Management of Energy Northwest Debt

Presentation to the Energy Northwest Audit, Legal and Finance Committee

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Today's Discussion

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Regional Context

- BPA and the Region are embarking on a process to set rates for the FY12-13 period.
- Currently Pacific Northwest states have some of the highest unemployment rates in the country.
- BPA isn't forecasting unemployment returning to pre-recession lower levels until at least 2013, well into the 2012/13 rate period.
- Although improving, the Northwest economy is fragile and BPA is working with our partners, customers, and stakeholders in the Region in order to keep rates as low as possible.
- 2010 runoff is expected to be in the lowest 10% since 1929 and end-of-year modified net revenues are expected to be negative $233 million, down from a start of year target of positive $232 million.
- In addition BPA is looking at average expense increases of $224 - $366 million per year for the FY12-13 rate period compared to the FY10-11 rate period.

This information has been made publicly available by BPA on May 27, 2010 and estimates are subject to change.

EN/BPA Accomplishments & History

- BPA manages its debt responsibilities comprehensively. Energy Northwest (EN) debt can create opportunities for lowering BPA's overall annual debt service.
- Over the last two decades, Energy Northwest and BPA have partnered together to address debt management challenges and develop strategies benefiting the region's ratepayers.
  - Numerous refinancings for interest rate savings over the past 20 years have saved the region's ratepayers hundreds of millions of dollars.
  - Approximately $2B of Treasury borrowing authority has been restored due to the Debt Optimization Program.
  - BPA and EN extended $350 million of Columbia Generating Station (CGS) debt in 2006 for rate relief purposes, for the FY 2007-09 rate period.
  - EN/BPA have adopted a practice of issuing debt to finance ongoing capital investments at CGS on an annual basis.
  - The weighted average interest (WAI) rate on BPA's total outstanding liabilities decreased by approximately 1%, from 6.6% to 5.6% (from FY 2000 to FY 2009.)
- BPA and EN have maintained an extremely collaborative working relationship at all levels on debt management issues.
- Single portfolio management over the last several years has played a key role in strengthening BPA's financial health and maintaining high credit ratings.
- Regional customers and stakeholders understand and appreciate EN's role in supporting BPA's overall debt management objectives.

Background

- The traditional refinancings for savings program after the Washington Public Power Supply System default began in the late 80’s.
- In 1989 BPA/EN decided to shape the debt service instead of levelizing it in order to gain ratepayer benefits.
- The Accelerated Front End Savings (AFES) program created additional ratepayer benefits in 1990/91 and it further changed the shape of EN debt service from 1990-2018.
- During the mid-90’s several traditional refinancing for savings transactions included minimal debt restructuring to produce more level overall debt service.
- The Debt Optimization (DO) Program commenced in FY 2001 in order to preserve BPA Treasury borrowing authority for capital investments, and under this program EN debt was placed predominantly into the 2013-18 timeframe and a small amount in 2020-2024.
- The Debt Optimization Program did not increase total debt outstanding, it was basically a debt swap, replacing Federal debt with non-Federal debt, but the program did push EN debt repayment into later years from original maturities.

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BPA's Outstanding Liabilities

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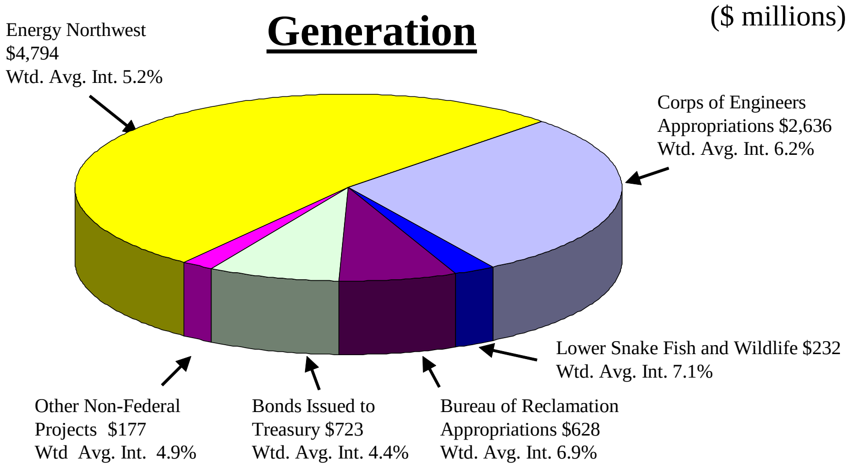
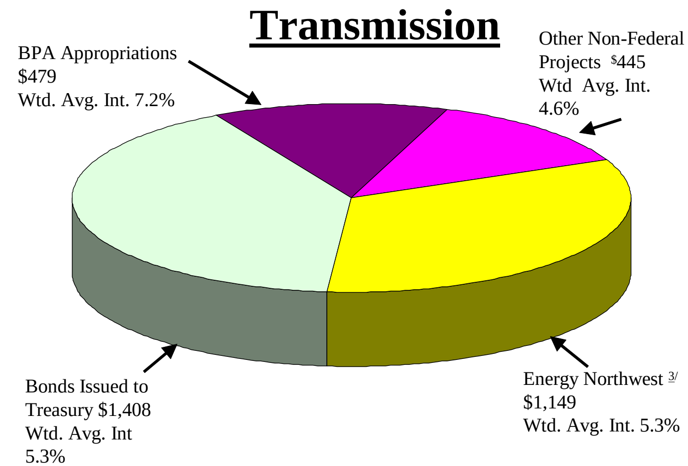
Federal Columbia River Power System (FCRPS) Total Liabilities to Federal and Non Federal Parties as of 9/30/2009 1/

($ millions)





	Power Marketing Liabilities Outstanding ($millions)	WAI Rate	Transmission Liabilities Outstanding ($millions)	WAI Rate	Total Liabilities Outstanding ($millions)	WAI Rate
Total Appropriations 2/	$3,496	6.4	$479	7.2	$3,975	6.5
Total Bonds Issued to Treasury	723	4.4	1,408	5.3	2,131	5.0
Total Federal Liabilities	4,219	6.1	1,887	5.8	6,106	6.0
BPA Liabilities to Non Federal Parties	4,971	5.2	1,594	5.1	6,565	5.2
Total FCRPS Liabilities	$9,190	5.6	$3,481	5.5	$12,671	5.6

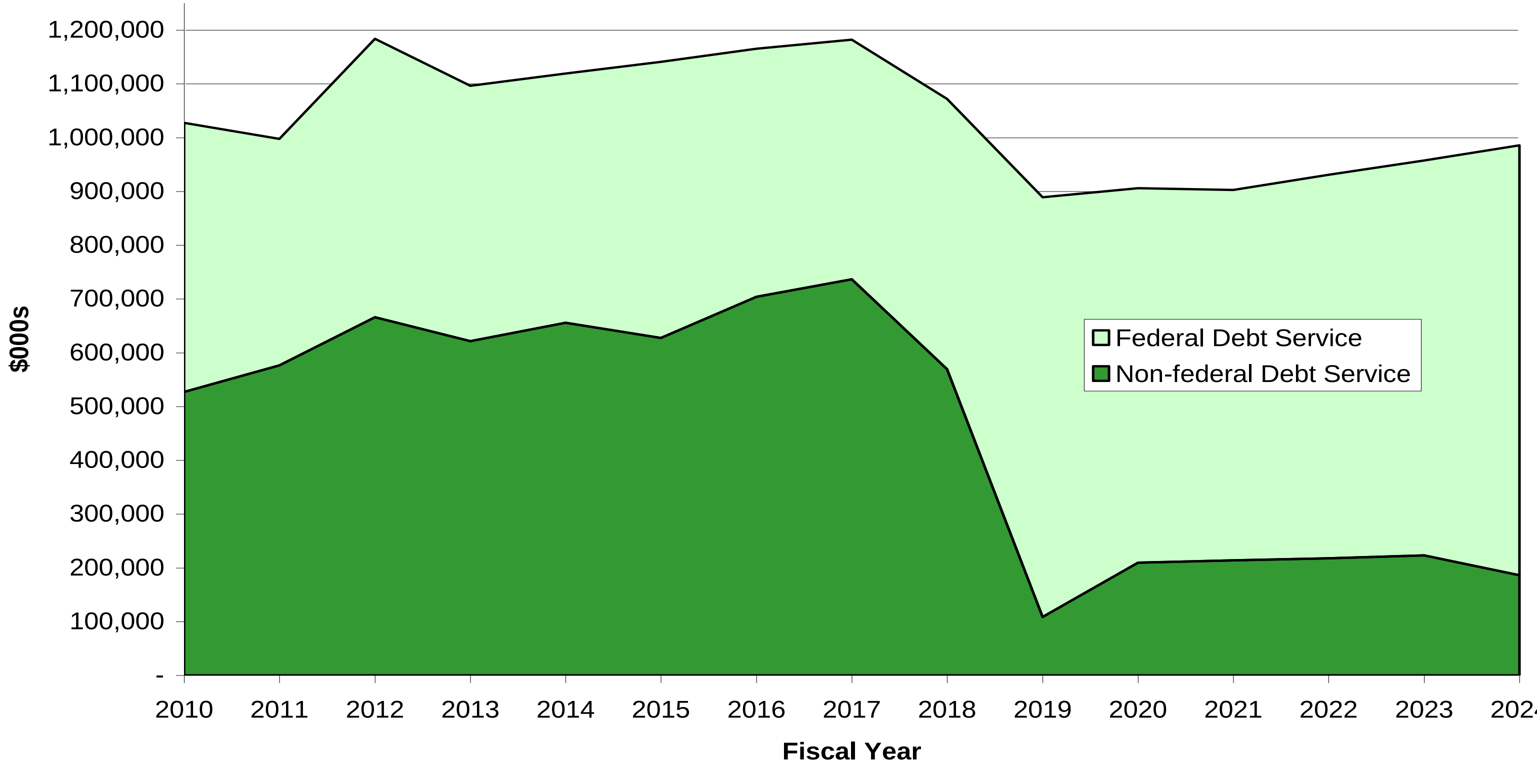
1/ Does not include irrigation assistance liability of $706 million at zero percent interest ($40million of this amount is for Lower Teton, for which the Administrator has no obligation to recover costs). "Liabilities" on this page do not directly relate to "liabilities" as reflected in the Combined Statements of Capitalization and Long-Term Liabilities.

2/ Appropriation amounts exclude appropriations for construction work still in progress (CWIP). 2009 CWIP for appropriations was $258.6 million.

3/ Transmission Services (TS) principal is different from the Federal repayment obligation due to: 1) premium bonds issued, 2) timing differences, and 3) transactions costs. TS is assigned the repayment obligation for these items, which equals the additional Federal prepayment made on TS' behalf.

This information made publicly available by BPA in November 2009 and is consistent with BPA's FY 2009 Annual Report. Any variation is due to rounding .

BPA's Power Services' Debt Service



- Chart depicts debt service on both outstanding debt and projected debt.
- Federal outstanding principal: $4.2B; Non-Federal outstanding principal: $4.9B, as of 9/30/09.
- Federal Capital forecast: 2010 consistent with the FY2010 Borrowing Plan; 2011-17 consistent with May 2010 IPR; 2018-24 forecast is a shaped and escalated forecast.
- 15 year Federal Capital forecast: $7.7B
- CGS new capital: 2011-2024 total of $660M (debt service exists past 2024 due to planned CGS capital financings)
- Interest rate forecast: BPA FY2010 Interest Rate forecast dated November 4, 2009

Summary of 2012-2013 Expense Changes

WP10 Rate Case to May 2010 IPR ($millions)

	Expenses	Change from Avg 10/11 to Avg 12/13	% Change in Rates[1]
1	Non-federal Debt Service	$81.1	4%
2	Columbia Generating Station	56.1	3%
3	Fish and Wildlife / USF&W /Planning Council	32.9	2%
4	Bureau of Reclamation	25.9	1%
5	Corps of Engineers	25.8	1%
6	Net Interest Expense	14.0 to 24.0[2]	1%
7	Depreciation and Amortization	6.5 to 10.4[2]	0% to 1%
8	Hydro Projects Insurance	10.0	1%
9	Power Non-Generation Operations	8.2	0%
10	G&A	6.4	0%
11	Purchased Power Expenses	?	?
12	Residential Exchange	?	?
13	DSI Service	?	?
14	Other expenses, net	-1.3	0%
15	Transmission Acquisition	-4.3	0%
16	Renewable and Conservation Generation	-37.2 to 90.7[2]	-2% to 5%
17	**Net Change in Expenses**	**$224 to 366**	

[1]Estimate using $65 million change = $/mwh rule of thumb, Base = $28.77/mwh.
[2]Range reflects capitalizing vs. expensing all conservation acquisitions.

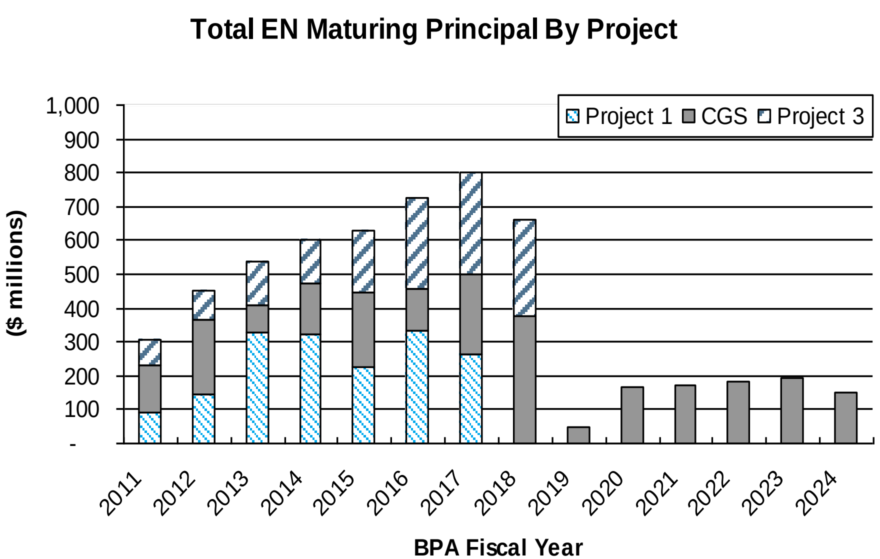
- The Non-federal Debt Service amount (line1) shown here was developed before the 2010 spring bond transactions and EN budget changes. We are in the process of updating this forecast.

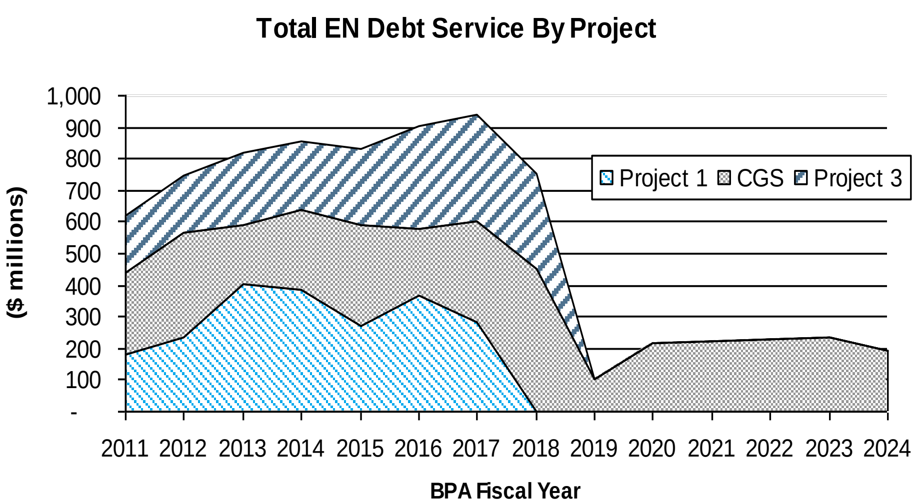
- Regional stakeholders are focusing on non-Federal debt service and will participate in a regional conversation to examine ways to alleviate this increase.

- EN may have an opportunity to help the region with rate relief for the upcoming FY 2012/13 rate period.

Current EN Debt Profile

- Projects 1 and 3 debt is scheduled to be completely paid off by 2017 and 2018, respectively, even though we could explore extending that debt.
- CGS went into service in 1984 and had an original life expectancy of 40-years or 2024, and under current tax law some of the debt can be extended until 2032.
- Over $2 billion of this debt would have been paid off by now, however EN supported the goals of various BPA debt management initiatives over the years.
- Debt Optimization did not increase the agency's overall debt load or its debt service costs. It did increase the nonfederal portion of the debt service we are facing in the fiscal year 2012-18 period, but it decreased the federal portion of the debt load dollar for dollar.
- The DO Program preserved the shape of the total annual debt service as initially established by the early EN debt refinancings in the late 80's/early 90's, including the various refinancing transactions throughout the 90's.





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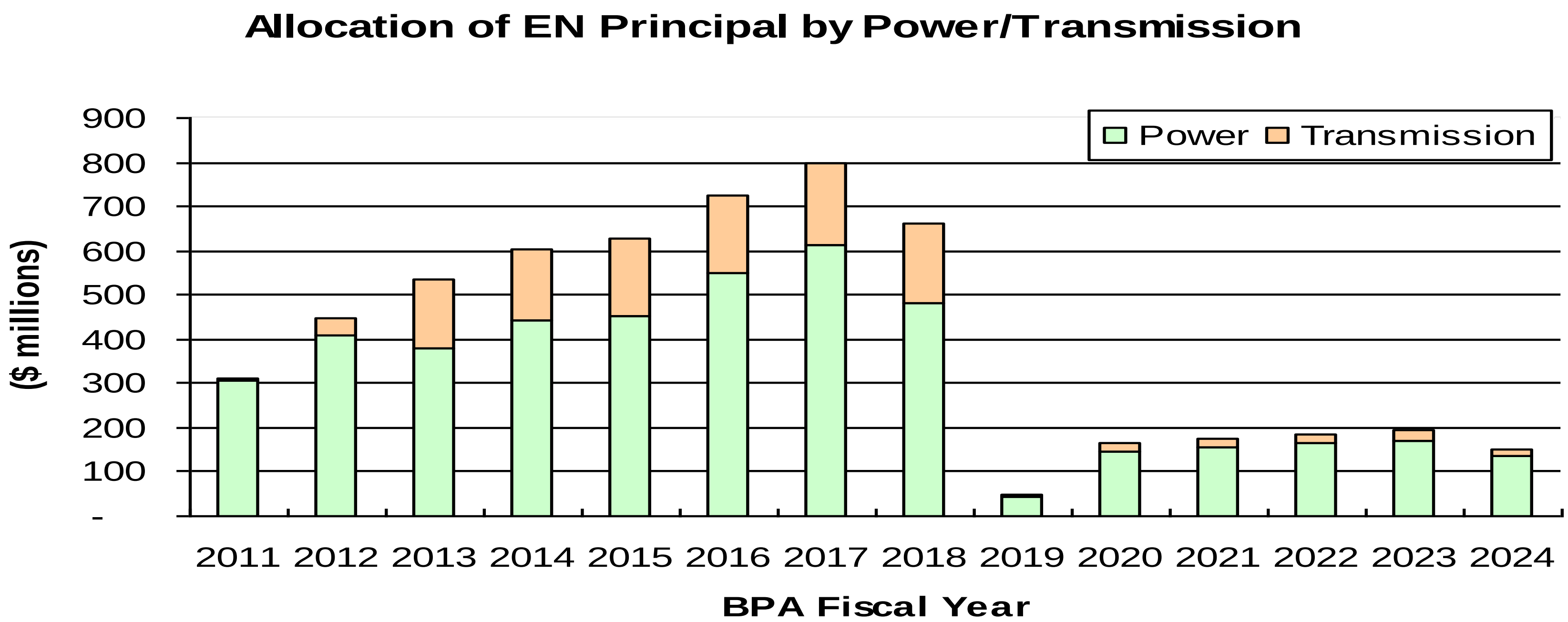
BPA Allocation of EN Principal by Power/Transmission

- In 2001 EN and BPA established the Debt Optimization Program that extended EN debt and paid down the same amount of federal power debt.
- In order to maximize the benefits of DO, in 2003, BPA initiated Debt Service Reassignment (DSR) as part of the DO program. With this new feature, federal transmission debt was paid off and the responsibility for future debt service on the extended EN debt was assigned to transmission.
- The amount of EN debt assigned to transmission is currently about $1.1 billion.



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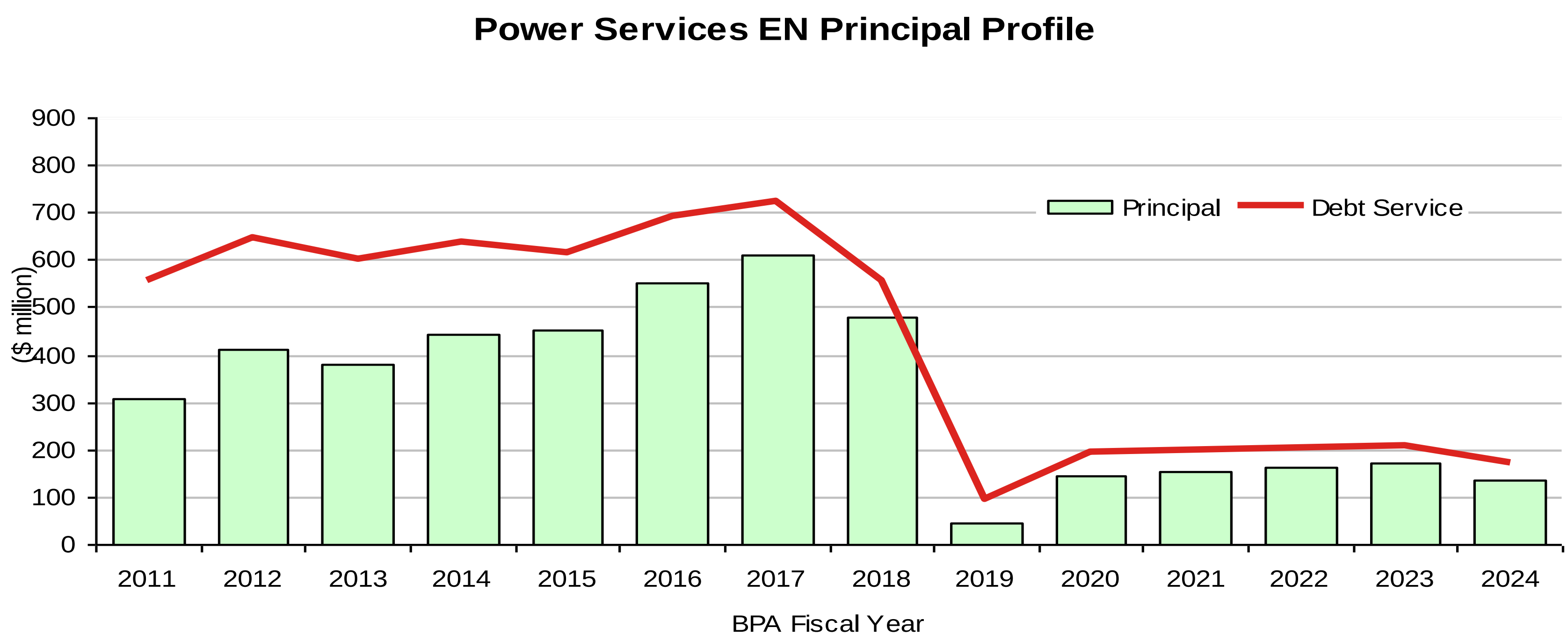
BPA's Power Services' EN Debt Profile

- Power rates recover the cost of all of the principal and interest (debt service) associated with the EN debt, with the exception of the debt service assigned to transmission.
- When looking for opportunities to mitigate the magnitude of a potential rate increase in the FY12-13 Power rate case, we only look at the debt associated with Power Services.
- In an April letter to Energy Northwest and its Executive Board, the Public Power Council and Northwest Requirements Utilities made observations about the shape of the annual debt service, comparing now through 2018 with post-2018. They requested that EN and BPA work together to ensure the region is achieving the most efficient overall debt service profile.



The Repayment Model and a Scenario

Repayment Model:

- The primary purpose of the repayment study is to determine a schedule of Federal principal payments that satisfies the statutory requirement to set rates to assure timely repayment of the Federal investment.
- Annual debt service streams for non-Federal (primarily EN) payment obligations are included as fixed requirements that the study must take into account in establishing the overall levelized debt service for the agency.
- Ultimately, the study creates the lowest, levelized combined debt service schedule using an iterative methodology to find the lowest level of combined non-Federal and Federal interest and principal payments such that all debts are paid within the repayment period (50 yrs for Generation; 35 yrs for Transmission.)
- Relative to other years, a large amount of EN principal matures in FY 2016/17 – this spike in principal forces higher debt service in prior years.
- “Smoothing this peak” allows for lower repayment study debt service levels in the FY 12/13 rate period and beyond, by allowing for less discretionary payments.

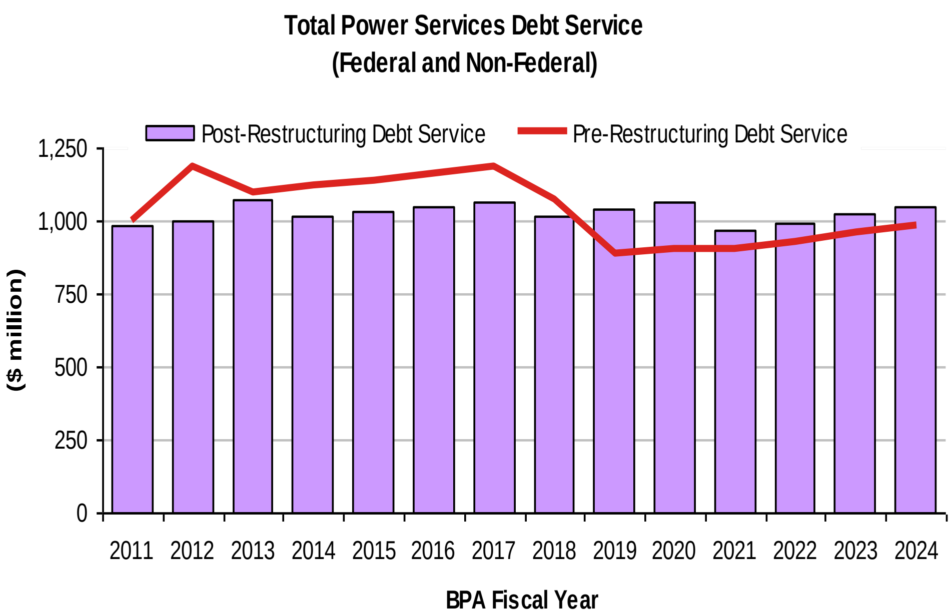
Scenario for Consideration:

- Extend CGS debt that is maturing or callable in 2011 and 2012 into the 2019-2024 time period, and restructure some Project 1 and 3 debt within the 2011-18 timeframe.

Scenario Results & Benefits

Extending $775 million CGS principal and restructuring $274 million Project 1 and 3 callable bonds in both 2011 and 2012 results in the lowest non-Federal debt service from all the scenarios analyzed, and produces the lowest repayment study total debt service obligations in FY 2012-13 and through 2018.

- Specifics of the scenario:
  - 2011 debt: Extend $155m of 2011 ***callable*** CGS; extend $94m of 2011 ***maturing*** CGS. In 2011 **redeem early** (pay off) $94m of callable Project 1&3 debt that would otherwise mature in peak years.
  - 2012 debt: Extend $260m of 2012 ***callable*** CGS; extend $266m of 2012 ***maturing*** CGS; **redeem early** approximately $180m of Projects 1& 3 that would otherwise mature in peak years.
- Average annual repayment study total debt service (Federal and non-Federal) ratepayer benefits in FY2012-13 may be as high as $100m. Revenue requirement benefits (what actually flows into rates) are the same.



Total Power Services Federal & Non-Federal Debt Service
($ in millions)

BPA FY	Pre-Restructuring Debt Service	Post-Restructuring Debt Service	Delta
2011	998	981	(16)
2012	1,184	1,002	(182)
2013	1,096	1,070	(26)
2014	1,119	1,017	(102)
2015	1,141	1,032	(109)
2016	1,165	1,049	(116)
2017	1,182	1,066	(116)
2018	1,072	1,015	(57)
2019	889	1,044	155
2020	906	1,061	155
2021	903	967	65
2022	931	995	64
2023	957	1,022	64
2024	986	1,047	61
Totals	14,529	14,367	(162)

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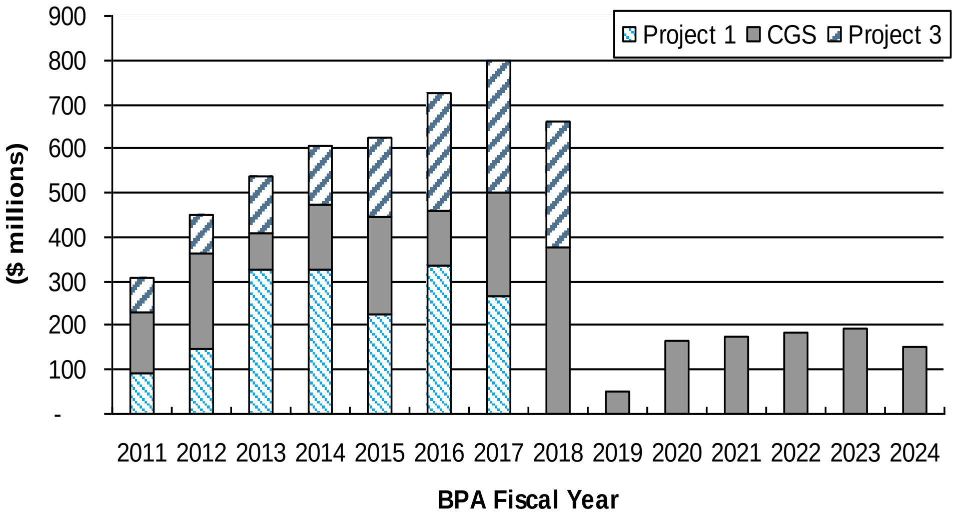
EN Total Principal Profile Before and After

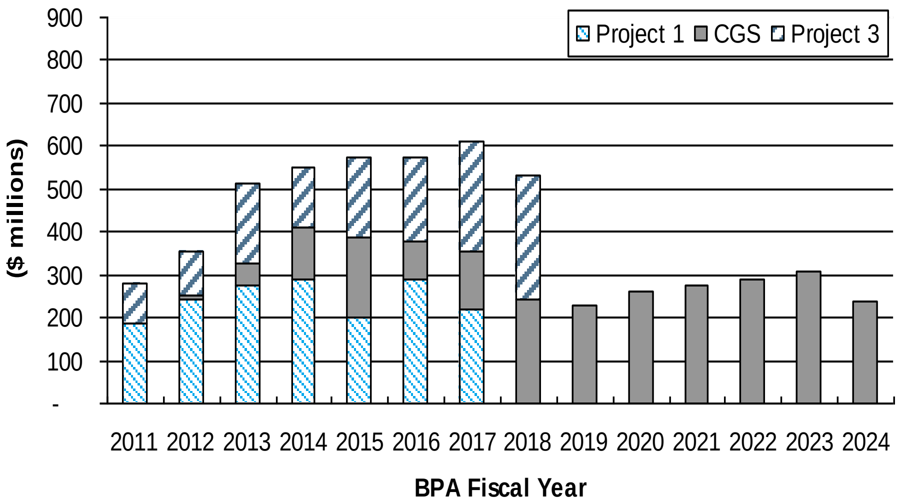
CGS Extension/Project 1/3 Restructuring

- 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 maturities

Total EN Principal By Project (Pre-Restructuring)



Total EN Principal By Project (Post-Restructuring)



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Comparison to Previous Debt Management Actions

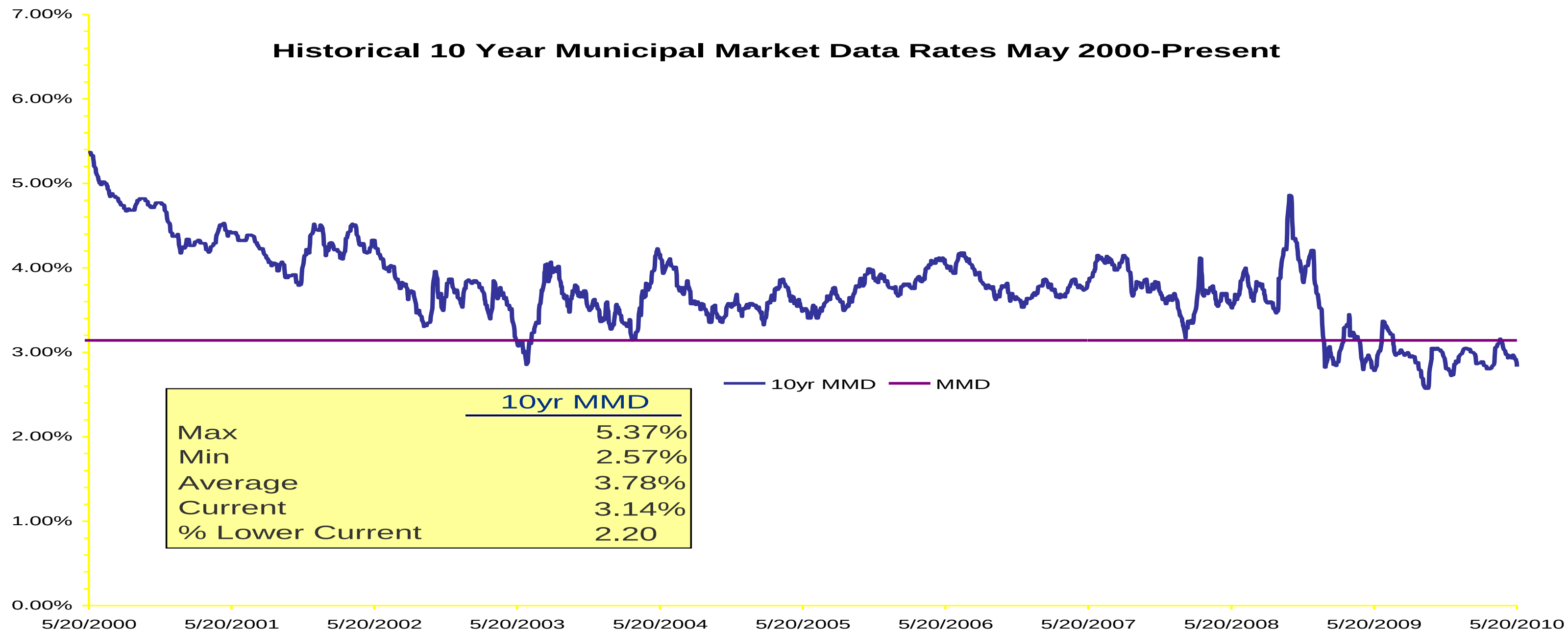
- 2006 CGS Debt Extension
  - $350 million was extended for rate relief
  - $100 million was extended for the Debt Optimization Program (Transmission DSR)
  - All new CGS debt was placed in 2020-2024

- Debt Optimization Program
  - The fundamental purpose from BPA's perspective was to restore Treasury borrowing authority
  - BPA paid down Federal debt in a like amount for each dollar of EN debt extended

- 2010 Scenario
  - $ 775 million CGS extension to 2019-2024
  - $ 274 million Project 1 and 3 principal redeemed early

Historically Low Interest Rates

- If EN/BPA completed a traditional refinancing for savings of the EN callable debt associated with <u>Power Services</u> (about $1.0 billion), the present value (PV) savings could be as much as $80 million.
- If EN/BPA completed a traditional refinancing for savings of the EN callable debt associated with <u>Transmission Services</u> (about $75 million), the PV savings could be as much as $7 million.
- The majority of the benefits of the debt extension/restructuring scenario are attributable to extending principal so it is only somewhat interest rate sensitive; a 3% increase in interest rates would erode on average $14 million in ratepayer benefits per year for the period 2012-2013.
- BPA is considering ways to hedge a rise in interest rates.



	10yr MMD
Max	5.37%
Min	2.57%
Average	3.78%
Current	3.14%
% Lower Current	2.20

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Summary

- BPA and EN may have opportunities to impact rate levels in the coming rate period.
- BPA will hold customer workshops and solicit the region’s feedback over the next two months regarding debt management opportunities.
- We are very interested in hearing the views of the Energy Northwest ALF Committee and the Participant’s Review Board on these ideas.

Next Steps/Timeline

FY10 (April – June)

- PRB Discussion (TBD-June)
- Customer Workshops (June 8th & 18th)
- Initial ALF/EN E-Board Presentation (May)

FY10 (July – September)

- WP-12 Initial Proposal (September)
- EN E-Board Refunding Plan Approval (September)
- EN E-Board Update (July)

FY11 (October - December)

FY11 (Jan – March)

- Bond Transaction Kick Off Meeting (January)

FY11 (April – June)

- Final Rate Proposal (June)
- Bond Closing (April)

Legend

- Public Process
- EN Activities
- Bond Transaction
- Rate Case