Bonneville Power Administration

Access to Capital

June 30, 2009

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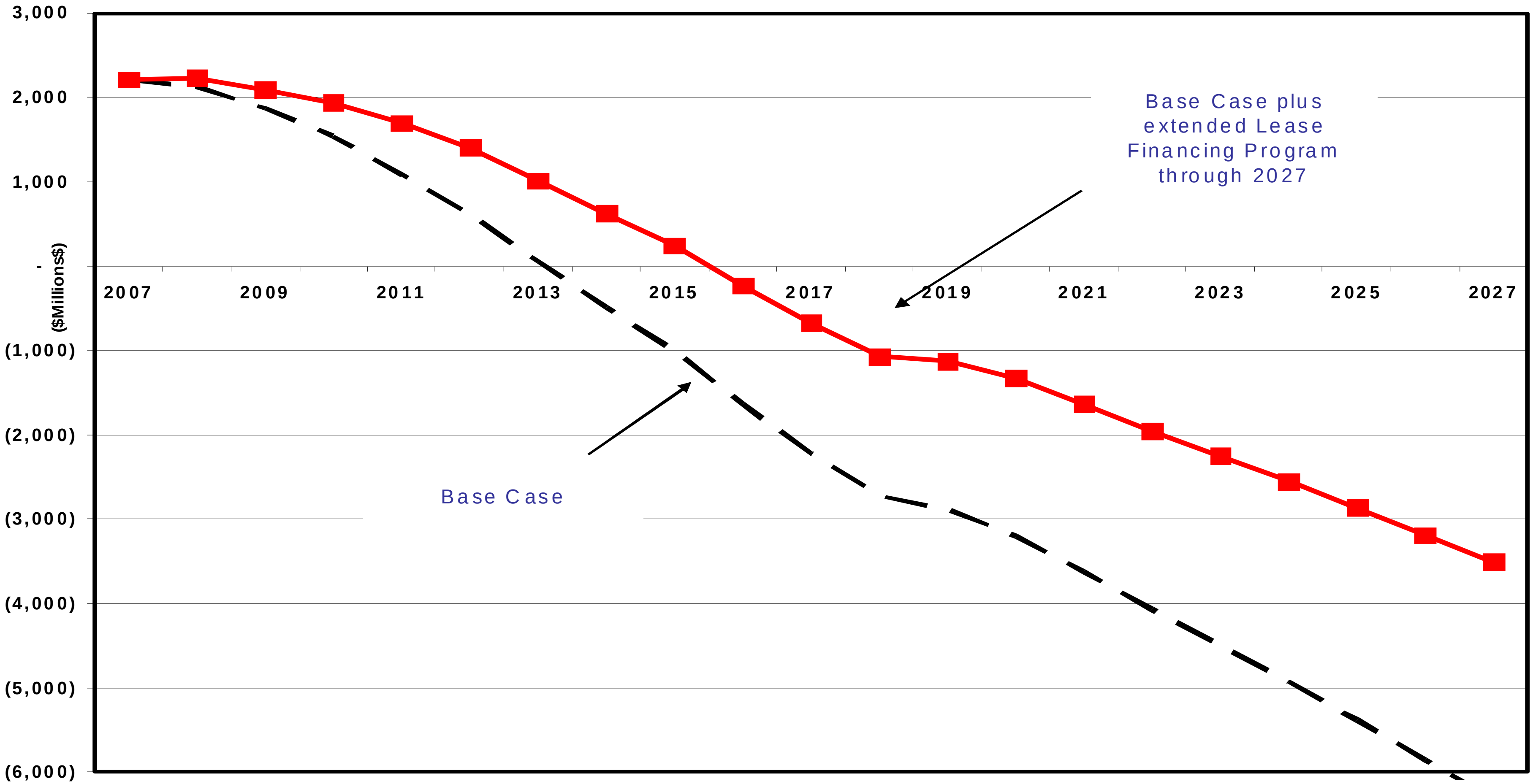
Background

Financial Plan

- In FY 2008, BPA updated its Financial Plan. Access to Capital was one of the main topics of this plan.
- BPA recognized the need to make access to capital planning an integral part of its strategic objectives and to reexamine and hone its capital access goals.
- In its Financial Plan, released July 2008, BPA outlined the following objectives:
  - Ensure that capital financing needs are covered over a rolling 10-year period.
  - Develop strategies and tools that will extend BPA's Treasury Borrowing Authority availability over a rolling 20-year period.
  - Ensure BPA is able to meet its capital requirements at least cost.
- Through the Financial Plan, BPA made a commitment to discuss Access to Capital issues with the region in FY 2009.

Remaining Treasury Borrowing Authority
June 26, 2008 IPR Workshop



In the IPR Debt Management workshop held June 26, 2008, the above chart showed BPA running out of borrowing authority in roughly 2014 for the Base Case and 2016 with the Lease Financing Program scenario.

Current Access to Capital Outlook

Updates to Analysis

New Banking Arrangement with the US Treasury

- In April 2008, BPA and the U.S. Treasury formalized a new arrangement that provides BPA with a more flexible banking relationship that better meets the Agency's business needs.
- As part of this arrangement, BPA gained the ability to use part of its, then, $4.45 billion line of credit with the U.S. Treasury to borrow for expenses. Formerly, BPA had no arrangement with Treasury to borrow for such costs.
  - BPA can now borrow up to $750 million for Northwest Power Act-related operating expenses, with funds available the same day as the request is made.
  - The repayment period for these borrowings can range from three months to two years.
- When drawn on, this facility would be a use of Treasury borrowing authority.
- The new liquidity facility has enormous value to BPA and in order to assure the liquidity facility is available, BPA cannot plan to use borrowing authority to a zero balance for capital investments only.

American Recovery and Reinvestment Act (ARRA)

- In the fall of 2008, representatives of regional utilities, regulatory commissions, the Northwest congressional delegation and the press urged Congress and the public to support an increase in BPA's borrowing authority availability as part of a federal economic stimulus program.
- In February 2009, the President approved the $787B American Recovery and Reinvestment Act. The Act provides BPA with an additional increment of $3.25B in Treasury Borrowing Authority.

Remaining Treasury Borrowing Authority Scenarios

All Scenarios

- IPR II capital numbers – reflects "lapse" factor.
- $15 million per year of revenue/reserve financing for Transmission for the 20 year period.
- McNary-John Day project funded with borrowing authority in all scenarios.

Base Case Unlapsed Capital

Lease financing for FY2009 only and Treasury financing for remaining 19 years with "unlapsed" capital for 2009-2014.

Base Case

Lease financing for FY2009 only and Treasury financing for remaining 19 years

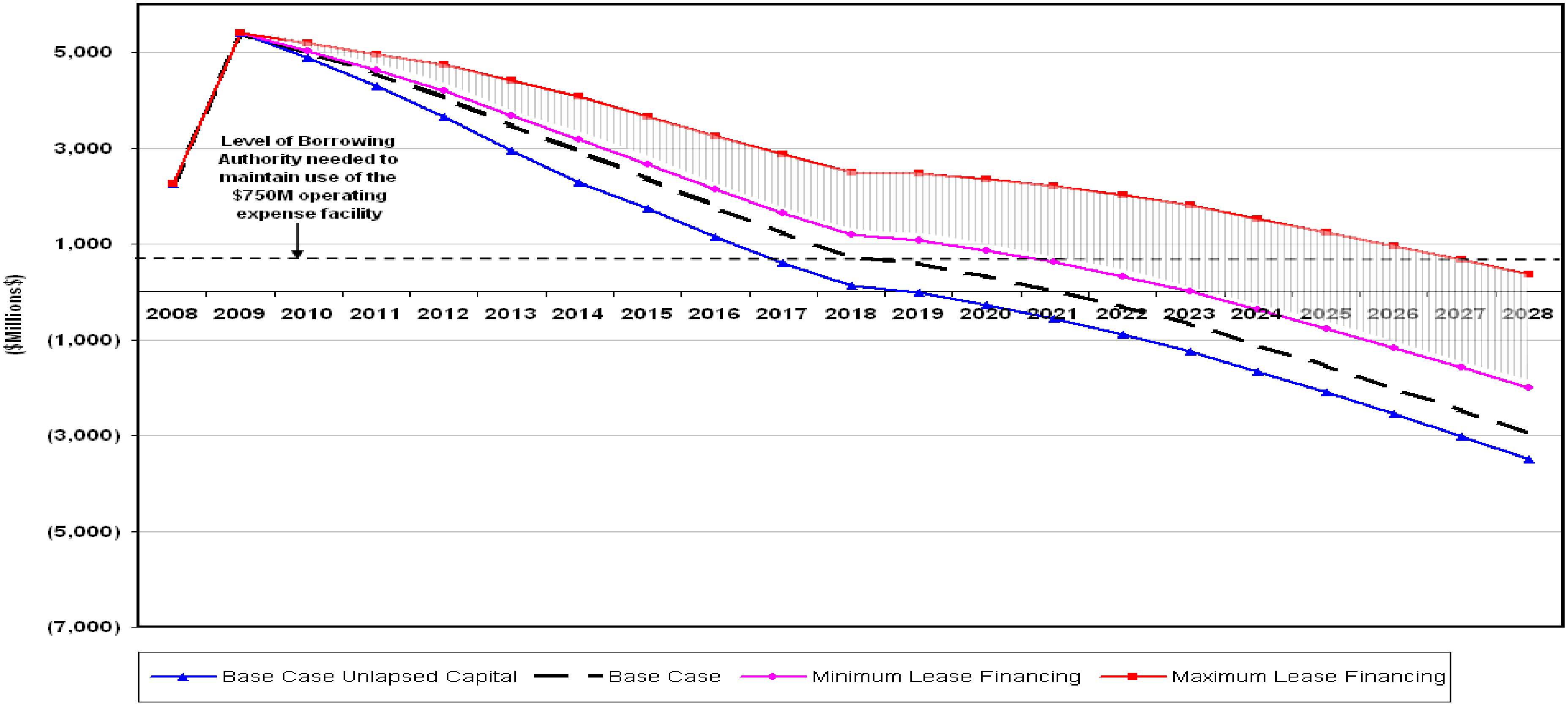
Minimum LF

- Project financing only (Schultz-Wautoma model) due to limited access to lines of credit.
- Limited to projects in WA because of property tax liability in other states.
- Includes only large projects (easily identifiable projects of $50M or more).
- $1.2 billion of lease financing 2009-2028 (approximately $60M/year lease financing)

Maximum LF

- Maximum amount of lease financing possible assuming adequate access to lines of credit.
- $3.9 billion of lease financing 2009-2028 (approximately $195M/year lease financing)

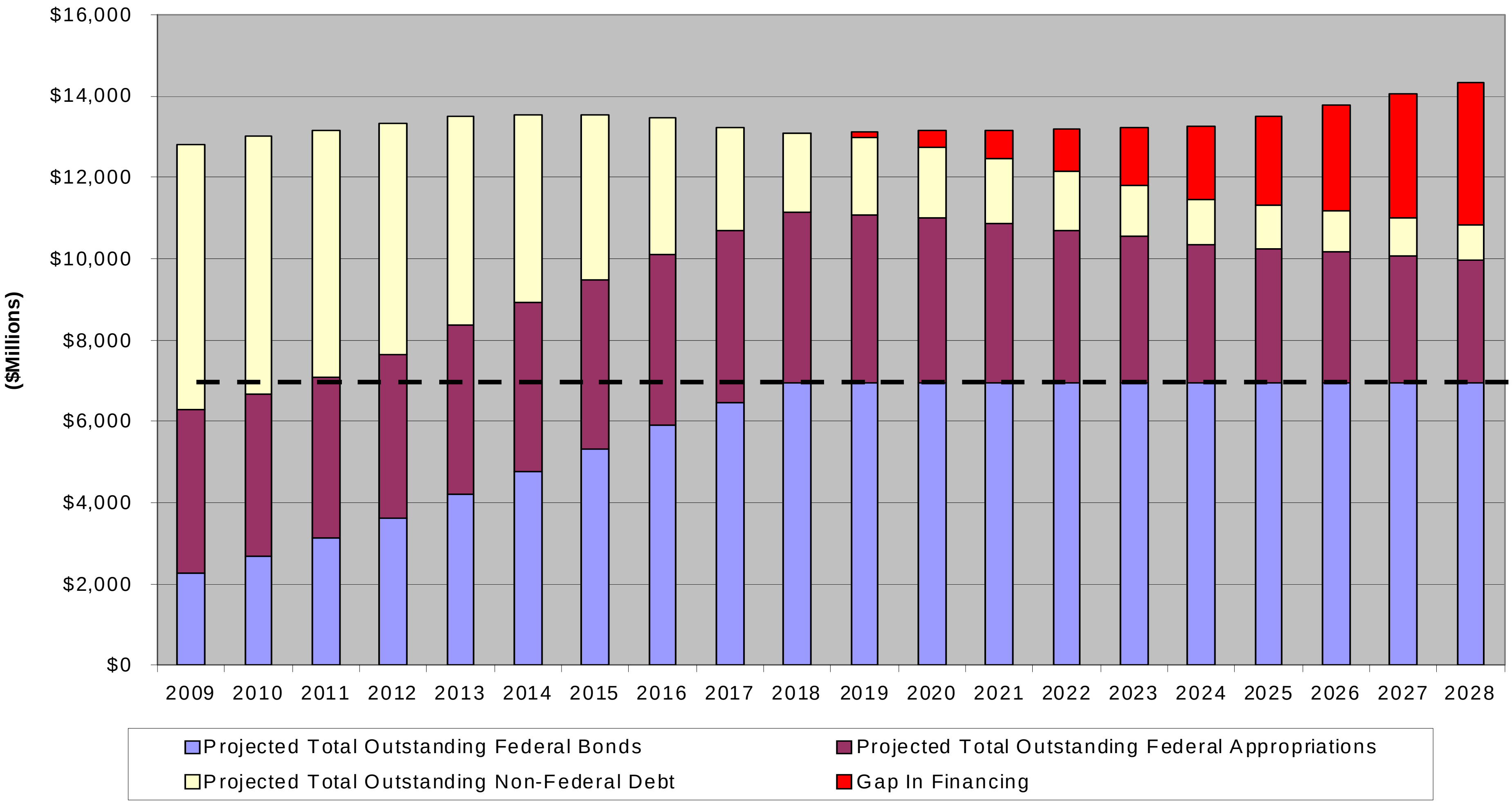
Remaining Treasury Borrowing Authority: February 2009 IPR2 Update



- Chart data is consistent with the capital and amortization assumptions from the IPR2 public process. Shading between the two Lease Financing scenarios shows the range of lease financing scenarios.
- Assuming that BPA reserves $750 million of borrowing authority in order to maintain access to the operating expense liquidity facility, Treasury borrowing authority would expire as follows:

Base Case Unlapsed Capital	Base Case	Minimum Lease Financing	Maximum Lease Financing
2017	2018	2021	2027

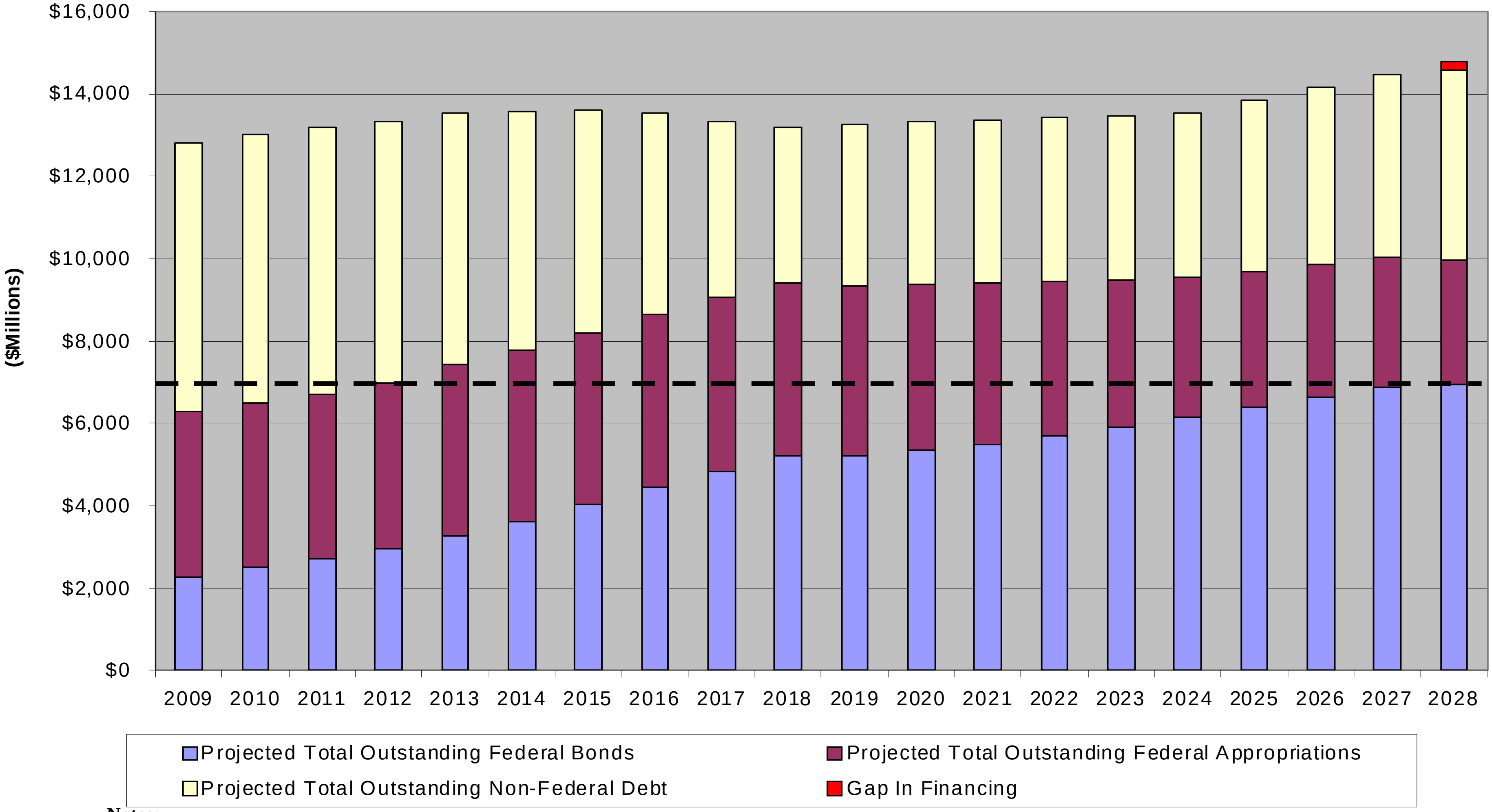
Projected Outstanding Debt by Category
with Reliance on the $750M ST Note (Base Case Scenario)



Notes:

1. This chart is consistent with the capital and amortization assumptions from the IPR2.
2. This chart illustrates the base case from the Access to Capital chart on page 9.
3. Total available Treasury borrowing authority is currently capped at $7.70 billion. This chart assumes reserving $750M for the operating expense liquidity facility.

Projected Outstanding Debt by Category
with Reliance on the $750M ST Note (Maximum LF Scenario)



Notes:

1. This chart is consistent with the capital and amortization assumptions from the IPR2.
2. This chart illustrates the Maximum Lease Financing Scenario from the Access to Capital chart on page 9.
3. Total available Treasury borrowing authority is currently capped at $7.70 billion. This chart assumes reserving $750M for the operating expense liquidity facility.

Lease Financing Cost Update

Previous Access to Capital Actions

2001: Initiated the Debt Optimization program

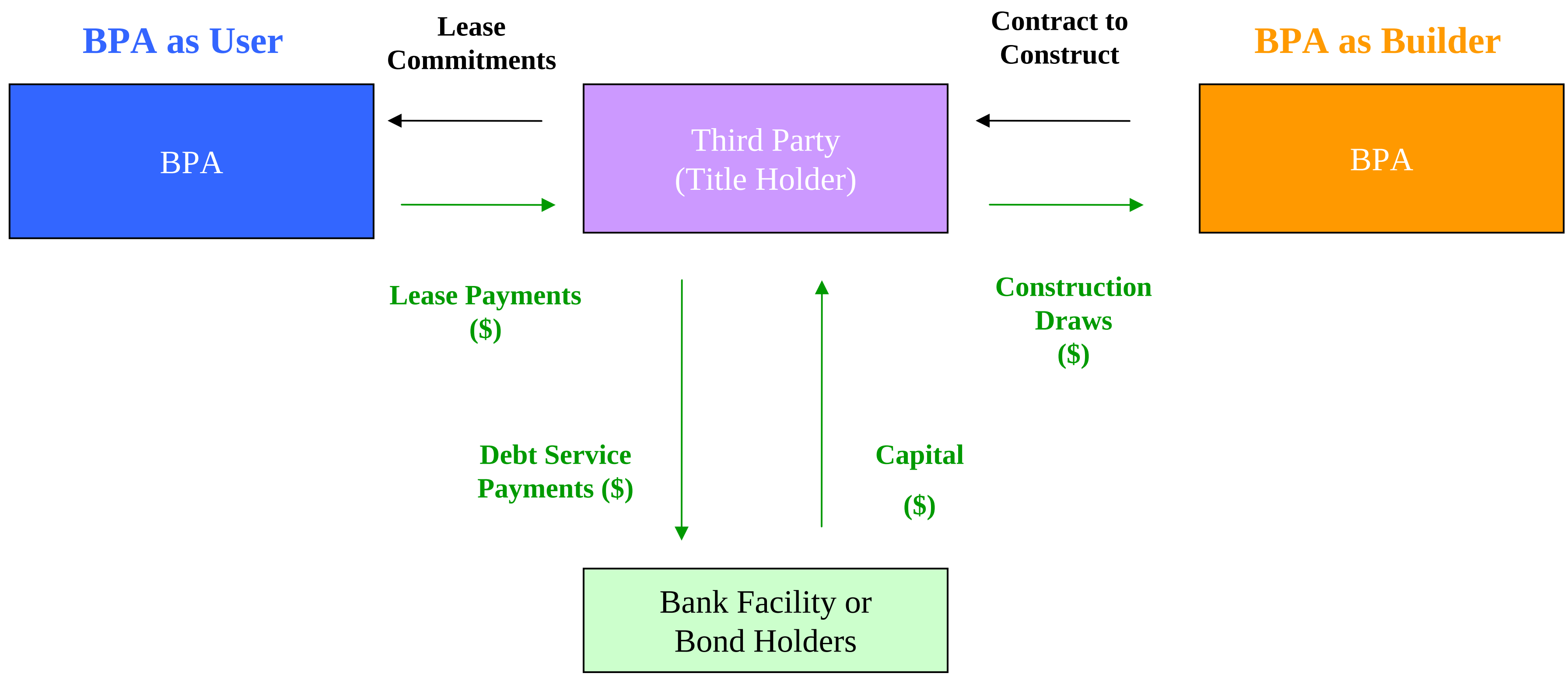
2002: Requested a $2 billion increase in Treasury borrowing authority

2003: Congress granted BPA a $700 million increase in Treasury borrowing authority and encouraged BPA to seek non-Federal financing

2004: Developed the Lease Financing Model and secured non-Federal financing and entered into a lease agreement for Schultz- Wautoma Transmission Line

2007: Furthered evolved the Lease Financing Model into the Master Lease Model

Lease Financing Structure Review



Lease Financing Program Status

- BPA entered into its first lease agreement in 2004.
- Currently, BPA has financed 49 projects.
- Approximately $450M of borrowing authority will be preserved because of these leasing facilities.
- Assets not leased become a permanent lost opportunity for preserving borrowing authority.
- BPA continues to use the Lease Financing Program when it is cost effective.

Cost Update

In Basis Points

	October 2006 Customer Collaborative Sub-Group	April 2007 Customer Collaborative Sub-Group	February 2009 IPR II Minimum Lease Financing Scenario	February 2009 IPR II Maximum Lease Scenario
Operating Costs	15	15	15	19
Premium over Agency Rate	30-90	35-45	88	88
Property taxes	unknown	30-50	0	42
FTE	undetermined	0-10		
Cost of Issuance			4	4
Total Spread over Agency	**50-105**	**80-120**	**107**	**153**

In Basis Points (Maximum Scenario)

	Oregon	Idaho	Washington	Montana
Operating Costs	19	19	19	19
Premium over Agency Rate	88	88	88	88
Property taxes	104	69	0	885
Cost of Issuance	4	4	4	14
Total Spread over Agency	**215**	**180**	**111**	**1,006**

Current assumptions are no projects will be lease financed in Montana even though projects are eligible.

Risks Associated with Variables

- **Operating Costs:**
  - PricewaterhouseCoopers, Delap, US Bank fees could go up.
  - Fees associated with future Special Purpose Entities (SPEs) such as Northwest Infrastructure Financing Corporation (NIFC) could go up.
  - The number of SPE's required could vary and each SPE is associated with a specific bank.

- **Incremental Interest Rate Above Agency**
  - Interest rate spreads are a function of the market. In this analysis we have assumed 125 bps on the short-term financing and 75 bps on the long-term financing. Historically, the short-term spread has been between 40-60 bps, but the spread was increased to reflect the new credit market.

- **Property Tax:**
  - It is unclear how each state will assess the tax value since this program is new.
  - Future tax rates in all states may go up.
  - Assessment value methodology for Oregon and Idaho may change (no more 45 year depreciation).
  - Washington may change its rules on tax exemption for third party assets.

Observations

ARRA Impact on Borrowing Authority

- The increased availability of borrowing authority removed a major uncertainty for BPA. It allowed BPA to proceed with the more robust capital program it had originally planned, which included the McNary-John Day line.
- It will be a challenge to work through the administrative issues associated with the ARRA. Reporting requirements around the use of the ARRA borrowing authority are ambiguous at this point.
- The reporting requirements might necessitate process changes throughout the agency which could take time to implement.
- It is not clear how administrative and other ARRA requirements will work for Corps and Reclamation financing.

Optimal Lease Financing Program

- BPA will not be able to demonstrate 20 years of sustainable capital without the Lease Financing Program. The base case scenario only reaches 2018 when $750 million of borrowing authority is reserved for the operating expense liquidity facility.

- Even with minimum lease financing borrowing authority is sustained only until 2021 when $750 million of borrowing authority is reserved for the operating expense liquidity facility.

- At this point in time, achieving maximum lease financing seems unlikely:
  - Accessing lines of credit have been difficult due to the tight credit markets
  - The credit markets have also made the lease financing program more expensive than in the past.
  - Potential property tax liability may make the lease financing program more expensive in some states than others.

Next Steps

- Continue to stay informed of ARRA reporting requirements.
- Continue to evaluate the optimal size for the Lease Financing Program in the current environment.
  - Cost of the program – credit spreads, property tax liability
  - Impacts to Treasury borrowing authority
  - Administrative impacts to scaling back or ramping up the program

Appendix

Comparison of Modeling Scenarios and Assumptions

June 2008 IPR Presentation	February 2009 IPR2 Update
BASE CASE ASSUMPTIONS • Capital forecast: New capital forecast for 2009-2014; 2015-27 forecast is a shaped and escalated forecast. Total capital projections for 2008-2027 is $12.6 billion • Lapse factor applied to Federal capital forecast for 2009-2014, no underrun applied for the outyears • Debt Optimization: 2008 = $211 million; 2009 = $78 million. 2008 amount is consistent with the 2008 DO transaction and includes current and advance refinancings; 2009 includes only advance refinancings for Power. • Revenue finance: Transmission = $15 million per year 2009-2011; Power = $0 • CRFM projections: Power only, $721 million in total through 2015 • CGS new capital: Power only, $731 million in total through 2023; 2009-2012 level debt service through 2020-24, 2013-2024 level debt service for 20 years • CGS replacements: Power only, $4.7 billion plant, debt service starting in 2025 • Interest rates forecast: Official BPA forecast from 10/25/07 BASE CASE + Lease Financing • Same as above, except add Lease Financing projections through 2018 totaling $1.8 billion and through 2027 totaling $3.2 billion	BASE CASE ASSUMPTIONS • Capital forecast: New capital forecast for 2009-2014; 2015-27 forecast is a shaped and escalated forecast. Total capital projections for 2009-2028 is $12.7 billion • Lapse factor applied to Federal capital forecast for 2009-2014 (except for Fish and Wildlife capital), no underrun applied for the outyears • Debt Optimization reflects 2008 actuals. 2009-2011 include advance refundings for Power. • Revenue finance: Transmission = $15 million per year 2009-2028; Power = $0 • CRFM projections: Power only, $960 million in total through 2028 • CGS new capital: Power only, $676 million in total through 2023; 2009-2012 level debt service through 2020-24, 2013-2024 level debt service for 20 years • CGS replacements: Power only, $4.7 billion plant, debt service starting in 2025 • Interest rates forecast: Official BPA forecast from 11/14/08 BASE CASE + MINIMUM LEASE FINANCING • Same as above, except add Lease Financing projections through 2018 totaling $623 million and through 2028 totaling $1.2 billion BASE CASE + MAXIMUM LEASE FINANCING • Same as above, except add Lease Financing projections through 2018 totaling $2.0 billion and through 2028 totaling $3.9 billion