

IPR2 follow-up questions from Argus Media Request:

1) *What is the financial relationship between BPA and Energy Northwest?*

BPA Response:

The financial relationship is well described in Official statements available at: <http://www.bpa.gov/Finance/FinancialInformation/Debt/Pages/Bond-Information.aspx> and in the BPA Annual Report available at: <http://www.bpa.gov/Finance/FinancialInformation/AnnualReports/Pages/default.aspx>

2) *What is BPA's exposure to EN recent debt restructuring activities?*

BPA Response:

Annual costs and debt service are paid by project participants and BPA via the net-billing agreements.

3) *Does BPA provide any real or implicit guarantee on EN debt?*

BPA Response:

BPA has acquired the capability of the "Net Billed Projects", Projects 1, 3 & Columbia and BPA's obligation to pay for such capability is fully described in the Official Statements at the link provided above.

BPA's obligation is well described, in a recent Moody's report:

**Energy Northwest (Project 1, Columbia Generating Station (CGS), Project 3):**

Project 1, CGS, and Project 3 are nuclear projects of which only CGS was completed. Each of the nuclear projects is individually secured by a pledge of specific project revenues including amounts derived from the tri-party net billing agreements with BPA and project participants. The net billing agreements obligate the project participants, consisting of numerous public utility districts and municipal and electric cooperative utilities, to pay Energy Northwest a proportionate share of the project's annual costs, including debt service, in accordance with each participant's purchase of project capability. BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing amounts the participants owe for power and service purchased from BPA under their power-sales agreements. Even after project termination, such as in the case of Projects 1 and 3 (the construction of the nuclear units was terminated), the obligation for debt service remains until the Energy Northwest nuclear bonds are retired. Most importantly and a source of significant credit strength, BPA has agreed, in the event of any insufficient payment by a participant, to pay the amount due in cash, directly, and in a timely manner. While the net billing agreements may be terminated prior to the maturity on the related net billed bonds, the obligation of the participant to pay their proportionate share of the debt service continues, as does the obligation of BPA to credit these payments or make a payment if in any event there was an insufficient payment by a participant. In 2007, Energy Northwest and BPA adopted a new direct pay agreement whereby Energy Northwest participants directly pay all costs to BPA rather than through Energy Northwest. There is no debt service reserve.

BPA has made a clear and tested commitment to support the payment of the Energy Northwest revenue bonds through the net billing agreements between Energy Northwest

participants and BPA. The agreements have withstood more than 25 years of stressful circumstances including legal challenges in the early 1980s. The US Court of Appeals for the Ninth Circuit affirmed in the City of Springfield v. WPPSS; 752 F.2d.1423, the legal authority of all participants to enter into the net billing agreements; the US Supreme Court denied a petition for a writ of certiorari. The obligation of BPA and the participants is in force whether the projects are operable or terminated.

Link to Moody's Report:

<http://www.bpa.gov/Finance/FinancialInformation/Debt/Pages/Rating-Agency-Reports.aspx>

4) *Slide 5 of the IPR presentation, what does it mean to "benchmark a capitalization policy."*

BPA Response:

BPA suggests that Energy Northwest could respond to this question. However, our understanding is that EN reviewed Generally Accepted Accounting Principles (GAAP) and their capitalization policy and benchmarked their policies with policies at other nuclear plants.

5) *The last bullet reads, "Long-term analysis indicates rising Non-Federal Debt Service expense supporting higher capital spending will exceed O&M reductions in the future" – can you explain this in layman's terms? Supporting whose higher capital spending?*

BPA Response:

EN has revised their capitalization policy and is proposing to capitalize some costs that had previously been expensed. This will result in less O&M expenses and higher capital expenditures in the near term with a near term net reduction in total expenses and capital expenditures. We anticipate that at a point in the future annual capital spending will exceed the reduction in O&M expenses.

6) *During the meeting it was said that a \$60-80mn investment would be required at CGS to comply with findings from analysis done as a result of Fukushima. How is this \$60-80mn investment being funded?*

BPA Response:

The same as all other investments at CGS. Annual costs and debt service are paid by project participants and BPA via the net-billing agreements

7) *Does BPA have any plans, or has it considered severing its relationship with Energy Northwest/CGS?*

BPA Response:

No.

8) *Can you please explain BPA's preferred alternative for what it would like to do with the near-term \$25mn savings from reduced CGS expenses in 14/15? Customers can either realize the savings in 14/15 rate case and thereby see approx. a 9pc rate increase vs. a proposed 9.6pc, OR what?*

BPA Response:

- Energy Northwest has made some changes in its budget in two major categories
  - Increase in capital spending
  - An expense reclassification and capitalization of some specific costs based on benchmarks of other plants
- These changes in forecasts result in overall expense reductions (O&M reduction net of debt service increases) for the next 7 to 8 years. In subsequent years expenses increase.
- For BPA FY 2014/15 the result is approximately \$25M net expense reduction in total for the 2 years. Since this is an expense reclassification, not a spending reduction, BPA is considering whether to mitigate the long-term effects of this change in the IPR2.