Management of Energy Northwest Debt

Presentation to the Energy Northwest Board

July 21, 2010

Don Carbonari
Manager, Debt and Investment Management
Bonneville Power Administration

Today's Discussion

- Background/Context
- BPA's Outstanding Liabilities
- Power Debt Service
- Current Energy Northwest Debt Profile
- BPA's Power Services' Total Debt Profile
- Scenario Results/Benefits/Future Revenue Requirement
- Energy Northwest Total Principal Profile Before and After
- Feedback
- Summary/Next Steps
- Timeline/Schedule

Background/Context

- BPA and the Region are preparing to set rates for the FY12-13 period.
- Pacific Northwest states have some of the highest unemployment rates in the country and the Northwest economy is fragile.
- Overall, BPA's Power Business Unit is looking at average expense increases of $261 - $375 million per year for the FY12-13 rate period compared to the FY10-11 rate period. A significant portion of this increase is Non-federal debt service - approximately $70 million per year.
- BPA manages its debt responsibilities comprehensively. Energy Northwest (EN) debt can create opportunities for lowering BPA's overall annual debt service.
- Over the last two decades, Energy Northwest and BPA have collaborated to address debt management challenges and develop strategies benefiting the region's ratepayers.
- Regional customers and stakeholders understand and appreciate EN's role in supporting BPA's overall debt management objectives.

Background/Context (continued)

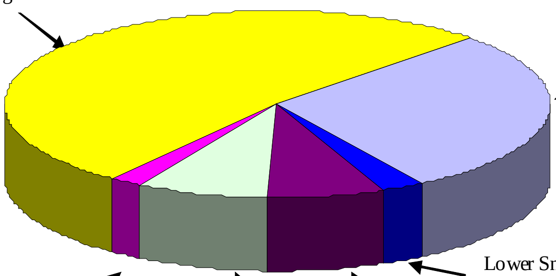
- BPA has held numerous public meetings over the past two months as part of its 2010 Integrated Program Review (IPR), providing customers and other interested parties an opportunity to influence program levels before establishing the revenue requirement in the rate case.
- A separate sub-process for reviewing debt management activities, strategies, and items of interest, was also held and included three public meetings.
- The public comment period lasts until July 29 and BPA plans to publish its Initial Rate Proposal in November 2010.
- Through debt restructuring/extension, in conjunction with EN, BPA may be able to reduce total debt service in FY2012/13 by about $100 million per year.
- BPA has received the support of public power and the Participant's Review Board to accomplish this effort.
- We would like the EN Executive Board to approve a two-year Financing Plan in September in order to incorporate FY 2011/12 forecasted bond transactions into rate design.

BPA's Outstanding Liabilities

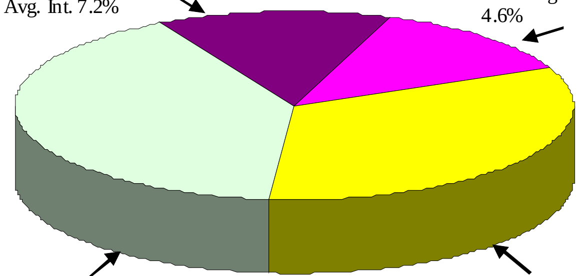
Federal Columbia River Power System (FCRPS)
Total Liabilities to Federal and Non Federal Parties
as of 9/30/2009 1/

($ millions)

Generation



Transmission



	Power Marketing Liabilities Outstanding ($millions)	WAI Rate	Transmission Liabilities Outstanding ($millions)	WAI Rate	Total Liabilities Outstanding ($millions)	WAI Rate
Total Appropriations 2/	$3,496	6.4	$479	7.2	$3,975	6.5
Total Bonds Issued to Treasury	723	4.4	1,408	5.3	2,131	5.0
Total Federal Liabilities	4,219	6.1	1,887	5.8	6,106	6.0
BPA Liabilities to Non Federal Parties	4,971	5.2	1,594	5.1	6,565	5.2
Total FCRPS Liabilities	$9,190	5.6	$3,481	5.5	$12,671	5.6

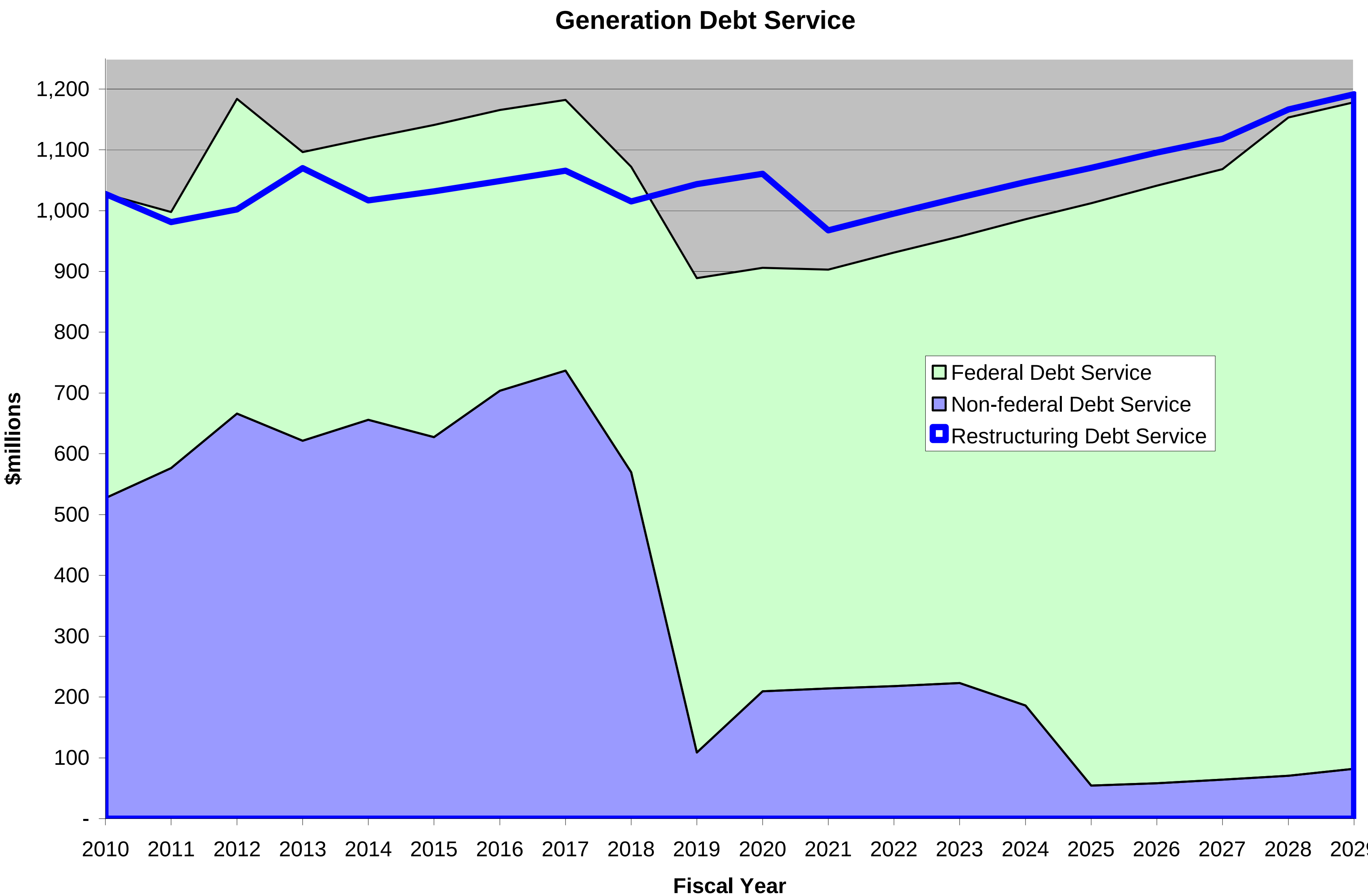
1/ Does not include irrigation assistance liability of $706 million at zero percent interest ($40million of this amount is for Lower Teton, for which the Administrator has no obligation to recover costs). "Liabilities" on this page do not directly relate to "liabilities" as reflected in the Combined Statements of Capitalization and Long-Term Liabilities.

2/ Appropriation amounts exclude appropriations for construction work still in progress (CWIP). 2009 CWIP for appropriations was $258.6 million.

3/ Transmission Services (TS) principal is different from the Federal repayment obligation due to: 1) premium bonds issued, 2) timing differences, and 3) transactions costs. TS is assigned the repayment obligation for these items, which equals the additional Federal prepayment made on TS' behalf.

This information made publicly available by BPA in November 2009 and is consistent with BPA's FY 2009 Annual Report. Any variation is due to rounding .

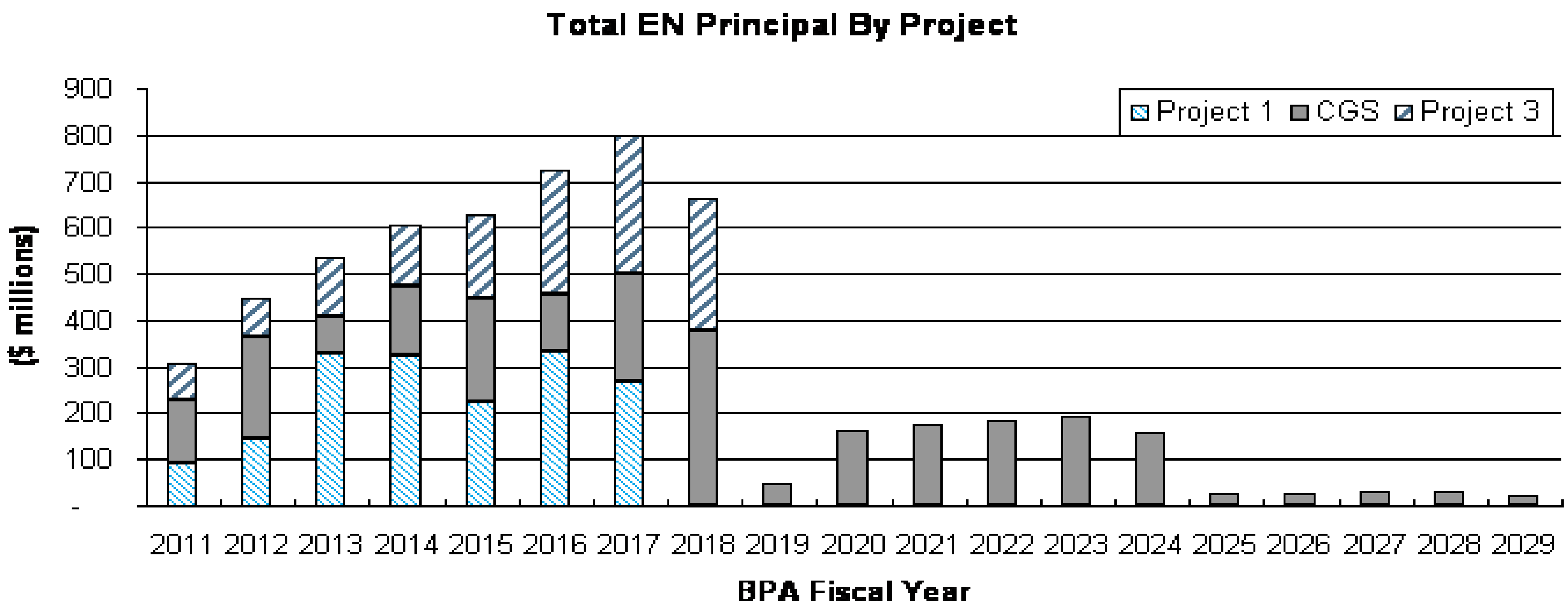
Pre-and Post Restructuring Power Debt Service (both Federal and non-Federal)



Same chart/assumptions used in chart provided with the 6/18/10 customer workshop materials.

Energy Northwest Debt Profile (Existing and Projected)

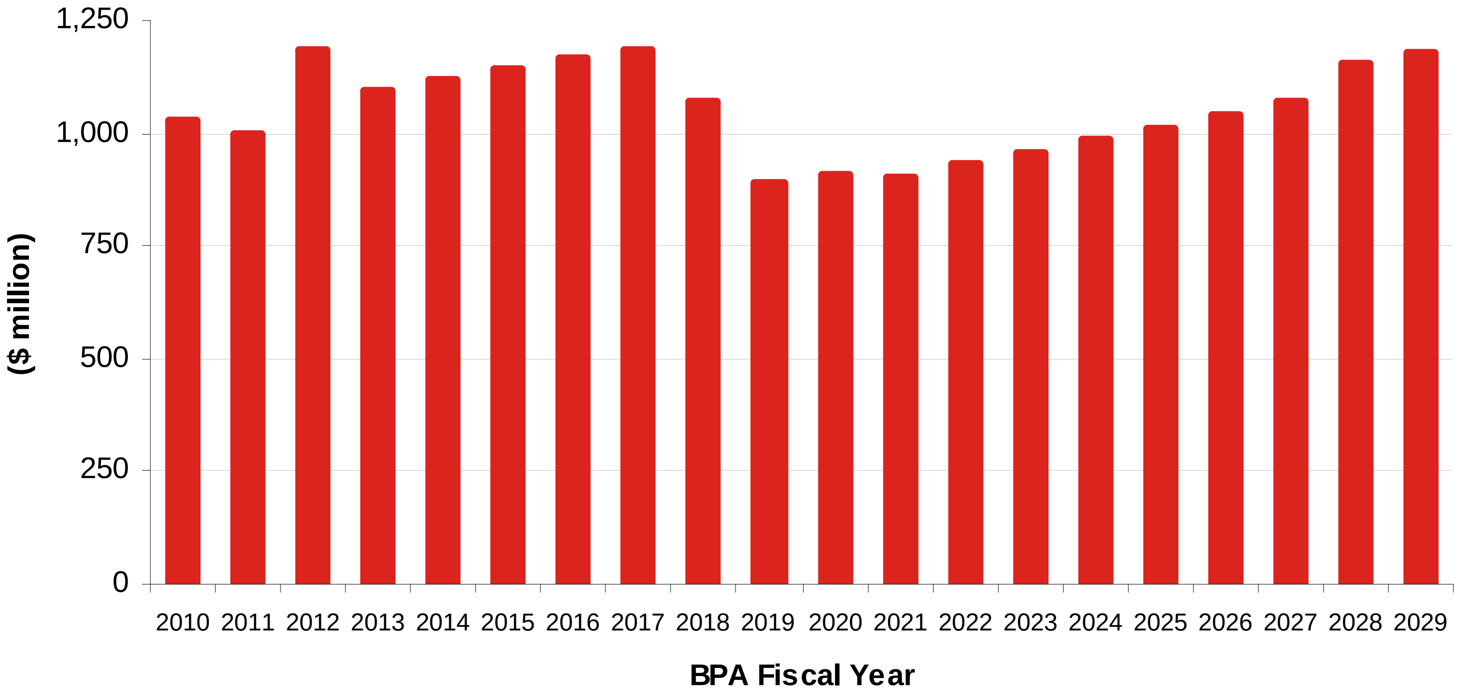
- Projects 1 and 3 debt is scheduled to be completely paid off by 2017 and 2018.
- CGS went into service in 1984 and had an original life expectancy of 40 years, or 2024, and under current tax law some of the debt can be extended until 2032.
- Over $2 billion of this debt would have been paid off by now, however EN supported the goals of various BPA debt management initiatives over the years.
- Analysis demonstrates that we can lower overall EN debt service in 2012/2013 by paying some Project 1 and 3 debt early and paying some CGS debt later – still by the end of the current operating license.



Power Total Debt Service Base Case

(both Federal & Non-Federal)

- Ratepayers are expected to benefit from CGS through at least 2024, yet those in the post 2018 period are expected to pay a disproportionately lower amount towards debt service for this generating resource compared to those in the pre-2018 period.
- This debt service reduction can be seen in the chart below, the average FY10-18 power debt service is $1.1 billion, while the average FY19-24 power debt service is $930 million per year.
- This results in FY11-18 rate payers paying more than FY19-24 rate payers for power assets.
- Although, currently, all CGS debt is paid off by 2024, the graph below assumes license extension in 2012 and therefore continuing CGS capital improvements are projected past 2024 in this illustration.



BPA Fiscal Year	Base Case Debt Service
2010	1,028
2011	998
2012	1,184
2013	1,096
2014	1,119
2015	1,141
2016	1,165
2017	1,182
2018	1,072
2019	889
2020	906
2021	903
2022	931
2023	957
2024	986
2025	1,012
2026	1,041
2027	1,068
2028	1,153
2029	1,178
Total	21,009

Scenario Results & Benefits

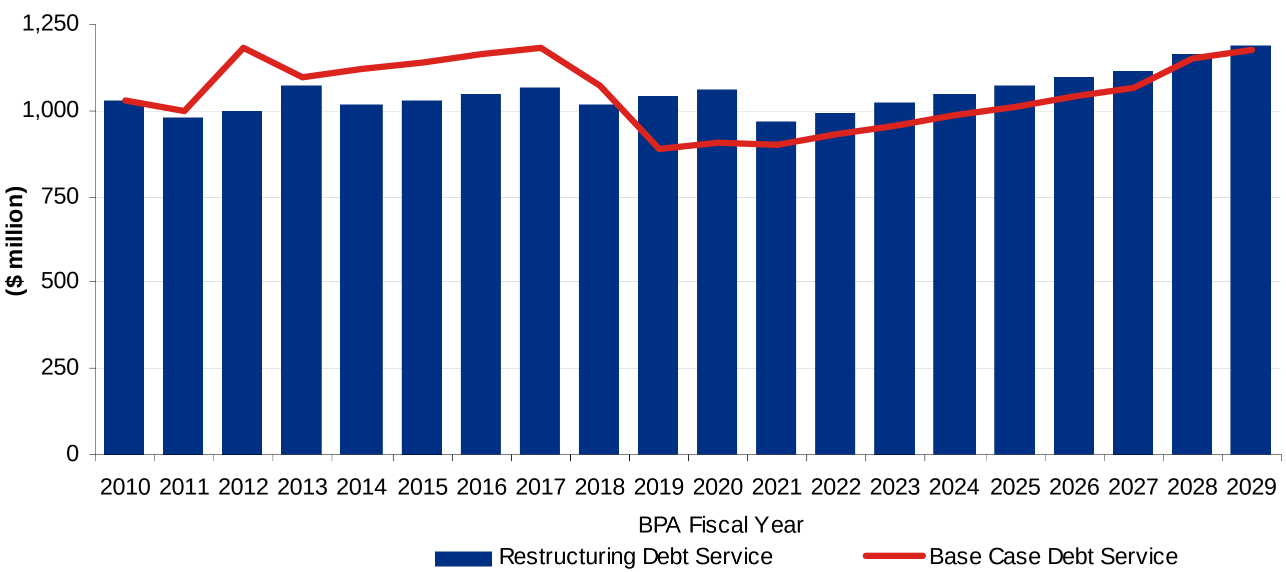
2011 & 2012 - debt restructuring and extending CGS debt past 2018:

- By restructuring callable bonds in 2011 & 2012 (Projects 1&3) and extending maturing and callable CGS principal in 2011 and 2012, BPA achieves even more levelized non-Federal debt service, which results in lowered total debt service requirements within the repayment study in FY2012-13, as well as FY14-18.

- 2011 Bond Sale (~ $249 M):
  - ➢ Extend $155m callable CGS principal
  - ➢ Extend $94m of 2011 maturing CGS principal
  - ➢ Redeem early $94m of callable Projects 1&3 debt that would otherwise mature in peak years.

- 2012 Bond Sale (~ $526 M):
  - ➢ Extend $260m of 2012 callable CGS principal
  - ➢ Extend $266m of 2012 maturing CGS principal
  - ➢ Redeem early approximately $180m of Projects 1& 3 debt that would otherwise mature in peak years.

- Average annual savings in FY2012-13 of $104 m.



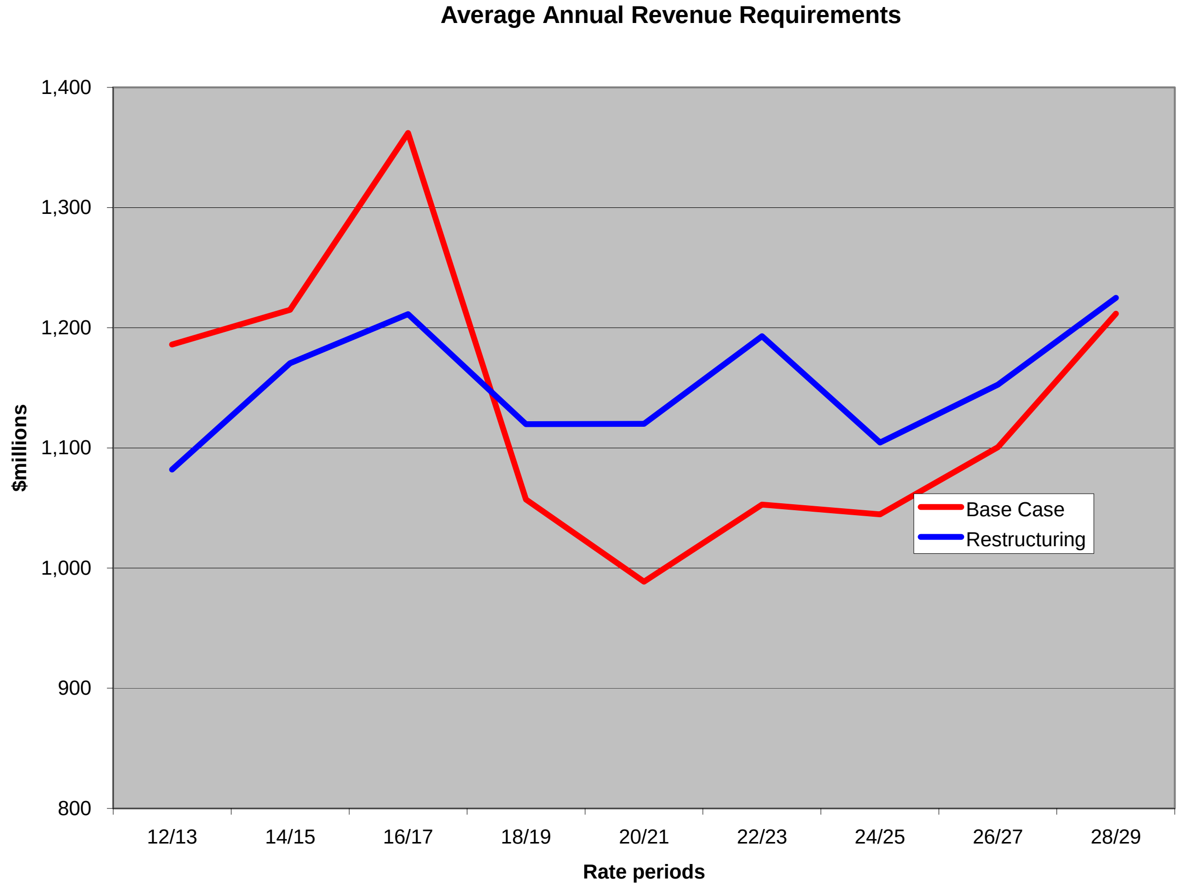
BPA Fiscal Year	Base Case Debt Service	Restructuring Debt Service	Delta from Base Case
2010	1,028	1,028	0
2011	998	981	(16)
2012	1,184	1,002	(182)
2013	1,096	1,070	(26)
2014	1,119	1,017	(102)
2015	1,141	1,032	(109)
2016	1,165	1,049	(116)
2017	1,182	1,066	(116)
2018	1,072	1,015	(57)
2019	889	1,044	155
2020	906	1,061	155
2021	903	967	65
2022	931	995	64
2023	957	1,022	64
2024	986	1,047	61
2025	1,012	1,070	58
2026	1,041	1,095	54
2027	1,068	1,118	50
2028	1,153	1,167	13
2029	1,178	1,191	13
Total	21,009	21,036	26

Total Revenue Requirement Change Comparison: Scenario to Base Case

Changes to the revenue requirement occur in non-Federal debt service, Federal interest and Minimum Required Net Revenues.

	annual change from base case	avg annual change by rate period
2012	(182)	
2013	(26)	(104)
2014	(49)	
2015	(40)	(45)
2016	(134)	
2017	(168)	(151)
2018	(95)	
2019	221	63
2020	130	
2021	132	131
2022	137	
2023	143	140
2024	117	
2025	2	60
2026	54	
2027	50	52
2028	13	
2029	13	13

($millions)

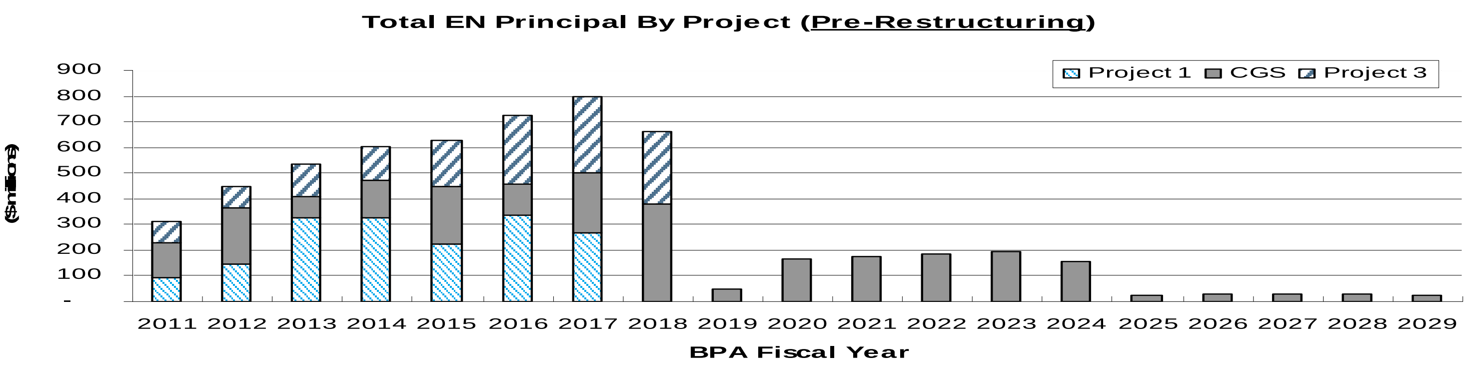


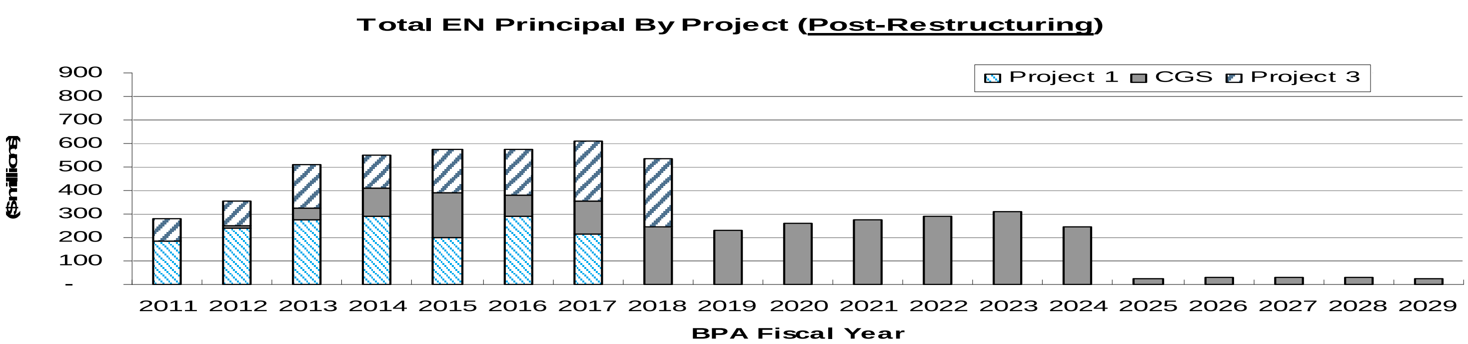
Total EN Scheduled Principal Payments (Before and After)

(Power & Transmission)

Extension/EN Project 1/3 Restructuring

- Extending $775 million of CGS principal that is maturing and callable in 2011 and 2012
- Redeem early $274 million Project 1 & 3 principal and restructure principal maturities





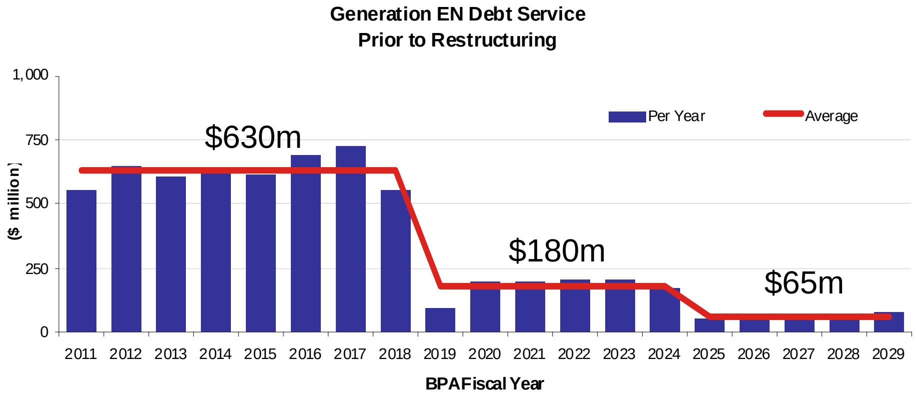
Charts include both Power and Transmission EN non-Federal debt

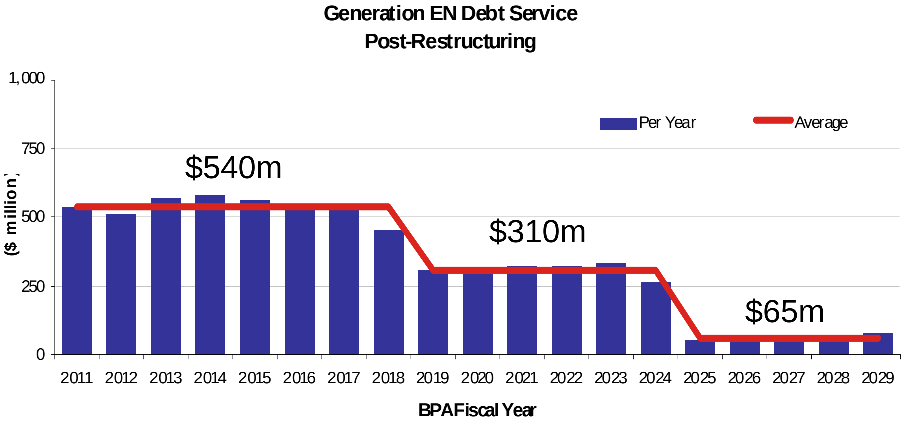
Charts include projected new capital for CGS of $903 million through 2029.

Ratepayer Equity

How much should post-2018 ratepayers pay towards EN debt service?

- There is not a right, perfect, or precise analytical answer, but different perspectives and views.
- What is evident is that under the status quo, pre-2018 rate payers are scheduled to pay substantially more than post-2018 rate payers.
- Under this proposal the length of the debt better matches the life of the asset, thereby matching up ratepayer costs with benefits.
- Debt Service for CGS is not going away after 2024 since we anticipate continued debt financing for capital investments, particularly with license extension (assumed to occur in 2012.)
- Our analysis includes $903 million of EN planned capital spending for the years 2011-2029 for CGS.
  - Beginning with 2012, we assumed interest only through 2018 and level debt service from 2019 throughout the final maturity (20 years) of each bond.
  - Beginning with 2019, we assumed level debt service for 20 years.
- BPA's Administrator believes it is reasonable to consider some debt restructuring and some CGS debt extension to 2024 as a possible rate increase mitigation tool as long as debt repayment is matched to the plant life.





Feedback

- Participant Review Board (PRB) members have been individually called and most are generally supportive.
- No strong opposition has been expressed from customers during the three debt management workshops.
- Public Power Council’s letter dated July 6, 2010, generally supports the debt restructuring/extension plan, but admonishes BPA to also address increasing cost levels.
- The comment period for the public process, including debt management actions, is open until July 29, 2010.

Summary/Next Steps

- BPA and EN have opportunities to impact rate levels in the upcoming rate period.
- To capture the benefits of debt restructuring/extension in FY 2012/13 rates, BPA will need agreement from the EN Executive Board and the PRB by mid to late summer, prior to the release of the Initial Proposal in late fall 2010.
- Ideally, BPA would prefer approval of a two-year Financing Plan from EN in September in order to incorporate FY 2011/12 forecasted bond transactions into rate design.
- BPA is exploring hedging opportunities to capture currently low interest rates, in conjunction with debt restructuring/extension.
- BPA may want to initiate the first bond pricing in conjunction with EN as early as January 2011 and close in April.
- The Final Rate Proposal for BPA FY 2012/13 rates is expected to be completed in early summer 2011.

Timeline/Schedule

FY10 (April – June)	FY10 (July – September)	FY11 (October - December)	FY11 (Jan – March)	FY11 (April – June)
PRB Discussion (TBD-June)	EN E-Board Refunding Plan Approval (September)			
Customer Workshops (June 8th & 18th)	Customer Workshops (July 8th)			Final Rate Proposal (June)
Initial ALF/EN E-Board Presentation (May)	EN E-Board Update (July)	WP-12 Initial Proposal (November)	Bond Transaction Kick Off Meeting (January)	Bond Closing (April)

Comment Period June 8th – July 29th

Legend

- Public Process
- EN Activities
- Bond Transaction
- Rate Case