

DRAFT

September 26, 2012

Access to Capital Strategy

Introduction

The energy industry is capital intensive. BPA's success in delivering public benefits to its ratepayers hinges greatly on sufficient access to low cost sources of capital to maintain, replace, and add capabilities to the power and transmission system, as well as to invest in energy efficiency and fulfill fish and wildlife obligations.

BPA's Financial Plan (published July 2008) established three goals that remain relevant today and provide the context for this strategy.

- Ensure that capital financing needs are covered over a rolling 10-year period.
- Develop strategies and tools that extend BPA's period of sufficient access to capital.
- Ensure that BPA is able to meet its capital requirements at low cost.

This strategic, over-arching plan has been informed by input from stakeholders. It integrates the various aspects of a highly complex program with noted timeframes and milestones. It also describes an implementation plan and strategy reassessment process for funding the anticipated capital levels for the next 10 years.

BPA will be pursuing various actions that we believe have the highest likelihood of success for assuring capital access at the lowest cost. These actions include prioritizing proposed capital investments to help inform decisions on capital investment levels, as well as expanding transmission lease financing, implementing a customer prepayment program, and beginning discussions about a long-term, phased-in revenue financing strategy.

As much as we would like complete certainty, the tools described in detail in the Appendix all come with uncertainty in different forms and to different degrees. We have shared publicly the estimated rate impacts of using the access to capital tools that are in various stages of maturity and believe our plan strikes a balance between ensuring sustainable access to capital and low rates for customers.

Objective

Develop a comprehensive Access to Capital Strategy that will provide for reliable access to cost-effective sources of capital over a rolling 10-year period. Ensure that the costs of these sources are prudent and well controlled, and that the sources will be reliable and sufficient to meet the Agency's investment priorities.

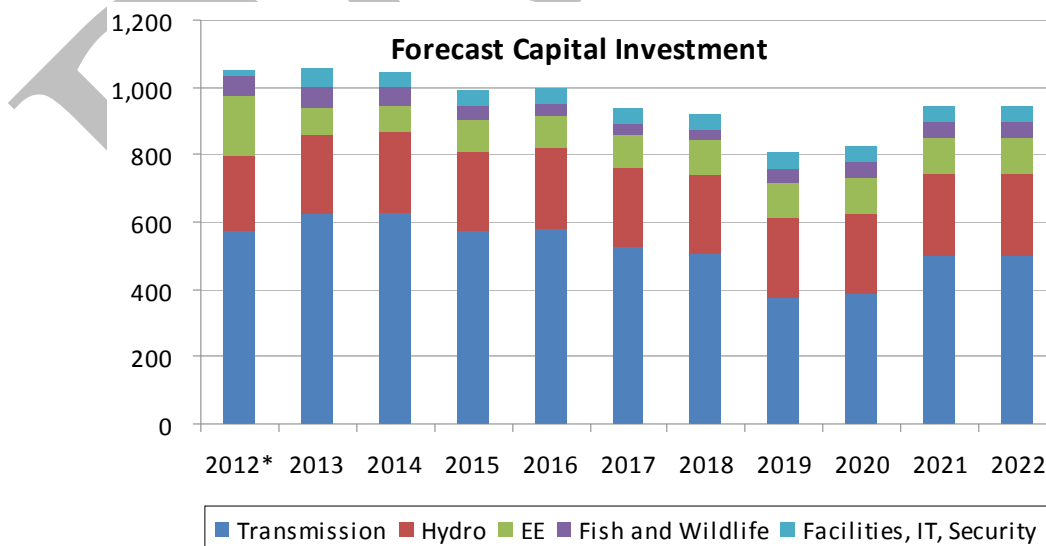


Capital Forecasts

BPA's current forecast of capital spending is informed by draft asset management strategies that set direction for maintaining, replacing and adding capabilities for each of seven categories of assets. BPA's goal is to maximize the long-term operational and economic value of assets within capital, rate and other constraints. The asset strategies cover a 10-year planning horizon, and they consist of asset performance objectives and targets, assessment of asset health and risks, evaluations of alternative courses of action and recommendations for a program of investment and maintenance. Replacements are prioritized within each asset category based on the importance and condition of assets. These draft asset strategies have been shared with regional stakeholders and have received broad support.

BPA's asset management team is developing a process and methodology for prioritizing investments other than the "core sustain" investments across asset categories. "Core sustain" investments are reinvestments in existing assets to maintain system performance and capability. The team has focused on: refining the scope and definition of projects to be included in this new process; identifying roles and responsibilities in the process; identifying the sequence of steps and information required to evaluate projects; determining how projects will be evaluated and priority ranked; and designing the approach that will be used to make trade-offs and balance the agency's investment portfolio. The objective is a systematic, transparent, and risk-informed process that optimizes the Agency's investment portfolio within capital, labor, rate and other constraints. The team has designed a process that it will share with stakeholders in early fall 2012, and a more fully refined methodology is planned to be rolled out in early 2013.

The following chart and table show capital investment amounts as forecast by fiscal year in the draft asset strategies.



*FY 2012 is based on the borrowing plan
(FY 2013-2022 Capital Investment forecast, with 5% lapse, in \$ millions as of June 2012)



	2012*	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Transmission	576	625	629	577	584	529	506	376	386	502	502	5,791
Hydro	222	236	237	233	236	232	237	238	239	241	241	2,592
EE	175	75	75	92	95	98	101	104	107	110	110	1,140
Fish and Wildlife	60	67	60	42	37	31	29	45	45	44	44	502
Facilities, IT, Security	18	56	45	46	47	48	48	48	48	48	48	499

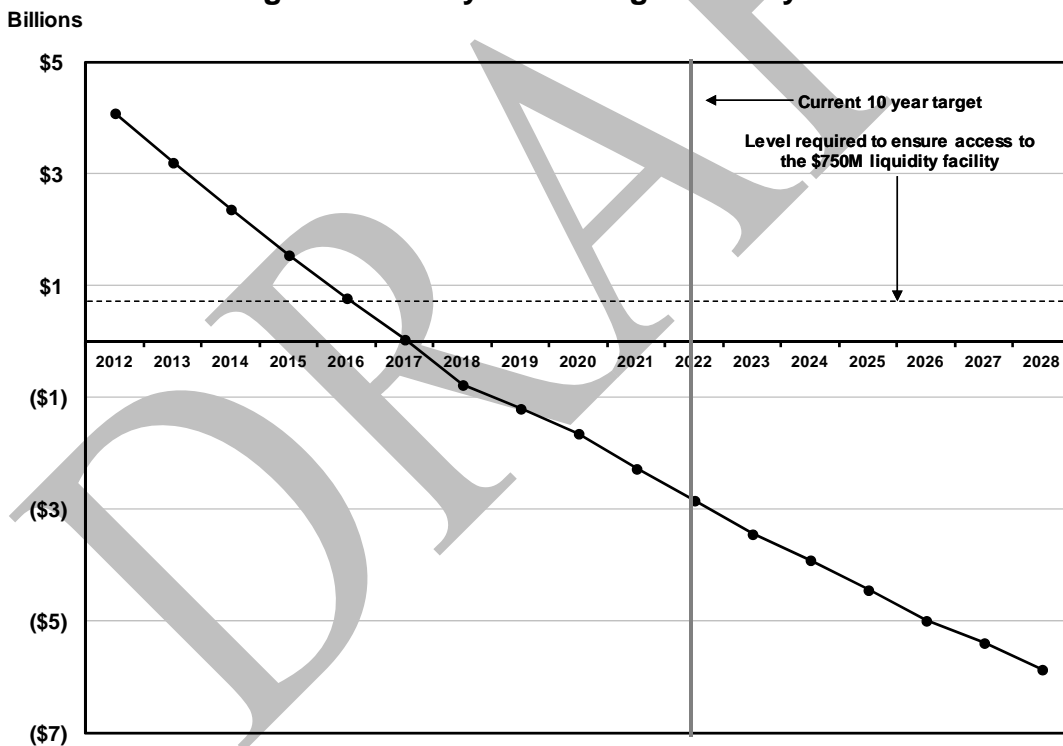
(Totals may not add due to rounding)

(\$ millions)

The Problem

FCRPS capital requirements have grown to unprecedented levels in order to replace and modernize aging infrastructure, add capacity to integrate renewable resources and fulfill regional commitments for energy efficiency and fish and wildlife restoration. Traditionally, BPA has relied on its authority to borrow from the US Treasury to finance FCRPS investments, but this source of capital is capped by law and may be fully utilized as early as 2017. BPA must develop other funding sources if investment in the power and transmission system is to meet future needs.

Remaining US Treasury Borrowing Authority as of June 2012



Each alternative source of capital has its limitations and uncertainties. Each source also has its costs; most alternatives to Treasury borrowing will have a higher financing cost and a higher long-term impact on rates.

The challenge for BPA is to manage its investment costs and develop a financing strategy to ensure that capital will be sufficient and that the cost of capital will be held low over the long term.



Background

In fall 2011, BPA conducted a public forum entitled Strategic Capital Discussions. During those sessions, we discussed concerns about capital access stemming from the large increase in expected spending levels in recent years. We initially identified alternative solutions and indicated that we would pursue some of those initiatives.

In the spring of 2012, we conducted the Capital Investment Review, which, for the first time presented a comprehensive, long-term view of the complete suite of draft asset strategies for BPA's asset categories. We rolled the near-term capital spending levels, with minor adjustments, from those draft asset strategies into the summer 2012 Integrated Program Review.

Throughout these processes we heard repeated comments from stakeholders that the asset strategies appear reasonable and sound but that proposed spending levels were high. Stakeholders also expressed a healthy dose of skepticism that BPA really needs additional financing tools. These comments were somewhat general with no levels of spending reduction suggested or programs targeted for reductions. Likewise, no expectations were expressed that BPA assure adequate capital access with spending reductions alone. We had several comments that indicated that before we pursue additional tools, we need to focus on prioritizing capital projects which could result in reduced spending. We have heard these concerns and understand the reasons for the concerns -- proposed budgets are large and long-term rate effects are uncertain. While we are pursuing development of a methodology for prioritizing capital projects across the agency, we have concerns about delaying development of additional financing tools until after capital prioritization results are available. Developing and implementing sustainable, alternate financing capabilities is a multi-year process. We believe that the capital access problem is acute, so approaching possible solutions independently and sequentially does not seem prudent. This plan endorses a multi-pronged approach that is already underway. Throughout a continued access to capital process, regular check-ins and discussion with stakeholders will be imperative as we implement new and progressive actions.

In July 2012, BPA held an Access to Capital workshop that laid out possible actions to achieve the initial target. At this session, BPA communicated its major goals regarding access to capital.

- Maintain continued access to capital on a rolling 10-year basis using a mix of Federal and non-federal sources.
- Reserve \$750 million of Treasury borrowing authority for a Treasury line of credit to provide for risk mitigation in lieu of holding equivalent financial reserves.
- Ensure capital financing requirements are met at the lowest overall cost.



The financing tools discussed included

- transmission lease financing,
- power prepayment agreement,
- conservation non-federal financing,
- power and transmission revenue financing,
- anticipated accumulation of cash (AAC) for power and
- transmission reserve financing.

Summary of Available Financing Tools and Cost Comparison

	Lease Financing	Prepay - high	Prepay - low	Conservation	Revenue Financing
Description*	50% of Transmission’s capital program is third-party financed	Customer prepayment of a portion of their Power Sales Agreement 2014-21	Customer prepayment of a portion of their Power Sales Agreement 2014-15	70% of the Conservation budget is third-party financed starting in 2015	No greater than a 2% Power and 5% Transmission rate impact. Includes 50% Lease Financing.
Program Size	\$2,508 million	\$1,700 million	\$500 million	\$570 million	\$844 million: Power: \$417 Transmission: \$427
Business Line	Transmission	Power	Power	Power	Both
Risks	<ul style="list-style-type: none"> •Access to lines of credit •BPA internal infrastructure restrictions 	<ul style="list-style-type: none"> •Initial Execution •Program sustainability •Market risk •Customer Participation 	<ul style="list-style-type: none"> •Initial Execution •Program sustainability •Market risk •Customer Participation 	<ul style="list-style-type: none"> •Need a third-party issuer •Modification of current contracts 	<ul style="list-style-type: none"> •Higher initial cost •Challenge to achieve
Advantages	<ul style="list-style-type: none"> •Tested and used tool •Can be increased over time 	<ul style="list-style-type: none"> •Currently have regional momentum •Provides new access to capital financing tool. 	<ul style="list-style-type: none"> •Currently have regional momentum •Provides new access to capital financing tool. 	<ul style="list-style-type: none"> •Feasible, cost-effective tool •Successfully used in the mid 90’s 	Tested and used tool
Costs Compared to US Agency Rate	Currently 100 bps higher	Tax-exempt - 75 bps higher** Taxable – 140 bps higher**	Tax-exempt - 75 bps higher** Taxable – 140 bps higher**	Tax-exempt – 10-35 bps higher Taxable – 100-125 bps higher	Higher initial cost but lower over time

*All scenarios include base case assumptions

**Dependent on customer incentive

(Tools are described in greater detail in the appendix to this document)

Prioritization of Capital Investments

To date, capital projects have largely been prioritized independently within each asset category, as part of the development of asset strategies. Capital investment levels have been determined based on an assessment of risks and program needs balanced, somewhat informally, by impacts on rates and access to capital. BPA recognizes that a principled, more standardized approach to determining the level and composition of the agency’s capital program is needed. Based on stakeholder input, BPA is developing a methodology to prioritize capital projects other than “core sustain” projects across the agency, which will help inform that approach.



While the process for determining capital program levels that is informed by the results of capital prioritization has not yet been defined, we can describe it conceptually. In general, we expect this to be an iterative process among at least three major variables: investment needs, power and transmission rate levels, and capital funding availability. Alternative investment portfolios will be examined for their economic net benefits and for such factors as

- effectiveness in delivering the agency's strategic priorities,
- cost and benefit uncertainties/risks,
- impact on power and transmission revenue requirements and rates, and
- availability of capital for projects in the portfolio alternative.

These various assessments will provide the data necessary for the agency to determine the maximum levels of capital investment to pursue. If spending levels reveal limited capital availability, high costs or unsustainable rate effects, the prioritization effort will be used to determine where to target capital spending adjustments.

We are concerned that reductions in discretionary, but high-value, investments may lead to a sub-optimized system and less long-term value for stakeholders. BPA currently uses its extensive knowledge of system requirements and increasingly sophisticated planning tools to determine the timing and level of needed investments. While we will begin prioritizing capital investment across programs, it is not known yet what actions BPA will take based on that prioritization process. The results will, however, enable better-informed decisions on capital investments. Making changes to investment plans could introduce more risk for ratepayers such as unplanned outages and other reliability related problems. Additionally, insufficient investment in the federal system may limit BPA's ability to meet statutory requirements. BPA will strive for a prudent balance between investment needs, power and transmission rate effects, and low-cost capital access.

Potential Solutions and Related Effects

Each financing tool has limitations, uncertainties, advantages and disadvantages. No single approach will have all the features needed to provide sufficient, low cost capital to meet Federal Columbia River Power System investment needs over a rolling 10-year planning horizon. For example, lease financing is only available for transmission assets and only a subset of those assets. Therefore, we are taking a multi-pronged approach and are pursuing several actions that are the lowest cost, have the highest likelihood of success and assure the highest potential for capital access. Those actions are:

- Expand transmission lease financing
- Implement the customer prepayment program
- Begin implementing conservation third-party financing
- Begin discussions about a long-term, phased-in revenue financing strategy
- Prioritize proposed capital investments to help inform decisions on reductions or delays in capital investment to the extent needed



The tools, if implemented together in alignment with expectations, would provide adequate assurance of sufficient capital access on a rolling 10-year basis. Some of the financing tools, such as prepays and conservation third-party financing, are still being developed so estimated benefits for them are less precise than for other, more established tools. Please see the appendix for more specifics about the tools and associated risks.

All of the combinations described below achieve the capital access target for the initial 10 years. The combination scenarios all feature increased use of lease financing from prior levels of 30 percent of Transmission’s program to 50 percent and continuation of \$15 million per year of transmission reserves financing. The Base Case and all five combination scenarios assume extension of the scheduled principal payments for the Energy Northwest Columbia Generating Station for FY 2014-2015.

	Combination #1	Combination #2	Combination #3	Combination #4	Combination #5
Lease Financing	Lease Financing 50% of Transmission’s capital program beginning in 2013	Lease Financing 50% of Transmission’s capital program beginning in 2013	Lease Financing 50% of Transmission’s capital program beginning in 2013	Lease Financing 50% of Transmission’s capital program beginning in 2013	Lease Financing 50% of Transmission’s capital program beginning in 2013
Prepay	\$1,700 million in prepayment of customer power purchase agreements in 2014-21		\$500 million in prepayment of customer power purchase agreements in 2014-15	\$1,700 million in prepayment of customer power purchase agreements in 2014-21	
Conservation	3rd Party Financing 70% of the Conservation capital program beginning in 2015	3rd Party Financing 70% of the Conservation capital program beginning in 2015	3rd Party Financing 70% of the Conservation capital program beginning in 2015		
AAC	Not available	Remaining AAC is used to repay US Treasury debt	Remaining AAC is used to repay US Treasury debt	Not available	Remaining AAC is used to repay US Treasury debt
Transmission Reserve Financing	\$15 million each year	\$15 million each year	\$15 million each year	\$15 million each year	\$15 million each year
Revenue Financing					Revenue finance up to annual rate impacts of 2% for Power and 5% for Transmission

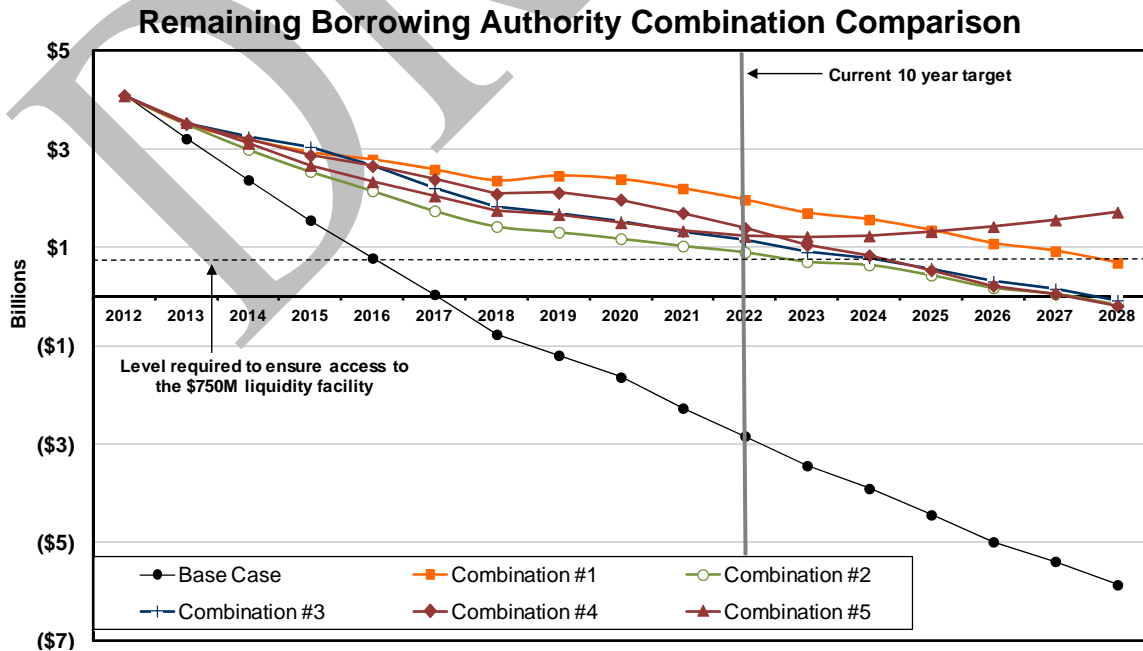
The above table describes the assumed amount of each financing tool under each of the five combinations. There is some interplay between the tools. For example, combinations with larger prepay assumptions result in no AAC being available. Similar information is presented in the following Combination Scorecard in numeric terms.



Combination Scorecard

(millions)	Combination # 1	Combination # 2	Combination # 3	Combination # 4	Combination # 5
Capital Program	Total FY 2012-22	Total FY 2012-22	Total FY 2012-22	Total FY 2012-22	Total FY 2012-22
1 Transmission	(\$5,791)	(\$5,791)	(\$5,791)	(\$5,791)	(\$5,791)
2 Hydro	(\$2,592)	(\$2,592)	(\$2,592)	(\$2,592)	(\$2,592)
3 EE	(\$1,140)	(\$1,140)	(\$1,140)	(\$1,140)	(\$1,140)
4 Fish and Wildlife	(\$502)	(\$502)	(\$502)	(\$502)	(\$502)
5 Facilities, IT, Security	(\$499)	(\$499)	(\$499)	(\$499)	(\$499)
6 Total Capital	(\$10,524)	(\$10,524)	(\$10,524)	(\$10,524)	(\$10,524)
US Treasury borrowing authority					
7 Available Borrowing Authority (9/30/2011)	\$4,757	\$4,757	\$4,757	\$4,757	\$4,757
8 Treasury amortization	\$2,788	\$2,905	\$2,910	\$2,784	\$2,948
9 Total BPA US Treasury borrowing authority	\$7,545	\$7,662	\$7,667	\$7,541	\$7,705
Access to Capital Tools					
10 Transmission Reserve Financing (\$15m/year)	\$165	\$165	\$165	\$165	\$165
11 50% Lease Financing	\$2,508	\$2,508	\$2,508	\$2,508	\$2,508
12 Prepay	\$1,700		\$500	\$1,700	
13 70% Conservation	\$570	\$570	\$570		
14 Revenue Financing					\$844
15 Total Tools	\$4,943	\$3,243	\$3,743	\$4,373	\$3,517
16 AAC		\$517	\$258		\$523
17 Total Remaining Capacity	\$1,964	\$898	\$1,144	\$1,390	\$1,221

Although all five combinations achieve 10-year access to capital, they leave varying residual amounts of U.S. Treasury borrowing authority by the end of the 10-year period, 2022. The Remaining Borrowing Authority Combination Comparison graph illustrates the annual effect each of the combinations has on remaining U.S. Treasury borrowing authority.



Potential Power and Transmission Rate Effects

The following rate tables show the percentage difference in each rate period from the otherwise forecast rate for the Base Case. These percentages reflect the cumulative rate effect related to each scenario. The rate analysis is highly dependent on the assumptions used. As a result, the analysis is not intended to be a forecast of the actual rate effect in a future rate period. Instead, it was designed to compare the effect of various financing tools given a common set of assumptions.

Incremental Rate Effects Relative to Base Case

Power Rate Effects	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
Combination # 1	50% LF, \$1.7b prepay, 70% Conservation financing						
Change from Base Case	0.0%	2.7%	0.5%	0.2%	0.4%	2.6%	3.8%
Combination # 2	50% LF, 70% Conservation financing, Use AAC						
Change from Base Case	0.0%	0.0%	(0.6%)	(1.0%)	(1.7%)	(2.3%)	(1.9%)
Combination # 3	50% LF, \$500m prepay, 70% Conservation financing, Use AAC						
Change from Base Case	0.0%	0.6%	(0.3%)	(0.3%)	(0.5%)	0.4%	1.4%
Combination # 4	50% LF, \$1.7b prepay						
Change from Base Case	0.0%	2.6%	0.5%	0.2%	0.3%	2.5%	3.6%
Combination # 5	50% LF, Use AAC, Revenue Financing						
Change from Base Case	1.5%	1.4%	1.3%	1.3%	1.3%	1.3%	1.4%

Transmission Rate Effects*	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
Combinations # 1-4	50% LF						
Change from Base Case	2.6%	3.7%	4.1%	4.0%	3.9%	2.9%	3.8%
Combination # 5	50% LF, Revenue Financing						
Change from Base Case	5.4%	6.4%	6.6%	6.4%	6.2%	6.1%	5.9%

*The same 50% Lease Financing scenario was used in all combinations.

The potential Power rate effects reflect alternative financing combinations and do not model the other rate drivers such as the unpredictability of hydro conditions and market prices. The power rate effects feature interplay between the AAC and the other tools used in the scenarios. As modeled here, the large \$1.7 billion prepayment program has flat blocks of credits that accumulate over FY 2014-2021. The AAC serves as a buffer, dampening the impact of the growing credits, particularly in the FY 2018-2024 period. However, we do not currently anticipate the AAC to continue past FY 2024 so the full effect of the prepayment program is felt in rates starting in FY 2025, as seen in Combinations #1 and #4 in FY 2026-2027 due to amortization exceeding depreciation. In the \$500 million prepayment program scenario, Combination #3, the same pattern is



seen but to a lesser degree because the prepayment credits are much smaller. In scenarios that do not rely on the prepayment program, power rates either decline because the AAC is assumed to be used to pay for capital investments resulting in much lower interest expense or rates increase at a fairly steady pace from rate period to rate period because revenue financing was added to produce such a result.

The potential Transmission rate effects reflect alternative financing combinations and do not model other rate drivers. For Transmission rates, lease financing in this table produces higher rates. Some increase would be expected since lease financing tends to be a higher cost financing tool. As with Power, the revenue financing scenario produces higher rates.

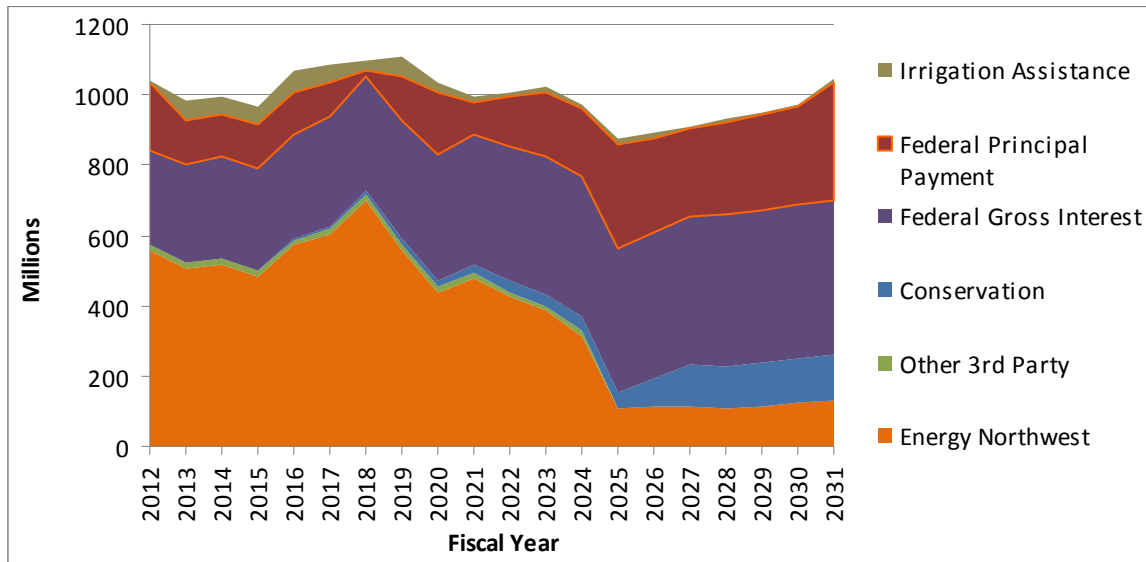
Profiles of Power Services and Transmission Services

FY 2012 marked the beginning of service under the long-term power purchase contracts known as the Regional Dialogue contracts. The contract period extends through FY 2028 and identifies power available for sale at Tier 1 rates essentially as the output from the Federal Base System. The annual power debt service is associated with the assets that define the Federal Base System, which includes Columbia Generating Station. In addition, power debt service includes debt service for regulatory assets, which include the terminated nuclear plants WNP-1 and 3, as well as energy efficiency and fish and wildlife investments and other regulatory assets. We believe that the following power debt service forecast is consistent with the overall Power Services business profile of a mature entity – minimal expansion and contraction – at least with respect to Tier 1.

The challenge for the power business will be to maintain a flat or downward trending debt service forecast. Future capital investment levels, timing of investments, and interest rates can influence this trend but only in an incremental way. Much of this debt service is for past investments. We will continue to manage this debt service to minimize costs over the long term and shave peaks to avoid rate fluctuations from rate period to rate period. We believe the power-related capital programs have reached a state of maturity. Therefore, the current projections of Power's capital program remain fairly flat over the foreseeable future which indicates that we may be able to achieve a goal of flat or downward trending debt service in the long term. Power Services is balancing meeting its mission for the region with setting capital budgets at levels that can be effectively executed. The chart below illustrates the expected total Power Services debt service associated with the forecast of capital investments under Combination #3. Total debt service hovers around \$1 billion per year for the next 20 years, with a range of about \$900 million to \$1.1 billion per year.



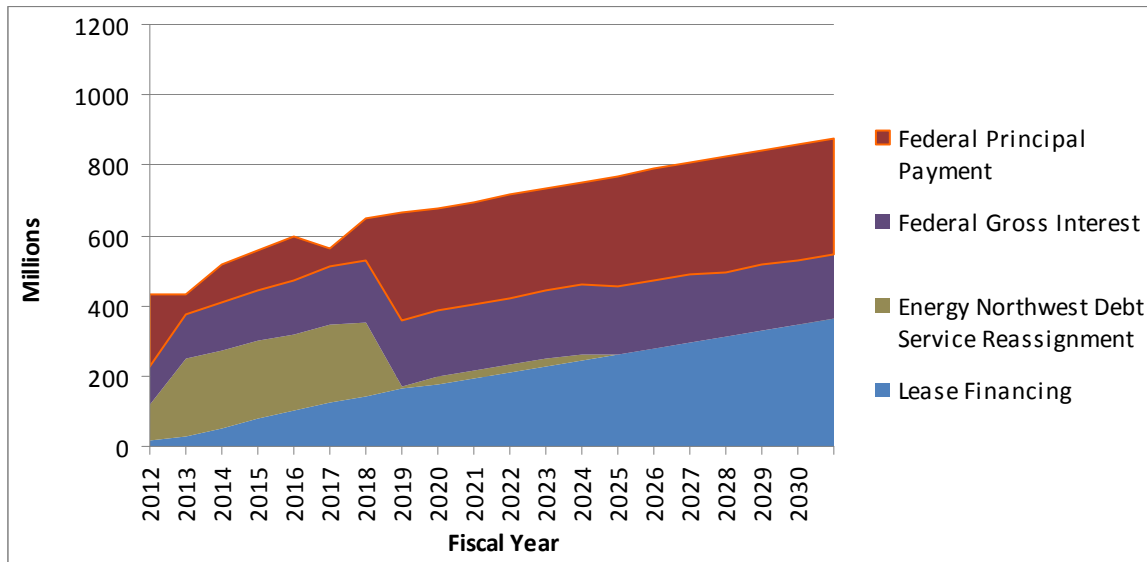
Total Power Debt Service



Transmission’s high level of forecast investments relates to expanding expectations by business customers and sustaining the existing asset base to retain reliability. The transmission business profile is quite different from the power business. The high investment level forecast results in a doubling of debt service costs in the next 20 years. The challenge for the transmission business will be to invest in the system at the right time to match expected growth so as to minimize rate effects over time. Maintaining reliability and meeting commercial needs will require both sustain and expansion investments. System expansion projects will continue to be matched whenever possible with offsetting revenue growth. Sustain programs will look to maintain the current systems capabilities and possibly add capacity through minimum incremental investments. Through the iterative process of assessing capital spending, rates effects and the availability of capital funding, we expect to efficiently and effectively manage this growth.

BPA seeks to minimize the total economic costs over the long-term, maximizing the long-term operational and economic value of the assets. Transmission’s asset management strategy consists of a prioritized set of “core sustain” and expand investments in order to manage risks of aging infrastructure and technological obsolescence and to improve reliability and meet load growth. The chart below illustrates the expected total Transmission debt service associated with the forecast of capital investments under Combination #3.

Total Transmission Debt Service



Strategic Plan Implementation

Based on the results from these scenarios, BPA plans to aggressively pursue the following strategy, which is consistent with Combination #3, seeking lowest cost alternatives. To meet the goal, we believe all of the tools noted on lines 10-13 of the Combination Scorecard table will be necessary. Although this is not a strict priority ranking, we are assuming a minimal amount of Transmission reserve financing and will aggressively attempt to achieve at least 50 percent lease financing. Prepays and third-party conservation financing are the next two priorities, with reserve financing through the AAC being utilized to the extent it is available in any given year to reduce borrowing. Currently, we view revenue financing as the lowest priority of the currently identified tools shown in the table. Additionally, we do not plan to approve more than \$500 million in prepays without further exploration of the rate impact of a larger program. This strategy will require periodic course correction as results play out over time. At a minimum, we will review progress on an annual basis to determine whether corrections to the strategic plan are needed. If any of the targets are not met, we will reassess the target and its impact on the overall strategy.

Experience has shown that it takes several years to establish low-cost, enduring, nonfederal sources of capital. Likewise, project prioritization is not easily or quickly implemented due to the need to establish a defensible and sustainable process. As we approach the \$750 million level of remaining Treasury borrowing authority, managing adequate capital access will become more difficult. We want to avoid both 1) disruptive stopping and restarting of capital projects and 2) power and transmission rate volatility as a means to balance availability of capital sources and uses. We have chosen the following options because it is prudent to have several low-cost alternatives available to take a strategic approach to balancing capital sources and uses.

Lease Financing of Transmission Capital: Lease finance a minimum of 50 percent of Transmission capital.

Power Prepayment Program: The Power Prepayment Program will provide customers an opportunity to participate in \$500 million or more of prepayment in FY 2014-2015. We will re-evaluate the power prepay program after offers are accepted in December. Current analysis indicates that achieving as much as \$1.7 billion from customer prepays may have some unintended rate effects unless we are able to better shape the program credits in subsequent opportunities. Beyond FY 2013, we would shape credits related to future requests to avoid power rate effects. While we conceived the prepayment program to have no rate effects, some features of the program, for example, flat credits, may lead to rate increases if not designed differently.

BPA believes that funding through tax-exempt bonds would lead to a lower cost program cost in future solicitations (if any) and expects to work with one or more customers to seek an IRS private letter ruling confirming that the prepay model that BPA has developed would enable a qualifying bond issuer to issue tax-exempt debt obligations to fund its prepayment. Such an approach could lower the cost to BPA and the Region under future solicitations.

Conservation Third-Party Financing: Beginning in FY 2015, a minimum of 70 percent of conservation capital would be third-party financed. We plan to develop an implementation schedule by March 2013 in order to assure financing readiness at the beginning of FY 2015.

Anticipated Accumulation of Cash (AAC) - Power: If available, the AAC will be used to finance power-related capital investments, allowing BPA to utilize an additional portion of its most flexible and economical source of capital. Such an approach eliminates the possibility of Slice customers subsidizing non-Slice customers' risk mitigation through the build-up of financial reserves that would otherwise occur with the cash flows. This would be an equitable disposition of these funds, benefiting customers of both power products.

The value of the AAC has dropped from the fall 2011 estimate when we were expecting the amount could be \$1.1 billion. Current projections are \$665 million. That expectations can swing by \$400 million based on a few changed assumptions indicates that this is an incredibly uncertain tool. Part of the change is due to the repayment study responding to the CGS debt extension for FY 2014-2015. As EN debt declines in some periods, the study reacts by scheduling federal amortization in its place. This is desirable because it means that the cash that would otherwise produce the AAC is instead consumed by the repayment of federal debt. On the other hand, some of the reduction in the AAC is due to reductions in capital spending forecasts which results in lower depreciation expense and less cash generation. These changes not only reduce the AAC but often also result in lower rates for power ratepayers such as the proposed CGS debt extension for FY 2014-2015 for rate relief. It seems likely that the AAC will shrink as we devise strategies to balance rate effects and capital access such that this is never a viable financing



alternative. Therefore, we would plan to implement the program as described above. However we are not going to rely on this as a long-term financing tool choice because we have reason to believe that as each rate period approaches, the available AAC will be significantly less than currently contemplated as it may be used for rate relief actions.

Transmission Reserve Financing: Consistent with current practice, BPA will plan for transmission reserve financing of \$15 million each year, provided sufficient transmission reserves are available.

The transmission reserve financing now assumed is \$165 million rather than the \$300 million of upfront reserve financing outlined in the fall of 2011. We have changed this assumption for several reasons. First, there likely is not \$300 million in excess transmission reserves after the use of reserves for several purposes in the FY 2012-2013 rate period. Second, if we successfully implement the full range of tools in this plan, the remaining borrowing authority problem becomes less immediate, calling for less urgent actions.

Power and Transmission Revenue Financing: Revenue financing, in a time of borrowing constraints represents a direct form of investment in assets. All large, similarly situated utilities, such as BC Hydro and Tennessee Valley Authority, make significant use of this source of capital funding. Although including revenue financing in revenue requirements directly increases rates at the time, it eases rate pressures over time by reducing the amount of debt service to be repaid. Many stakeholders have encouraged BPA to develop an investment strategy that moves the agency away from being 100 percent reliant on debt financing.

BPA plans to develop a proposal to gradually implement revenue financing while minimizing power and transmission rate effects. BPA intends to work with regional stakeholders in FY 2013 and FY 2014 to evaluate alternatives and resolve policy issues so that revenue financing could be introduced in the FY 2016-2017 rate period. Due to outstanding issues with revenue financing, we are not currently anticipating significant contributions from the mechanism, although in the long run this could have enduring promise as a low cost, reliable, and easy to implement method of financing.

Reductions/Delays in Capital: BPA is currently developing a framework for prioritizing capital projects, other than “core sustain” projects, across the agency. While the framework is still being designed, expectations are that by March 2013, BPA will have a workable construct to prioritize these projects across the agency. This prioritization would be used to inform capital reductions to the extent needed.

“Core sustain” investment is fundamental to BPA’s ability to provide reliable power and transmission. While BPA will continue to scrutinize all asset strategies and the associated investments, at this point it is not endorsing or developing a particular methodology for reducing “core sustain” investment.



Milestones

The following initial milestones represent decision points for re-evaluation of this strategic plan and its ability to achieve the rolling 10-year access to capital target:

December 2012

- Initially assess viability and potential size of the Power Prepayment Program since the first tranche is taxable only

March 2013

- Implement a process for capital prioritization of expansion-related projects
- Adopt schedule for implementing a third-party conservation financing program

October 2013

- Evaluate effectiveness of capital prioritization and revise capital spending assumptions, as appropriate
- Adjust lease financing expectations based on FY 2013 results

October 2014

- Assess viability and size of third-party conservation financing program
- Adjust lease financing expectation based on FY 2014 results
- Assess viability and define size and methodology for an initial revenue financing program for FY 2016-2017 as well as the planned gradual ramp-up covering future years

Capital Access Tracking

In addition to targets and milestones, BPA's overall access to sufficient capital will be evaluated at least annually in relation to the rolling 10-year goal. If we project insufficient capital access during the 10-year window, we will reassess the overall strategy.



Strategy Reassessment

The ultimate goal is to provide reliable access to cost-effective capital for a rolling 10-year period. BPA plans to diligently balance capital investment needs with available capital funding by improving our ability to determine appropriate and affordable capital spending levels while having a variety of cost effective funding sources to achieve our business objectives. When we do not attain this balance, BPA will take corrective action as part of future reassessment of the overall strategy. This could include any or all of the following options:

- Determine if any of the other tools can compensate for a shortfall from an underperforming tool. If this is possible, assess the timing and the likelihood of success.
- If analysis shows that one or more other tools cannot fill the gap, introduce available cash tools such as revenue financing and/or reserve financing.
- Based upon agency capital prioritization principles and guidelines, consider reducing or delaying spending for capital projects other than “core sustain” projects.
- Based upon agency capital prioritization principles and guidelines, consider reducing or delaying spending for “core sustain” capital projects.

Some of the corrective actions could be used for short intervals to help keep BPA on track to meet the rolling 10-year goal, but they are not necessarily practical or even desired long-term solutions. However, these tools are generally available and will be included as options to consider in meeting the rolling 10-year goal. Likewise, the delay or suspension of funding “core sustain” capital investments in BPA’s aging infrastructure can provide temporary relief to access to capital challenges but is not likely to be a prudent business decision for the long term.

Another tool, extension of Energy Northwest projects 1 and 3 debt is available only for the next five-to-six years. Currently, projects 1 and 3 maturing debt is scheduled to be paid annually and to be fully repaid in July 2017 and July 2018, respectively. BPA is not planning to pursue projects 1 and 3 debt extension as a financing tool. We generally believe we should not be extending the life of debt for non-productive assets. In the recent overall restructuring of all Energy Northwest debt for the purpose of obtaining debt service cost reductions for the FY 2012-2013 rate period, we actually accelerated the repayment of a portion of the debt for projects 1 and 3.

Given license extension to 2044, CGS debt extension is already proposed for debt currently maturing in FY 2014-2015. A more comprehensive analysis of impacts of extension of CGS debt, maturing after FY 2015, is planned during FY 2013.

BPA has considered joint transmission financing with nonfederal partners for mutually beneficial projects. However, unless such projects are determined to be as cost effective as other available opportunities described in this document, we are not counting on joint transmission financing as one of our financing tools. As BPA stated in



the July Access to Capital workshop, we are open to considering alternative transmission financing structures that meet certain guidelines. Each particular project and financing method must be evaluated as it is submitted for potential utilization. We will consider repeatability, aligning costs with the beneficiaries of the investment, cost effectiveness and likelihood of success as we assess these potential alternatives.

Meeting the Rolling 10-Year Target

A comprehensive strategic plan is necessary to ensure sustainable capital from all sources. As the Remaining Borrowing Authority Combination Comparison graph reflects, five combinations can achieve the initial 10-year target; however, BPA will be continually challenged by insufficient access to capital. We are mindful of the rolling target in that we are interested in finding sustainable solutions that are low cost and repeatable for both investment and funding decisions. The evaluation each year will assess the success of the prior year and the improved sustainability or certainty of each action, which could result in a different focus and a revised implementation plan.

Summary

In summary, the strategic plan:

- (1) Incorporates the development, expansion and consideration of available and viable investment reduction and funding mechanisms identified to date.
- (2) Recognizes that most actions on this list take several years to develop fully and anticipates implementation over a multi-year horizon.
- (3) Sets milestones for implementation and outlines actions to be considered during a reassessment process.
- (4) Views the initial 10-year target as a rolling target within the greater context of developing a more sustainable longer term access to capital outlook for the agency.
- (5) Plans to include expectations for capital reductions and other emerging opportunities as the outcomes become clearer.
- (6) Requires an annual review to determine whether corrections to the strategic plan are needed.



APPENDIX

Description and Details of Individual Financing Tools

Revenue Financing

Description:

Since 1983 BPA has at various times included cash considerations in revenue requirements to raise cash to fund capital investments in lieu of borrowing from the U.S. Treasury, to directly finance capital from revenues. Revenue financing requires funds to be realized as planned before they can be put to use.

Availability:

- Revenue Financing can be applied as a policy choice in any power or transmission rate case.

Cost:

- Revenue financing would have an immediate upward pressure on rates, but interest expense and repayment obligations would decline over time.

Risks:

- Any revenue financing would need to be realized as planned, therefore are uncertain unless covered in risk mitigation.
- Revenue financing raises an issue of double-recovery to some extent when the same assets are depreciated and that depreciation affects revenue requirements. While it can also simply be viewed as continually reinvesting in an on-going system, measures could be implemented to address this concern. We would like to explore this effect more thoroughly and discuss options with stakeholders.

Anticipated Accumulation of Cash (AAC)

Description:

Power revenue requirements in the FY 2016-2024 period are expected to provide cash flows from non-cash expenses exceeding cash requirements (the Anticipated Accumulation of Cash [AAC]) that could be used to fund capital investments or repay additional debt. Utilization of the AAC requires the funds to be realized as planned before they can be put to use.

Availability:

- The AAC is highly uncertain, but its availability is forecasted as up to \$665 million under the base case, as of the July 2012 Access to Capital workshop.



Cost:

- Although the AAC would accumulate with no change to projected rates, there is an opportunity cost associated with the AAC because the cash could be used to meet a variety of Agency needs.

Risks:

- The potential difference between non-cash elements and cash requirements is highly uncertain and is highly sensitive to both repayment study results and the forecasts of depreciation and amortization (particularly related to short-lived investments). Actions BPA may take could make the AAC disappear altogether in favor of rate relief (as is the potential in the 2014/15 time period).
- The AAC would need to be realized as planned, therefore is uncertain unless covered in risk mitigation.

Reserves Financing

Description:

In recent years Transmission's cash reserves have been more than sufficient for risk mitigation and have been drawn down annually to provide funds in lieu of borrowing. The use of existing reserves for capital funding accesses an immediately available source of cash, whereas both utilization of the AAC and revenue financing require the funds to be realized as planned before they can be put to use.

Availability:

- Transmission reserves have been drawn down to provide rate relief for rate case settlements, and only small amounts of excess reserves may be available in future rate periods to fund capital.

Cost:

- Use of non-required transmission reserves provides interest expense reduction as well as a decrease to future repayment obligations, partially offset by decreased interest earnings.

Risks:

- Reserve financing could simply stop at the point reserves are drawn down to levels required for risk mitigation.



Lease Financing Program (LFP)

Description:

Under the LFP, BPA enters into umbrella agreements with third-party entities. Each lease commitment entered into is associated with a transmission project that is identified to be lease eligible. BPA retains full benefit and use of the leased assets while the third-party owns title and receives fixed rental payments for the assets it leases. Due to the needed flexibility around construction project timing and cost, there are two main steps the third-party entities take to finance the transmission projects. The first step is obtaining a short-term (7 year) Line of Credit (LOC) with a bank to finance the transmission projects through completion. The second step is issuing long-term (up to 30 year) bonds that match the life of the built assets.

Availability:

- The size of the LFP is primarily limited by the amount of eligible projects in BPA's work plan, but external limiting factors include:
 - Line of Credit availability to support the LFP construction model
 - Sufficient investor interest in purchasing lease financing bonds at competitive interest rates (based on BPA's credit rating)
- Under current processes, procedures, and regulations the LFP appears to be limited to financing about 50% of BPA's projected Transmission capital, or approximately \$250 million per year on average over the next ten years.
- Historically, the LFP has been able to finance about 30% of Transmission capital. The target is to increase LF to at least 50% beginning in FY 2013 and continue to lease finance Transmission capital, possibly at levels greater than 50%.

Cost:

- All-in interest rates associated with the LFP are often calculated by melding borrowing rates and program/lease operating costs.
- Borrowing spreads were estimated for the July 2012 Access to Capital Workshop and a taxable borrowing is projected to be approximately 100 basis points above the Agency borrowing rate for similar maturities.

Risks:

- The call for aggressive use of lease financing may increase the risk that BPA will not be able to deliver on expectations.
- Lease financing interest rate spreads will increase if BPA creditworthiness worsens or if external credit markets become volatile for any reason, such as the European financial crises or a domestic financial crisis. This could constrain access to lines of credit, or it could make them much more costly.
- An expanded LFP may contribute to decreased perceived creditworthiness or credit rating due to decreased debt coverage ratios, increasing the cost of all BPA non-Federal financing programs.



Prepayment of Power Bills

Description:

The Power Prepayment Program gives customers the option to prepay a portion of their existing Power Sales Agreements through purchasing \$50,000 blocks of credits from BPA. BPA would target the proceeds from the prepayment to fund Hydro-related investments. The transactions will be consistent with existing Regional Dialogue contracts because they do not constitute an “assignment” of power sold at a Tier 1 rate.

Availability:

- Limited primarily by rate impacts and the diminishing term remaining on the Regional Dialogue contracts. Estimates of program capacity range from \$500 million to \$1.7 billion.

Cost:

- A major driver of Prepayment costs is the customers’ incentive, which is unknown at this time.
- Interaction between the future power bill credits and the AAC have significant impact on power rates over the long term. To the extent there are sufficient power bill credits, the AAC goes away and is no longer available for capital financing.
- Future prepay bonds have the potential to be partially tax-exempt, which could allow BPA to take advantage of lower interest rates.
- Borrowing spreads were estimated for the July 2012 Access to Capital Workshop
 - Tax-exempt borrowing is projected to be approximately 75 basis points above the Agency borrowing rate for similar maturities.
 - Taxable borrowing is projected to be approximately 140 basis points above the Agency borrowing rate for similar maturities.

Risks:

- Two primary risks to a successful Power Prepay Program are the level of customer participation, and the customer incentive required to achieve a sufficient level of customer participation.
- The level of the power rate impact is also a concern and may be mitigated to some extent by shaping the credits over the term of the regional dialogue contracts.



Conservation Financing

Description:

Financing conservation investments would employ a BPA-backed financing construct which is similar to Energy Northwest and other non-federal financings in which BPA is obligor and pledges to pay debt service on the bonds issued. A consolidating, third-party acts as issuer of the municipal bonds (tax-exempt to the extent possible) and the bond proceeds flow to the Energy Efficiency Incentive customers for their EE investments. New EEI contracts that begin in 2015 and span the Council's 7th Power Plan provide the opportunity to introduce this financing method. Customers could sign a new EEI agreement with BPA and the third-party financier. BPA would retain program management as is currently in place.

Availability:

- Some development work has been done in this area although the utilization of this financing mechanism would take up to two years of further development. The Energy Efficiency Program is estimated to average \$75 – 100 million per year over the next ten years. About 70% of the total capital investment is eligible for third-party non-Federal financing.

Cost:

- Borrowing spreads were estimated for the July 2012 Access to Capital Workshop
 - Tax-exempt borrowing is projected to be approximately 10 – 35 basis points above the Agency borrowing rate for similar maturities.
 - Taxable borrowing is projected to be approximately 100 – 125 basis points above the Agency borrowing rate for similar maturities.

Risks:

- Contracts must be flexible enough to incorporate third-party financing.
- There could be some modifications in the amount of capital needed for conservation if BPA's energy-efficiency incentive funding model changes in the future.
- Issues with the bond proceeds connected to the 2003 refinancing of the Conservation and Renewable Energy System (CARES) bonds created some concerns for BPA regarding the implementation and management of third-party financing transactions for conservation investments.



Alternate Transmission Financing

Description:

For Transmission only, BPA has the ability to partner with other entities to finance transmission assets through various arrangements, including:

- Prepay for capacity / capacity ownership (3rd AC model)
- Segmented physical ownership
- Jointly owned facilities
- Prepaid transmission service
- BPA purchase of capacity

Availability:

- BPA is currently investigating the availability of alternate transmission financing, but viability of any solution will need to be evaluated on an individual project basis. The characteristics of the project determine viable financing alternatives.

Cost:

- BPA will always look for the least cost alternative.
- Costs will be aligned with the beneficiaries of the investment.
- It is uncertain whether bond financing will be available, especially relying on BPA's credit rating, for these arrangements.

Risks:

- The risks to alternate transmission financing cover a wide range due to the uncertainty associated with numerous potential structures, but they include:
 - Cost risk due to required rates of return
 - Political risk from sharing ownership of the Federal Transmission System
 - Operational risk from contracts potentially expiring while transmission needs persist
 - Alternate transmission financing arrangements may be structured in such a way that eliminates the possibility of lease financing BPA's portion of costs.
 - Exploring these alternatives can take a large amount of subject matter expert time to get to a possible solution. We intend to evaluate the feasibility of a potential solution before investing valuable subject matter expert time.

