Pre-Decisional

Policy Meeting

August 11, 2005

RISK MITIGATION for the FY 2007-2009 Rate Period
Liquidity Issues

BPA Power Business Line
Date Issued: 08-11-2005

Topic 1: *Change June Billing Date to Late May*

- **Description:** Changing the billing date for May power service from early June to late May could permit customer payments to flow to BPA rather than to EN

- **Advantages:**
  - Could provide about $40M in liquidity at the end of the first BPA FY in which the change is made

- **Disadvantages:**
  - BPA's power and transmission products were established assuming a calendar month cycle: system peaks, etc.
  - Would need to create separate billing systems: one for May bills and one for all other months
  - Cash received would be a one-time benefit
  - Non-slice power sales agreements would need to be amended to permit billing for current month's service rather than for the "prior month's" bills as currently required
  - Up front administrative costs could be prohibitive
  - Bondholders may view this change unfavorably
  - Significant increase in staff workload would result

Topic 2: *Hold debt optimization refinancing cash flows through December*

- **Description:** BPA would hold cash arising from that year's Debt Optimization refinancing to defer prepaying Treasury repayment obligations until December

- **Advantages:**
  - Could provide as much as $300M in liquidity depending on year
  - Could occur on an as-needed basis

- **Disadvantages:**
  - A substantial portion of the Treasury prepayment candidates are maturing obligations in the form of bonds that can be rolled for a minimum 3 year period, if necessary. There is currently no capability to roll bonds out for 3 to 6 months
  - Relies on continuing the debt optimization program, which is not certain
  - Would require forecasting and committing to levels of Treasury debt prepayments that might not be achievable if debt optimization program does not proceed as expected

Topic 3: *EN transfers excess funds to Bonneville in September*

- **Description:** EN would transfer excess cash to Bonneville during the September-October time frame to sustain BPA through the first three months of its fiscal year, which Bonneville would then repay over the subsequent 3 to 6 months

- **Advantages:**
  - Could provide up to $200M in liquidity
  - May eliminate need to assume use of other cash tools
  - Could occur on an as-needed basis

- **Disadvantages:**
  - EN may not have clear authority to lend funds but may invest excess funds in Federal agency securities
  - There are substantial concerns about BPA's ability to issue securities to a purchaser other than the Treasury
  - Bondholders may view this change unfavorably

Topic 4: *Change the Net Billing Agreements' "Contract Year" and EN's Fiscal Year*

- **Description:** EN would change its fiscal year to match a change in the Net Billing Agreements "Contract Year" from **July 1 through June 30** to **January 1 through December 31**
- **Advantages:**
  - Most participants would have completed their annual net billing obligation by May, thus increasing payments to BPA during the last four months of its fiscal year
  - Could provide a one-time increase to year-end BPA reserves of $100M
  - A January-December fiscal year would allow better benchmarking of CGS operations
- **Disadvantages:**
  - Over three hundred NBAs might have to be amended [(1)], with related legal review and approval by customers' boards
  - BPA cash balances would be lower during the middle part of its fiscal year than is currently the case, exposing BPA to higher amounts of non-deferrable costs in bad water/bad market years
  - Bondholders may view this change unfavorably

(1) EN is exploring whether amending the senior lien bond resolutions may lead to an implicit amendment of the term "Contract Year" (July 1-June 30) in the NBAs. This has yet to be tested, however

Topic 5: *Defer paying some IOU Residential Exchange Benefits*

- **Description:** Amend Residential Exchange Settlement Agreements to shape payments by BPA to a period that either increases reserves at the beginning of a fiscal year or increases liquidity during BPA's cash trough

- **Advantages:**
  - Could provide $25 million to $150 million in reserves/liquidity, depending on the level of benefits and how long payments are deferred
  - Could be structured to reduce the need to increase power rates
  - Deferring payments from one fiscal year to the next may improve TPP
  - Could trigger on as-needed basis

- **Disadvantages:**
  - The related agreements would have to be amended
  - Deferring payments from one fiscal year to the next may put more cash stress on the first few months of the following fiscal year
  - Deferral of benefits might be construed as a loan to Bonneville, raising non-Treasury borrowing concerns

Topic 6: *Have certain large customers prepay their power bills*

- **Description:** BPA could obtain additional liquidity reserves if large customers with comparatively small net billing obligations could prepay up to three months or more of their power bills. Or, in lieu of pre-payments, BPA could obtain similar payment shape effect by rate design

- **Advantages:**
  - May provide up to $100M in liquidity
  - To be effective, need six to twelve large power customers to participate
  - Prepayments/shaped rates could occur on an as-needed basis

- **Disadvantages:**
  - If implemented as a “prepayment,” some customers whose participation would be desirable may not have statutory authority to pre-pay their bills
  - May cause cash flow issues for come customers
  - Prepayments might be construed as a loan raising non-Treasury borrowing concerns
  - Reshaping rates might make price signals associated with current rate design ineffective

Financial Disclosure Statement & Caveat

1. Any financial information provided herein cannot be found in BPA-approved Agency Financial Information but is provided for discussion or exploratory purposes only. Such information should be used only for the purpose for which it was provided and should not be re-communicated by the recipient without the foregoing qualification.

2. This is a preliminary view of the issues described herein. The results may change as analysis continues in preparation for the Initial Rate Case Proposal