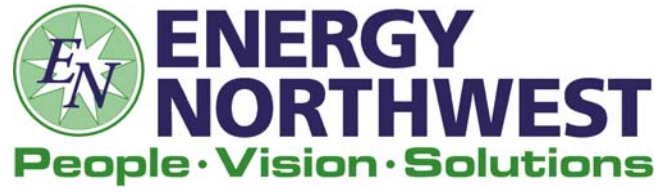


Management of Energy Northwest Debt

**Bonneville Presentation to the
Energy Northwest Audit, Legal
and Finance Committee**

October 27, 2005

- Follow-up to May 2005 Discussion
 - Extend in April 2006 some existing CGS debt into 2019-24 timeframe
 - Finance CGS capital investments with bond maturities through 2024
- Address significant considerations regarding debt extension
 - Today's Challenges
 - Debt Service and Asset Life
 - Ratepayer Impacts
 - Debt Optimization Program Impacts
- Discuss financing capital investments through 2024
- Timeline for Proposed Activities
- Request Energy Northwest (EN) support to continue moving forward with the proposed actions, targeting January 2006 for approval of FY06 Plan of Finance Resolution



Background

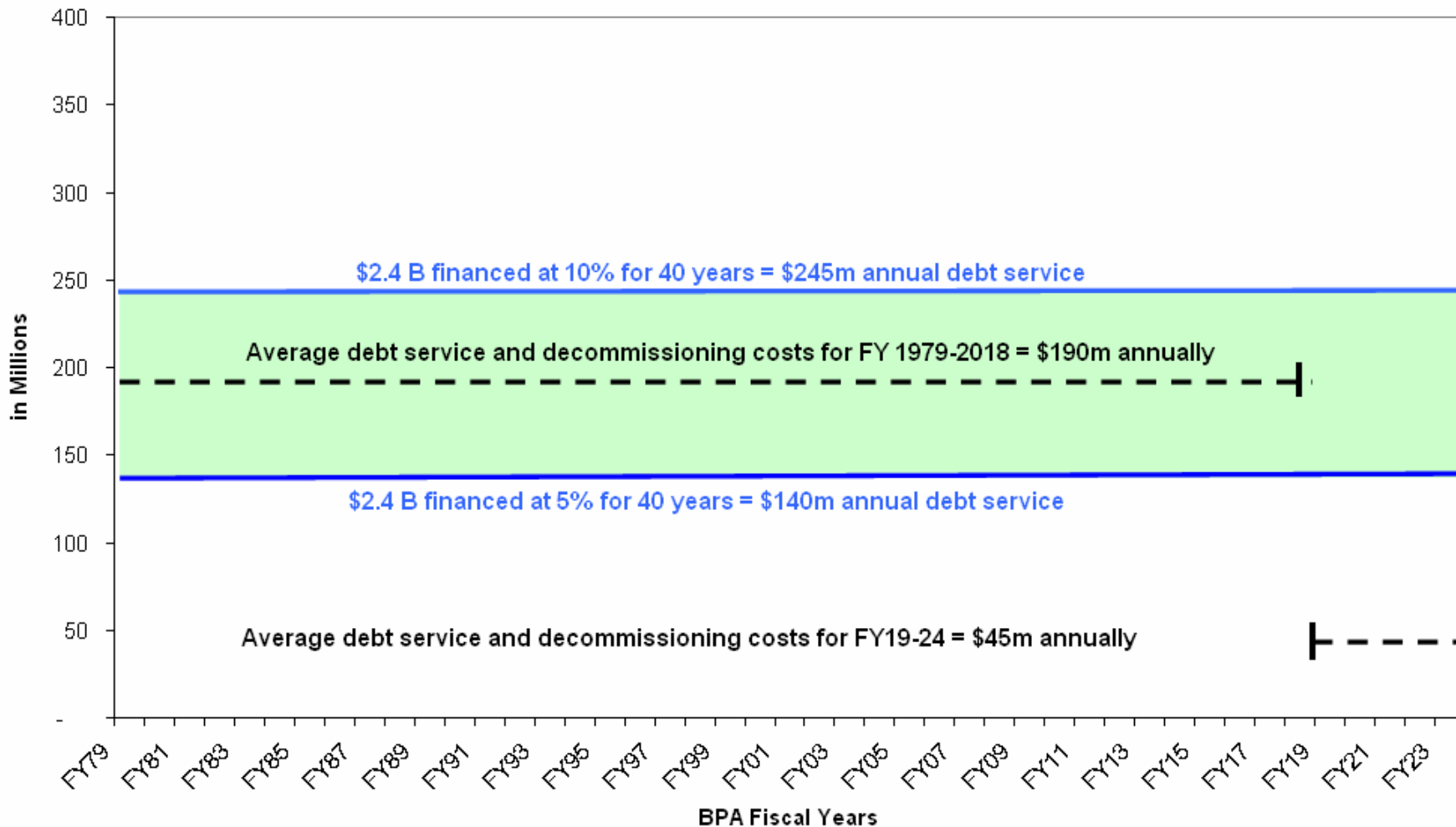
- Debt Optimization and other debt management activities since FY00:
 - Completed 16 EN financings/refinancings totaling over \$3.1b
 - Prepaid \$1.4b of Federal debt, significantly improving BPA's ability to borrow from the US Treasury
 - Freed up almost \$300m in reserve funds of which a large portion was used in FY02-04 to lower EN debt service expenses, reducing the SN CRACs and SLICE True-up
- Between FY00 and FY04, the weighted average interest rate on BPA's total outstanding liabilities decreased from 6.6% to 5.6%, currently saving over \$100m per year in interest expense.
- Regional customers and stakeholders understand and appreciate the importance of EN's role in supporting BPA's overall debt management objectives while still maintaining its fiduciary responsibilities.
- Single portfolio management the last few years has played a key role in strengthening BPA's financial health and maintaining high credit ratings.

- BPA and the Region are embarking on a process to set rates for the FY07-09 period for the power business line.
- Although improving, the Northwest economy is fragile and BPA has worked diligently with EN and customers and stakeholders in the Region in an attempt to keep rates as low as possible.
- In spite of our best efforts, some customers still believe we can do more to bring the projected rate level down significantly from our most recent estimates.
- BPA's Administrator believes it is reasonable to consider debt extension as long as it is matching debt repayment to plant life.
- BPA desires continual partnering with EN in the management of EN debt in the context of BPA's overall debt portfolio because taking a holistic approach is critical to being responsive to BPA's customers and stakeholders.

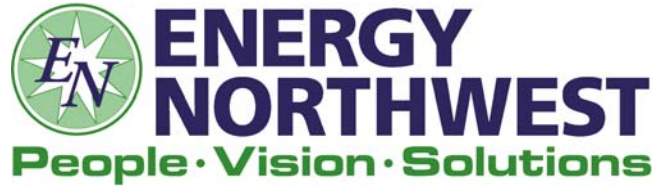
How much should post-2018 ratepayers pay towards CGS debt service?

- There is not a right, perfect, or precise analytical answer, but different perspectives and viewpoints.
- CGS went into service in 1984 and if one assumes it has an anticipated 40-year life, then the expected life would be 1984-2024.
- One perspective is to assume level debt service for the anticipated 40-year life of the plant. The weighted average interest rate for CGS debt has gradually come down, primarily as a result of declining interest rates.
 - 1989 (start of the refinancing program): Averaged about 10%
 - Today: Averages slightly over 5%
- Another perspective is to look at actual data and make comparisons throughout the 40-year anticipated life of CGS
- The following chart provides actual data and also illustrates a possible range (assuming level debt service for 40 years somewhere between 5% and 10%) one might consider as acceptable ratepayer financial responsibility over a 40-year period.

CGS Debt Service and Decommissioning Costs ^{1/}

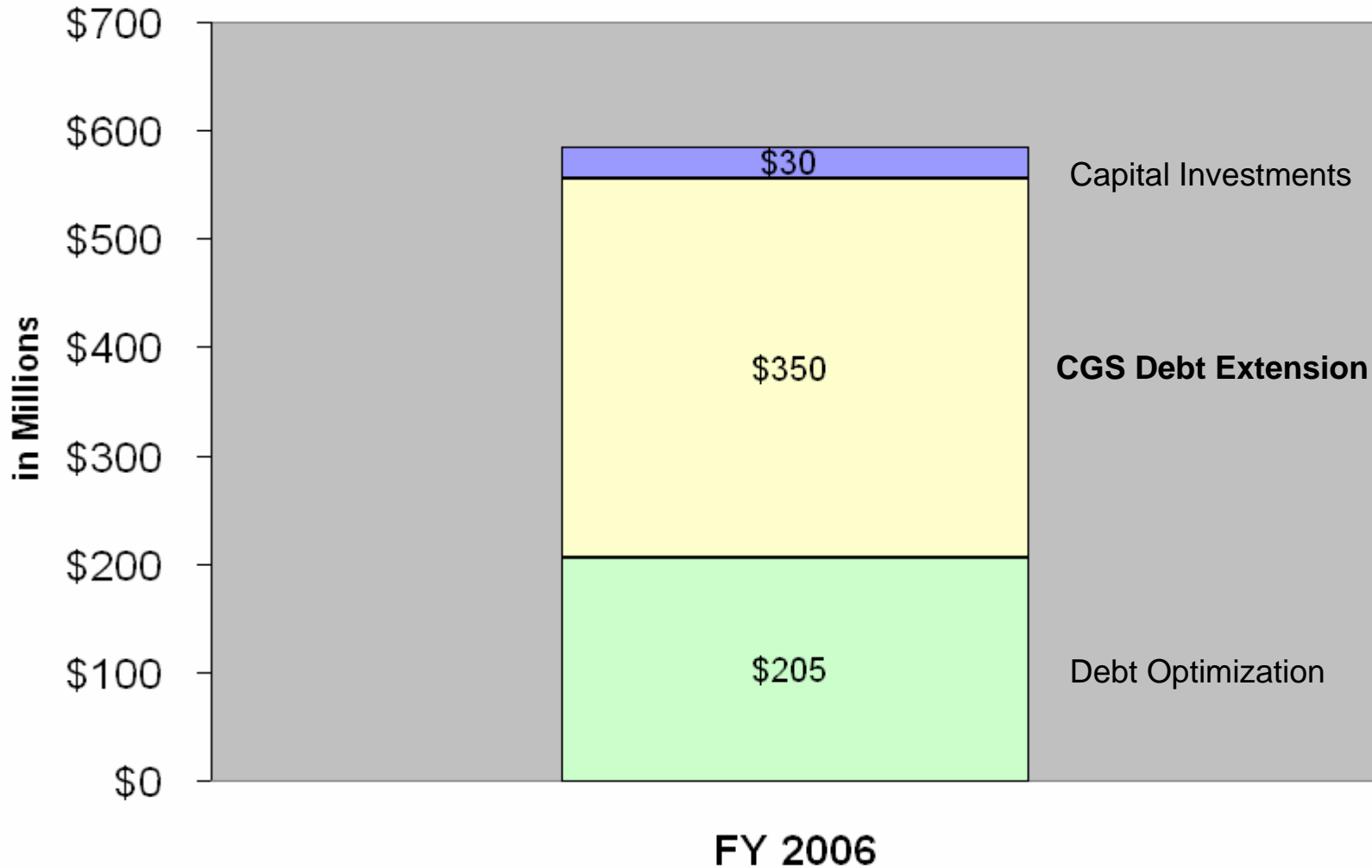


1/ This chart isolates CGS for illustrative purposes. BPA manages all parts of its outstanding liabilities using a holistic approach.



Proposed CGS Debt Extension

Proposed April 2006 Financing/Refinancing



- Customers requested an analysis of CGS debt extension for rate relief.
- In May, the EN Audit, Legal, and Finance (ALF) Committee supported an analysis of CGS extension but wanted it tied to BPA's support of license renewal. As mentioned in the Power Function Review (PFR) Final Report, BPA is including about \$8.5m in its initial power rate proposal for EN to proceed to apply for license renewal.
- The PFR Final Report stated that BPA would not include the debt extension assumption in the initial rate proposal but that BPA and EN would jointly consider and evaluate its feasibility and value. BPA committed to review alternatives with customers and others before requesting EN to take action.
- BPA recently briefed EN staff and received positive feedback on the proposal.
- BPA's Administrator is now requesting the support of the Energy Northwest Executive Board for us to continue moving forward, targeting January 2006 for approval of FY06 Plan of Finance Resolution implementing this proposal.

Why \$350 Million?

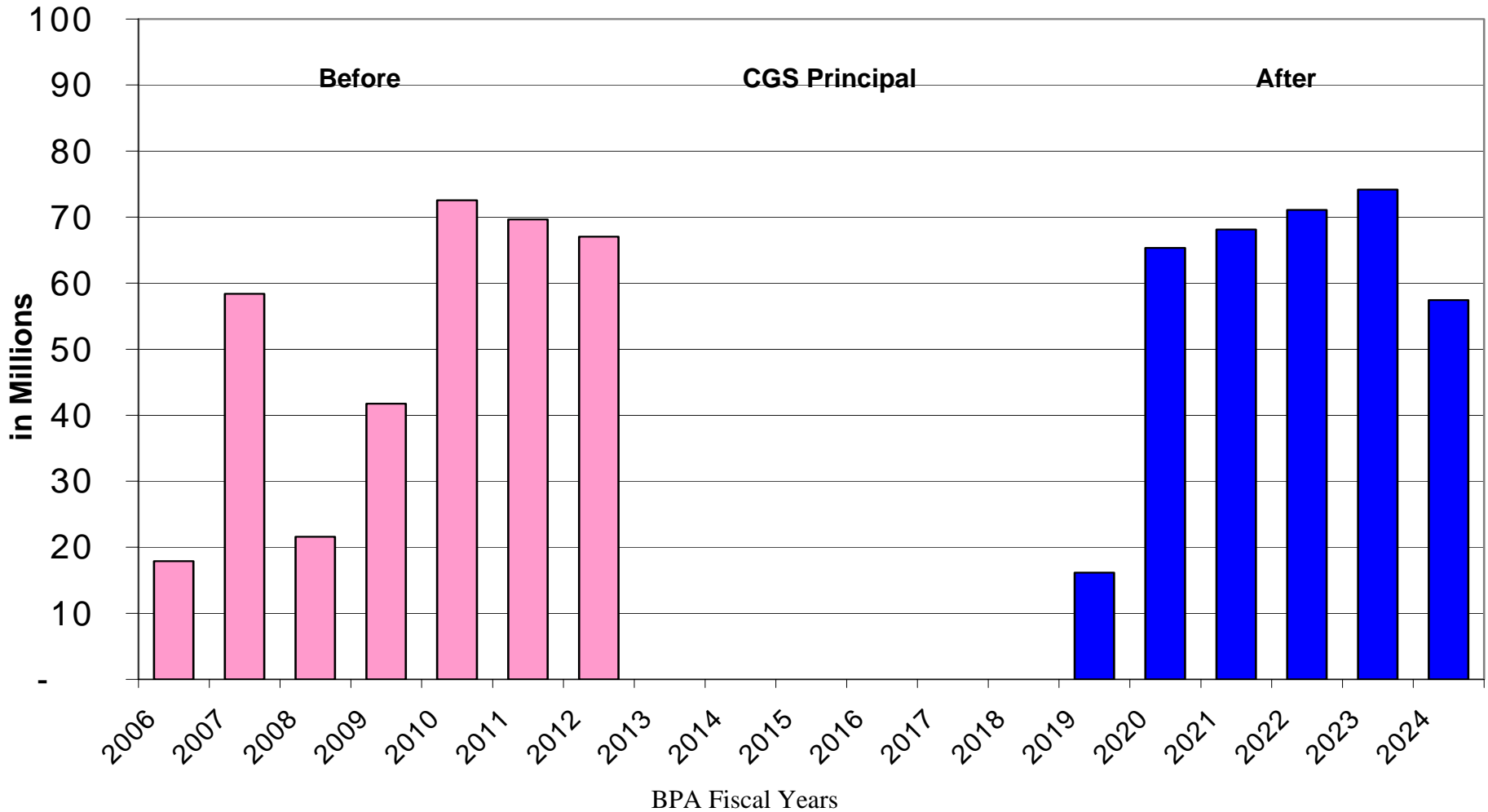
- To ensure savings are captured in the final power rate proposal for BPA's power business line, the transaction must close in April 2006.
- Only bonds that mature, are callable, or are advance refundable in 2006 are available to extend at this time.
- \$350m represents a modest amount of the over \$2b of outstanding CGS debt maturing between 2006 and 2018.

Schedule of CGS Debt Maturities (not including new money financings)

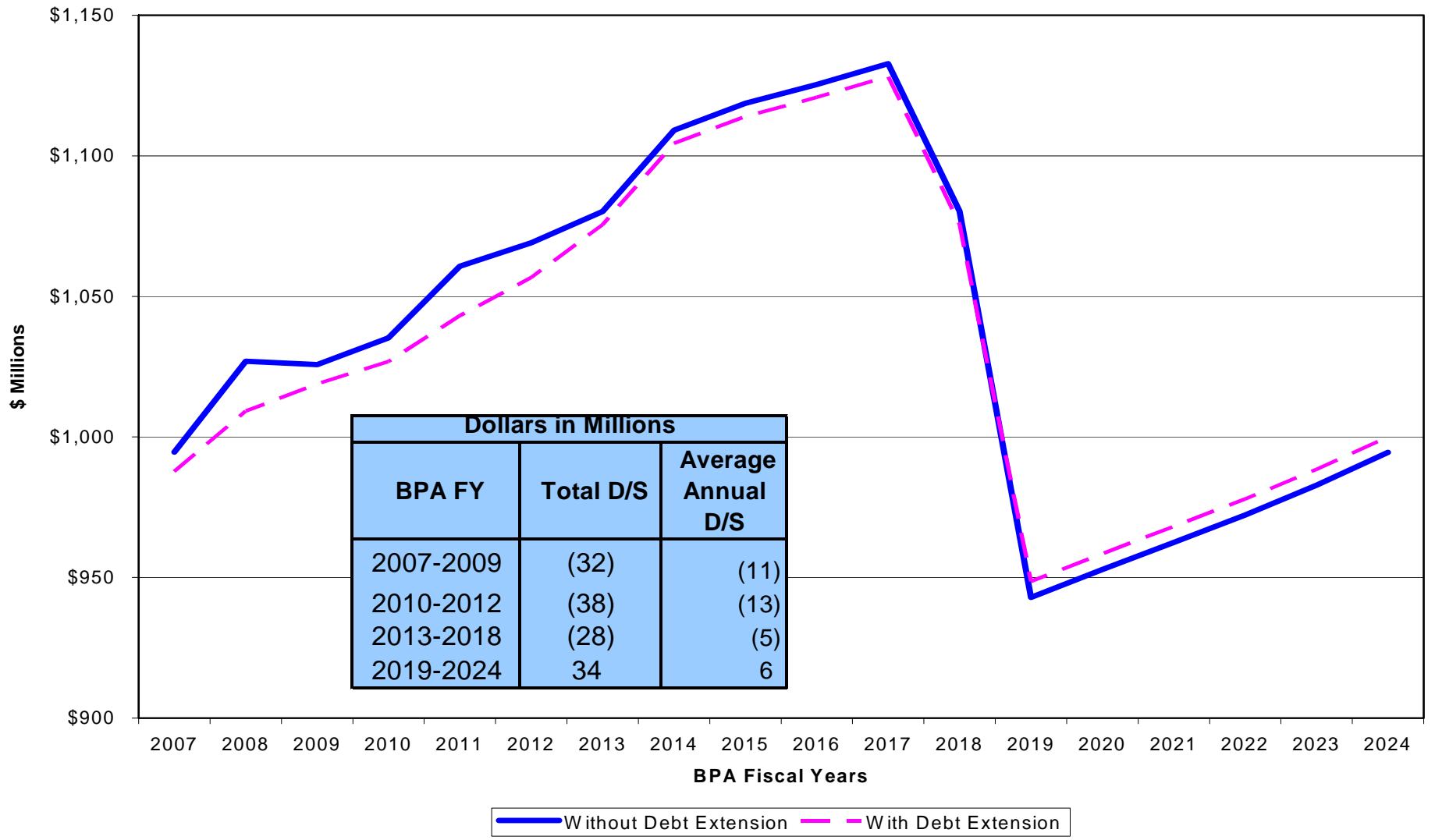
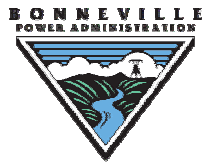
(in millions by EN Fiscal Year)

FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	TOTAL
105	156	139	136	216	136	338	46	35	134	72	107	459	2,079

We modeled moving \$350m from the 2006-2012 period into the 2019-2024 period.

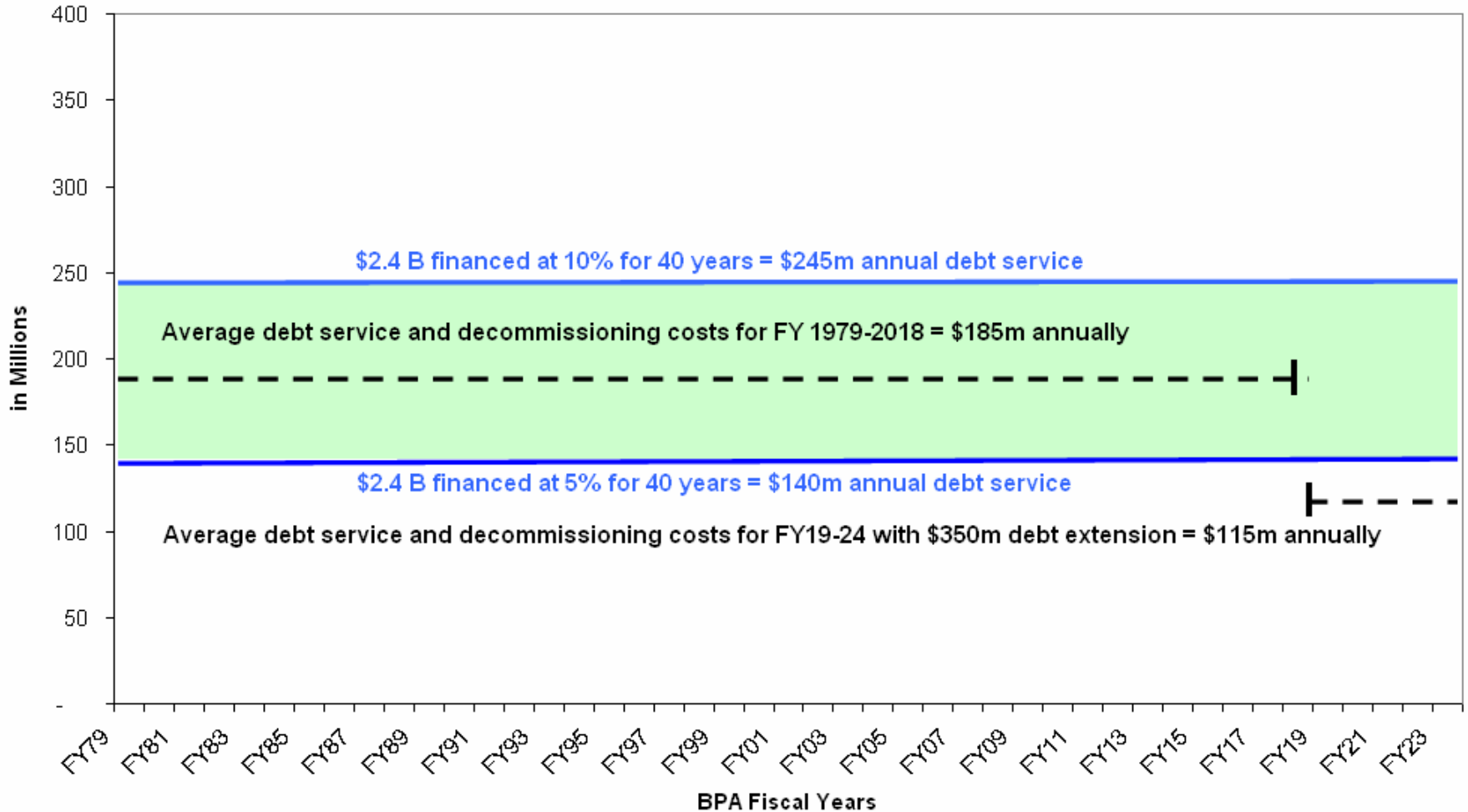


PBL Total Annual Federal and non-Federal Debt Service Before and After \$350m Debt Extension

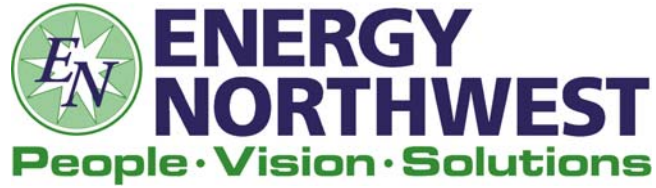


For illustrative purposes only. This information has been made publicly available by BPA on October 27, 2005 and does not contain Agency-approved Financial Information.

CGS Debt Service and Decommissioning Costs After \$350m Debt Extension ^{1/}

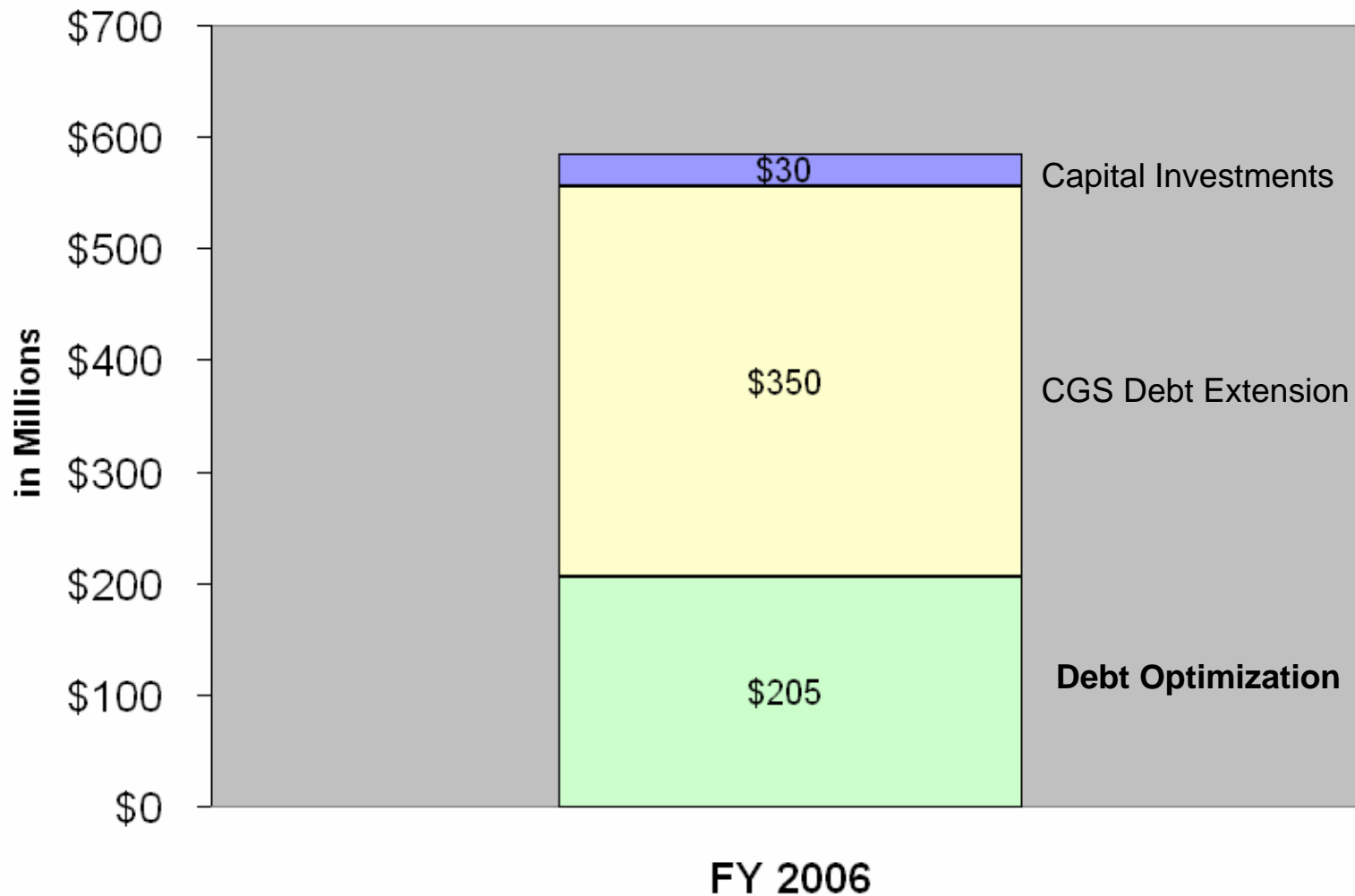
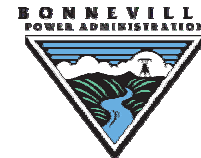


^{1/} This chart isolates CGS for illustrative purposes. BPA manages all parts of its outstanding liabilities using a holistic approach.



Debt Optimization Program Considerations

Proposed April 2006 Financing/Refinancing



The Impacts to the Current Debt Optimization Program

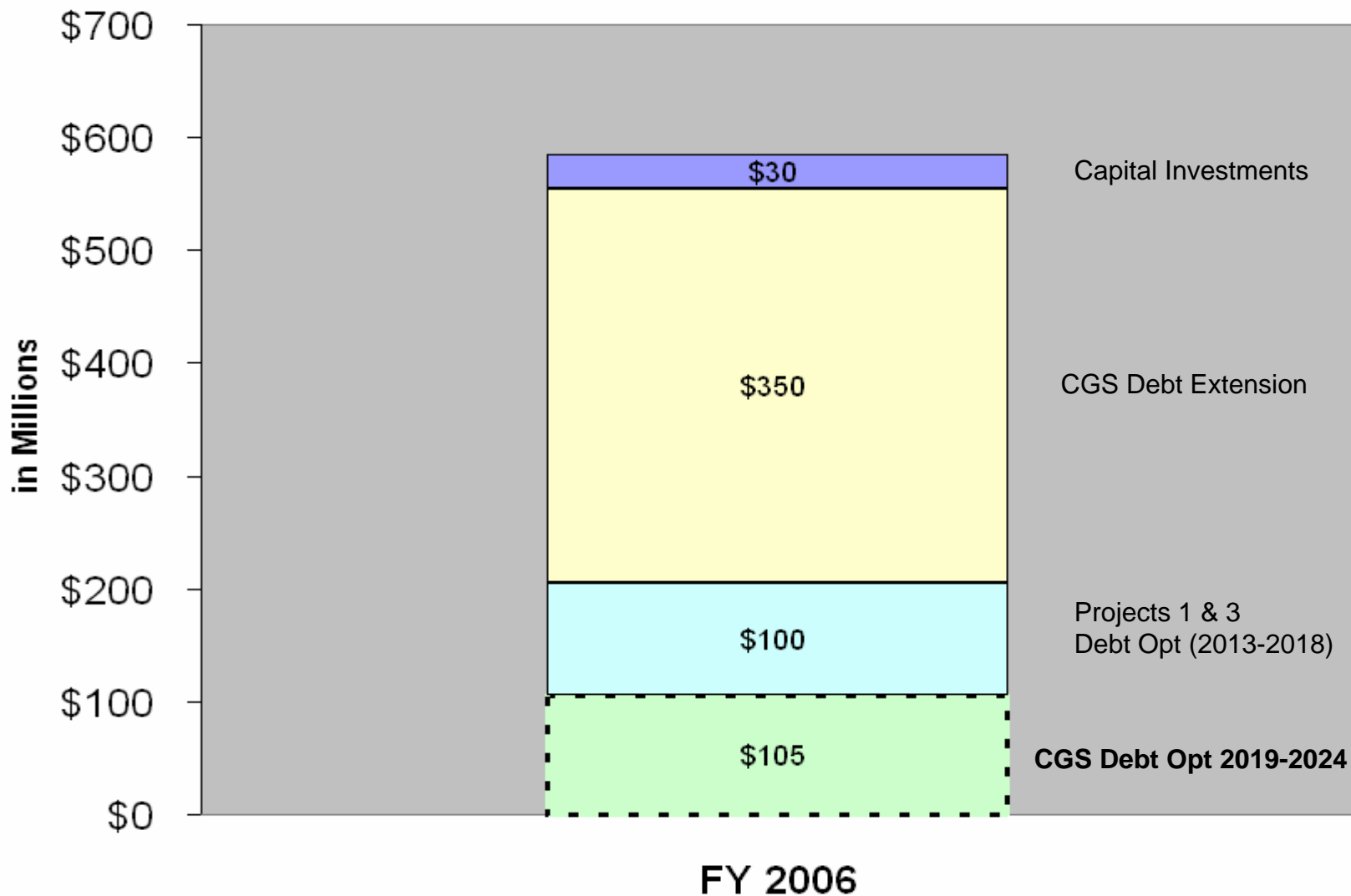
- Any near-term negative impacts to the currently planned Debt Optimization Program are relatively insignificant and resolvable.

Fiscal Year	Latest Debt Opt Forecast	Reduction due to CGS Ext	'Forced Debt Opt' Effect	Net Impact
PBL FY06	\$168	\$0	\$0	\$0
PBL FY07	\$185	(\$72)	\$54	(\$18)
PBL FY08	\$381	(\$19)	\$6	(\$13)
PBL FY09	\$0	\$0	\$39	\$39
Totals	\$734	(\$91)	\$99	\$8

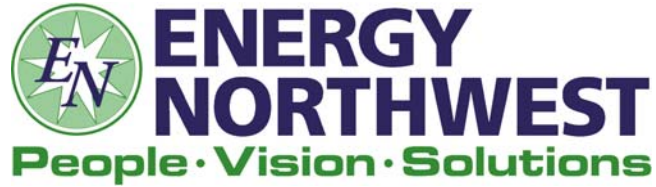
- Extending CGS debt past 2018 may create opportunities to enhance the Debt Optimization Program.

Potentially Revised April 2006

Financing/Refinancing

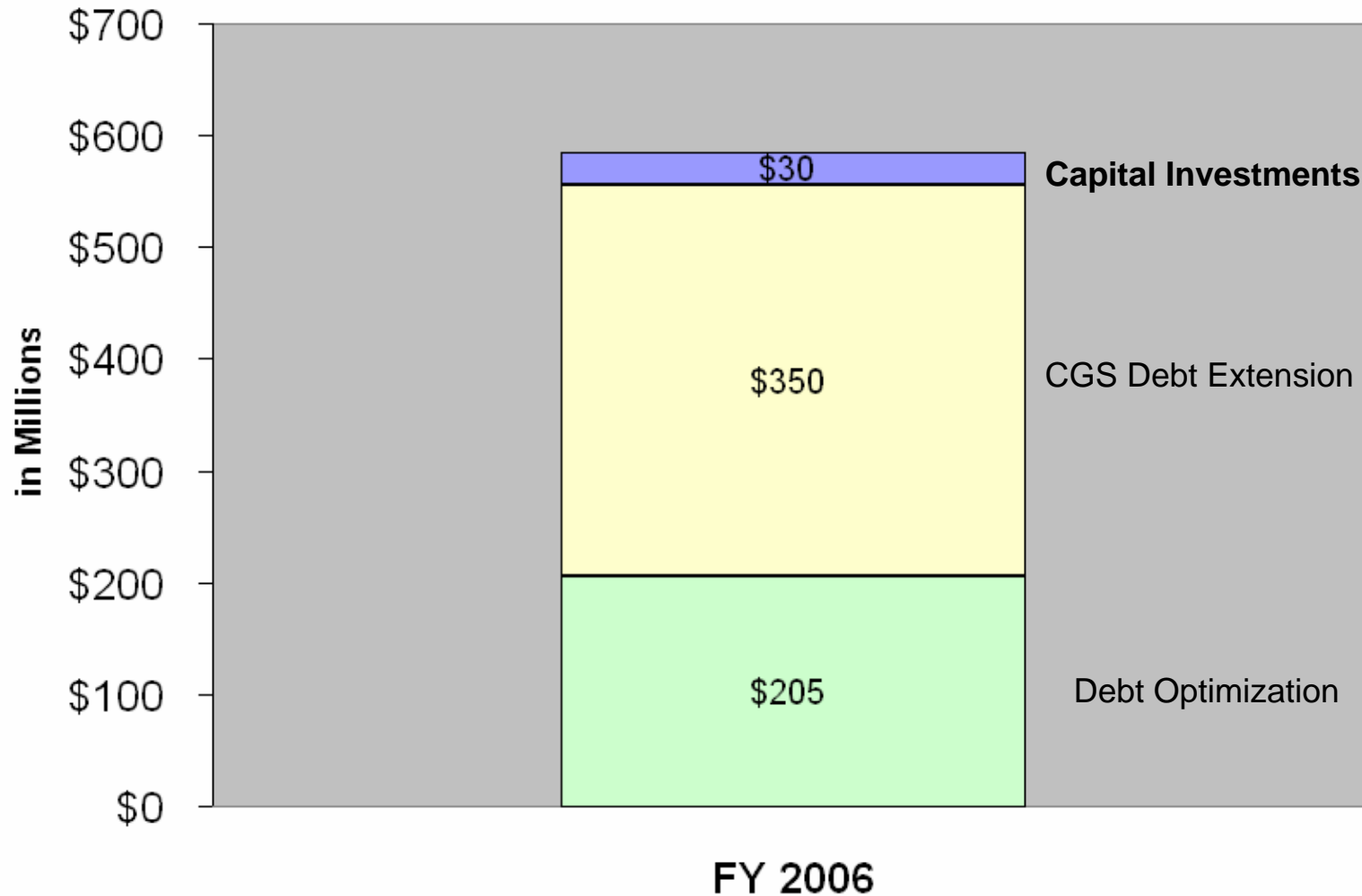


- Assuming EN is supportive of the proposal we modeled, BPA believes it is prudent to consider placing the FY06 CGS bonds targeted for debt optimization (\$105m) into 2019-24 also.
- Further analysis is required
 - Probably makes logical sense given BPA's overall debt portfolio and the expected debt service levels to be borne by current and future ratepayers
 - Might also enhance the current Debt Optimization Program, providing additional benefits
- This potential additional extension of about \$105m and any extensions considered for the future should be based on sound principles jointly developed with EN.
- We believe our current proposal for extending \$350m stands on its own merits whether or not future extensions occur.



Financing Planned CGS Capital Investments with Bond Maturities through 2024

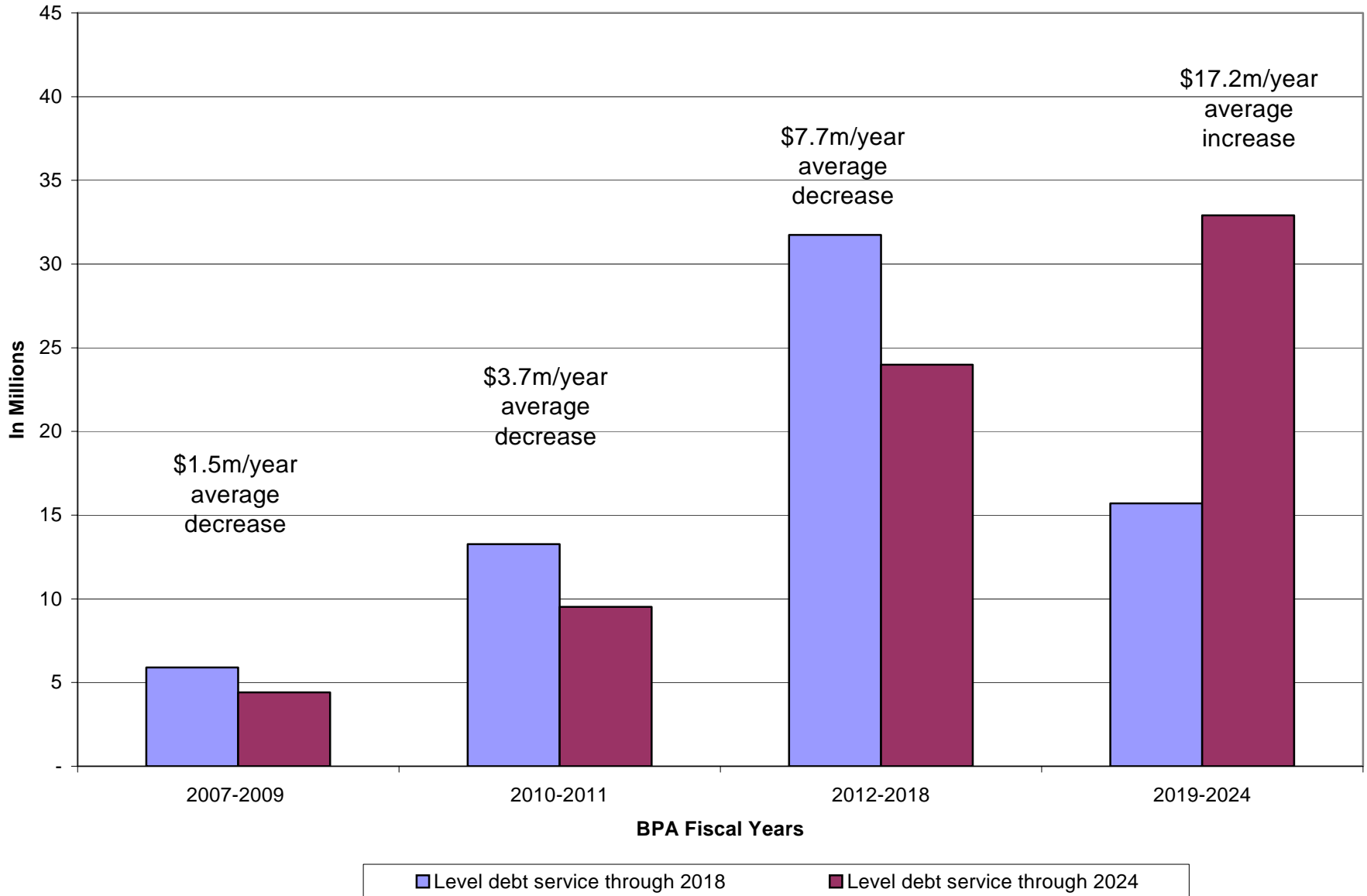
Proposed April 2006 Financing/Refinancing

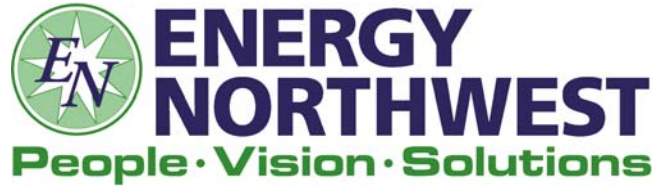


Financing planned CGS capital investments with bond maturities through 2024 is prudent.

- In its initial power rate proposal, BPA is assuming that for FY07-09, EN will borrow to pay for capital items that qualify under its capitalization policy and limit the final maturity to FY18.
- In the PFR Final Report, we stated, “BPA and EN will jointly consider and evaluate the feasibility and value of matching bond maturity dates for new capital investments with the expected lives of those investments. Before including such an assumption in the final power rate proposal, BPA will review this alternative with its customers and others.”
- Financing through 2024
 - Better matches the debt service with the asset/expected life of the plant
 - Utility standard
 - General BPA practice with most investments
 - Reduces rate pressure through 2018

Financing planned CGS capital investments through 2024 reduces rate pressure.





Summary and Timeline Considerations

BPA's Administrator requests EN support to continue moving forward with the proposed actions, targeting January 2006 for adoption of FY06 Plan of Finance Resolution that includes:

- Extending \$350m (and possibly up to \$455m) of CGS debt into the 2019-24 timeframe, which will produce an average annual debt service reduction during the FY07-09 rate period of about \$11m.
- Financing planned CGS capital investments with bond maturities through 2024.

Timeline Considerations

