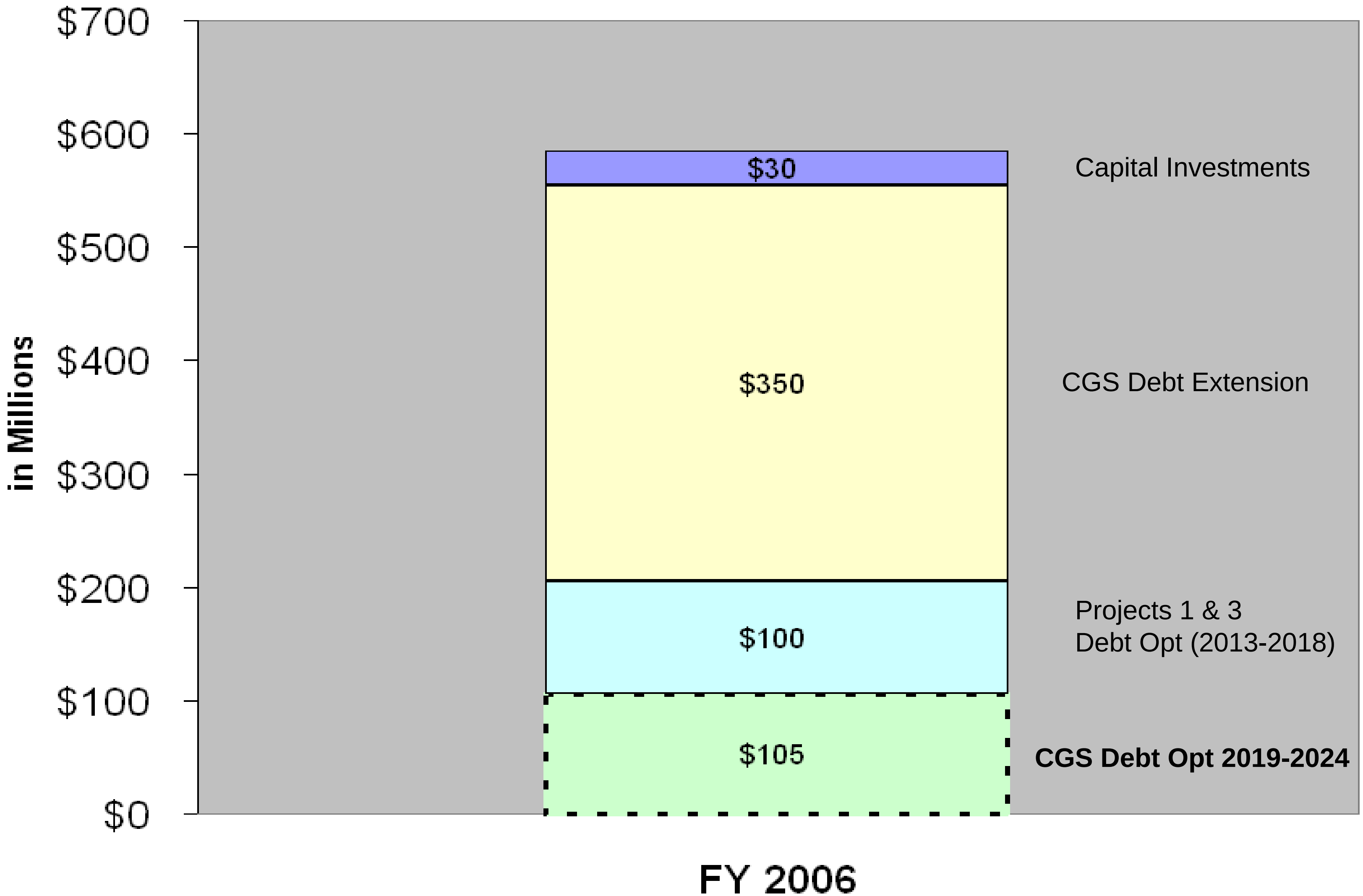
The Impacts to the Current Debt Optimization Program

- Any near-term negative impacts to the currently planned Debt Optimization Program are relatively insignificant and resolvable.
- Extending CGS debt past 2018 may create opportunities to enhance the Debt Optimization Program.

(In Millions – Principal Only)

Fiscal Year	Latest Debt Opt Forecast	Reduction due to CGS Ext	'Forced Debt Opt' Effect	Net Impact
PBL FY06	$168	$0	$0	$0
PBL FY07	$185	($72)	$54	($18)
PBL FY08	$381	($19)	$6	($13)
PBL FY09	$0	$0	$39	$39
Totals	$734	($91)	$99	$8

Potentially Revised April 2006 Financing/Refinancing



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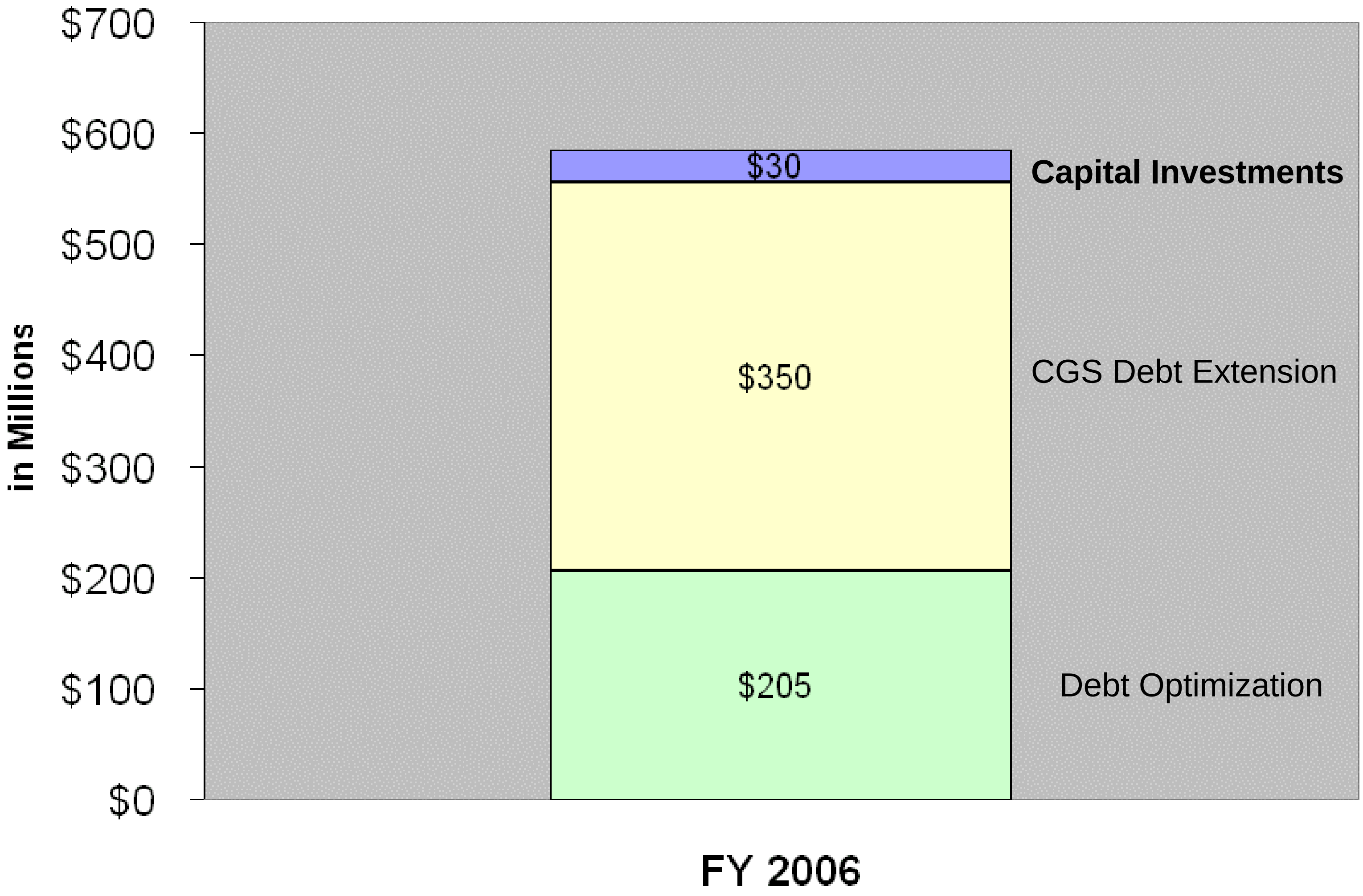
Further Considerations

- Assuming EN is supportive of the proposal we modeled, BPA believes it is prudent to consider placing the FY06 CGS bonds targeted for debt optimization ($105m) into 2019-24 also.
- Further analysis is required
  - Probably makes logical sense given BPA's overall debt portfolio and the expected debt service levels to be borne by current and future ratepayers
  - Might also enhance the current Debt Optimization Program, providing additional benefits
- This potential additional extension of about $105m and any extensions considered for the future should be based on sound principles jointly developed with EN.
- We believe our current proposal for extending $350m stands on its own merits whether or not future extensions occur.

Financing New CGS Capital Investments with Bond Maturities through 2024

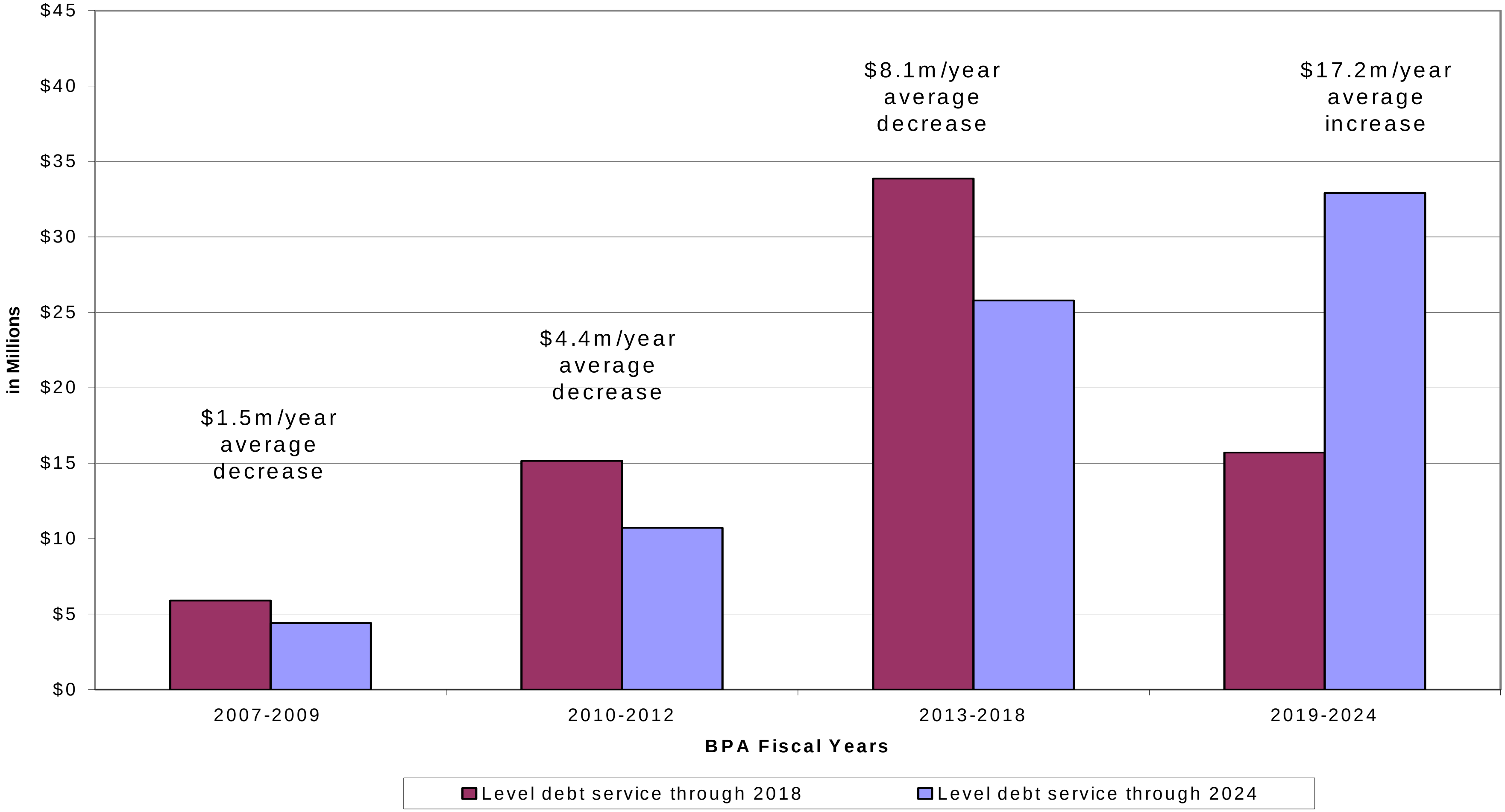
Proposed April 2006 Financing/Refinancing



Financing new CGS capital investments with bond maturities through 2024 is prudent.

- In its initial power rate proposal, BPA is assuming that for FY07-09, EN will borrow to pay for capital items that qualify under its capitalization policy and limit the final maturity to FY18.
- In the PFR Final Report, we stated, "BPA and EN will jointly consider and evaluate the feasibility and value of matching bond maturity dates for new capital investments with the expected lives of those investments. Before including such an assumption in the final power rate proposal, BPA will review this alternative with its customers and others."
- Financing through 2024
  - Better matches the debt service with the asset/expected life of the plant
    - Utility standard
    - General BPA practice with most investments
  - Reduces rate pressure through 2018

Financing planned CGS capital investments with bond maturities through 2024 reduces rate pressure.



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Using the 2018 assumption, there is debt service showing up in 2019-2024 because we assumed that by 2014, new capital additions would be financed through 2024 (consistent with the tax certificate supporting the 2005 fuel bond financing).

Summary and Other Considerations

Summary/Other Considerations

- Both ideas save rate payers money
- Extending debt and financing new capital investments through 2024 is a better match between the life of the assets and the length of the debt
- BPA manages its debt for the benefit of the region on a holistic basis and these ideas support that endeavor
- The transactions have a neutral effect on the current Debt Optimization Program
- Interest rates are still at historically low levels
- Potential tax law changes could affect the ability to extend debt in the future
- Although further analysis is required, assuming some CGS debt is extended, it is prudent to <u>consider</u> placing the FY06 CGS bonds targeted for debt optimization ($105 million) into the 2019-2024 period

Timeline Considerations