EN Debt Service Discussion

CIG Meeting

May 10, 2007

Agenda

- Brief review of the Slice settlement, Exhibit D
  - Rates no higher test as outlined in the settlement agreement
  - Rates no higher test presented at the 1/23/07 annual Debt Optimization Program (DOP) meeting
- Brief review of how DOP and Debt Service Reassignment (DSR) flow through the Power Income Statement
- Discuss EN debt service changes from rate case to Q2

Requirements as Outlined in the DOP MOU of the Slice Settlement Agreement

Exhibit D Section B.2 BPA Commitments Concerning the Debt Optimization Program requires that:

- BPA demonstrate that rates are no higher with the DOP than they would have been in the absence of the DOP.
- BPA will annually demonstrate achievement of this principle by running and presenting repayment studies that compare a base repayment study that includes all debt management activities completed to date with a DOP repayment study that includes new DOP projections for the upcoming years, the results of which comply with such principle.

A copy of the final Slice Settlement Agreement can be found at:

http://www.bpa.gov/corporate/pubs/RODS/2006/Settlement%20Agreement_with_no.pdf

A copy of the materials presented at the annual DOP meeting can be found at:

http://www.bpa.gov/corporate/Finance/Debt_Management/presentations/ Click on ***Materials for Jan. 23, 2007 workshop***

Repayment Study: What It Is & How It Works

- 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.
- Repayment studies are conducted for each year in a rate test period. Each annual study includes outstanding bonds and appropriations as of the most recent year of actual data and projected repayment obligations through the year of the study. Funding for replacements projected during the repayment period also is included in the repayment study, consistent with Federal repayment policy.
- Annual debt service streams for non-Federal payment obligations are included as fixed requirements that the study must take into account in establishing the overall levelized debt service. This reflects the priority of revenue application in both policy and statute in which these obligations have a higher priority of repayment. The study schedules the repayment of Federal debt around these obligations.
- That schedule, with the resulting Federal interest payments, the non-Federal debt service requirements and, for Generation, Federal irrigation assistance, is the lowest, levelized combined debt service for the study year and over the ensuing repayment period.
- The study creates the lowest, levelized combined debt service schedule through linear programming methodology, which iterates numerous times within each year's study 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 years for Generation and 35 years for Transmission).

Repayment Study: Why It Is the Right Test

For demonstration of compliance with the “rates no higher with Debt Optimization" principle, the results of a series of annual repayment studies is the logical place and the right place to make that determination because the repayment study:

- Employs a complex linear programming methodology for a consistent analytical approach that allows for the least cost interaction of Federal flexibility and fixed non-Federal requirements.
- Features 20-year analytical capability. A 20-year look goes beyond the EN repayment period and allows for an analytical look over multiple rate periods ensuring that DO does not create problems in future rate periods.
- Allows for a comprehensive evaluation of DO. The repayment study shows how the DO transactions interact with BPA’s entire debt portfolio as well as projected debt obligations.

Section B.2: Rates No Higher as Demonstrated by Repayment Study Results

Transmission Rate DOP Demonstration

Summary of Repayment (*$ in 000s*)

Generation

Date	Base Total Debt Service	Debt Opt Total Debt Service	Delta
09/30/2007	1,011,192	1,010,812	(379)
09/30/2008	1,077,963	1,076,685	(1,278)
09/30/2009	937,901	934,994	(2,907)
09/30/2010	1,032,229	1,032,449	220
09/30/2011	1,047,399	1,047,021	(378)
09/30/2012	1,093,367	1,092,138	(1,229)
09/30/2013	1,111,404	1,110,131	(1,273)
09/30/2014	1,126,140	1,124,872	(1,268)
09/30/2015	1,135,438	1,134,161	(1,277)
09/30/2016	1,145,539	1,144,247	(1,292)
09/30/2017	1,152,570	1,151,278	(1,292)
09/30/2018	1,099,678	1,098,339	(1,339)
09/30/2019	964,339	963,054	(1,285)
09/30/2020	974,699	973,427	(1,272)
09/30/2021	981,833	980,543	(1,290)
09/30/2022	997,426	996,136	(1,290)
09/30/2023	1,005,126	1,003,842	(1,284)
09/30/2024	1,012,153	1,010,868	(1,285)
09/30/2025	1,000,101	995,681	(4,420)
09/30/2026	1,007,866	1,003,445	(4,421)
		Total 20-year Difference	**(30,239)**
		Net Present Value[1]	(16,849)
		Net Present Value[2]	(8,483)

Transmission

Date	Base Total Debt Service	Debt Opt Total Debt Service	Delta
09/30/2007	353,381	348,608	(4,773)
09/30/2008	365,777	357,894	(7,883)
09/30/2009	383,563	375,009	(8,554)
09/30/2010	400,580	391,663	(8,917)
09/30/2011	414,242	405,667	(8,575)
09/30/2012	430,144	428,301	(1,843)
09/30/2013	449,210	452,481	3,271
09/30/2014	467,689	466,272	(1,417)
09/30/2015	484,958	483,537	(1,421)
09/30/2016	507,864	506,447	(1,417)
09/30/2017	526,032	524,618	(1,414)
09/30/2018	538,381	536,965	(1,416)
09/30/2019	550,531	549,147	(1,384)
09/30/2020	563,103	561,753	(1,350)
09/30/2021	576,795	574,908	(1,887)
09/30/2022	590,622	589,289	(1,333)
09/30/2023	606,322	604,992	(1,330)
09/30/2024	621,399	624,039	2,640
09/30/2025	638,082	636,478	(1,604)
09/30/2026	655,398	653,799	(1,599)
		Total 20-year Difference	**(52,206)**
		Net Present Value[1]	(40,057)
		Net Present Value[2]	(33,888)

NOTE: In the delta column, a negative number denotes a decrease in debt service; a positive number an increase in debt service.

1 Discount Rate = WAI on Treasury Bonds Outstanding at 9/30/06 = 5.08%
2 Discount Rate equal to the following for each Service function: Transmission = 9.00% Power = 13.00%

Debt Optimization and Debt Service Reassignment Income Statement Impact

Debt Optimization & Debt Service Reassignment General Review

- Debt Optimization (DO) that is allocated to Power results in a reduction to non-Federal debt service in the refinancing year, but creates debt service repayment obligations for future years.

- Debt Service Reassignment (DSR) is the use of DO to replenish Treasury Borrowing Authority by paying Transmission-related Federal repayment obligations.

- DSR impacts the Power function as follows:
  - DSR results in the satisfaction of an original Power obligation; essentially, the EN debt has been deemed paid by Power.
  - To show that Power's original obligation has been satisfied, it is reflected in Power's Income Statement as ***EN Retired Debt***.
  - All future EN debt service costs associated with DSR are assigned to Transmission, and accordingly will be recovered through Transmission's rates.

- DO also results in an additional payment of Federal debt. For every dollar of EN debt extended, BPA makes a matching prepayment of Federal debt.

Accrual and Cash Effects of DO & DSR

Accrual:

- With no DO, EN debt service equals: (3/4 of current EN FY debt service) + (1/4 of next EN FY debt service)
- Why is the ¾, ¼ calculation necessary?
  - Energy Northwest (EN) debt comes due at the end of their fiscal year, which runs from July 1st to June 30th. BPA's fiscal year runs from October 1st to September 30th. This means ¼ of EN's new fiscal year falls into BPA's current fiscal year.
  - In accordance with GAAP, each month BPA accrues 1/12 of the EN due principal—this coincides with the liability for the EN principal due.
- With DO, the ¾, ¼ calculation affects both the reduction to EN debt service due to the refinancings and the *EN Retired Debt* line item in PBL's income statement.

Cash:

- The EOY advance amortization due to DO/DSR is associated with the current year's DO refinancing only. It is a cash-type transaction and is NOT subject to the ¾, ¼ calculation.

Summary: one side of DO has an accrual effect and the other side a cash affect; therefore, the reductions to EN debt service <u>will not</u> equal the increased amortization payment. Note: if these components do match it is only by coincidence!

Accrual Effect of DO and DSR

Recall that: EN Debt Service = (3/4 of current EN FY debt service) + (1/4 of the next EN FY debt service)

EN Debt Service Impact:

- For a planned DO transaction in the current year, the impact to EN debt service at SOY is:
  - the ¾ portion of EN's budget reflects the current year projected refinancing, i.e. EN's cash needs are reduced as follows (CY principal being refinanced X 75%).
  - the ¼ portion typically reflects no principal reductions from DO, as we do not reflect refinancings in future fiscal years until EN has reflected the change in a budget.
- If BPA projects DO for the next FY, the impact is incorporated after BPA receives an EN budget reflecting the projected refinancing, generally at 2nd Quarter. The projected refinancing results in a reduction to the ¼ portion as follows (principal projected to be refinanced under DO for the next year X 25%)

EN Retired Debt Impact:

- The EN Retired Debt Income Statement line item deals only with DSR amounts to recognize that Power has satisfied its original obligation, calculated as follows:

	Actual DO allocated to TBL from the current year EN refinancing
MINUS	The DSR portion of the current year EN refinancing accrued in the prior FY
PLUS	One-quarter of the projected DSR allocation for the following FY
	EN Retired Debt Accrual

The Calculation for Power EN Retired Debt

Fiscal Year	Calculation Explained	The Math
FY02	Actual FY02 DSR - FY02 portion accr'd in FY01, plus	$0 - $0 = $0
	1/4 of projected FY03 DSR	$220 x 25% = $55
	FY02 EN Retired Debt Accrual	$55
FY03	Actual FY03 DSR - FY03 portion accr'd in FY02, plus	$315 - $55 = $260
	1/4 of projected FY04 DSR	$220 x 25% = $55
	FY03 EN Retired Debt Accrual	$315
FY04	Actual FY04 DSR - FY04 portion accr'd in FY03, plus	$205 - $55 = $150
	1/4 of projected FY05 DSR	$190 x 25% = $48
	FY04 EN Retired Debt Accrual	$198
FY05	Actual FY05 DSR - FY05 portion accr'd in FY04, plus	$190 - $48 = $143
	1/4 of projected FY06 DSR	$169 x 25% = $42
	FY05 EN Retired Debt Accrual	$185
FY06	Actual FY06 DSR - FY06 portion accr'd in FY05, plus	$204 - $42 = $162
	1/4 of projected FY07 DSR	$202 x 25% = $50
	FY06 EN Retired Debt Accrual	$212
FY07	Projected FY07 DSR - FY07 portion accr'd in FY06, plus	$202 - $50 = $151
	1/4 of projected FY08 DSR	$110 x 25% = $28
	Projected FY07 EN Retired Debt Accrual	$179

Excerpt from Power Income Statement at Q2: EN Debt Service Changes from RC to Q2

Report ID: 0060FY07	Power Services Detailed Statement of Revenues and Expenses	Run Date\Time: April 19, 2007 02:42
Requesting BL: POWER BUSINESS UNIT	Through the Month Ended March 31, 2007	Data Source: EPM Data Warehouse
Unit of Measure: $ Thousands ($ 000)	Preliminary/ Unaudited	% of Year Lapsed = 50%

		A	B	C	D	E	F	G
		Actuals: FY 2005	Actuals: FY 2006	Rate Case: FY 2007	Target SOY: FY 2007	Actuals: FYTD 2007	Forecast: Current EOY Q207	Actuals per Forecast
	Non-Federal Debt Service							
	Energy Northwest Debt Service							
75	COLUMBIA GENERATING STATION DEBT SVC	97,631	103,071	195,690	133,507	55,464	91,397	61%
76	WNP-1 DEBT SVC	75,791	96,687	147,941	107,811	46,006	80,641	57%
77	WNP-3 DEBT SVC	56,546	71,153	151,724	89,788	35,512	77,390	46%
78	EN RETIRED DEBT	184,800	212,400		154,709	100,938	178,850	56%
79	EN LIBOR INTEREST RATE SWAP	6,421	(155)		4,000	(995)	2,000	-50%
80	Sub-Total	421,188	483,156	495,355	489,815	236,925	430,278	55%

Simple Reconciliation: from 2007 RC to 2Q forecast

$495	2007 Debt Service as forecasted in the 2007 RC
(211)	Less: Principal Effect of DO Refinancing [(75% x 232M) + (25% x 147M)]
179	Add: EN Retired Debt Accrual
(34)	Other Adjustments
$430	**FY07 Q2 EN DS Forecast** *($ in millions)*

Other Adjustments:
EN Debt Service Changes from RC to Q2

NOTE: Other Adjustments Excludes Changes due to Refinancing

($millions)	BPA FY 2007
EN Debt Service	
R&C Funds	(30)
Building Sale	(6)
Net Interest Expense Change & Miscellaneous	2
Total PBL Non Federal Debt Service Change	**(34)**

Notes:

--R&C Funds is Prior Year and current year excess Reserve and Contingency Funds.