

PROPOSED PREPAYMENT PROGRAM SUMMARY

Request for Offers / Transparent Auction

1. **Request for Offers from Preference Customers.** Bonneville Power Administration (“BPA”) will issue a Request for Offers (“RFO”) soliciting offers from BPA’s preference customers to purchase electricity from BPA.
 - (a) **Preference Customers.** Offers may be submitted by BPA preference customers that have executed a power sales agreement (“PSA”) with BPA to purchase electricity through September 30, 2028.
 - (b) **Value of Electricity Available for Purchase through Prepayments.** The RFO will specify the maximum dollar value of electricity available for pre-purchase each month through September 2028.

2. **Schedule of Value of Electricity the Purchase Price of Which May Be Paid through Prepayments.** Each successful offeror (“Prepaying Customer”) will be entitled to fixed equal monthly reductions (“Prepayment Credits”) to the amount that otherwise would be due and payable with respect to that Prepaying Customer’s purchases of electricity from BPA. In return, the Prepaying Customer will make cash payments (“Prepayment”) to BPA.
 - (a) **Fixed Value of Electricity.** The Prepayment will not be for a fixed block of electricity. Rather, the Prepayment will entitle the Prepaying Customer to receive a fixed monthly value of electricity, valued at BPA’s then-applicable power rates and rate schedules.
 - (b) **Electricity May Not Be Assigned.** Prepaying Customers will not be permitted to assign electricity pre-purchased from BPA (or the associated Prepayment Credits) to any other person although there is a provision for “deemed assignment” of unused Prepayment Credits under circumstances described in Paragraph 7.

3. **Auction Process.**
 - (a) **Blocks.** The RFO will invite preference customers to offer to prepay for electricity in discrete increments (“Blocks”). Each Block will represent the right to prepay the purchase price for \$50,000 value of electricity from BPA each month (i.e., receive \$50,000 monthly Prepayment Credit), through the remaining term of the PSA. The RFO is expected to offer between 45 and 120 Blocks.
 - (b) **Offers Limited.** Each preference customer will be limited in the number of Blocks it may offer to purchase. BPA will advise each interested preference customer, on a confidential basis, of the maximum number of Blocks that the customer may offer to purchase.
 - (c) **No Partial Blocks; Consolidators.** Each offer must be for the purchase of a single, whole Block. If a customer is proposing to make a number of identical offers it may be submitted as a group under a single offer form, however. Under certain circumstances, a preference customer may offer to purchase one or more Blocks as a consolidator for a number of preference customers.
 - (e) **Market-Clearing Auction Price.** The market clearing price per Block will be the lowest “priced” (Prepayment amount for a Block) Offer, which, together with all other Offers at an equal or higher price, provides BPA with no more than the aggregate amount of Prepayments it determines is appropriate. BPA will retain flexibility to determine the aggregate amount of Prepayments it will accept, subject to a cap based on planned FCRPS hydro investments. (The maximum aggregate prepayments BPA would accept under this solicitation could be in the \$300M-\$600M, depending on IPR and other customer discussions). The market-clearing price per Block (i.e., the Prepayment amount for a Block) will apply to all accepted offers. In other words, customers whose offers are accepted will all pay the same

Prepayment per Block even if they offered a Prepayment per Block that was greater than the market-clearing Prepayment per Block.

MARKET CLEARING EXAMPLE

Accepted Offers

10 Offers received for \$8.25M per Block

30 Offers received for \$8.0M per Block

40 Offers received for \$6.3M per Block

80 Offers received for \$6.3 M per Block (Market Clearing “Price”)

BPA “Reservation Price” is \$6.0M

Rejected Offers

10 Offers received for \$5.5M per Block

Market Clearing “Price” is \$6.3M Prepayment per Block – Each accepted Offer provides BPA with a Prepayment of \$6.3M per Block.

The Market Clearing Price (\$6.3M) applies to all 80 accepted Offers for an aggregate Prepayment of \$504M, which meets BPA reserve amount of \$480M (80 blocks at \$6.0M per block).

4. **Market Rate Adjustment.** The Prepayment generally will be adjusted to reflect the change in yield of 10-year U.S. Treasury obligations between the deadline for submitting offers and the date as of which the preference customer elects to lock-in the adjustment (“Lock-In Date”). Customers will have the ability, in making their offers to pass on the market rate adjustment and may simply commit to paying their Offered prices. The market rate adjustment will be capped at an interest rate percentage announced by BPA when offers are accepted. If the market rate adjustment cap is reached prior to Lock-in Date, the selected customers may opt out of their Prepayment commitments. A Prepaying Customer selects the Lock-In Date and will be able to change it. For those issuing debt to fund their Prepayments, the Lock-In Date will be the pricing date for the debt, and for others, the Lock-In Date is expected to be the business day before the Prepayment Deadline although if a Prepaying Customer may decline the Market Rate Adjustment.
5. **Funding Prepayments/Off-Ramps**
 - (a) **Timing.** The Prepayment must be made on or before a date specified in the RFO, currently expected to be March 29, 2013.
 - (b) **Source of Funding.** Preference customers whose offers are accepted will have flexibility to fund their Prepayments from whatever source they choose.
 - (c) **Customer Off-Ramps.** If a Prepaying Customer plans to issue debt to fund its Prepayment, and (i) it is unable to close due to certain events on or within a period after the Lock-In Date, or (ii) its estimated credit spread to 10 Year Treasury’s on the Lock-In Date is greater by more than 25 basis points (.25 percent) than the estimated spread at the time its Offer was accepted, then the Prepaying Customer may terminate the Prepayment commitment. These off-ramps are in addition to the market rate adjustment cap off-ramp for customers that elect into the market rate adjustment in their offers.
 - (d) **BPA Off-Ramps.** Where the customer’s offer(s) indicate(s) that **debt will not be issued** to fund its Prepayment(s), BPA may terminate the related Prepayment

transaction for any reason prior to the Prepayment Deadline. Where the customer's offer(s) indicate(s) that debt **will be issued** to fund the Prepayment(s), BPA may terminate the Prepayment transaction(s) for any reason but only until the "Lock-In Date" specified by the customer. The Lock-In Date is the pricing date of bonds where the customer plans to issue debt to fund the Prepayment, thus, BPA may not back out of the Prepayment transaction once the related debt issuance has been priced.

- (e) If BPA backs out, BPA will pay customer's post-offer actual transaction expenses up to \$100k.

6. Amendment to PSAs. The transactions will be effected by amendments to the payment terms of the existing PSAs. All other provisions of the existing PSAs will remain unchanged.

- (a) ***BPA's Obligations.*** There will be no provision for BPA to cease crediting or to cease deemed reassignments (see below) of excess electricity for the account of the Prepaying Customer. BPA will have no right for any reason to "withhold" the application of accrued Prepayment Credits or to withhold remittances of cash from the deemed assignment of unused Prepayment Credits.

- (b) ***Remedies in the Event of a BPA Breach.*** As with other obligations of BPA under the PSA, the remedy for any failure by BPA honor its contractual obligation to give effect to accrued Prepayment Credits or to remit cash from the deemed assignment of accrued Prepayment Credits is a money judgment against BPA for non-performance. In no event may a Prepaying Customer cause any of BPA's obligations under this Agreement to come due prior to the date specified (for example, the customer may not seek, as a remedy to accelerate cash remittances prior to the dates agreed to in the amendment).

7. Deemed Assignment of Unused Prepayment Credits. In the unlikely event that a Prepaying Customer's accrued Prepayment Credits for a month are greater than the value of the Prepaying Customer's purchases of electricity from BPA during that month, the otherwise unused Prepayment Credits will be deemed to be assigned to other power customers' purchases, and BPA will remit payments to the Prepaying Customer in an amount equal to the Prepayment Credits that were deemed assigned. The remittances will lag by one month the billing month in which the Prepayment Credit could not be fully applied to the Prepaying Customer's bill.

8. Accumulation of Any Unused Prepayment Credits. Any accrued Prepayment Credits that are not applied to purchases of electricity during that month (in other words, BPA has inadequate power sales of any kind to effect a full deemed assignment in the month) will be applied to purchases of electricity during future months. There will be no limit on the period during which unused Prepayment Credits may accumulate and the credits will be applicable to future power purchases from BPA even after the PSA expires. No interest charge will arise with respect to the accumulation or use of unused Prepayment Credits.

9. No BPA Financial Guarantee of Prepaying Customer Debt. BPA will not guarantee payment of principal of or interest on any debt issued by or for the benefit of any Prepaying Customer to fund its Prepayment.

Expected Timing

- ***Draft RFO Released for Comment.*** Early June 27, 2012.
- ***Comment Period.*** Opens June 28, 2012 and closes July 19th 2012.
- ***Final RFO Released.*** August 6, 2012.
- ***Offers Submitted.*** November 30, 2012
- ***Offers Accepted.*** December 5, 2012.
- ***Lock In Date.*** *A date selected by Prepaying Customer with three (3) business days' advance notice to BPA. (This date will be the bond pricing date for those financing their Prepayments, and is expected to be the business day before the Prepayment Deadline for those not financing their Prepayments.)*
- ***Prepayment Deadline.*** March 29, 2013.
- ***Prepayment Credits Begin to Accrue.*** April 1, 2013.
- ***Prepayment Credits Begin Showing in Power Bills.*** May 2013.