Bonneville Power Administration

Debt Optimization

and

Debt Service Reassignment

A look at the FY 2005 results

This information has been made publicly available by BPA on February 7, 2006

Debt Optimization & Debt Service Reassignment General Review

- Debt Optimization (DO) is designed to restore Treasury Borrowing Authority.
- Debt Service Reassignment (DSR) is the use of DO to replenish Treasury Borrowing Authority by paying Transmission-related Federal repayment obligations.
- 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.
- DSR is reflected in Transmission's Income Statement as ***Debt Reassignment Interest***.
  - Debt Reassignment Interest represents the interest expense on the EN bonds that are a Transmission obligation due to DSR.
  - Technically the *debt service* is assigned to Transmission, not the *debt*.

Excerpt from the Power Income Statement

Report ID: 2001FY06	**PBL Statement of Revenues and Expenses - Project Detail**
Run Date/Time: January 30,2006/ 15:46	**Through the Month Ended September 30, 2005**
Unit of Measure: $ Thousands ($ 000)	**Preliminary Unaudited/For Internal Use Only**
Data Source: PS Production	**% of Year Lapsed = 100%**

Presentation purpose: Show accounting for FY05 Debt Service Reassignment

		A	B	C	D
		Actuals: FY 2002	**Actuals: FY 2003**	**Actuals: FY 2004**	**Actuals: FYTD FY 2005**
	Non-Federal Debt Service				
	Energy Northwest Debt Service				
74	COLUMBIA GENERATING STATION DEBT SVC	67,137	18,114	79,663	97,631
75	WNP-1 DEBT SVC	85,753	58,526	93,477	75,791
76	WNP-3 DEBT SVC	56,527	19,873	39,164	56,546
77	EN RETIRED DEBT	54,750	315,200	181,858	184,800
78	EN LIBOR INTEREST RATE SWAP		6,032	12,043	6,421
79	**Sub-Total**	264,168	417,744	406,204	421,188
	Non-EN Debt Service				
80	TROJAN DEBT SVC	2,562	7,817	10,475	9,637
81	CONSERVATION DEBT SVC	3,847	3,906	5,020	5,040
82	COWLITZ FALLS DEBT SVC	12,408	5,267	7,442	11,152
83	**Sub-Total**	18,817	16,989	22,937	25,829
84	**Non-Federal Debt Service Sub-Total**	282,985	434,734	429,142	447,018

Excerpt from the Transmission Income Statement

Report ID: PPCT0061
Requesting BL: TRANS
Run Date/Time: October 27, 2005 02:02
Unit of Measure: $ Thousands ($000)

TBL Statement of Revenues and Expenses - Project Detail
Through the Month Ended September 30, 2005
% of Year Lapsed = 100 %
Agrees with Audited Actuals

		A	B	C	E
		Actuals: FY 2002	**Actuals: FY 2003**	**Actuals: FY 2004**	**Actuals: FYTD FY 2005**
	Interest Expense				
	Interest on Federal Investment				
86	**Appropriated**	66,902	65,279	61,778	48,150
87	**Capitalization Adjustment**	(19,684)	(19,786)	(20,444)	(18,968)
88	**Bonds (less Bond Interest Credit)**	137,728	155,282	112,101	103,318
89	**Bonds Interest Credit**	(20,589)	(14,307)	(10,587)	(8,890)
90	**Debt Reassignment Interest**			15,503	25,080
91	**AFUDC**	(13,639)	(17,472)	(20,528)	(12,936)
92	**Net Interest Expense**	150,718	168,996	137,822	135,754

Presentation purpose: Show accounting and timing for the interest charged to TBL as a result of DSR

Debt Service Reassignment:

The Accounting Flow for the Power Business Line

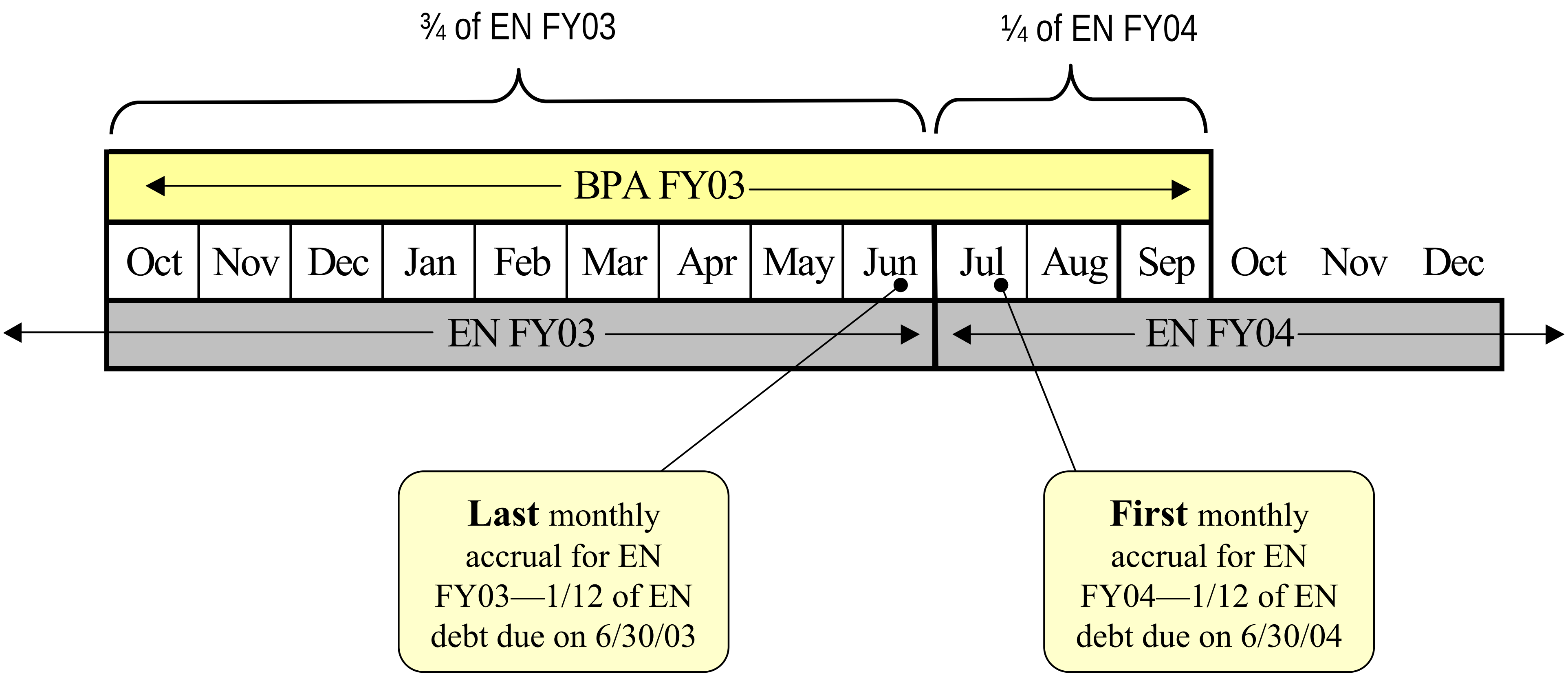
Power Debt Service Reassignment: BPA FY vs. EN FY

In the current year BPA accrues ¼ of the projected DSR planned for the following year because:

- 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. Or simply, that EN's fiscal year is three months ahead of BPA's fiscal year.
- BPA maintains its accounts on an accrual accounting basis in accordance with generally accepted accounting principles (GAAP), which means that revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash.
- 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.

Different Fiscal Years = Timing Differences

BPA FY03 = ¾ of EN FY03 + ¼ of EN FY04



Accrual for EN Retired Debt

Let’s review how the EN Retired Debt expense accrual is calculated.

For Power, in any given year, the EN Retired Debt expense accrual will be equal to:

Actual DO allocated to TBL from the current year EN refinancing
− The DSR portion of the current year EN refinancing accrued in the prior FY
+ One-quarter of the projected DSR allocation for the following FY

EN Retired Debt Accrual

Power EN Retired Debt: A Look at the Calculation

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

Excerpt from the Power Income Statement

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Debt Service Reassignment:

The Accounting Flow

for the

Transmission Business Line

Transmission: Debt Service Reassignment

- DSR occurs when BPA uses the funds made available from DO to early-amortize Federal Transmission repayment obligations.
- The total payment obligation for Transmission due to DSR in a given year is the sum of the base debt service + transaction costs + carrying charge, adjusted to BPA's fiscal year and reshaped so that the total principal equals the total Federal principal retired (see TBL '06 Rate Case for details).
- EN municipal bonds are issued at different amounts –par, discount or premium—depending on market conditions; reshaping is done so that the total principal equals the total Federal principal retired through the advanced Federal payment.

Transmission: Debt Service Reassignment

- For each year of DO, while the old EN bonds are refinanced in July, the advanced Federal payment is made on September 30th.
  - The debt service, associated with DSR, is assigned to TBL on October 1st.
  - Therefore, there is no impact to TBL until October 1st, the new fiscal year.
  - The interest cost from July 1 - September 30 that is the responsibility of TBL is captured through the "carrying charge" calculation mentioned previously.
- In general, the DSR interest expense included in TBL's income statement is roughly equal to:
  - TBL Advanced Federal amortization x the average rate on the new extension bonds
  - For example, the FY03 TBL advanced Federal payment = $315m; the average rate on the extension bonds was approximately 5%. [$315 X 5% = $15.8m]
  - Any minor differences between the results of this calculation and the numbers recorded in TBL's Income Statement are due to the adjustments noted on the prior page.

Excerpt from the Transmission Income Statement

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Requesting BL: TRANS

Run Date/Time: October 27, 2005 02:02

Unit of Measure: $ Thousands ($000)

TBL Statement of Revenues and Expenses - Project Detail

Through the Month Ended September 30, 2005

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Historical & FY06 Debt Optimization with Business Line Allocation

Debt Optimization: Advanced Federal Payment (Cash)

(Dollars in Millions)

	FY01	FY02	FY03	FY04	FY05	FY06
Power	97	266	0	141	123	133
Transmission	0	0	315	205	190	204
	$97	$266	$315	$346	$313	$337
	Actuals →					Forecast

Appendix -- Power Debt Service Reassignment:

Why does the FY04 accrual appear to be $182m rather than $198m?

- In BPA's FY04 and prior years, gross EN debt service costs were initially recorded to the Power business unit.

- As noted, when DSR occurs, Power is not responsible for the EN debt service that is assigned to Transmission.

- Therefore, in FY04, credit entries were made to the Power EN Retired Debt account for $16 million—the amount of debt service associated with the new EN bond issues.

- This accounting methodology changed in BPA FY05:
  - CGS, WNP-1, & WNP-2 debt service expense line items now reflect the net reduced amount.
  - The income statement line formerly entitled ENW Debt Reassignment is entitled EN Retired Debt.