



Management of Energy Northwest Debt

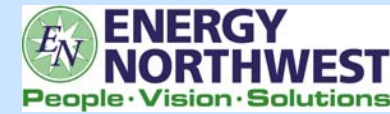
Presentation to the Public Power Council

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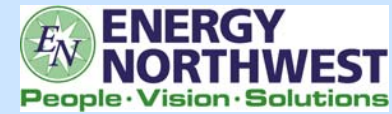
Today's Discussion



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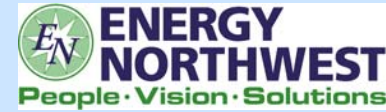
Regional Context



- BPA and the Region are embarking on a process to set rates for the FY12-13 period.
- Currently Pacific Northwest states have some of the highest unemployment rates in the country.
- BPA isn't forecasting unemployment returning to pre-recession lower levels until at least 2013, well into the 2012/13 rate period.
- Although improving, the Northwest economy is fragile and BPA is working with our partners, customers, and stakeholders in the Region in order to keep rates as low as possible.
- 2010 runoff is expected to be in the lowest 10% since 1929 and end-of-year modified net revenues are expected to be negative \$233 million, down from a start of year target of positive \$232 million.
- In addition BPA is looking at average expense increases of \$224 - \$366 million per year for the FY12-13 rate period compared to the FY10-11 rate period.



EN/BPA Accomplishments & History



- BPA manages its debt responsibilities comprehensively. Energy Northwest (EN) debt can create opportunities for lowering BPA's overall annual debt service.
- Over the last two decades, Energy Northwest and BPA have partnered together to address debt management challenges and develop strategies benefiting the region's ratepayers.
 - Numerous refinancings for interest rate savings over the past 20 years have saved the region's ratepayers hundreds of millions of dollars.
 - Approximately \$2B of Treasury borrowing authority has been restored due to the Debt Optimization Program.
 - BPA and EN extended \$350 million of Columbia Generating Station (CGS) debt in 2006 for rate relief purposes, for the FY 2007-09 rate period.
 - EN/BPA have adopted a practice of issuing debt to finance ongoing capital investments at CGS on an annual basis.
 - The weighted average interest (WAI) rate on BPA's total outstanding liabilities decreased by approximately 1%, from 6.6% to 5.6% (from FY 2000 to FY 2009.)
- BPA and EN have maintained an extremely collaborative working relationship at all levels on debt management issues.
- Single portfolio management over the last several years has played a key role in strengthening BPA's financial health and maintaining high credit ratings.
- Regional customers and stakeholders understand and appreciate EN's role in supporting BPA's overall debt management objectives.



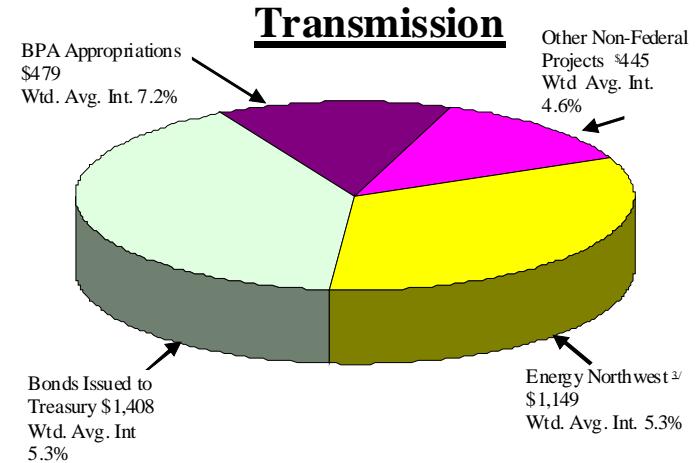
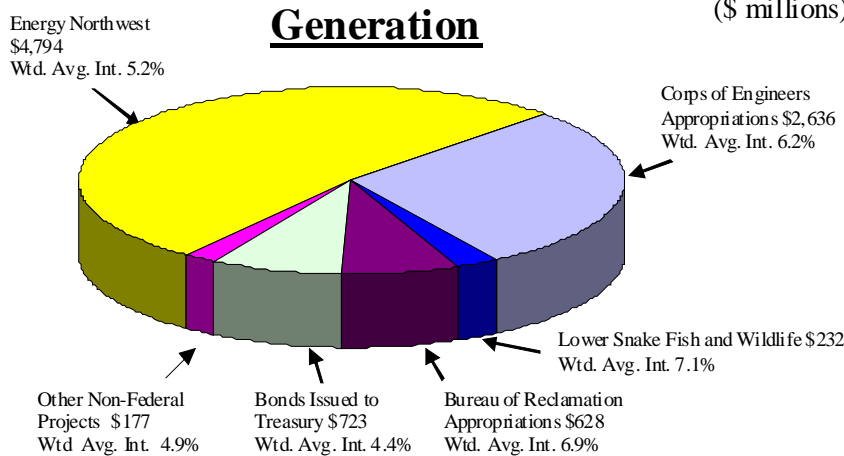
Background



- The traditional refinancings for savings program after the Washington Public Power Supply System default began in the late 80's.
- In 1989 BPA/EN decided to shape the debt service instead of levelizing it in order to gain ratepayer benefits.
- The Accelerated Front End Savings (AFES) program created additional ratepayer benefits in 1990/91 and it further changed the shape of EN debt service from 1990-2018.
- During the mid-90's several traditional refinancing for savings transactions included minimal debt restructuring to produce more level overall debt service.
- The Debt Optimization (DO) Program commenced in FY 2001 in order to preserve BPA Treasury borrowing authority for capital investments, and under this program EN debt was placed predominantly into the 2013-18 timeframe and a small amount in 2020-2024.
- The Debt Optimization Program did not increase total debt outstanding, it was basically a debt swap, replacing Federal debt with non-Federal debt, but the program did push EN debt repayment into later years from original maturities.

BPA's Outstanding Liabilities

Federal Columbia River Power System (FCRPS) Total Liabilities to Federal and Non Federal Parties as of 9/30/2009 ^{1/} (\$ millions)



	<u>Power Marketing</u>		<u>Transmission</u>		<u>Total</u>	
	<u>Liabilities Outstanding (\$millions)</u>	<u>WAI Rate</u>	<u>Liabilities Outstanding (\$millions)</u>	<u>WAI Rate</u>	<u>Liabilities Outstanding (\$millions)</u>	<u>WAI Rate</u>
Total Appropriations ^{2/}	\$3,496	6.4	\$479	7.2	\$3,975	6.5
Total Bonds Issued to Treasury	723	4.4	1,408	5.3	2,131	5.0
Total Federal Liabilities	4,219	6.1	1,887	5.8	6,106	6.0
BPA Liabilities to Non Federal Parties	4,971	5.2	1,594	5.1	6,565	5.2
Total FCRPS Liabilities	\$9,190	5.6	\$3,481	5.5	\$12,671	5.6

1/ Does not include irrigation assistance liability of \$706 million at zero percent interest (\$40million of this amount is for Lower Teton, for which the Administrator has no obligation to recover costs). "Liabilities" on this page do not directly relate to "liabilities" as reflected in the Combined Statements of Capitalization and Long-Term Liabilities.

2/ Appropriation amounts exclude appropriations for construction work still in progress (CWIP). 2009 CWIP for appropriations was \$258.6 million.

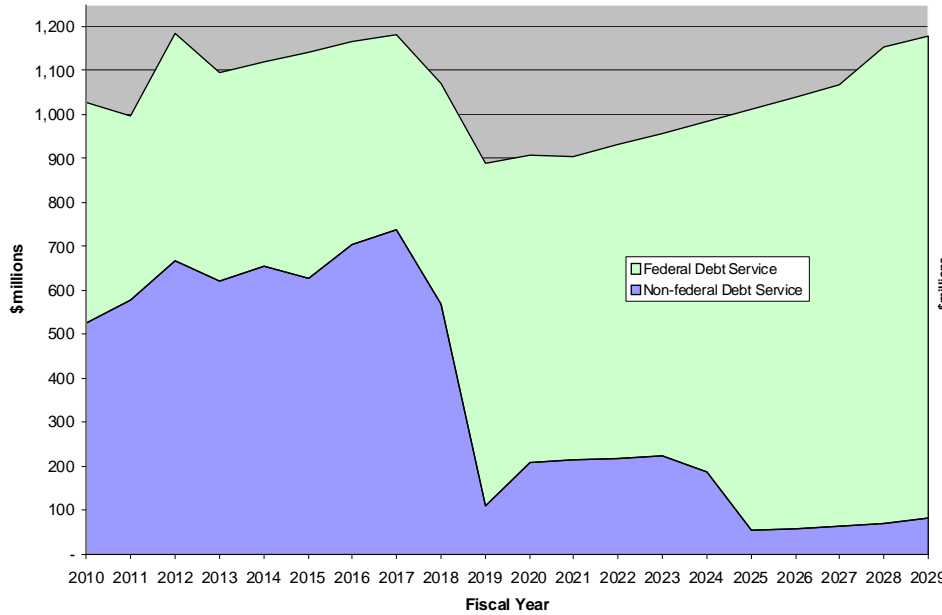
3/ Transmission Services (TS) principal is different from the Federal repayment obligation due to: 1) premium bonds issued, 2) timing differences, and 3) transactions costs. TS is assigned the repayment obligation for these items, which equals the additional Federal prepayment made on TS' behalf.



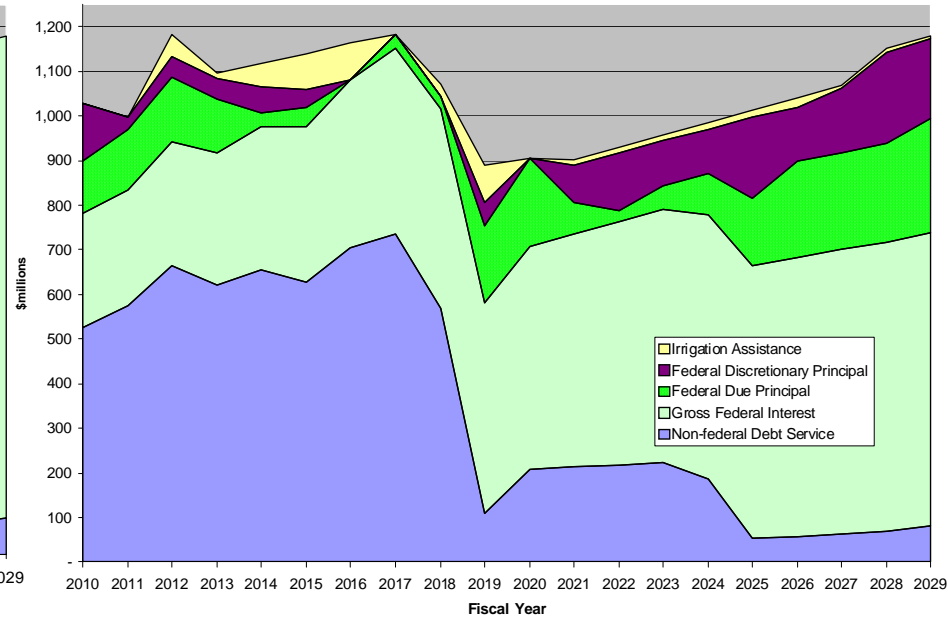
Looking Forward until 2029 (Power)



Generation Debt Service



Generation Debt Service – Components



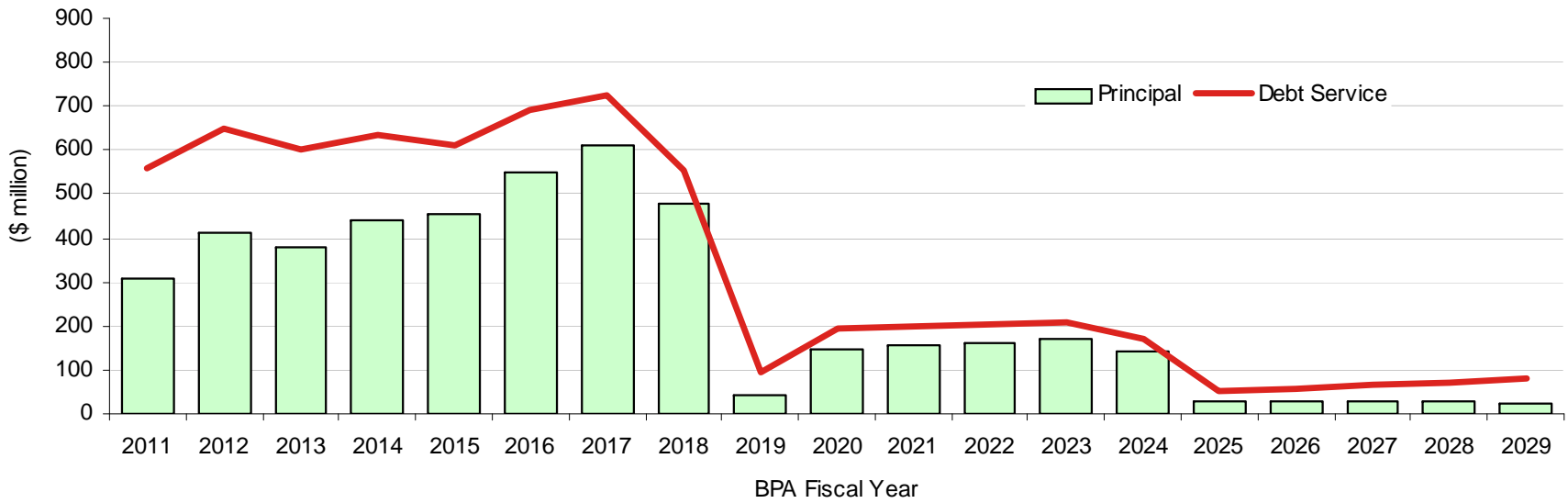
- Charts depict debt service on both outstanding and *projected debt*.
- Federal outstanding principal: \$4.2B; Non-Federal outstanding principal: \$5.0B, as of 9/30/09.
- Federal Capital forecast: 2010 consistent with the FY2010 Borrowing Plan; 2011-17 consistent with May 2010 IPR; 2018-29 forecast is a shaped and escalated forecast.
- 20 year Federal Capital forecast: \$10.4B.
- CGS new capital: 2011-2029 total of \$903M (forecasted debt service exists past 2024 due to expected CGS capital financings, assuming license approval in 2012).



BPA's Power Services' EN Debt Profile

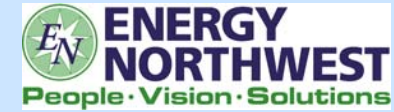


- Power rates recover the cost of all of the principal and interest (debt service) associated with the EN debt, with the exception of the debt service assigned to transmission.
- When looking for opportunities to mitigate the magnitude of a potential rate increase in the FY12-13 Power rate case, we only look at the debt associated with Power Services.





Summary of 2012-2013 Expense Changes WP10 Rate Case to May 2010 IPR (\$millions)



Expenses	Change from Avg 10/11 to Avg 12/13	% Change in Rates ¹
1 Non-federal Debt Service	\$81.1	4%
2 Columbia Generating Station	56.1	3%
3 Fish and Wildlife / USF&W /Planning Council	32.9	2%
4 Bureau of Reclamation	25.9	1%
5 Corps of Engineers	25.8	1%
6 Net Interest Expense	14.0 to 24.0 ²	1%
7 Depreciation and Amortization	6.5 to 10.4 ²	0% to 1%
8 Hydro Projects Insurance	10.0	1%
9 Power Non-Generation Operations	8.2	0%
10 G&A	6.4	0%
11 Purchased Power Expenses	?	?
12 Residential Exchange	?	?
13 DSI Service	?	?
14 Other expenses, net	-1.3	0%
15 Transmission Acquisition	-4.3	0%
16 Renewable and Conservation Generation	-37.2 to 90.7 ²	-2% to 5%
17 Net Change in Expenses	\$224 to 366	

← **Update:** 1. Non-federal Debt Service current forecast is approximately \$70.0 million.

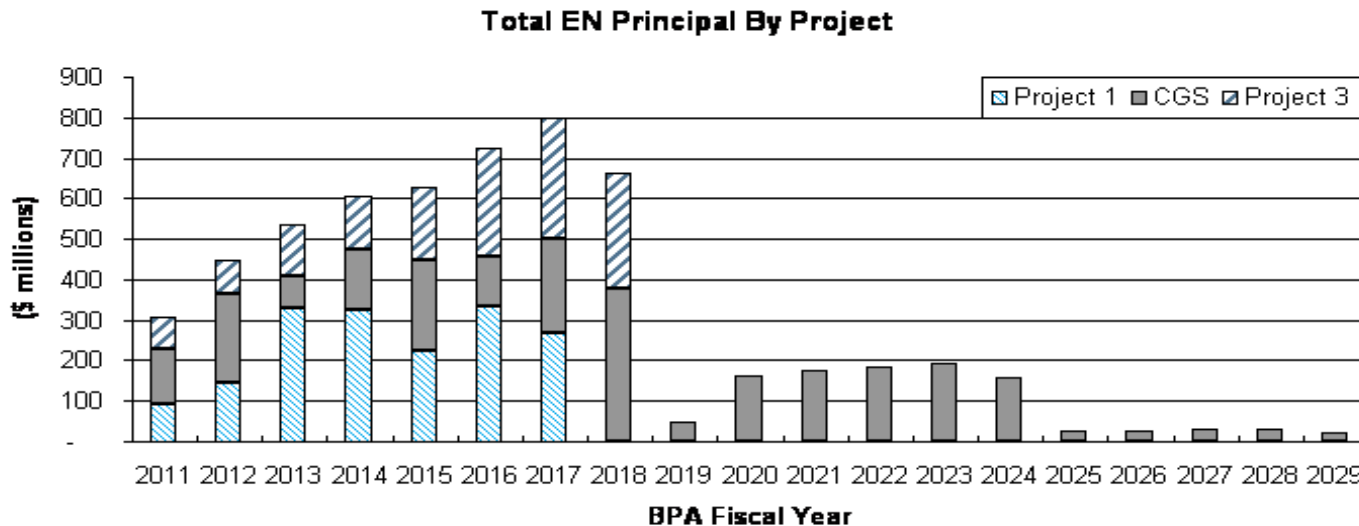
← **Update:** 6. Net Interest Expense current forecast is approximately \$52.0 million.



Energy Northwest Debt Profile (Existing and Projected)



- Projects 1 and 3 debt is scheduled to be completely paid off by 2017 and 2018.
- CGS went into service in 1984 and had an original life expectancy of 40 years, or 2024, and under current tax law some of the debt can be extended until 2032.
- Over \$2 billion of this debt would have been paid off by now, however EN supported the goals of various BPA debt management initiatives over the years.
- Debt Optimization did not increase the agency's overall debt load or its debt service costs. It did increase the nonfederal portion of the debt service we are facing in the fiscal year 2012-18 period, but it decreased the federal portion of the debt outstanding dollar for dollar.
- The DO Program preserved the shape of the total annual debt service as initially established by the early EN debt refinancings in the late 80's/early 90's, including the various refinancing transactions throughout the 90's.

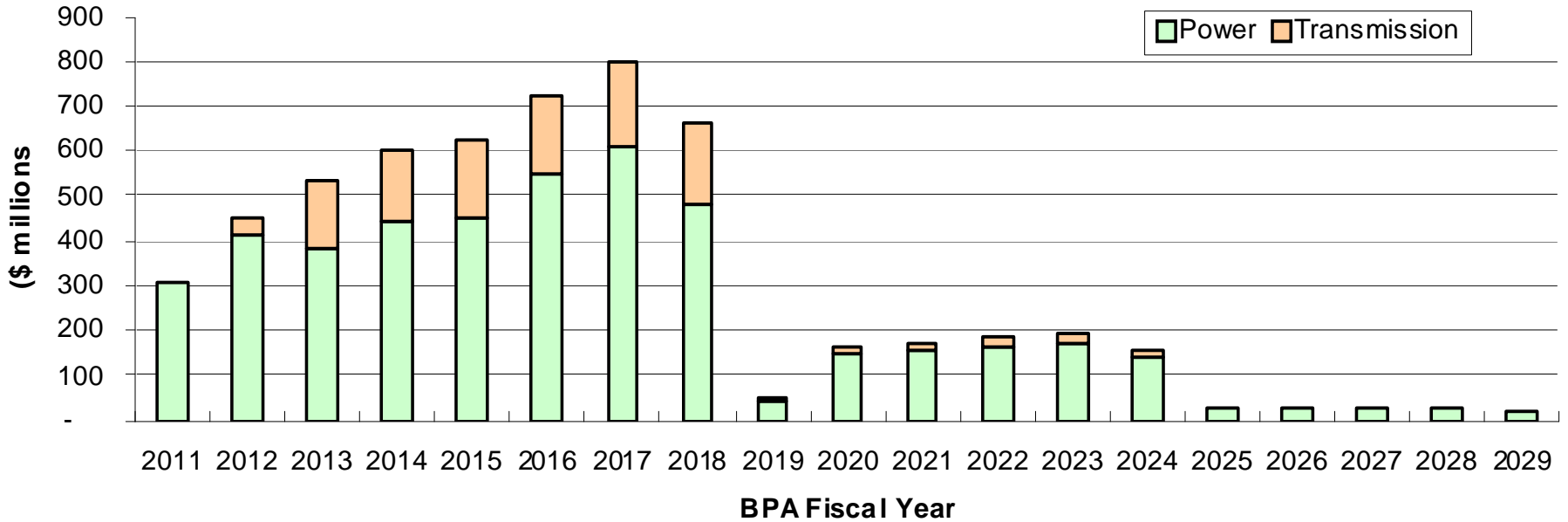




BPA Allocation of EN Principal by Power/Transmission



- In 2001 EN and BPA established the Debt Optimization Program that extended EN debt and paid down the same amount of federal power debt.
- In order to maximize the benefits of DO, in 2003, BPA initiated Debt Service Reassignment (DSR) as part of the DO program. With this new feature, federal transmission debt was paid off and the responsibility for future debt service on the extended EN debt was assigned to transmission.
- The amount of EN debt assigned to transmission is currently about \$1.2 billion.



Repayment Model:

- The primary purpose of the repayment study is to determine a schedule of Federal principal payments that satisfies the statutory requirement to set rates to assure timely repayment of the Federal investment.
- Annual debt service streams for non-Federal (primarily EN) payment obligations are included as fixed requirements that the study must take into account in establishing the overall levelized debt service for the agency.
- Ultimately, the study creates the lowest, levelized combined debt service schedule using an iterative methodology to find the lowest level of combined non-Federal and Federal interest and principal payments such that all debts are paid within the repayment period (50 yrs for Generation; 35 yrs for Transmission.)
- Relative to other years, a large amount of EN principal matures in FY 2016/17 – this spike in principal forces higher debt service in prior years.
- “Smoothing this peak” allows for lower repayment study debt service levels in the FY 12/13 rate period and beyond, by allowing for less discretionary payments.

Scenario for Consideration:

- Extend CGS debt that is maturing or callable in 2011 and 2012 into the 2019-2024 time period, and restructure some Project 1 and 3 debt within the 2011-18 timeframe.

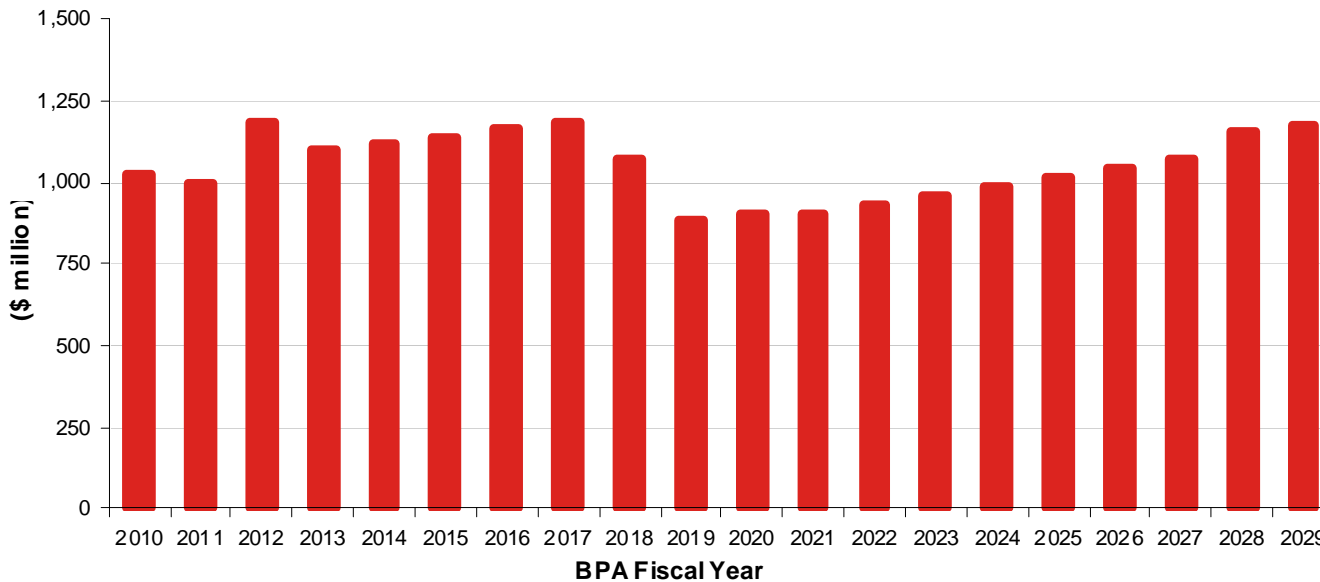


Power Total Debt Service Base Case

(both Federal & Non-Federal)



- Ratepayers are expected to benefit from CGS through at least 2024, yet those in the post 2018 period are expected to pay a disproportionately lower amount towards debt service for this generating resource compared to those in the pre-2018 period.
- This debt service reduction can be seen in the chart below, the average FY10-18 power debt service is \$1.1 billion, while the average FY19-24 power debt service is \$930 million per year.
- This results in FY11-18 rate payers paying more than FY19-24 rate payers for power assets.
- Although, currently, all CGS debt is paid off by 2024, the graph below assumes license extension in 2012 and therefore continuing CGS capital improvements are projected past 2024 in this illustration.

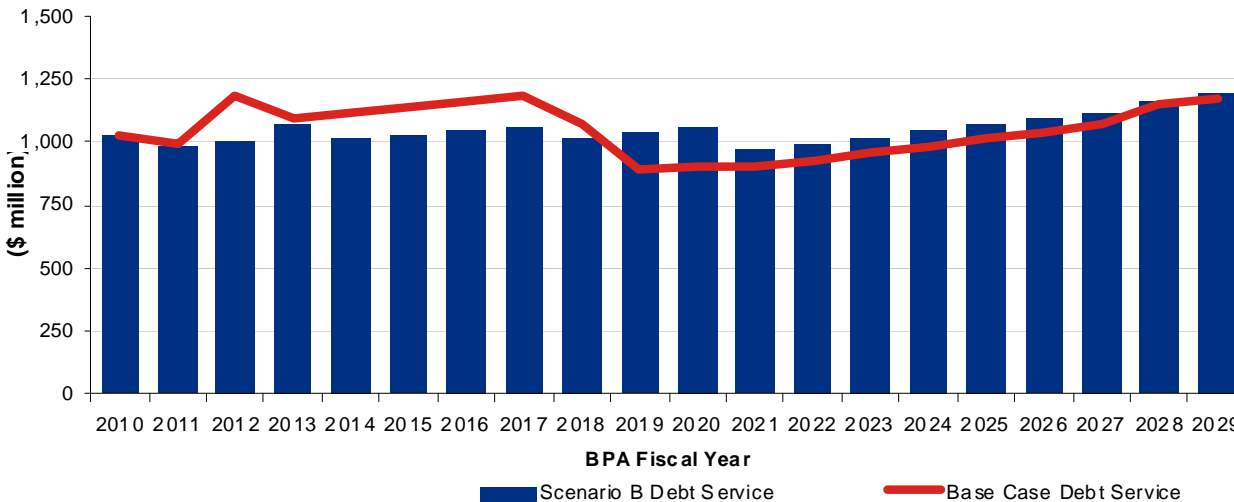


BPA Fiscal Year	Base Case Debt Service
2010	1,028
2011	998
2012	1,184
2013	1,096
2014	1,119
2015	1,141
2016	1,165
2017	1,182
2018	1,072
2019	889
2020	906
2021	903
2022	931
2023	957
2024	986
2025	1,012
2026	1,041
2027	1,068
2028	1,153
2029	1,178
Total	21,009

2011 & 2012 Debt - debt restructuring and extending CGS debt past 2018:

- By restructuring callable bonds in 2011 & 2012 (Projects 1&3) and extending maturing and callable CGS principal in 2011 and 2012, BPA achieves even more levelized non-Federal debt service, which results in lowered total debt service requirements within the repayment study in FY2012-13, as well as FY14-18.
- Specifics 2011: Extend \$155m of 2011 callable CGS principal; extend \$94m of 2011 maturing CGS principal. In 2011, redeem early \$94m of callable Projects 1&3 debt that would otherwise mature in peak years.
- Specifics 2012: Extend \$260m of 2012 callable CGS principal; extend \$266m of 2012 maturing CGS principal; redeem early approximately \$180m of Projects 1& 3 debt that would otherwise mature in peak years..
- Average annual savings in FY2012-13 of \$104 m.

BPA Fiscal Year	Base Case Debt Service	Scenario B Debt Service	Delta from Base Case
2010	1,028	1,028	0
2011	998	981	(16)
2012	1,184	1,002	(182)
2013	1,096	1,070	(26)
2014	1,119	1,017	(102)
2015	1,141	1,032	(109)
2016	1,165	1,049	(116)
2017	1,182	1,066	(116)
2018	1,072	1,015	(57)
2019	889	1,044	155
2020	906	1,061	155
2021	903	967	65
2022	931	995	64
2023	957	1,022	64
2024	986	1,047	61
2025	1,012	1,070	58
2026	1,041	1,095	54
2027	1,068	1,118	50
2028	1,153	1,167	13
2029	1,178	1,191	13
Total	21,009	21,036	26





Total Revenue Requirement Change Comparison: Scenario to Base Case

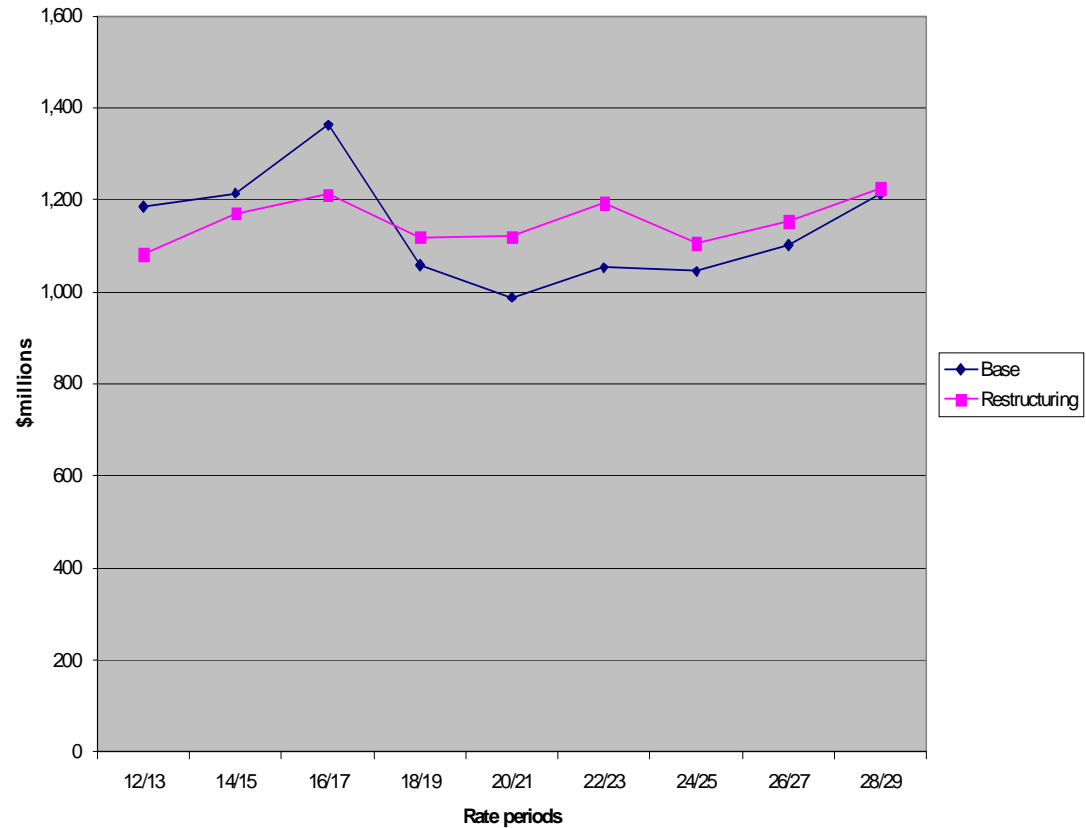


Changes to the revenue requirement occur in Non-federal debt service, Federal interest and Minimum Required Net Revenues.

Average Annual Revenue Requirements

	annual change from base case	avg annual change by rate period	change from previous rate period
2012	(182)		
2013	(26)	(104)	(13)
2014	(49)		
2015	(40)	(45)	59
2016	(134)		
2017	(168)	(151)	(106)
2018	(95)		
2019	221	63	214
2020	130		
2021	132	131	68
2022	137		
2023	143	140	9
2024	117		
2025	2	60	(80)
2026	54		
2027	50	52	(8)
2028	13		
2029	13	13	(39)

(\$millions)

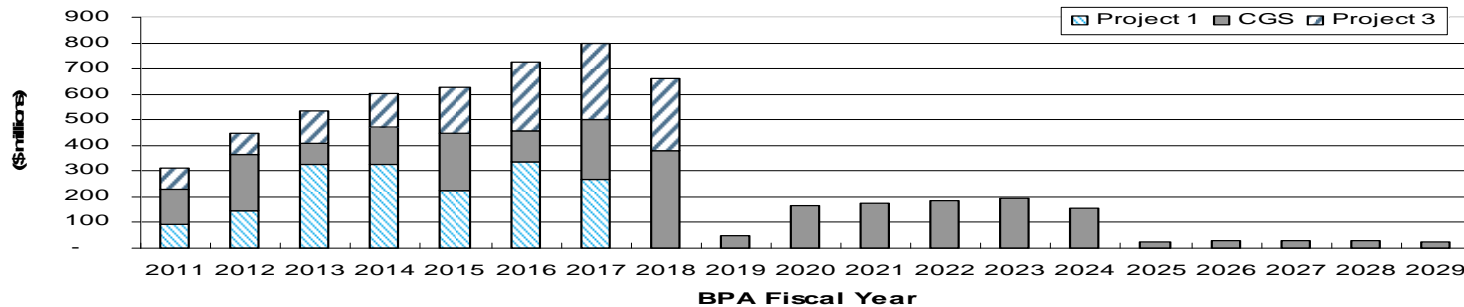


Total EN Scheduled Principal Payments (Before and After) *(Power & Transmission)*

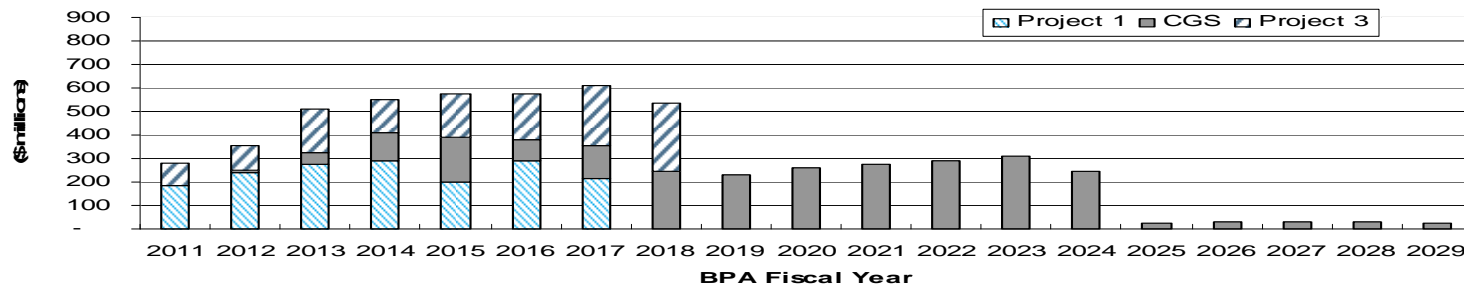
Extension/EN Project 1/3 Restructuring

- Extending \$775 million of CGS principal that is maturing and callable in 2011 and 2012
- Redeem early \$274 million Project 1 & 3 principal and restructure principal maturities

Total EN Principal By Project (Pre-Restructuring)



Total EN Principal By Project (Post-Restructuring)



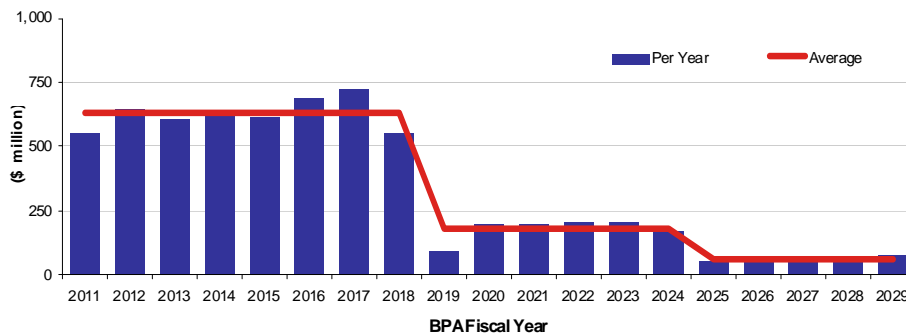
Charts include both Power and Transmission EN non-Federal debt

Charts include projected new capital for CGS of \$903 million through 2029.

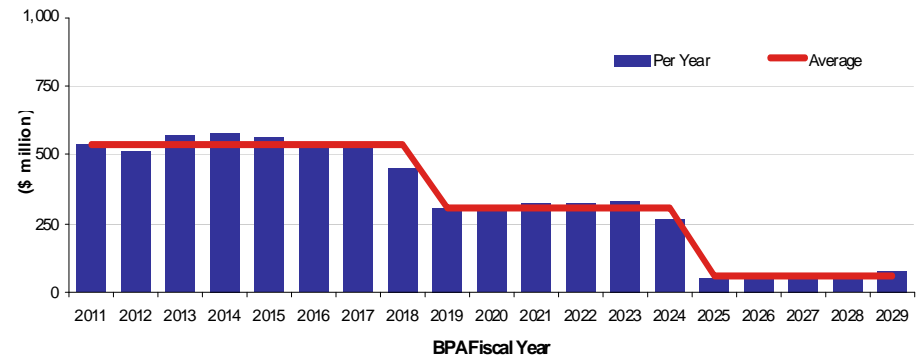
How much should post-2018 ratepayers pay towards EN debt service?

- There is not a right, perfect, or precise analytical answer, but different perspectives and views.
- What is evident is that under the status quo, pre-2018 rate payers are scheduled to pay substantially more than post-2018 rate payers.
- Under this proposal the length of the debt better matches the life of the asset, thereby matching up ratepayer costs with benefits.
- Debt Service for CGS is not going away after 2024 since we anticipate continued debt financing for capital investments, particularly with license extension (assumed to happen in 2012.)
- Our analysis includes \$903 million of EN planned capital spending for the years 2011-2029 for CGS.
 - Beginning with 2012, we assumed interest only through 2018 and level debt service from 2019 throughout the final maturity (20 years) of each bond.
 - Beginning with 2019, we assumed level debt service for 20 years.
- BPA's Administrator believes it is reasonable to consider some debt restructuring and some CGS debt extension to 2024 as a possible rate increase mitigation tool as long as debt repayment is matched to the plant life.

Generation EN Debt Service
Prior to Restructuring

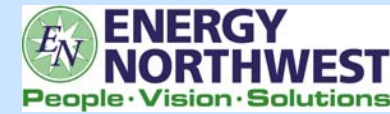


Generation EN Debt Service
Post-Restructuring





Comparison to Previous Debt Management Actions



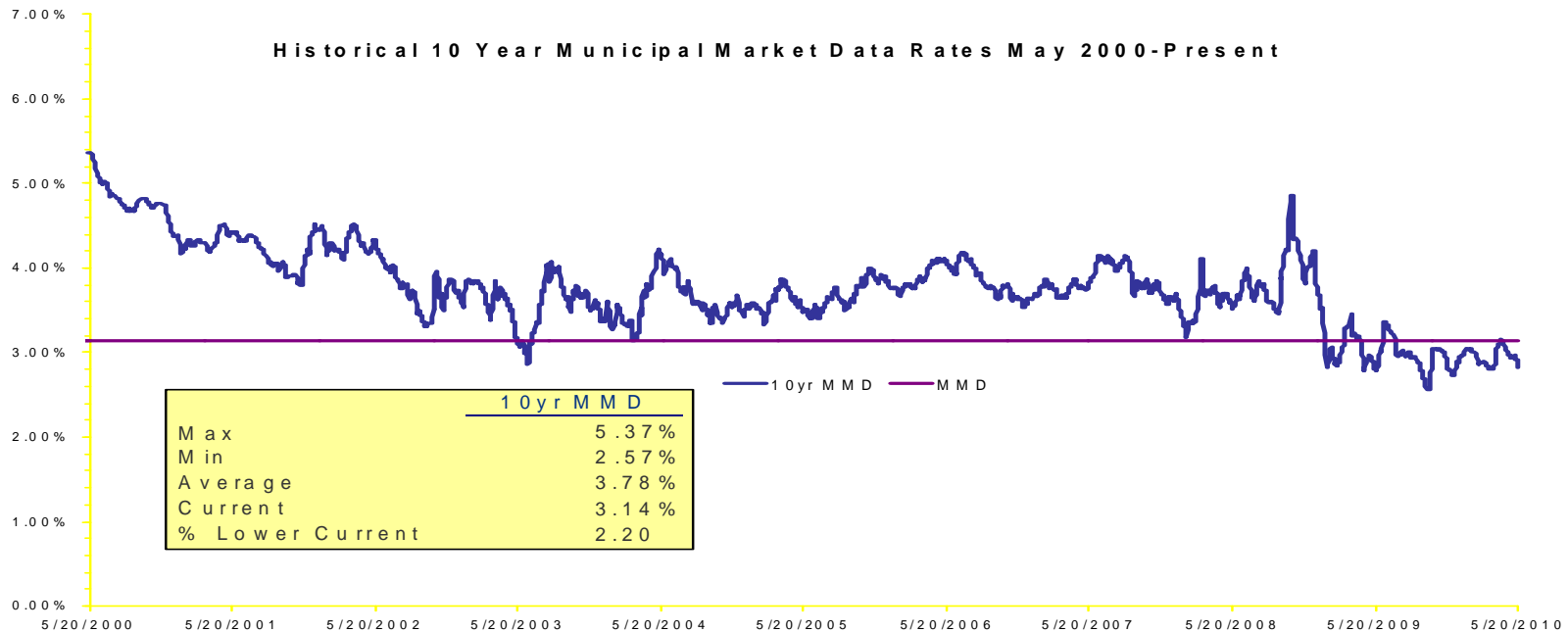
- 2006 CGS Debt Extension
 - \$350 million was extended for rate relief
 - \$100 million was extended for the Debt Optimization Program (Transmission DSR)
 - All new CGS debt was placed in 2020-2024

- Debt Optimization Program
 - The fundamental purpose from BPA's perspective was to restore Treasury borrowing authority
 - BPA paid down Federal debt in a like amount for each dollar of EN debt extended

- 2010 Scenario
 - \$ 775 million CGS extension to 2019-2024
 - \$ 274 million Project 1 and 3 principal redeemed early

Historically Low Interest Rates

- If EN/BPA completed a traditional refinancing for savings of the EN callable debt associated with Power Services (about \$1.0 billion), the present value (PV) savings could be as much as \$80 million.
- If EN/BPA completed a traditional refinancing for savings of the EN callable debt associated with Transmission Services (about \$75 million), the PV savings could be as much as \$7 million.
- The majority of the benefits of the debt extension/restructuring scenario are attributable to extending principal so it is only somewhat interest rate sensitive; a 3% increase in interest rates would erode on average \$14 million in ratepayer benefits per year for the period 2012-2013.
- BPA is considering ways to hedge a rise in interest rates.



This information has been made publicly available by BPA on May 27, 2010 and estimates are subject to change.



Summary



- BPA and EN have opportunities to impact rate levels in the upcoming rate period.
- BPA has held two customer workshops and a third is scheduled for July 8th. BPA wants to solicit the region's feedback regarding debt management opportunities.
- We are very interested in hearing the views of the Energy Northwest ALF Committee and the Participant's Review Board (PRB) on these ideas.
- In order to capture the benefits of debt restructuring/extension in FY 2012/13 rates, BPA will need agreement from the EN Executive Board and the PRB by mid to late summer, prior to the release of the Initial Proposal in October 2010.

Next Steps/Timeline

