

Repayment Model Bond Rollover Feature

The repayment model bond rollover feature is a new capability within the repayment model that allows the model to mirror BPA's actual practice of rolling or refinancing bonds if funds are insufficient to pay them or if market conditions make it prudent to do so. It does this by allowing the model to capture the initial interest rate and expense for a bond, and then at maturity, capture a new rate and interest expense based on a new maturity date determined by the model operator.

As BPA has implemented the Debt Optimization (DO) program to restore borrowing authority, BPA has issued many short-term federal bonds anticipating future DO proceeds from the reduced debt service at Energy Northwest (ENW) would be available to amortize the bonds when they came due. This was a cost-effective approach that minimized interest expense and captured further savings for rate payers in the near-term due to lower rates for the shorter maturity bonds. The alternative to this feature would have been to issue bonds with call provisions. BPA pays a spread of about 50 basis points for the privilege of having a callable bond and then pays a call premium when that bond is called. This short-term bond issuance strategy not only avoids the call spread and premium, it takes advantage of the current yield curve shape with rates lower on the short end of the yield curve. The expectation is that we will amortize the bonds at their due dates if the funds are available, or roll the bonds if the funds are not available (for example if an ENW debt extension does not go through).

For rate cases, BPA's federal budget submissions, and other planning purposes, BPA does not forecast future debt optimization for a variety of reasons. ENW has a limited time period each year to access markets to issue municipal bonds. BPA does not have sufficient certainty that ENW will be successful each year in accessing the municipal market during the limited window of opportunity to forecast specific transactions. In addition, BPA is unwilling to commit to higher Treasury amortization payments because there is potential risk that the funds may not be available to make the larger payment.

Unfortunately this creates conflicting assumptions with the maturity dates of the short-term bonds reflected in the repayment study, and not forecasting the availability of the ENW-related funds in the repayment study. That is the reason the rollover feature was created. It allows the repayment study to solve for the lowest level of debt service in the rate test year(s) and repayment period, thereby not artificially increasing Federal debt service for the revenue requirements.

Rollover Principles:

Principles of the repayment model bond rollover features are, 1) Do not add to existing critical years (e.g. make them worse); 2) Do not add any new critical year peaks (critical years that would be higher than those already existing); and 3) Reflect current and projected interest rates consistent with existing and projected bond maturity dates.

This Agency Financial Information is provided for discussion purposes during this pre-rate case process.

Procedures and methodology:

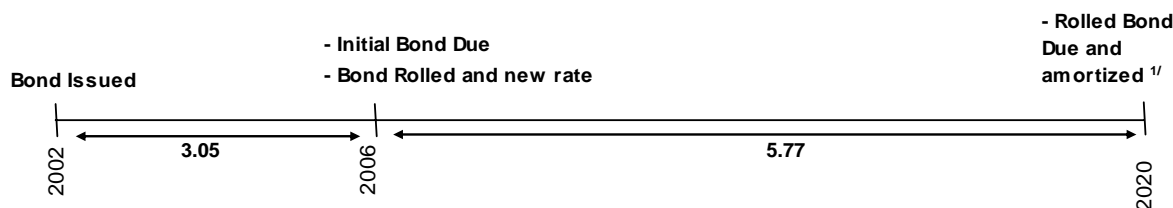
The method for choosing which bonds to roll out is to a) review existing critical years in the near term, b) determine if any of the critical years could be caused by a short-term bond(s), and c) identify approximate amounts of “overcapacity” in the critical year(s). After the bonds and amounts are identified, new maturity dates are selected using the following guidelines: a) the new maturity date must not exceed the maximum allowable maturity for the specific asset (determined by average service life), and b) identify a year when the discretionary principal scheduled to be amortized exceeds the amount of the bond, thus not creating a new peak or critical year in the study. That then becomes the new maturity date. The model selects from the current BPA interest rate yield curve file and automatically assigns the new interest rate based on the future issue and maturity dates.

Traditional bond treatment

Issue Date	Par	Maturity Date	Rate	Annual Interest
2002	\$100,000,000	2006	3.05%	\$3,050,000

Treatment using rollover feature

Issue Date	Par	Maturity Date	Rate	Annual Interest	Rolled Maturity Date	New Rate	New Annual Interest
2002	\$100,000,000	2006	3.05%	\$3,050,000	2020	5.77%	\$5,770,000



1/ Repayment study could amortize bond between 2006 and 2020 if call terms were applied.

The rolled bond has the actual annual interest expense until the initial due date. At that time, rather than amortizing the bond, the repayment study recognizes a new maturity date and associated annual interest rate and expense until the new maturity date. This simulates that the bond will either be replaced by a new Treasury bond or with ENW debt.