

Questions and Answers
Topic: Debt Management
Power Function Review Meetings on
March 1 & 17, 2005

Q. What is the basis for the capitalized bond call premiums that were said to be in the Capital G&A for FYs 2008 and 2009 on page 15?

A. BPA sometimes issues Federal bonds with call options. These callable bonds can either be repaid or refinanced before their maturity date. The term ‘refinanced’ is used when a bond is called and is paid either in full or in part with the proceeds of a new bond issued contemporaneously with the call. To refinance, a new bond is issued, and may have a new maturity date and is assigned the prevailing interest rate. The cost of calling the bond early (the call premium) is paid with the proceeds of the new bond. The amount of the call premium paid is also recorded as an asset, or in other words, capitalized. The term ‘repaid’ refers to when a bond is redeemed early and is either paid in full or in part without issuing a new bond. When a bond is repaid, the cost of the call premium is an expense in the year the bond is called; the call premium expense shows up in Federal Net Interest Expense. BPA currently has several callable Federal bonds outstanding. However, all of these callable bonds are linked with the Transmission business line. The capitalized call premiums presented on page 15 of the March 1st PFR presentation represent the current forecast at the Agency level.

Q. Provide the amortization and debt service associated with the expense categories.

A. Since BPA manages its debt as part of a large portfolio, there is no direct correlation between specific projects and specific debt instruments. There are several examples to illustrate this point. First, BPA may issue debt for relatively short periods of time such as 3 or 5 years, yet the assets financed with this debt could last for up to 50 years. Second, BPA does not issue debt tied directly to the plant-in-service dates of specific assets. BPA issues debt when it is prudent to do so. This means that debt most likely will be issued after the plant goes into service, which is the source of BPA’s deferred borrowing. Third, most of BPA’s debt is issued with bullet maturities, which means that there will not be annual principal payments for this type of debt.

Therefore, depreciation expense is a better measure of the annual expense associated with specific programs. Depreciation is the systematic and rational method of allocating the initial costs of an asset over its expected service life.

Depreciation/Amortization schedules by program are shown on page 14 of the March 1 PFR presentation. Below is a table that shows the estimate of interest expense associated with specific expense categories.

	2005	2006	2007	2008	2009
Corps of Engineers	154,155	141,953	146,568	152,169	156,946
Bureau of Reclamation	42,442	42,442	42,442	42,426	42,363
Lower Snake F&W	16,466	16,466	16,466	16,466	16,466
Bureau Direct Funding	16,751	25,880	37,765	49,932	58,983
Conservation	17,347	19,761	21,275	22,896	19,969
Environment, Fish, & Wildlife	7,056	9,728	11,931	13,620	16,113
BPA capital	2,658	3,817	3,702	4,553	5,570

Q. There is a ramping up in federal principal. Provide the projected new refinancing issues that were used to calculate on pages 17, 20 and 23.

A. This question is unclear, but appears to be asking what financing and “re-financing” assumptions were made, resulting in increasing Federal depreciation expense. The new Federal obligations assumed are shown on page 23 of the March 1 PFR presentation.

If the “re-financing” in the question refers to EN refinancing, there is no assumption of future refinancing of EN debt. Refinancing actions are included in repayment studies only after they have occurred or when the completion of the transaction is imminent.

Q. What has been the forecast v. actuals for debt management?

A. The comparison of forecast debt service with actual results is shown on page 24 of the March 1 PFR presentation. It reflects the effects of debt optimization, the low interest rate environment, and BPA borrowing practices.

Q. What is CRFM?

A. The Columbia River Fish Mitigation Project (CRFM) is a set of activities designed to mitigate the impact of the Columbia/Snake River run-of-the-river dams on the migratory passage of anadromous fish. It includes the construction of physical assets such as Removable Spillway Weirs as well as research projects on fish migration and the effectiveness of mitigation measures. A more complete description of the project can be found in several PFR workshop presentations. See the March 7, 2005 Fish & Wildlife public meeting presentation, http://www.efw.bpa.gov/Integrated_Fish_and_Wildlife_Program/ColumbiaRiverFishMitigation_030705.pdf and the presentation for the April 5, 2005 PFR technical workshop to be posted at, <http://www.bpa.gov/power/pl/review/meetings.shtml>.

Q. What is net value of depreciation/amortization? What is dropping off?

A. Below is a table showing the depreciation/amortization for 2005-2009 only on investments in-service at the end of FY 2004. The incremental values from forecasted additions are excluded, to demonstrate how much, in what categories of costs, is being fully depreciated.

**Depreciation/Amortization from investments in-service as of 9/30/04 only
(\$ thousands)**

	2005	2006	2007	2008	2009
PBL Capital Equipment	13,826	12,565	10,091	3,415	1,297
COE/USBR	91,218	91,218	91,218	91,218	91,218
Total Depreciation	105,044	103,783	101,309	94,633	92,515
Amortization of Conservation	42,637	37,552	33,049	29,843	27,283
Amortization of ConAug	8,072	8,072	8,072	8,072	8,072
Amortization of Fish & Wildlife	16,972	15,712	14,751	13,827	12,516
Total Amortization	67,681	61,336	55,872	51,742	47,871
Total Federal Projects Depreciation	172,725	165,119	157,181	146,375	140,386