

BPA Prepayment Program

Live Meeting
June 27th and 28th
9am-12pm

Call-in information:

June 27th: Dial USA Toll-Free: 877- 322-9654 ; at the prompt, enter participant code 320823.

June 28th: Dial USA Toll-Free: 877-807-5706; at the prompt, enter participant code 228865.



Today's Objective



- **Today's Objective:** Share information with customers so they will be able to evaluate and make an informed decision and provide feedback regarding the Power Prepay Program.
- BPA will go over a lot of material at a high level and if you are interested in more detail, contact your AE who can either provide more detail or help set up additional sessions where the details can be covered.
- BPA will focus on providing information for comments on the general merits of the prepay program and not specific details on the bidding process for individual blocks.

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Background



- BPA formed a regional team to develop a power prepay program that consisted of potential participants and non-participants to ensure equity among customers.
- The purpose of this initiative is to establish an additional financing tool to assure Fed Hydro Investments are made.
- The regional team members are Benton PUD, Clark PUD, EWEB, Lewis Country PUD, NRU, PNGC, Snohomish PUD, Tacoma Power and BPA.
- The team agreed on the following principles that guided the process:
 1. **Fixed credit/adjustable price:** A prepay transaction locks in the value of the prepayment (a credit), not power prices. BPA's future rates may go up or down, but the customer will always receive a fixed credit for the prepaid portion of their bill equal to the prepay bond debt service (if applicable) plus an incentive.
 - BPA is mandated to recover its costs from customers and bases its power rates on this mandate. Therefore, BPA cannot lock a fixed power purchase price to recover its future costs when we do not know those costs.
 - BPA believes that any prepay program should maintain equity among participants and non-participants; a fixed price would violate this goal.
 2. **Consistent with existing Regional Dialogue contracts:** A prepay transaction should fit within existing Regional Dialogue contracts and does not constitute an "assignment" of power sold at a Tier 1 rate, which may trigger the Tiered Rates Methodology voting process or a 7(i) process.
 3. **Placement of credits:** BPA has limited degrees of freedom in terms of when credits will occur and needs to define the timing of credits to minimize the impacts to future revenue requirements.
 - BPA will minimize rate impacts by timing credits using repayment study and revenue requirement analysis.
 - The precise timing mentioned above means that the credit streams should be considered fixed and are not liquid.

Power Prepay Basic Terms



- \$50,000 monthly level prepay “Blocks”
- Credit term matches the current Power Sales Agreement’s (PSA’s) and go through FY2028
- Credits are not transferable or sellable by customers
- No minimum Block requirement
- No partial Blocks
- No performance deposit requirement
- BPA will use the Market Clearing Auction to determine the price of the blocks
- In the unlikely event a customer has monthly unused credits, there will be deemed assignments of prepayment credits, BPA will remit cash to the prepaying customer as long as BPA has power purchases from other customers
- Monthly credits start accruing the day after the prepayments are funded and will appear on customer’s power bill the following month.
- If a utility issues debt to fund the prepayment:
 - BPA will assure that the customer is not exposed to interest rate environment risk between the date of the making of the offer(s) and the date of the customer’s debt pricing. This will be achieved by adjusting the customer’s prepayment amount to reflect the changed interest rate environment (using the Treasury 10-year yield)
 - BPA will provide off-ramps to customers for credit spread risk between bid and funding date of the customer’s debt pricing. This ensures that the selected customers will not under-achieve expected benefits.
 - The payment of principal or interest on any debt issued by or for the benefit of the prepaying customer will not be guaranteed by BPA

Net Billing and Customer Credits



- Energy Northwest's Net Billing Agreements require that BPA and related participants not agree to bill credits beyond certain thresholds.
- Therefore, BPA must assure the thresholds are not exceeded and limit the number of Blocks a net billing participant may purchase.
- The following methodology to adjust for net billing is recommended:
 - Individual credits available for purchase under the prepay program should be the lower of:
 - 50% of the lowest year of forecasted customer power revenues from 2014-2018 OR
 - 100% of the lowest year of forecasted customer power revenues available after the Net Billing obligation
- ***Customers can learn the number of blocks available for them to purchase from their Account Executive.***

Auction Specifics

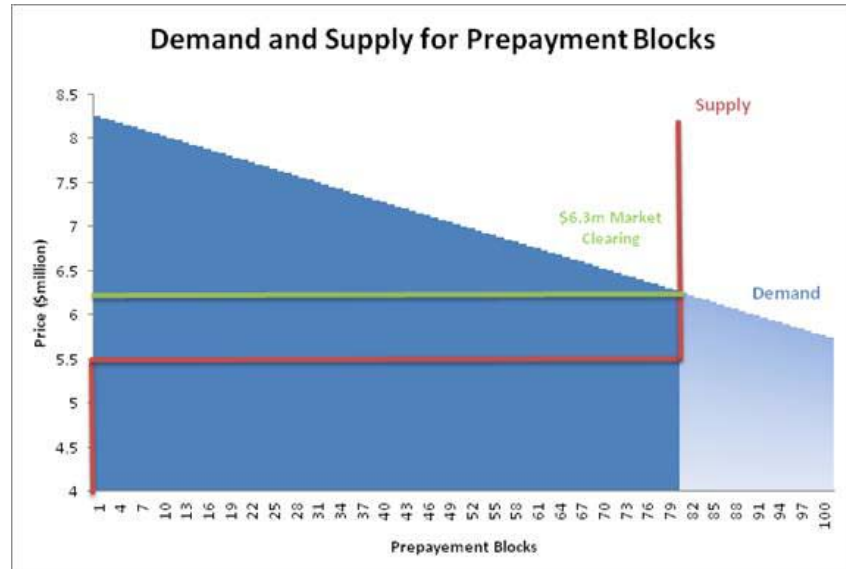


- BPA will seek offers for a specified number of prepayments. Depending on a variety of factors there could be more than one such auction, but they would likely be every 2 years, sequenced ahead of power rate cases.
- Customers will bid prices (prepayment amounts) to purchase one or more blocks. A customer is not limited to offering the same price for all Blocks it offers to purchase.
- Each bid is a dollar amount of prepayment offered for a Block for about 15 years (or the remaining term of the Regional Dialogue contracts as measured from April 1, 2013). A Block is therefore equal to about \$9 million in nominal total credits over the life of the agreement.
- For this RFO, the Blocks represent equal monthly credit through the term of the Regional Dialogue contracts—Blocks will not be shaped.
- BPA will establish a “reservation price” per Block that will be the minimum dollar amount BPA is willing to accept for each block.
- Customer bids, subject to BPA’s reservation price floor, will establish a market clearing price, which will be the competitively determined price for participation in the program. All customers that bid at or above this price will be offered the clearing price for each Block they bid at or above this price.

Evaluation Example



- BPA sells 80 Blocks (\$50,000 equal monthly credits) for 15 years.
- BPA determines to use a reservation price of \$6.0 million per Block, which reflects an implicit rate of approximately 5.8 percent.
- Suppose BPA receives 100 bids as follows:
 - 4, ..., 4.5, ..., 5, 5.5, 6.0, ..., 6.3, ..., 7, 7.5, ..., 8.15, 8.2, 8.25
 - 10 bids are less than the \$6.0 million dollar reservation price
 - 90 bids remain, of which the 80th lowest bid = \$6.3 million
 - \$6.3 million is the market clearing price
 - The program generates \$504 million in prepay revenues (80 blocks times \$6.3 million per pre-pay)
- Effectively results in BPA paying an implicit 5.1 percent rate

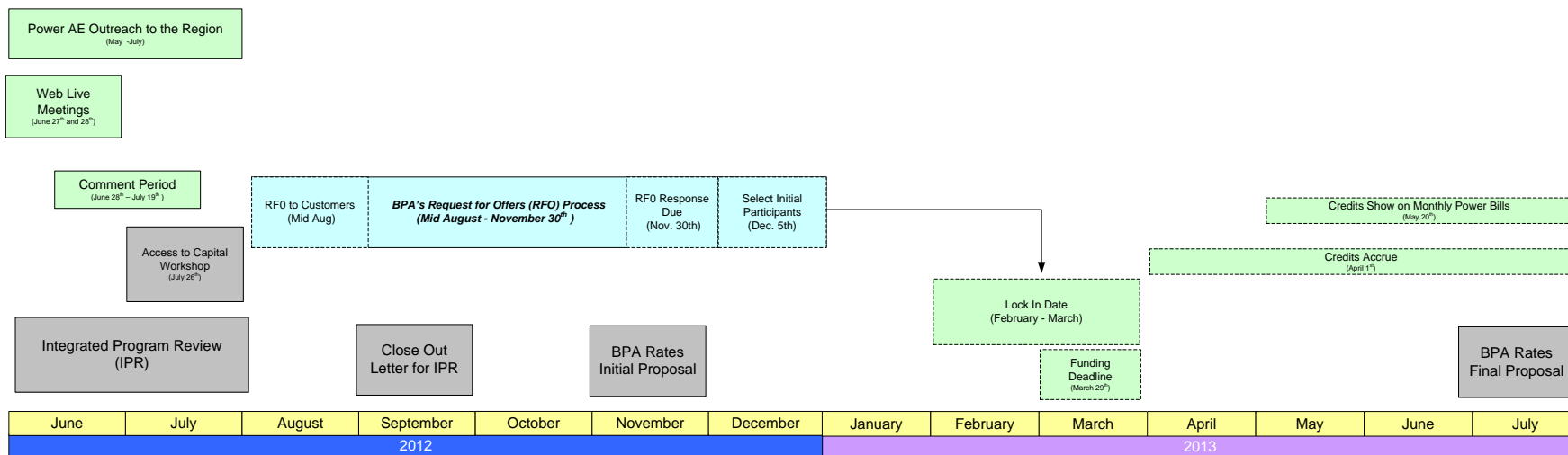


Consolidator Model



- BPA wants to ensure all customers have an opportunity to participate in the initial prepay program.
- Some customers may be restricted in participating in the program directly due to their existing net billing constraints.
- Other customers may not wish to purchase a full block from BPA.
- Customers in either category may work with a “consolidator” to participate in the program.
- The consolidator model is not intended to move transactions “off balance sheet” for other customers.
- The consolidator framework is strictly a financial transaction between the two parties and is a separate agreement from the prepayment agreement with BPA.
- For more information on the Consolidator Model, please contact your Account Executive.

Power Prepay Timeline



Legend

- Prepay Outreach Process (Green box)
- RFO and Selection Process (Light Blue box)
- Funding Process (Dashed Green box)
- BPA Rate Setting Process (Grey box)