

BPA Prepayment Program 202

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Today's Objective



- **Provide a framework to participants to help them understand what risks they are taking and what risks they are not taking**
 - **Interest rate risk**
 - **Credit spread risk**

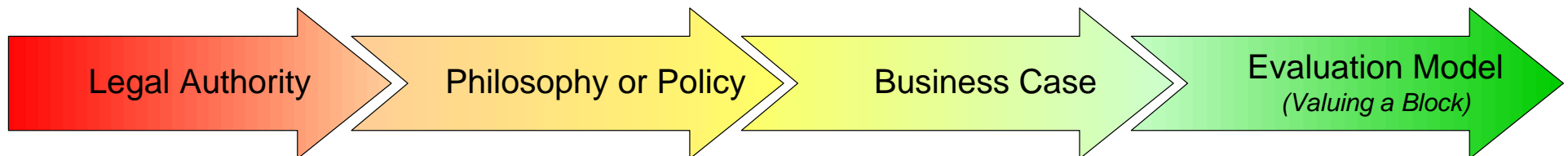
- **Provide assistance to participants in completing the Request for Offers (RFO) properly**

Basic Customer Framework Review



- Customers are encouraged to review the “Prepay Framework” laid out on June 27th and 28th live meetings while deciding if they would like to participate in this program.
 1. **Legal Authority:** Do they have the legal authority to participate in the program?
 2. **Philosophy or Utility’s Policy:** What is the position on BPA’s prepay program?
 3. **Business Case:** From a macro prospective, does participation in the program have enough value to the utility?
 4. **Evaluation Model:** What to consider when evaluating how much to bid on a block of power.
 - a. **Break even amount:** What bid amount makes the credits equal the debt service?
 - b. **Incentive level:** What rate of return or incentive does the utility want?
 - c. **Credit spread risk:** Is there credit risk in the source of funding?

Example: http://www.bpa.gov/Finance/FinancialInformation/Debt/PowerPrepaymentProgramMeetingMaterials/4b-Evaluation-Model_BPA-Basic.xls



Market Rate Adjustment Example



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Request for Offers Building Blocks



- **In order to fill out the Request for Offer (RFO) the participant has already determined the price they are willing to purchase a block of credits for.**
- **After determining the offer price for each block, the participant should understand the risks associated with the funding sources.**
 - Is there interest rate risk?
 - For example: Is the funding rate Treasury + a fixed spread
 - Is there credit spread risk?
 - For example: Is the funding rate what ever the market will charge?
 - Is there funding risk?
 - For example: Are you approved up to a set notional amount like \$25 million.

	Cash	Bank Loan	Bond Transaction
Interest Rate Risk	No	Maybe	Yes
Credit Spread Risk	No	No	Yes
Funding Risk	No	Maybe	No

- **A Bank loan that has no interest rate risk, is similar to funding the prepayment with cash.**
 - **For example, purchasing a home. There is no difference if a mortgage broker offers a fixed rate at 3% for 30 days than if the home is purchased with cash. The monthly payments are known and locked in at the time of the offer.**

Scenario Examples



- **Scenario A&B: The participant is using cash reserves to fund the prepayment**
 - The participants cost of funds is the opportunity cost of the forgone earnings
- **Scenario C&D: The participant is using a bank loan to fund the prepayment**
 - The bank has offered to fund the prepayment at the 10 year Treasury + 100 bps (1.00%)
 - The 10 year Treasury is 200 bps (2.00%)
 - The estimated participants cost of funds is 300 bps (3.00%)
- **Scenario E: The participant will go to the market to fund the prepayment**
 - The 10 year Treasury is 200 bps (2.00%)
 - The initial credit spread estimate is 50 bps (0.50%)
 - The estimated participants cost of funds is 250 bps (2.50%)

	Funding Decision				RFO Response			
	Funding Source	Interest Rate Risk	Credit Risk	Lock In Date	Appendix A	Appendix C	Appendix D	Appendix H
Scenario A	Cash/Reserves	No	No	No	2, 3, (5b), 6	No	Yes	Yes
Scenario B	Cash/Reserves	Yes*	No	Yes	2, 3, (5a), 6	Yes	Yes	Yes
Scenario C	Bank Loan	Yes*	No	Yes	2, 3, 5(a), 6	Yes	Yes	Yes
Scenario D	Bank Loan	Yes*	Yes**	Yes	2, 3,4, 5(a), 6, FA	Yes	Yes	Yes
Scenario E	Bond Issuance	Yes*	Yes**	Yes	2, 3,4, 5(a), 6, FA	Yes	Yes	Yes

* Interest rate risk is reflected in Appendix A, Part V

** Credit risk is reflected in Appendix A, Part IV

RFO Examples



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Prepay Status



- BPA has updated our external website
- The RFO can be found at: <http://www.bpa.gov/Finance/FinancialInformation/Debt/Pages/Power-Financing-Program.aspx>
- Prepays 202 (each meeting will cover the same material)
 - October 23rd, from 9:00am-12:00pm
 - November 6th, from 9:00am-12:00pm
 - November 13th, from 9:00am-12:00pm
- Offers under the RFO are due between noon Pacific Time on Nov. 29, 2012, and noon Pacific Time on Nov. 30, 2012

Timeline

