



Access to Capital/Power Prepayment Program Update

April 20th, 2012
Rates Hearing Room



Access to Capital

BPA will hold an Access to Capital/Financial Issues workshop this summer to discuss:

- Current Treasury borrowing authority status & the 10 year target
- Updates on Financing Tools
 - Prepays
 - Lease Financing
 - Cash Tools
- ARRA Financing
- General BPA cost of capital and financing information
- Non-Federal Amortization and Depreciation for 2014/15 rate case
- Debt Management ideas

Power Prepay Program

- BPA formed a regional team to develop a power prepay program that consisted of potential participants and non-participants to ensure equity among customers.
- The regional team members are Benton PUD, Clark PUD, EWEB, Lewis Country PUD, NRU, PNGC, Snohomish PUD, Tacoma Power and BPA.
- The team agreed on the following principles that guided the process:
 1. **Fixed credit/adjustable price:** A prepay transaction locks in a credit, not power prices. BPA's future rates may go up or down, but the customer will always receive a fixed credit on the prepaid portion of their bill equal to the prepay bond debt service (if applicable) plus an incentive.
 - BPA is mandated to recover its costs from customers and bases its power rates on this mandate. Therefore, BPA cannot lock a fixed power purchase price to recover its future costs when we do not know those costs.
 - BPA believes that any prepay program should maintain equity among participants and non-participants; a fixed price would violate this goal.

Power Prepay Program (continued)

2. **Consistent with existing Regional Dialogue contracts:** A prepay transaction should fit within existing Regional Dialogue contracts and does not constitute an “assignment” of power sold at a Tier 1 rate, which may trigger the Tiered Rates Methodology voting process or a 7(i) process.

3. **Placement of credits:** BPA has limited degrees of freedom in terms of when credits can be paid and needs to define the timing of credits to minimize the impacts to future revenue requirements.
 - BPA will minimize rate impacts by timing credits using repayment study and revenue requirement analysis.
 - The precise timing mentioned above means that the credit streams should be considered fixed and are not liquid.

Power Prepay Basic Terms

- \$50,000 monthly level prepay credit blocks
- Credits match the current Power Sales Agreement's (PSA's) and go through 2028
- Credits are not transferable or sellable by customers
- No minimum block requirement
- No partial block sales
- No performance deposit requirement
- BPA will use the Market Clearing Auction to determine the price of the blocks
- There will be deemed assignments of prepayment credits for monthly unused credits and BPA will remit cash to the prepaying customer as long as BPA has power purchases from other customers

Power Prepay Basic Terms (continued)

- The Utility is expected to fund the prepayment 30 days after a date the utility sets
- Monthly credits start 60 days after the prepayment is funded
- If a utility issues debt to fund the prepayment:
 - BPA will take the full interest rate risk between the bid and funding by adjusting the market clearing price
 - BPA will offer off ramps to customers for credit risk between bid and funding that ensures utilities a savings level
 - BPA will not financially guarantee the payment of principal or interest on any debt issued by or for the benefit of the prepaying customer

Net Billing and Customer Credits

- Energy Northwest's Net Billing Agreements require EN credits to be senior to all other credits.
- Therefore, BPA needs to adjust the credits available for customers to prepay by their specific net billing requirement.
- The following methodology to adjust for net billing is recommended:
 - Individual credits available for purchase under the prepay program are the lower of:
 - 50% of the lowest year of forecasted customer power revenues from 2014-2018 OR
 - 100% of the lowest year of forecasted customer power revenues available after the Net Billing obligation is satisfied

Auction Specifics

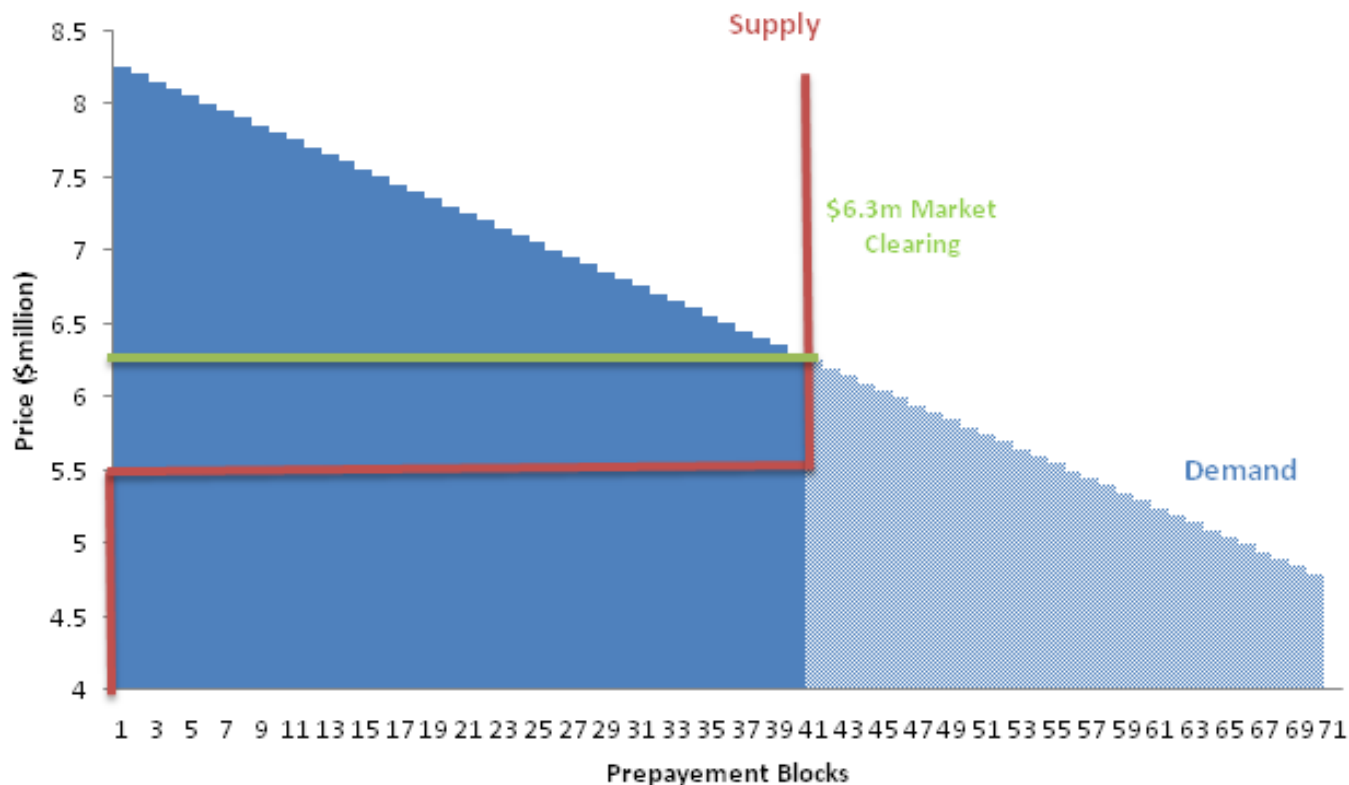
- BPA will offer a specified number of prepay blocks for purchase each rate case . A prepay block is a future stream of monthly credits – currently set at \$50,000 per month – on a purchasing utilities’ Power bill through the remaining term of the Regional Dialogue contracts.
- Customers will bid on these blocks. A customer can bid on more than one block at different bids.
- Each bid is a dollar amount of prepayment offered for a block of monthly credits on the customer’s power bill for 15 years (or the remaining term of the Regional Dialogue contracts).
- For the first offering, the shape of the monthly credits associated with each block will be levelized. That is, the credits will be equal each month through the term of the Regional Dialogue contracts.
- BPA will establish a “reservation price” per prepay block that will be the minimum dollar amount BPA is willing to accept for each block.
- Customer bids, subject to BPA’s reservation price floor, will establish a market clearing price, which will be the competitively determined price for participation in the program. All customers that bid in at or above this price will be offered this clearing price for each block they bid in at or above this price.

Evaluation Example

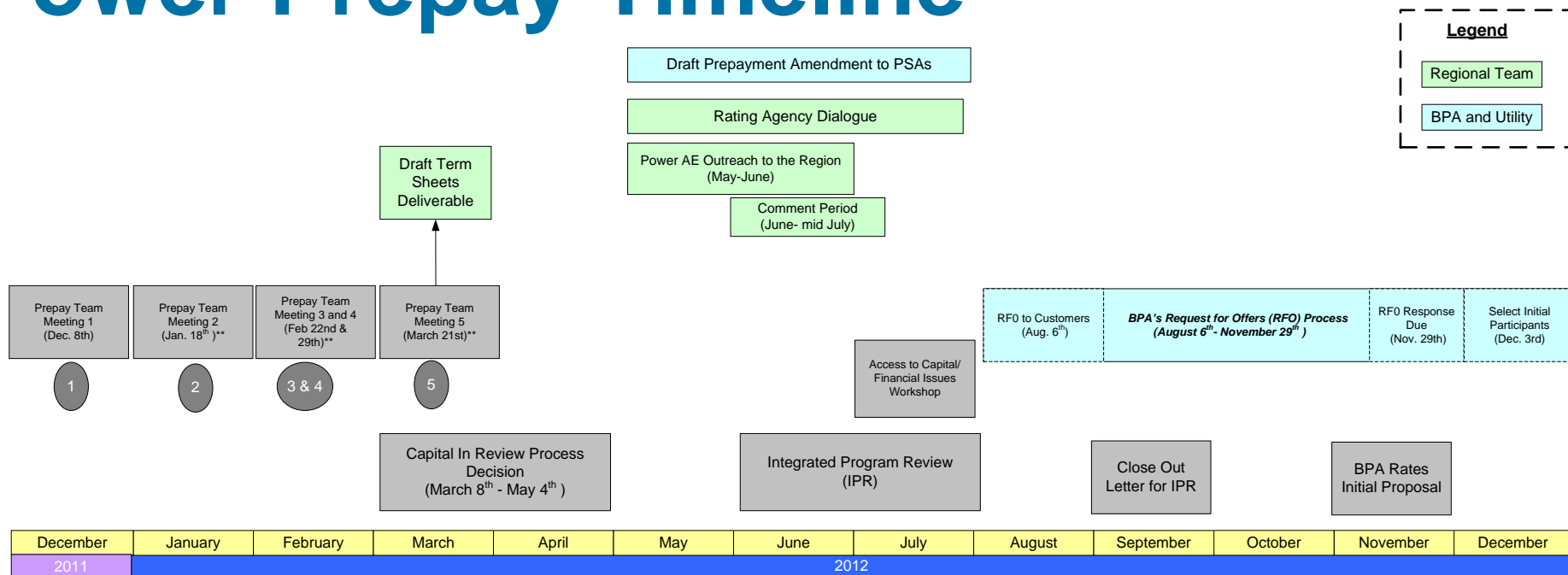
- BPA offers 40 Blocks of \$50,000 monthly credits for the value of electricity for 15 years.
- BPA computes a reservation price of \$5.5 million, which reflects an imputed financing rate of approximately 7 percent.
- Suppose BPA receives 70 bids as follows:
 - 4, ..., 4.5, ..., 5, 5.5, 6, ..., 6.3, ..., 7, 7.5, ..., 8.15, 8.2, 8.25
 - 15 bids are less than the \$5.5 million dollar reservation price
 - 55 bids remain, of which the 40th lowest bid = \$6.3 million
 - \$6.3 million is the market clearing price
 - The program generates \$252 million in prepay revenues (40 blocks times \$6.3 million pre-pay)
- Effectively results in 5 percent rate of financing

Evaluation Example, Continued

Demand and Supply for Prepayment Blocks



Power Prepay Timeline



* Assumes that a customer issues tax-exempt bonds to fund the power prepayment and therefore a Private Letter Ruling is required from the IRS

** Meetings 3-5 are currently scheduled to be held at Tacoma Power

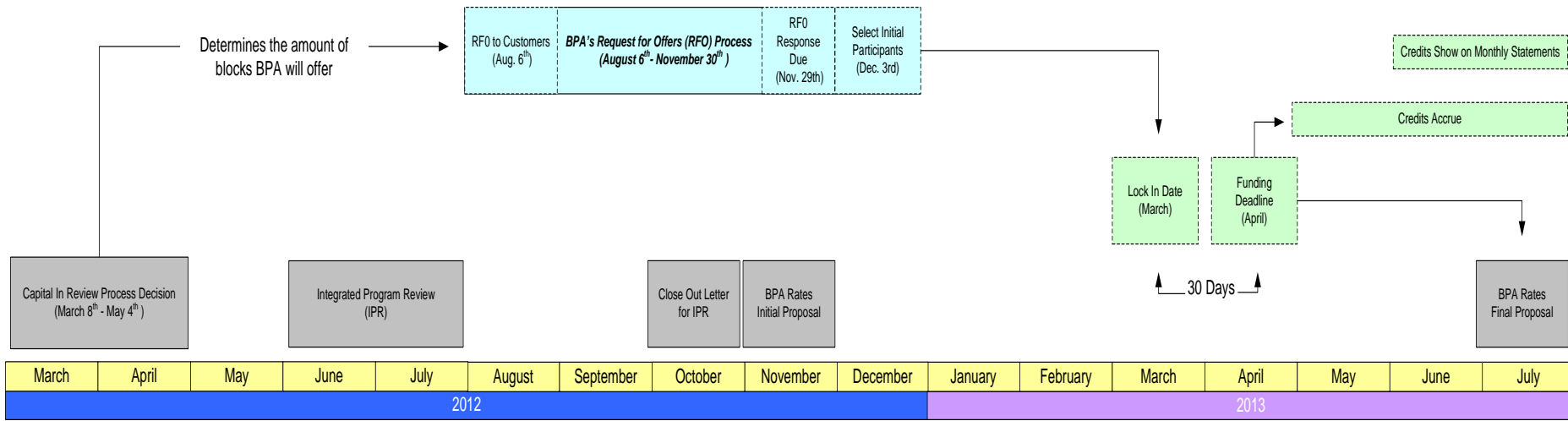
*** Funding for utilities that issue debt would be in April/May 2013

Meeting Objectives

- 1 (1) Introduced the principles and base structure (2) Defined expectations and agreed upon meeting protocol
- 2 (1) Review power rate analysis (2) Discuss term sheet (3) Invite banker reaction and feedback to the base case
- 3 (1) Revised term sheet (2) Alternative auction proposal (3) Risk assessment
- 4 (1) Term sheet (2) Auction process (3) Federal and state law (4) Proposed rating agencies strategy
- 5 (1) Finalize draft term sheets (2) Draft rating agency presentation

Power Prepay Transaction Timeline

Transaction Milestones



Legend

- Selection Process
- Transaction Process
- BPA Rate Setting Process

Offramps for Utilities and BPA

Customer (YES)*	
BPA (YES)*	BPA (NO)**

* If BPA elects to take an offramp or if the customer elects to take an offramp and the difference between the awarded customer's "True Interest Cost" and the value of 10-year Treasury obligations has increased by more than 25 basis points, then BPA will reimburse the customer for all reasonable out-of-pocket costs it incurred after the date on which the offer was accepted.

** BPA has no option to take a offramp after the utilities "lock in date".

Summary

- BPA and the Power Prepay Regional Team have put together a draft power prepay term sheet.
- Power Account Executives will implement a customer outreach plan in May and June.
- BPA will hold a comment period from June to mid-July for comments regarding the proposed prepay program.
- If the Administrator decides to offer the Power prepay program, BPA will issue a Request for Offers (RFO) in August.
- BPA Finance continues to analyze and refine all financing tools to see how they can integrate into BPA's overall Access to Capital strategy.
- BPA is actively working to aggressively expand an already effective Lease Financing Program.
- We are pursuing a multi-faceted approach to meeting the needs of the agency's capital program.