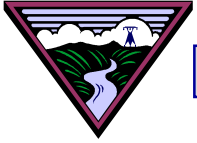


Debt Restructuring and Debt Service Reassignment

May 21, 2002



Today's Objectives

- To provide background information on the Debt Restructuring Program
- To explain the need for and the mechanics of Debt Service Reassignment

Bonneville



Power Administration

The Debt Restructuring Program

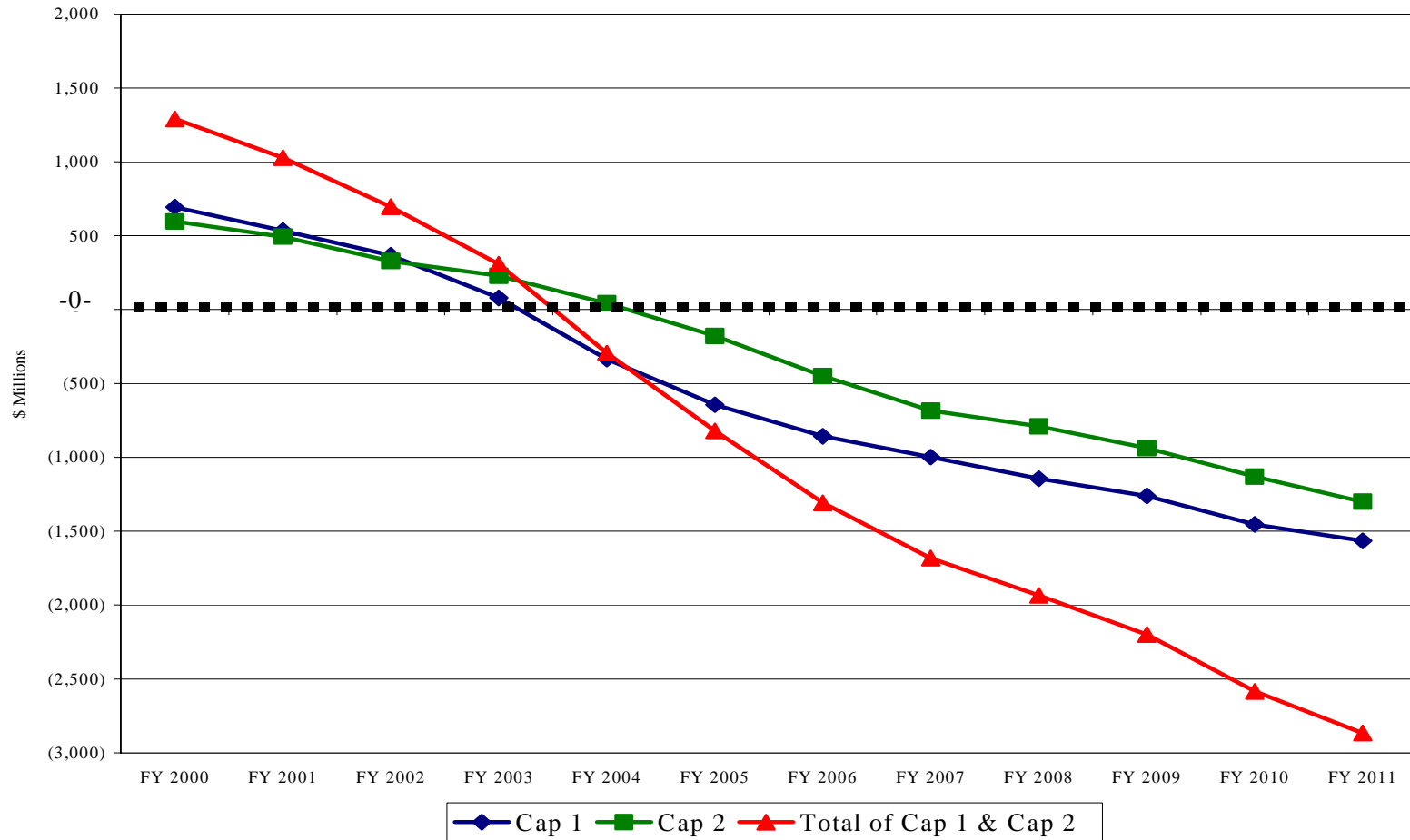


BPA Borrowing Authority

- Congress enacted legislation which established BPA's borrowing authority limit of \$3.75 billion overall:
 - Cap 1: \$1.25 billion made available in the 1974 Transmission Act
\$1.25 billion made available in 1983 amendment of Transmission Act
 - Cap 2: \$1.25 billion authorized in the 1980 Northwest Power Act and made available in 1982
- Cap 1 is available to finance the transmission system and to implement the Administrator's authority under the Northwest Power Act.
- Cap 2 *is reserved* for conservation and renewable resources.



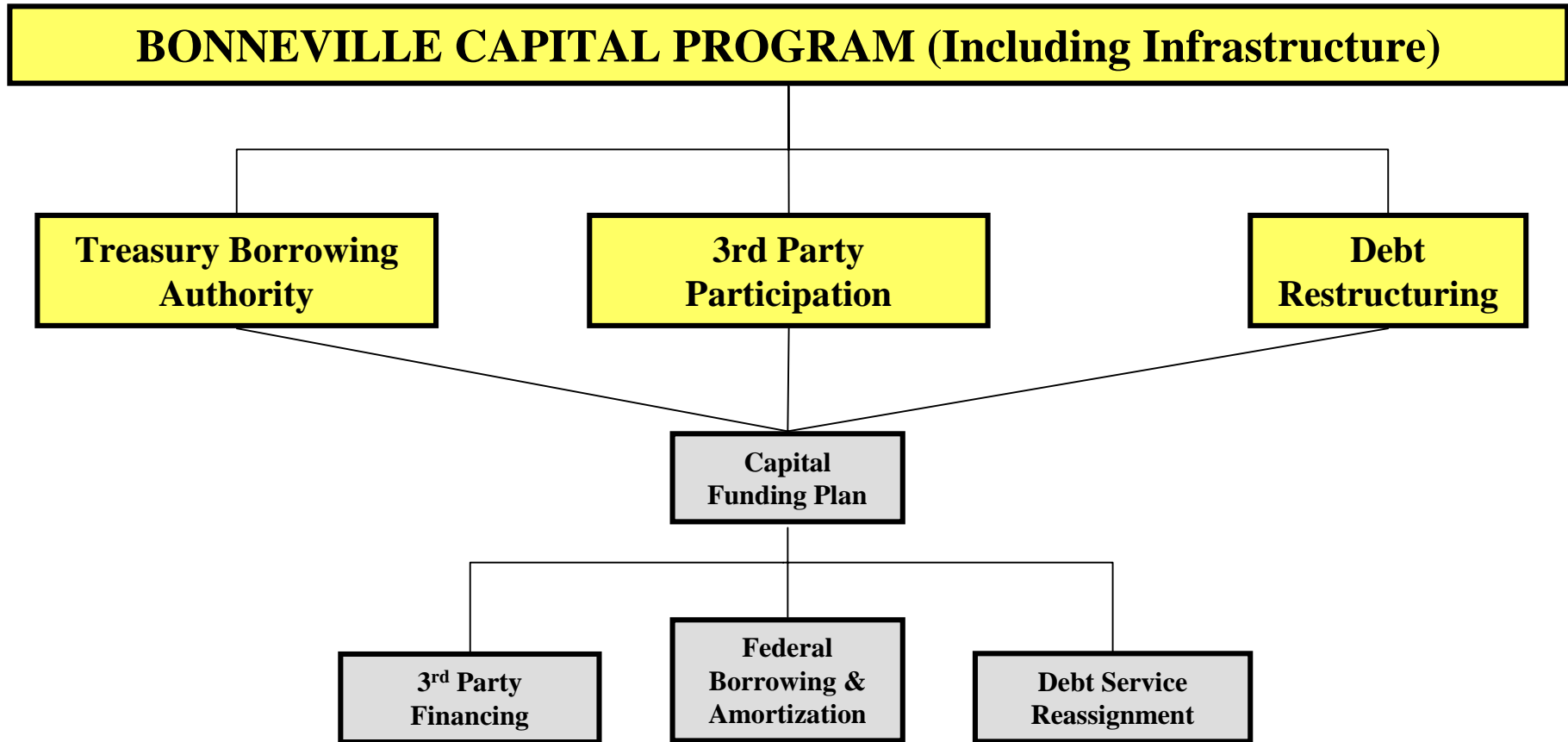
Projected Remaining Borrowing Authority

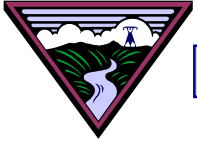


Projected capital spending consistent with FY03 budget submittal.



Capital Funding Process Scope



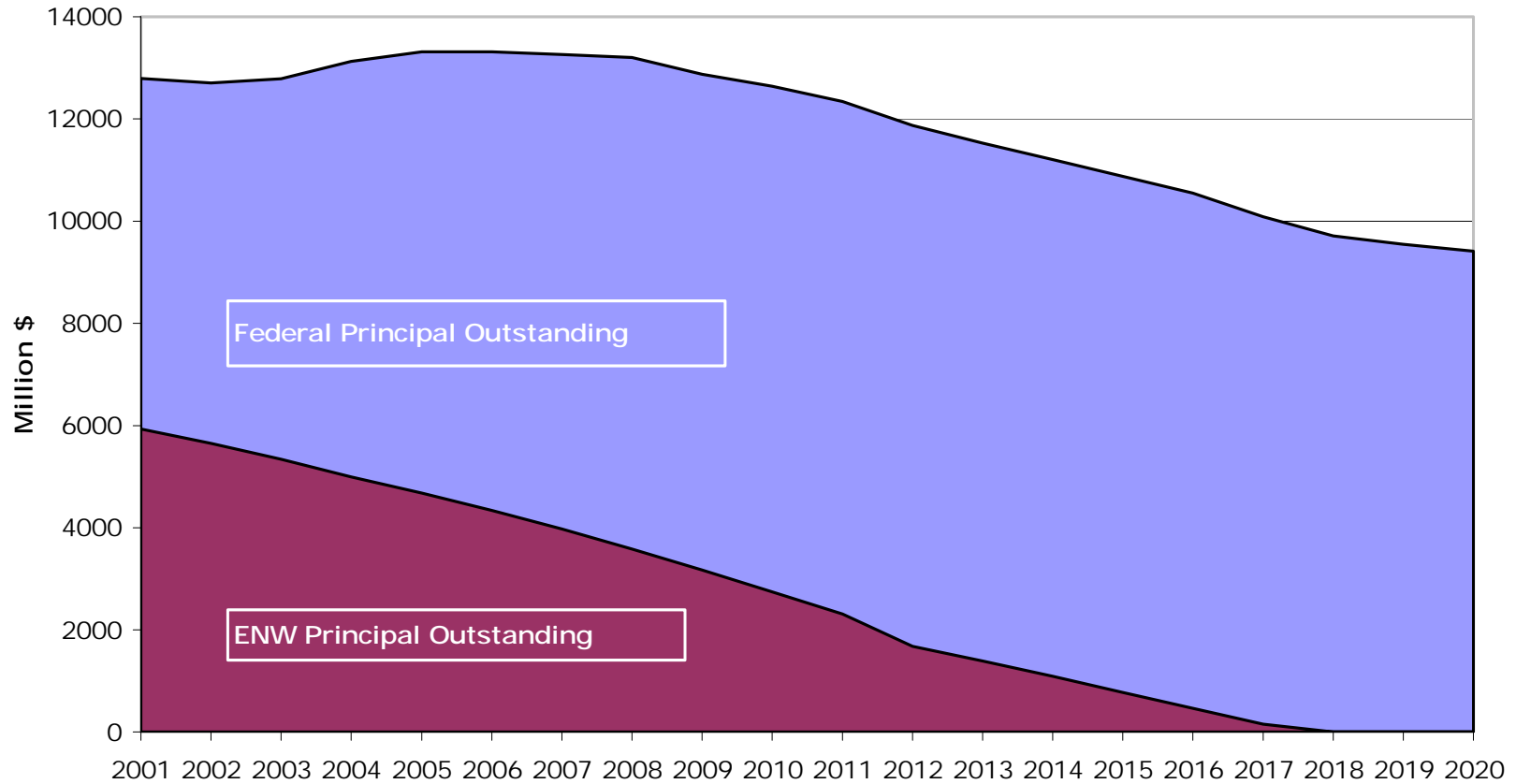


Debt Restructuring Overview

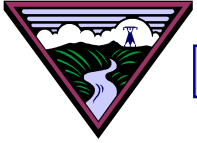
- The Debt Restructuring Program resulted from the examination of Federal and non-Federal debt as single portfolio to be optimized in terms of cost and access to capital.
- The heart of the program is to:
 1. Extend the tax-exempt Energy Northwest (ENW) debt to the 2013-2018 period, thereby reducing net-billing budgets, and more cash flows to the Bonneville Fund.
 2. Pay down Treasury debt in advance by the same amount of ENW principal that is extended.
 3. Issue short maturity Treasury bonds for new capital to allow advance amortization and avoid costly call premiums.
- The results of the program will be to:
 1. Replenish Treasury borrowing authority by about \$3 billion between 2001-2012.
 2. Produce a changed debt portfolio that has less high cost Treasury debt and more lower cost ENW debt, with no significant change in total debt outstanding.
 3. Reduce overall costs of BPA's debt portfolio to regional ratepayers.



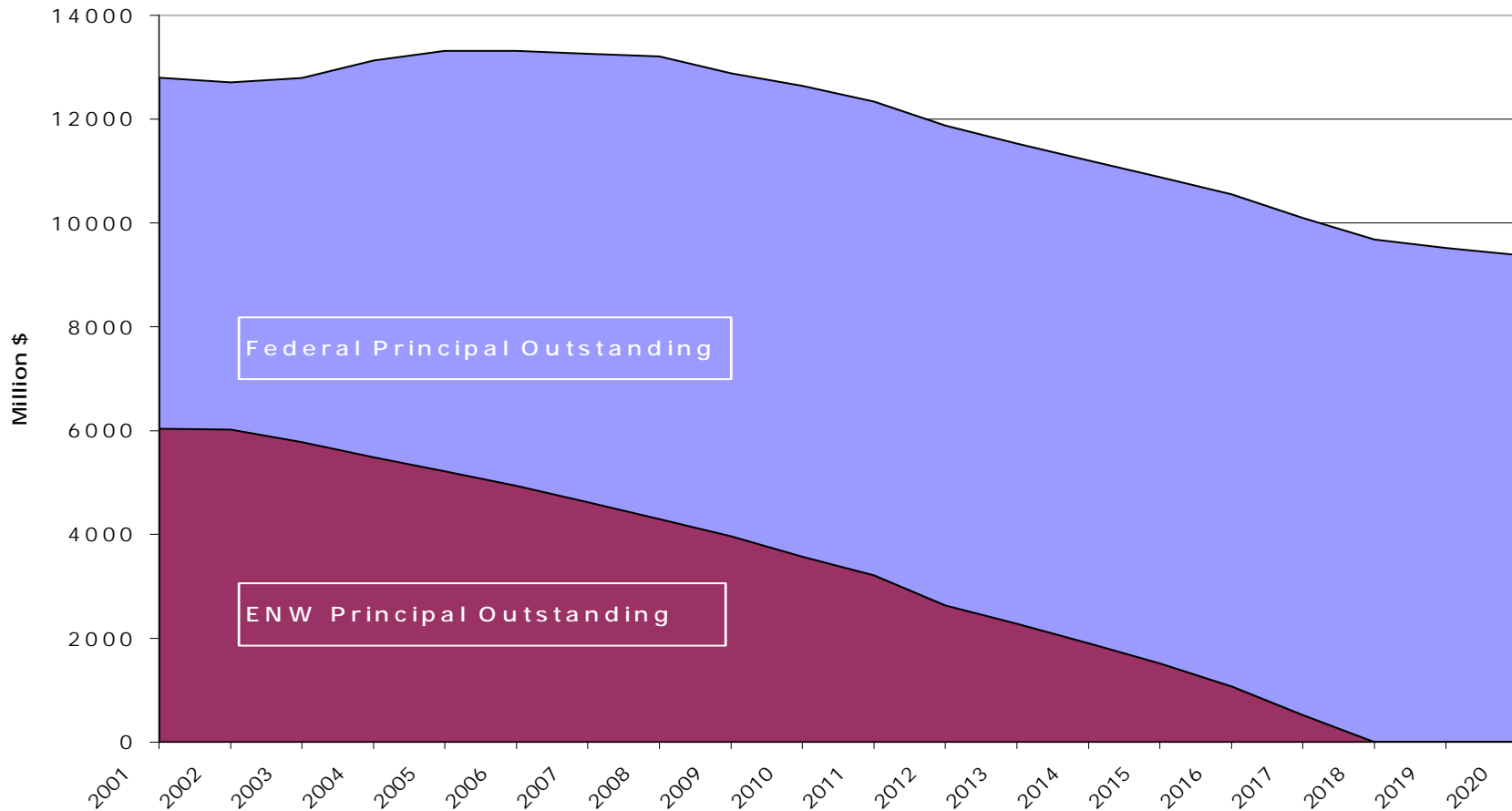
Before Debt Restructuring



Forecasts based on projected data as of September 2001.



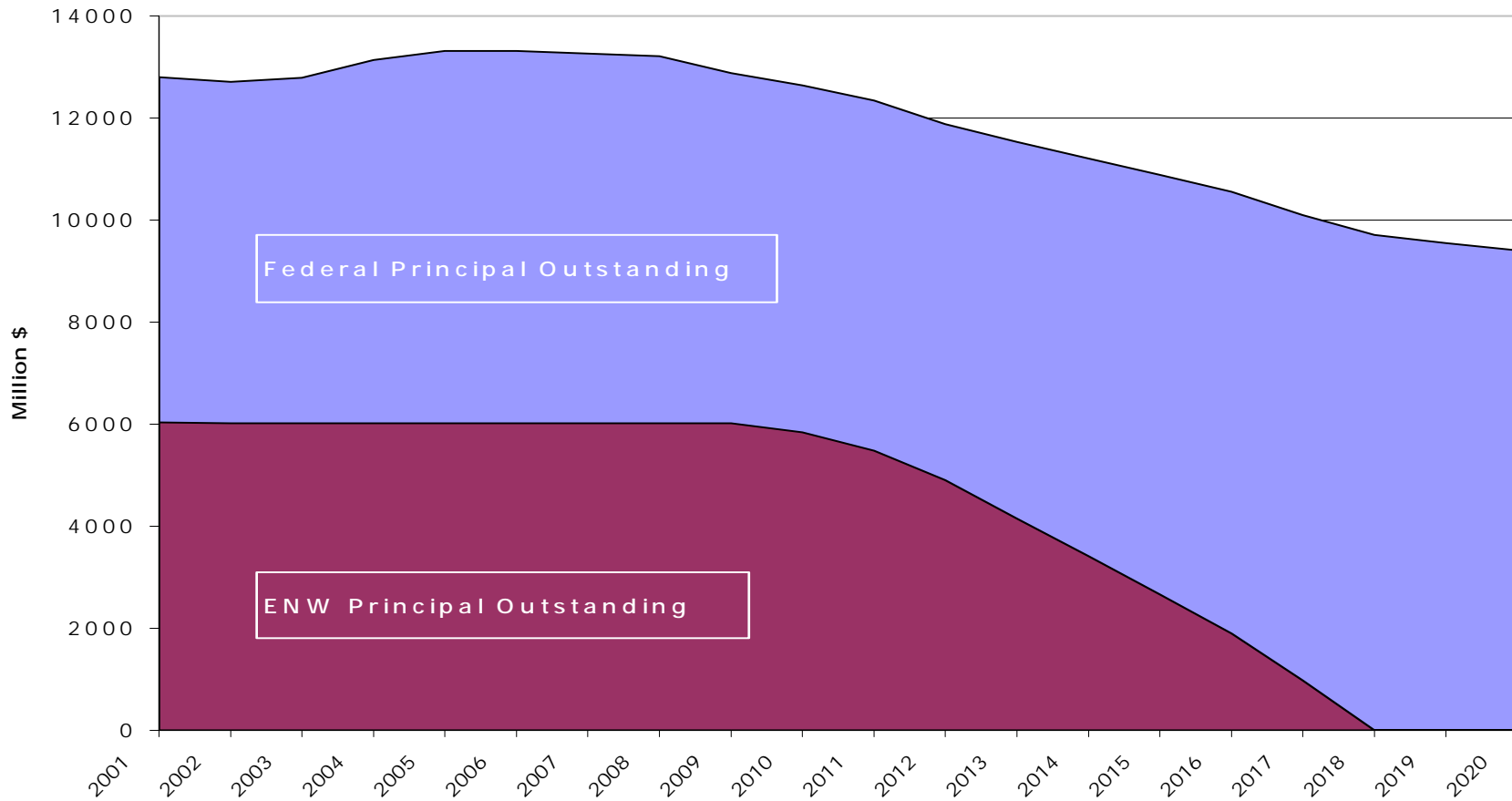
Debt Restructuring To-Date



Forecasts based on projected data as of September 2001.



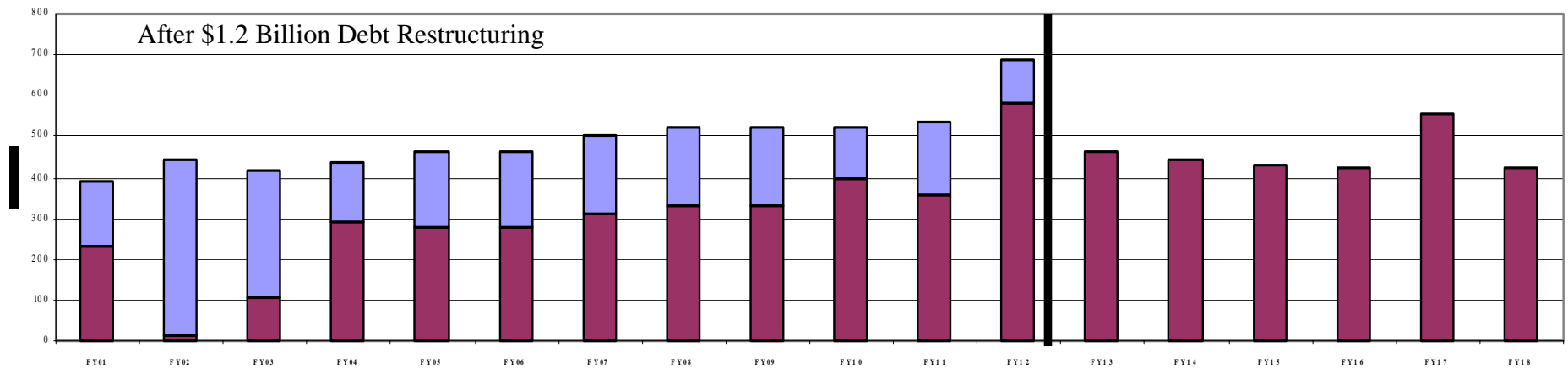
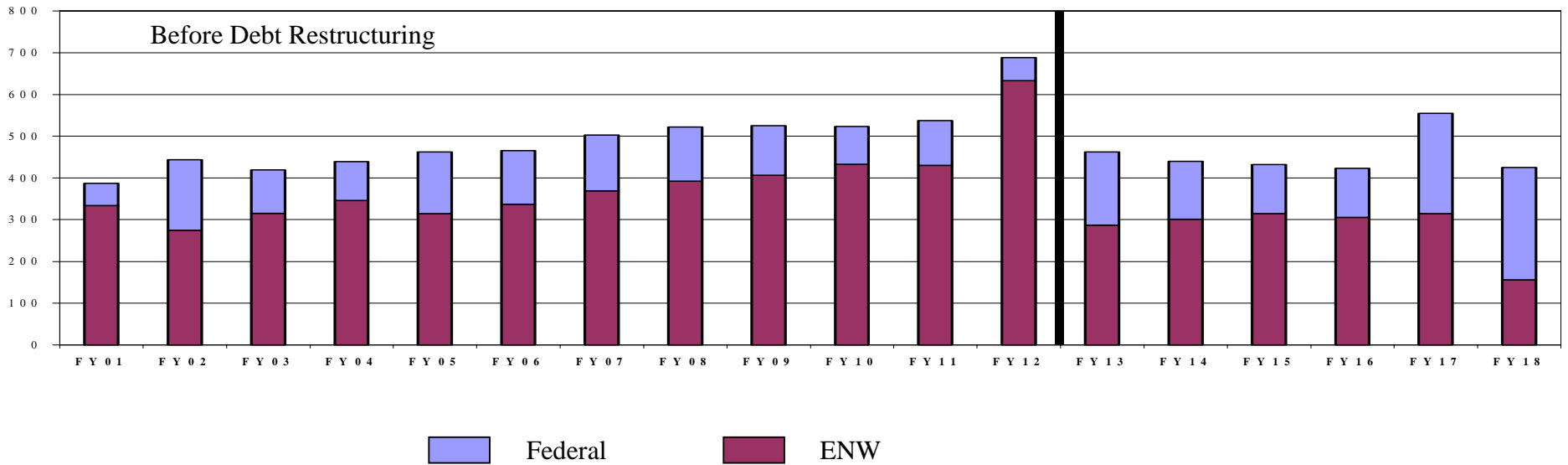
Maximum Debt Restructuring



Forecasts based on projected data as of September 2001.

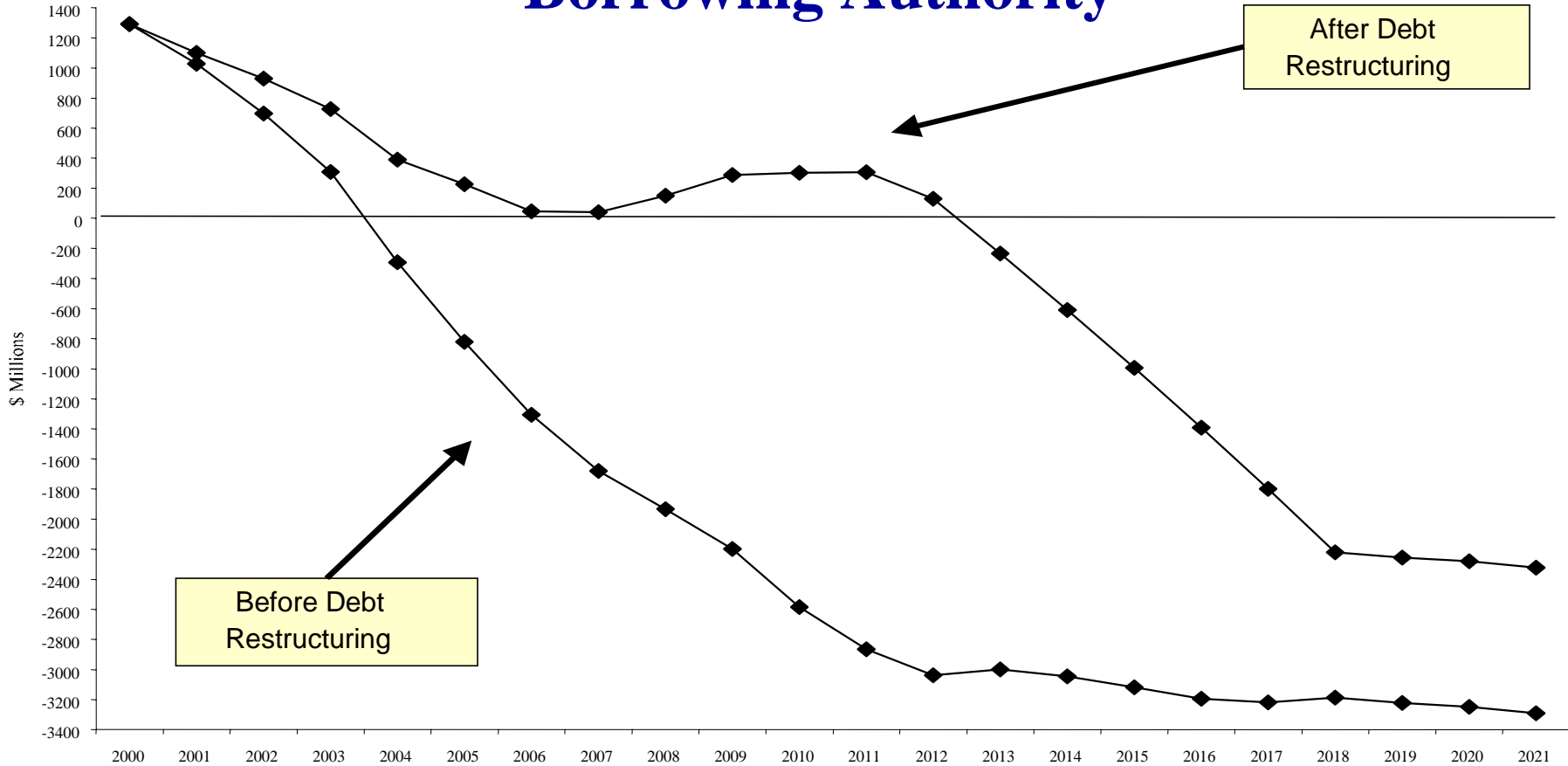


Generation Amortization

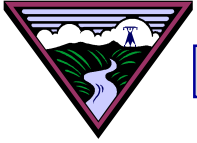




Effect of Debt Restructuring on Remaining Borrowing Authority



Projected capital spending for FY02-12 consistent with FY03 budget submittal and projected by staff for FY13-21(September 2001).



Debt Restructuring Results To Date

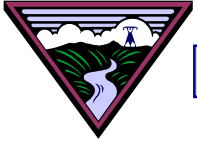
- Four bond sales have been completed to date, extending approximately \$950 million of principal due in 2001 through 2012 into 2013 to 2018.
- \$182.8 million of additional Federal amortization has been made to alleviate the pressure on borrowing authority (includes \$85.5 million in FY00 from other ENW debt management activities unrelated to ENW debt extension).
- BPA intends to amortize an additional \$262 million of Federal debt in FY02.
- To date, Debt Restructuring has focused on power related investments and debt service.



Debt Restructuring Results To Date

(Dollars in Millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
2001A		51	31						14	14	36	38	185
2001B	97												97
2002A		32	24	43	40	60	45	51	51	24	34		402
2002B		180	22	12			12	13	14			15	266
Total	97	262	76	55	40	60	57	63	78	38	70	53	950
Potential	97	262	315	346	314	337	369	393	407	254	70	53	3,217

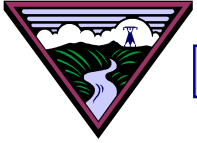


Debt Restructuring Summary/Main Points

- There is the ability to do about \$4 billion of debt extension with ENW debt.
- The program is expected to be limited to about \$3 billion total for both business lines to avoid upward pressure on rates.
- BPA intends to pay off one dollar of Treasury debt for every dollar of ENW debt that is extended.
- The rate constraint applies to both business lines separately.
- Power rates can only accommodate about \$1.2 billion of debt restructuring.
- After the Power Business Line's capacity has been met, there is still a need for funding of the Transmission Business Line's infrastructure investments.
- Transmission rates can accommodate about \$1.8 billion of debt restructuring.
- To assure no cross-subsidization in business line rates, BPA is planning to implement a financial transaction to free up borrowing authority for Transmission and thereby help fund infrastructure - "Debt Service Reassignment".

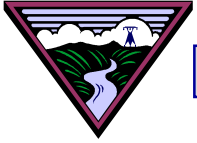


Debt Service Reassignment



Principles Used in Development of the Debt Service Reassignment Transaction

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 methodology, 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 the Federal Energy Regulatory Commission's separate accounting requirements.

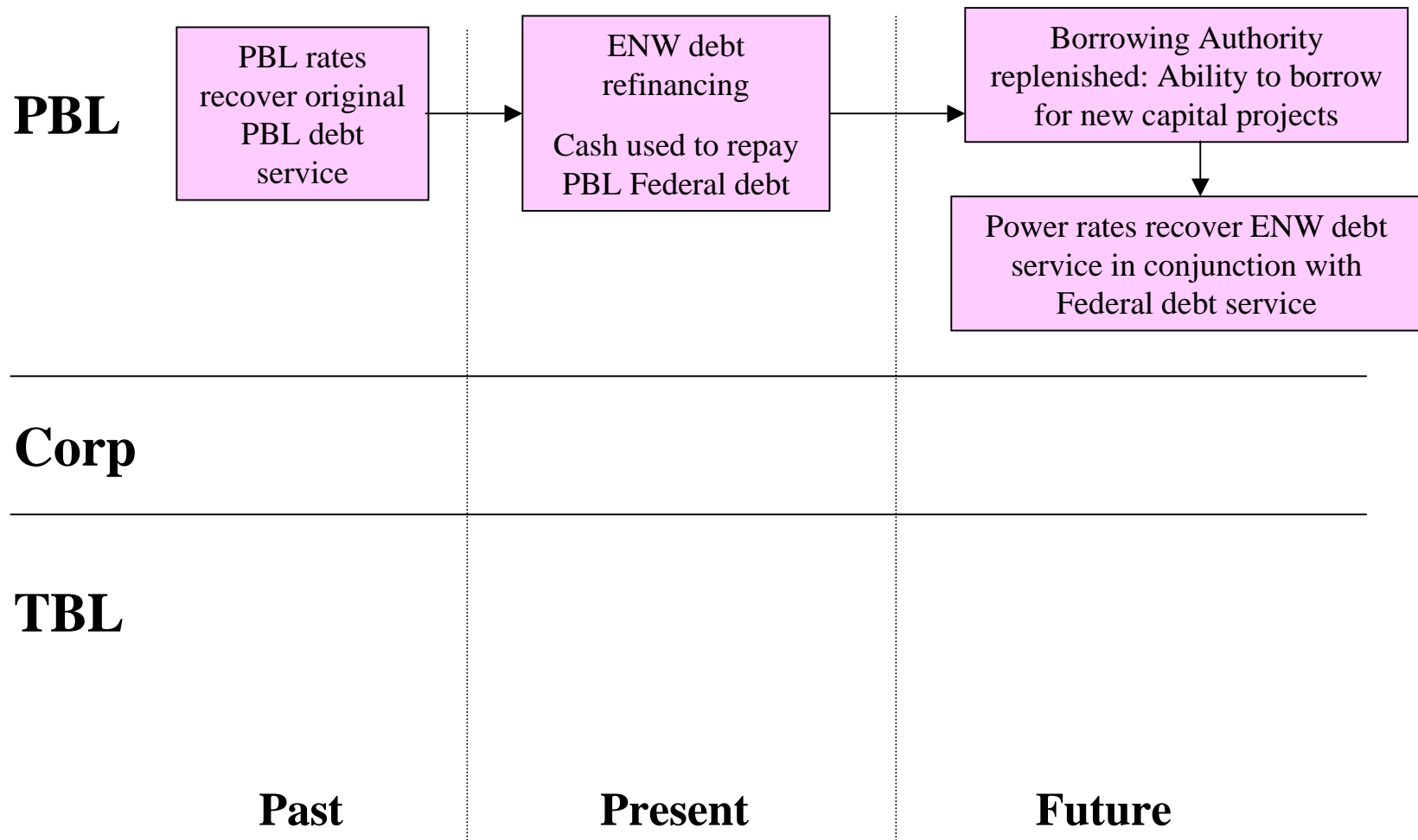


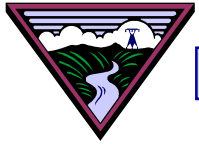
Debt Service Reassignment Key Aspects

- Power rates were set to recover original ENW debt service.
- Reduced ENW net-billed budgets from debt extensions increase cash in the Bonneville Fund.
- Corporate finance will use the additional cash to amortize transmission Treasury bonds, which will replenish borrowing authority for TBL's infrastructure investments.
- Corporate finance will assign the debt service on the new extended bonds to TBL for recovery through transmission rates.
- PBL will be assigned original ENW debt service as a cost.
- Power rates will not recover debt service on the new extended bonds.
- Other options such as interfunctional loans were analyzed, but had numerous complications related to the Financial-Based Cost Recovery Adjustment Clause and the Slice True-Up.

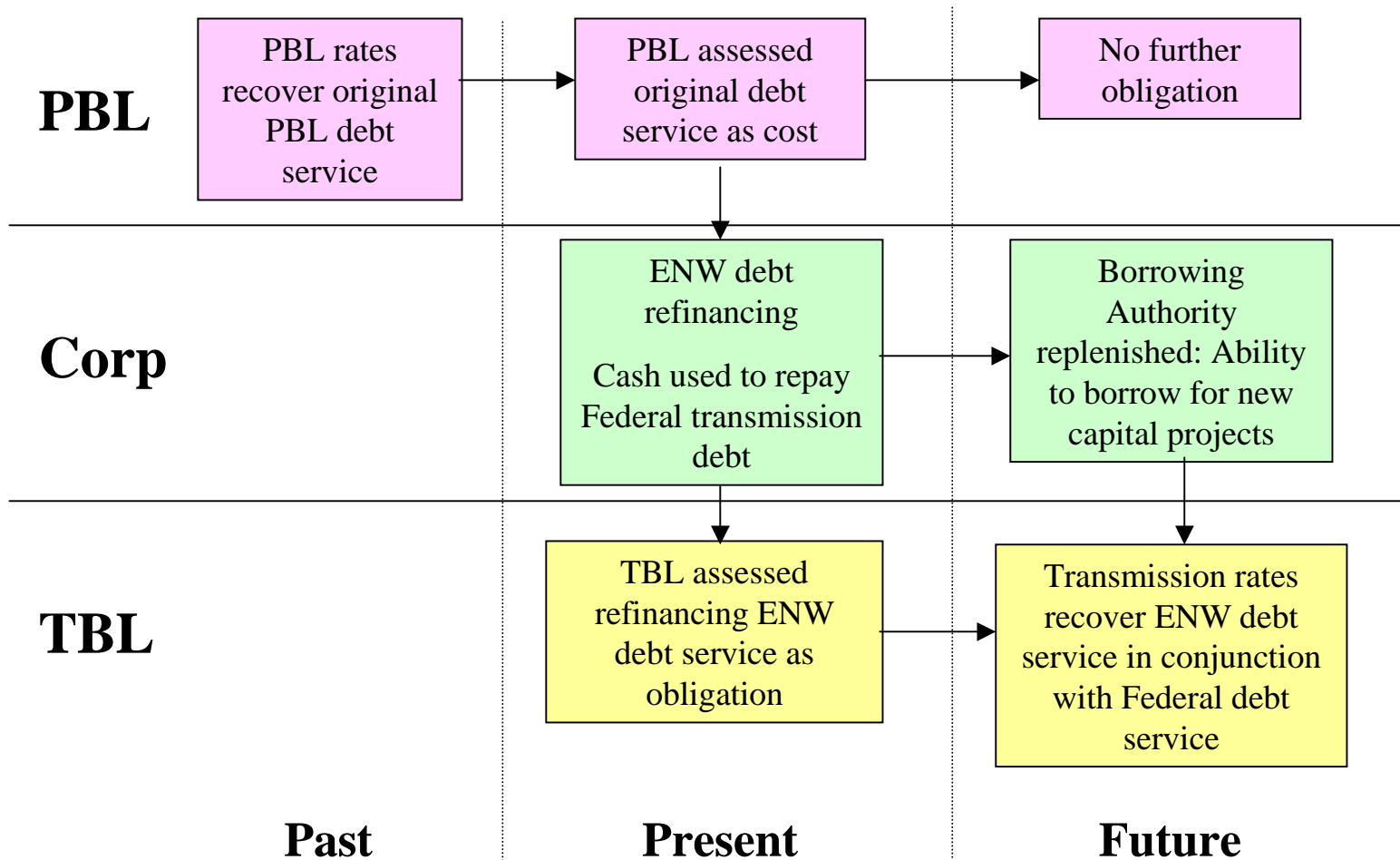


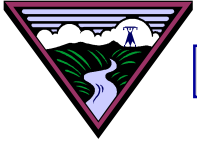
Debt Restructuring Program





Debt Service Reassignment Concept





Debt Service Reassignment Accounting and Implications

PBL:

- The intent is to create a mechanism that avoids effects that are inconsistent with rate case assumptions and methodologies.
- In business line accounting, PBL will be assessed the original ENW debt service as its annual cost, satisfying its obligation to recover those costs in its rates. PBL has no further obligation to recover refinanced ENW debt. No change is required in the format of the PBL income statement
- This treatment is consistent with FB CRAC analysis, which uses original rate case ENW debt service in calculation of annual net revenues.
- The Slice True-Up reflects the actual cost assigned to PBL and is indifferent to the transaction (same ENW debt service as in rate case).

TBL:

- In business line accounting, TBL will be assessed debt service based on the new extended ENW bonds as a component of its annual cost.



TBL Rate Case Implications

TRANSMISSION REVENUE REQUIREMENT INCOME STATEMENT (\$thousands)

BEFORE

- 1 OPERATING EXPENSES
- 2 OPERATION AND MAINTENANCE
- 3 INTER-BUSINESS LINE EXPENSES
- 4 FEDERAL PROJECTS DEPRECIATION
- 5 TOTAL OPERATING EXPENSES

- 6 INTEREST EXPENSE
- 7 INTEREST ON FEDERAL INVESTMENT -
- 8 ON APPROPRIATED FUNDS
- 9 ON LONG-TERM DEBT
- 10 INTEREST CREDIT ON CASH RESERVES
- 11 AMORTIZATION OF CAPITALIZED BOND PREMIUMS
- 12 CAPITALIZATION ADJUSTMENT
- 13 AFUDC
- 14 NET INTEREST EXPENSE

- 15 TOTAL EXPENSES

- 16 MINIMUM REQUIRED NET REVENUES
- 17 PLANNED NET REVENUES FOR RISK
- 18 TOTAL PLANNED NET REVENUES

- 19 TOTAL REVENUE REQUIREMENT

AFTER

- 1 OPERATING EXPENSES
- 2 OPERATION AND MAINTENANCE
- 3 INTER-BUSINESS LINE EXPENSES
- 4 FEDERAL PROJECTS DEPRECIATION
- 5 TOTAL OPERATING EXPENSES

- 6 INTEREST EXPENSE
- 7 **DEBT OPTIMIZATION INTEREST**
- 8 INTEREST ON FEDERAL INVESTMENT -
- 9 ON APPROPRIATED FUNDS
- 10 ON LONG-TERM DEBT
- 11 INTEREST CREDIT ON CASH RESERVES
- 12 AMORTIZATION OF CAPITALIZED BOND PREMIUMS
- 13 CAPITALIZATION ADJUSTMENT
- 14 AFUDC
- 15 NET INTEREST EXPENSE

- 16 TOTAL EXPENSES

- 17 MINIMUM REQUIRED NET REVENUES
- 18 PLANNED NET REVENUES FOR RISK
- 19 TOTAL PLANNED NET REVENUES

- 20 TOTAL REVENUE REQUIREMENT



TBL Rate Case Implications

TRANSMISSION REVENUE REQUIREMENT STATEMENT OF CASH FLOWS (\$thousands)

BEFORE

1 CASH FROM CURRENT OPERATIONS:
 2 MINIMUM REQUIRED NET REVENUES
 3 EXPENSES NOT REQUIRING CASH:
 4 FEDERAL PROJECTS DEPRECIATION
 5 AMORTIZATION OF CAPITALIZED BOND PREMIUMS
 6 CAPITALIZATION ADJUSTMENT
 7 ACCRUAL REVENUES (AC INTERTIE/FIBER)
 8 CASH PROVIDED BY CURRENT OPERATIONS

9 CASH USED FOR CAPITAL INVESTMENTS:
 10 INVESTMENT IN:
 11 UTILITY PLANT
 12 CASH USED FOR CAPITAL INVESTMENTS

13 CASH FROM BORROWING AND APPROPRIATIONS:
 14 INCREASE IN LONG-TERM DEBT
 15 REPAYMENT OF LONG-TERM DEBT
 16 REPAYMENT OF CAPITAL APPROPRIATIONS
 17 CASH FROM BORROWING AND APPROPRIATIONS

18 ANNUAL INCREASE (DECREASE) IN CASH

19 PLANNED NET REVENUES FOR RISK

20 TOTAL ANNUAL INCREASE (DECREASE) IN CASH

AFTER

1 CASH FROM CURRENT OPERATIONS:
 2 MINIMUM REQUIRED NET REVENUES
 3 EXPENSES NOT REQUIRING CASH:
 4 FEDERAL PROJECTS DEPRECIATION
 5 AMORTIZATION OF CAPITALIZED BOND PREMIUMS
 6 CAPITALIZATION ADJUSTMENT
 7 ACCRUAL REVENUES (AC INTERTIE/FIBER)
 8 CASH PROVIDED BY CURRENT OPERATIONS

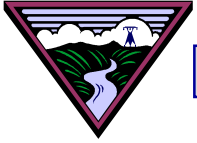
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 11 UTILITY PLANT
 12 CASH USED FOR CAPITAL INVESTMENTS

13 CASH FROM BORROWING AND APPROPRIATIONS:
 14 INCREASE IN LONG-TERM DEBT
 15 **REPAYMENT OF DEBT RESTRUCTURING PRINCIPAL**
 16 **REPAYMENT OF LONG-TERM DEBT**
 17 **REPAYMENT OF CAPITAL APPROPRIATIONS**
 18 CASH FROM BORROWING AND APPROPRIATIONS

19 ANNUAL INCREASE (DECREASE) IN CASH

20 PLANNED NET REVENUES FOR RISK

21 TOTAL ANNUAL INCREASE (DECREASE) IN CASH

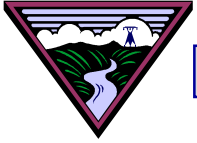


Debt Service Reassignment Rationale

- Ensures that transmission ratepayers are responsible for full costs associated with transmission assets, including full financing costs.
- Does not overstate PBL assets, revenues and expenses.
- Recognizes that PBL ratepayers have satisfied their repayment obligation with regard to the refinanced bonds.
- Matches costs with correct ratepayers.
- Consistent with the fact that all debt, federal and nonfederal, is secured by BPA as a whole and not one business line.
- Gives more financing certainty to a growing transmission infrastructure investment program.



Conclusion



Concluding Points

- BPA intends to implement Debt Service Reassignment in an upcoming TBL rate proceeding unless significant issues arise.
- BPA needs to move forward with Debt Service Reassignment to avoid losing debt restructuring opportunities as existing ENW debt matures.
- This financial transaction will allow us to generate about \$1.8 billion for Transmission's infrastructure investments.
- The transaction will be done in a manner that will not impact power rates.
- Debt Restructuring and Debt Service Reassignment will not meet all of BPA's capital funding needs, but it will buy us some additional time while other capital funding sources are sought.