Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

FINANCE

May 6, 2002

In reply refer to: DFW-2

Dear BPA Customers and Interested Parties:

You are cordially invited to a public workshop to discuss an interfunctional financial transaction between the Bonneville Power Administration's (BPA) power and transmission business lines to help meet BPA's capital funding requirements. This transaction will help get needed transmission lines and other system infrastructure projects built in a timely manner, while ensuring that power and transmission rates are not adversely affected.

BPA's capital needs for the next decade are expected to exceed its existing borrowing authority by approximately $2 billion. BPA is exploring all available means to raise needed capital. BPA plans to use a mechanism called "debt service reassignment" to allow a greater level of Energy Northwest and Federal debt restructuring. Proceeds from restructuring Energy Northwest debt will be used to retire higher-cost federal transmission debt, which will provide room within BPA's existing borrowing authority to fund Transmission Business Line capital projects.

The workshop on debt service reassignment will be held:

Tuesday, May 21
9:00 a.m. to noon
BPA Rates Hearing Room
911 N.E. Eleventh Ave.
Portland, OR 97232

Debt service reassignment will not meet all of BPA's capital-funding needs, but it will allow time to find additional sources of funding without delaying needed transmission projects.

For more information, see the attached fact sheet. You also may contact your BPA account executive, or call me at 503-230-7544. If I cannot be reached, please contact either Anita Mertsching, at 503-230-3413 or Don Carbonari at 503-230-3798.

Thank you for your interest.
Sincerely,

David J. Armstrong
Manager, Capital and Risk Management

Enclosure:
BPA Debt Service Reassignment Concept Description

BPA Debt Service Reassignment
Concept Description
May 6, 2002

Introduction

In its ongoing efforts to stretch its existing capital funding sources, BPA is planning certain financing transactions that could provide a source of funding for transmission capital investments without raising power or transmission rates. The concept expands the agency's existing debt restructuring program. In the process, BPA would reassign some of the debt service associated with refinanced Energy Northwest debt to the Transmission Business Line.

Energy Northwest debt service for nuclear projects is currently assigned to BPA's power business line. Proceeds from reduced net billing due to Energy Northwest refinancings lead to increased cash in the Bonneville Fund. Under debt service reassignment, to the extent that such increased cash is used to amortize Federal transmission debt, BPA would set transmission rates to recover the debt service for the refinancing of Energy Northwest bonds that helped produce the increased cash in the Bonneville Fund. Thus, TBL would be responsible for recovering the cost of those refinancing bonds that allowed the freeing up of additional transmission borrowing authority. The Power Business Line would not have any additional debt service requirements associated with such bonds.

The objective is to increase capital available to fund needed transmission infrastructure at the lowest possible cost without harming taxpayer or power ratepayer interests. In achieving this objective, BPA will adhere to the following principles.

BPA Debt Service Reassignment Principles

1. Between business line transactions arising from the restructuring of Energy Northwest debt will be made in such a way that neither business line nor its customers will be any worse off compared to continued access to Treasury borrowing authority.

2. Within the constraints of the repayment model, the transactions will make use of low cost capital without permanently foregoing any debt restructuring opportunities.

3. The transactions will be solely a ratemaking and accounting mechanism with no impact on external BPA debt instruments and their security, including no impact on the probability of making payments to the Treasury and vendors.

4. The transactions will be defensible in rate case proceedings, and will not jeopardize the tax-exempt status of the refinancing bonds.

5. The transactions will adhere to Federal Energy Regulatory Commission separate accounting requirements.

Discussion

The Bonneville Fund is the source of payments for all BPA debt. All of BPA's cash is available to pay the debt service on an agency-wide, priority of payments basis.

BPA assigns responsibilities for debt service to specific business lines consistent with business line capital programs. The business lines are responsible for recovering those costs in rate setting. Net billing of both transmission and power revenues is the source of payments for Energy Northwest debt.

Energy Northwest Debt Extension -- *Assignment to Date*

BPA historically assigned all Energy Northwest debt service to the Power Business Line because the nuclear projects are a power capital investment. Correlatively, BPA thus far has assigned all incremental Energy Northwest debt service associated with debt extension to the Power Business Line.

Ongoing BPA debt restructuring is expected to provide approximately $1.2 billion to fund Power Business Line capital projects, principally by issuing new Energy Northwest bonds that have maturities that are longer than the bonds they replace and using the resulting additional cash in the Bonneville Fund to repay Treasury debt issued for PBL investments. The final maturity on all Energy Northwest bonds will remain in 2018. Only existing bonds that mature earlier than 2018 will be extended closer to that date.

The use of debt restructuring as a source of funding PBL investments is limited to the approximately $1.2 billion because that is the amount above which Energy Northwest debt extension would begin having the effect of raising power rate levels in the near term as a result of BPA's Federal debt amortization scheduling (repayment) methodology agreement with the U.S. Treasury. The repayment methodology schedules repayment of federal debt and irrigation assistance to produce combined federal and non-federal debt service that is levelized over the repayment period. Only the approximately $1.2 billion of Energy Northwest debt can be extended without raising that levelization and thereby raising power rates.

Debt Service Reassignment

Under debt service reassignment, as cash flows to the Bonneville Fund from Energy Northwest debt extension, BPA would repay Treasury debt related to transmission investments. This would replenish available Treasury borrowing capacity to fund new transmission investments. The transmission business line would then assume responsibility for setting rates to recover the costs of debt service on the new Energy Northwest refinancing bonds that enable this replenishment of Treasury borrowing authority. Transmission rates will be set to recover the debt service for those refinancing bonds. Consistent with Bonneville's statutory rate directives, the power business line's rates would not be set to recover costs associated with such refinancing bonds, and the power business line would not see any rate effects as a result of the refinancing bonds.

Using debt service reassignment to fund transmission investments, could, however, make another approximately $1.8 billion available to retire federal debt related to transmission investments.