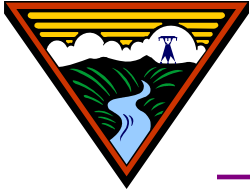


Updating BPA's Financial Plan

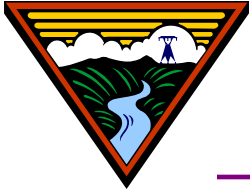
Technical Workshop #3 Good Year/Bad Year Financial Planning

April 10, 2008



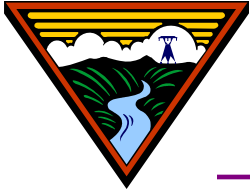
Agenda

- Background
- Possible metrics
- A conceptual framework
- Potential ways of evaluating possible actions
- Next Steps



BPA's Good Year/Bad Year Objective

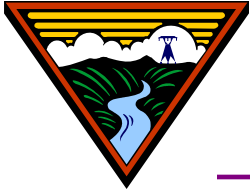
- Explore appropriate ways to utilize the results of good financial years that improve or do not impair BPA's ability to cope with poor financial years.



Purpose of this Workshop

- This workshop has several purposes.
 - This is a forum for discussing the issues surrounding good year/bad year financial planning including potential alternative courses of action, their trade-offs, a framework for analyzing them.
 - The discussions in this workshop will inform future assessments of whether to pursue specific courses of action in rate cases or within a rate period.

- This workshop is not intended to be the final forum for discussing good year/bad year financial planning considerations.
 - BPA does not intend to produce a detailed plan with a specific metric, thresholds, and detailed courses of action.
 - Specific proposals would be addressed in future financial plan updates, workshops and corresponding rate cases.

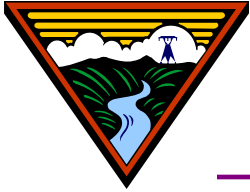


Desired Outcome of this Process

- What does BPA want from participants?
 - Comments on proposed GY/BY measures (pros, cons, issues)
 - Descriptions of additional measures for consideration

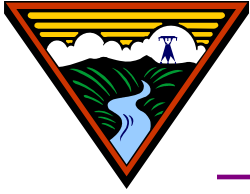
- At what level of specificity?
 - General descriptions of how a proposed action would work
 - Discussions of issues concerning implementation

- What will be done with comments we receive?
 - Comments will be documented in the May draft plan and the final plan due in July.
 - Issues and ideas raised by comments will be discussed where BPA can offer additional details or clarification.
 - Issues and ideas may be carried over into other forums (e.g. rate case) where relevant and applicable.



Background

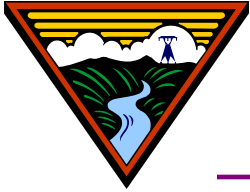
- There have been discussions of various aspects of good year and bad year financial planning numerous times in the past.
 - The 10-year Financial Plan posed an issue for a future update to the plan. Financial reserves in excess of \$800 million would be split between capital investments and rebates to customers.
 - The 2002 and 2007 Power rate cases included extensive description and analysis of rate adjustment mechanisms such as the CRAC and DDC.
 - The 2006 and 2008 Transmission rate case settlements have included provisions for the drawdown of financial reserves to finance a portion of annual capital expenditures rather than reflecting a cash requirement for such in revenue requirements.
 - This is an internal issue during rate periods as well. When net revenues and financial reserves have exceeded expectations, there have been discussions of whether reserve financing in addition to rate case assumptions should occur.
- The issue of how to best take advantage of the unique opportunities that occur in good years has created a need for renewed discussion within the region on BPA's Financial Plan. The current effort is intended to provide a forum for discussing the trade-offs between various options.



What are Possible Metrics For Determining a Good or Bad Year?

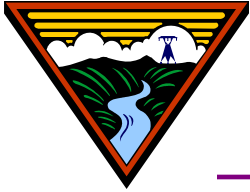
We have identified three basic sets of metrics. Some, but not all, could be suitable for use by both business units.

1. Net Revenues
2. Financial Reserves
3. System Operations



Net Revenues as a Metric

- Net revenues
 - This measurement would be most closely related to the greatest financial variability for Transmission.
 - A change in the result does not always mean that the business unit has ample financial reserves, depending on the circumstances of the prior year.
- Modified net revenues (MNR)
 - Fits with the current trigger for Power CRAC and DDC.
 - For Transmission, this would equal net revenues.
 - A change in the result does not always mean that the business unit has ample financial reserves, depending on the circumstances of the prior year.
 - Some see MNR as an artificial construct that is not directly connected with the business unit's true financial condition.



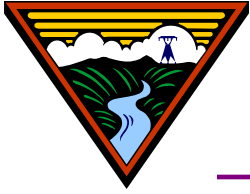
Revenues continued

- Net secondary revenues.
 - This measurement would be most closely related to the greatest financial variability for Power.
 - There is no comparable metric for Transmission.
 - The data supporting this metric are commercially sensitive.
 - The end of year result does not always mean that the business unit has ample financial reserves, depending on the circumstances of the prior year.



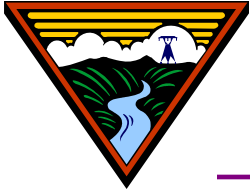
Financial Reserves as a Metric

- This metric could use the actual result or forecast of a business unit's financial reserve balance at the end of a year or be used as an input for a TPP assessment.
- This metric is the most direct measure of BPA's ability to pay Treasury.
- Concerns
 - Actual financial reserve levels do not reflect annual results from operations as well as net revenues or modified net revenues.
 - This is not readily transparent. Business unit reserves are not reported in BPA's public financial statements.
 - Some may see financial reserves as subject to swings due the timing of when bills are paid and receipts collected as well as non-operating impacts.
 - Business unit financial reserve calculations are not verifiable by outside auditors.
 - The focus should be on *Reserves Available for Risk* which would necessarily include numerous adjustments. For example, Power's balance includes deposits from other Federal agencies for energy efficiency projects. Transmission's balance includes customer deposits for interconnection projects, projects funded in advance, and reimbursable projects. These funds should not be considered available for risk or for things other than their specific purpose.



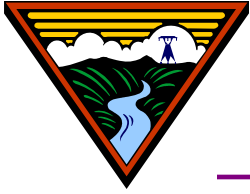
System Operations as a Metric

- For Power, this metric could focus on energy production.
- There are several options for a comparable metric for Transmission.
- This metric provides the most direct link to system performance
- Concerns
 - Not transparent. Operational data may not always publicly available.
 - This metric ignores market prices which significantly affect actual financial results.
 - The end of year result does not always mean that the business unit has ample financial reserves, depending on the circumstances of the prior year.

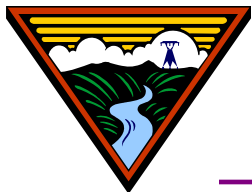


Combining Metrics

- Some metrics could be combined. One metric would be identified as the primary metric, and if met would trigger additional analysis. Any others could be used as constraints.
- An Illustration: Assume MNR is the primary metric for determining whether a year is good, bad, or neutral. Actions could be constrained by reserves available for risk. For example, a high MNR result may define a good year but actions would be restrained if the business unit was coming off of a very bad year and TPP was lower than the standard.

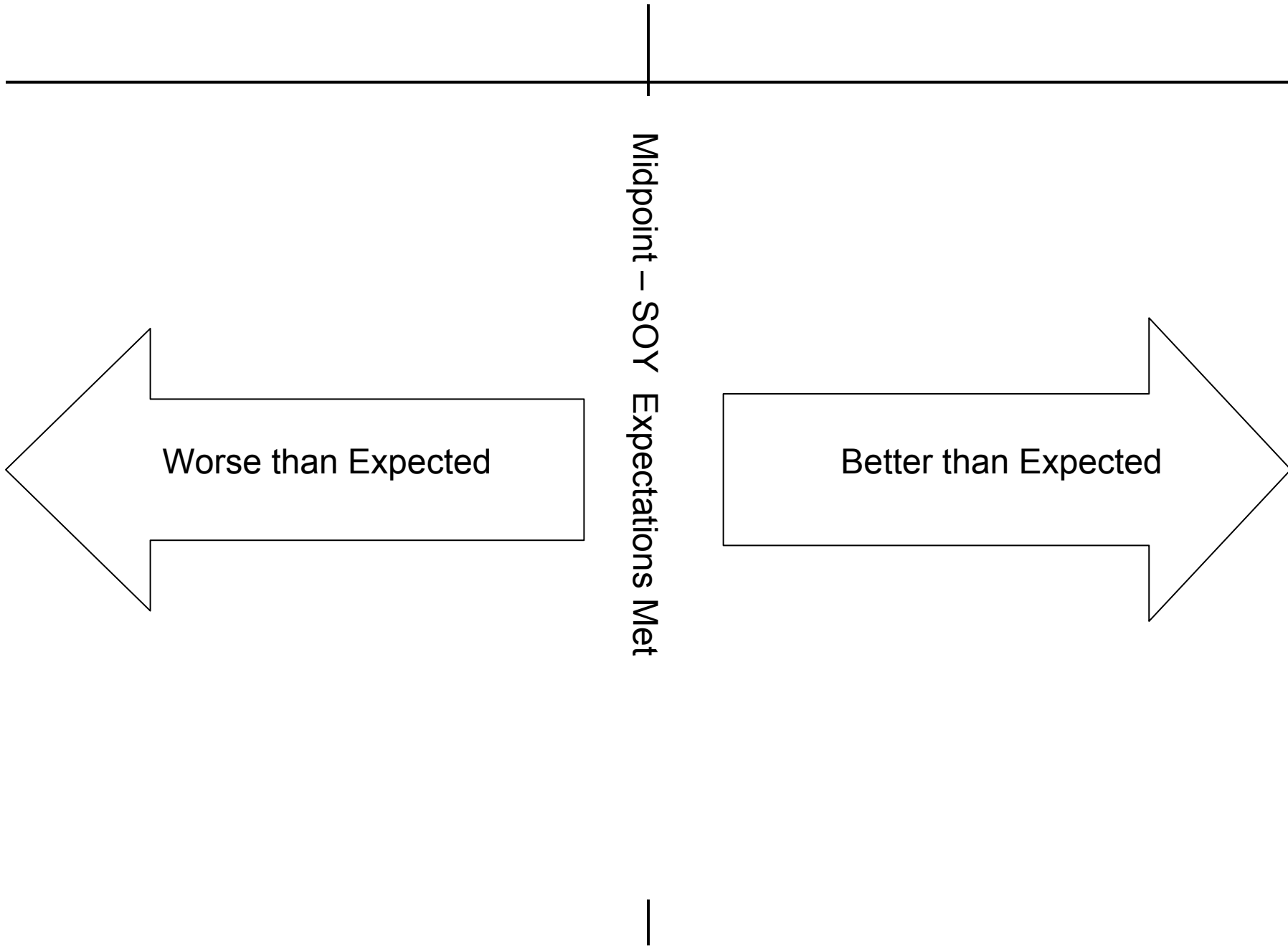


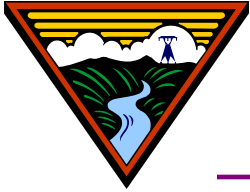
A Conceptual Framework



Laying Out the Metric

- Midpoint = Start of Year (SOY) Targets. (This could be a rate case result or a SOY target, setting the expectation for the year. If financial results meet or are likely to meet the expectation, it would be effectively a neutral year. Our illustration uses SOY because it would be the most recent forecast of results for that year but a rate case value could be used as well.)
- Bad Year = Financial results fall below or likely to fall below the midpoint
- Good Year = Financial results higher or likely to be higher than the midpoint

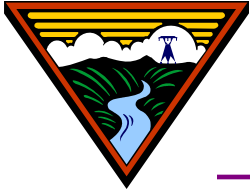




The Continuum of Financial Health

- The focus in good years and bad years is slightly different. The actions taken in bad years tend to focus on conditions within the year, while the actions taken in good years may take on a longer term view.
- The continuum describes conditions when BPA might consider particular actions. These conditions are not depicted as hard thresholds because they may vary from year to year. However, if BPA were to propose a plan, thresholds and the methodology for determining them would be developed in a rate case.
- Good Years: The continuum starts with the upward changes in the metric defining financial health. As it continues to change, the business unit's TPP begins to exceed the minimum standard. Continued change can then result in higher TPP for the next rate period.
- Bad Years: The continuum starts with downward changes in the metric defining financial health. As it continues to change, the business unit's TPP begins to decline. Continued change can result in a higher likelihood of missing Treasury payments or eventually even being unable to make payments to vendors.

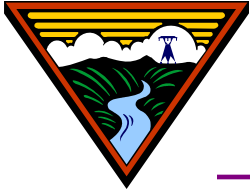
| | | BAD YEAR | | Midpoint | GOOD YEAR | | |
|--|----------------------------------|----------------------------------|--|--|----------------------------------|--|--|
| V E N D O R P A Y M E N T S M I S S E D | Current Year Payment in Jeopardy | TPP Decreases within Rate Period | Decrease in Metric of Financial Health | Increase in Metric of Financial Health | TPP Increases within Rate Period | Start Next Rate Period with Reserves Greater than Needed for TPP | |
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Possible Actions in Good Years

- Metric begins to increase: The default action is to allow reserves to build.
- Within year TPP grows: We have identified four basic additional courses of action that could be taken (individually or in combination) to address specific needs.
 - Rebates to customers. This could be a continuation of the DDC or something similar in concept or include a similar concept for transmission.
 - Use reserves for capital investments. Reserves could be used in lieu of planned borrowing to help preserve access to borrowing authority. This differs from deferred borrowing which occurs when BPA uses cash to pay for an investment with the explicit intention of borrowing for it later.
 - Use funds for advanced amortization payments. Funds could be used to make early payments on Federal bonds to help preserve access to borrowing authority.
 - Use funds for targeted program spending. Funds could be dedicated to targeted programs, particularly those where spending has been reduced in the past.
- TPP for next rate period increases: Reduce future rates. Funds could be used in the next rate period to reduce rates.

| | BAD YEAR | | | Midpoint | GOOD YEAR | | |
|------------------------|----------------------------------|----------------------------------|--|--|----------------------------------|--|--|
| VENDOR PAYMENTS MISSED | Current Year Payment in Jeopardy | TPP Decreases within Rate Period | Decrease in Metric of Financial Health | Increase in Metric of Financial Health | TPP Increases within Rate Period | Start Next Rate Period with Reserves Greater than Needed for TPP | |
| | | | | Build reserves | —————→ | | |
| | | | | | Reserve financing | —————→ | |
| | | | | | Buy down debt | —————→ | |
| | | | | | Targeted program spending | —————→ | |
| | | | | | Rebate to customers | —————→ | |
| | | | | | | Reduce future rates —————→ | |



Possible Actions in a Bad Year

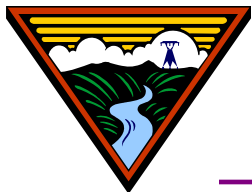
- **Metric Declines:** The default action is to allow reserves to decline.
- As the continuum moves from the initial decline in the metric to “Within Year TPP Declines”, we have identified a series of additional actions that can be seen as corollaries to the Good Year actions.
 - Borrow for reserve financed investments. So long as investments have remaining useful lives and sufficient borrowing authority is available, BPA believes it could borrow for assets previously paid for out of reserves. This would likely require advance disclosure to Congress.
 - Re-borrow for paid off investments. So long as investments have remaining useful lives and sufficient borrowing authority is available, BPA believes that it could re-borrow for the remaining available term.
 - Targeted program spending reductions. Reductions could be tracked to facilitate catch-up spending in the future.
- **Within Year TPP Declines:** Two basic courses of action seem likely.
 - Employ liquidity tools. BPA could use liquidity tools such as the Treasury liquidity facility and Flexible PF program.
 - Raise rates. BPA could use a rate adjustment mechanism or initiate an expedited rate case.
- **Treasury Payments Jeopardized :** Reschedule or defer all or part of a planned Treasury payment.

BAD YEAR

Midpoint

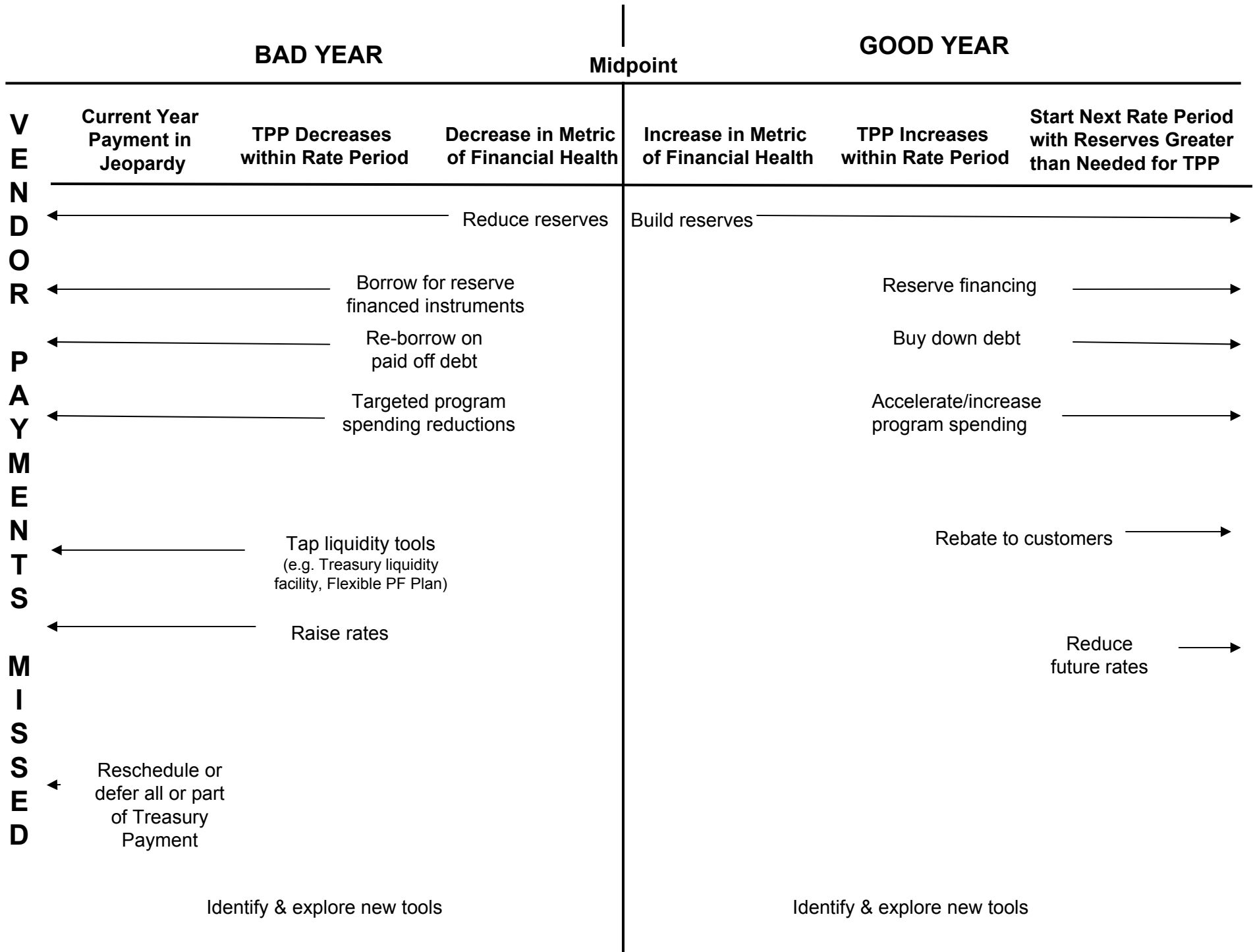
GOOD YEAR

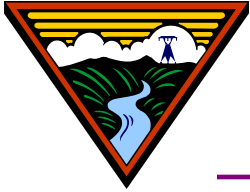
| V E N D O R P A Y M E N T S M I S S E D | Current Year Payment in Jeopardy | TPP Decreases within Rate Period | Decrease in Metric of Financial Health | Increase in Metric of Financial Health | TPP Increases within Rate Period | Start Next Rate Period With Reserves Greater Than Needed for TPP |
|--|----------------------------------|----------------------------------|--|--|----------------------------------|--|
| | | | | Reduce reserves | | |
| | | | Borrow for reserve financed instruments | | | |
| | | | Re-borrow on paid off debt | | | |
| | | | Targeted program spending reductions | | | |
| | | | Tap liquidity tools (e.g. Treasury liquidity facility, Flexible PF Plan) | | | |
| | | | Raise rates | | | |
| | | | Reschedule or defer all or part of Treasury Payment | | | |



Completing the Framework

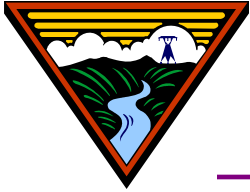
- The good year and bad year actions identified on previous slides are ones that are available for use today. Generally they are symmetrical (i.e. raise rates – lower rates, cut program spending – increase program spending).
- Room must be left for the exploration of new tools. Extensive analysis and planning would be required and none may actually reach fruition. Examples of new tools include:
 - **Variable debt service:** In good years, accelerate principal payments and reduce planned principal payments for the following year. If the next year is a bad year, the small planned payment helps. If the next year is normal, pay the scheduled ‘small’ amount and accelerate more payment, and reschedule the following year’s debt.
 - **Catastrophe Bonds:** In private markets, these are debt instruments in which the issuer's obligation to pay interest and/or repay the principal is either deferred or completely forgiven if the issuer suffers a loss from a particular pre-defined catastrophe.





Ways of Evaluating Possible Actions

- Look at the other business unit: Is it experiencing a good year, bad year, or neutral year?
- Look at other Financial Plan needs: What is the current status of access to capital? Is BPA nearing the exhaustion of available borrowing authority?
- Look at current borrowing conditions: What is the current interest rate environment, particularly in comparison to interest rates on outstanding Treasury bonds?
- Look at program spending: Are there programs that can be ramped up and ramped down without significant operational impacts? Are there programs that have recently experienced spending cutbacks? Should BPA pursue a self-insurance option?
- Look at rates: Has the business unit experienced significant rate volatility? Have rates been stable? Are rates approaching market?



Next Steps

- To provide feedback on the good year/bad year financial planning topic for the development of the Financial Plan, please contact Alex Lennox.
 - Phone: 503-230-3460
 - Email: alennox@bpa.gov
- Additionally, based on information presented here, BPA will draft a chapter in the Financial Plan. Stakeholders will have an opportunity to comment on the draft document.
- We anticipate sending a draft plan out for comment in May 2008 and publishing the final plan at the end of July 2008.