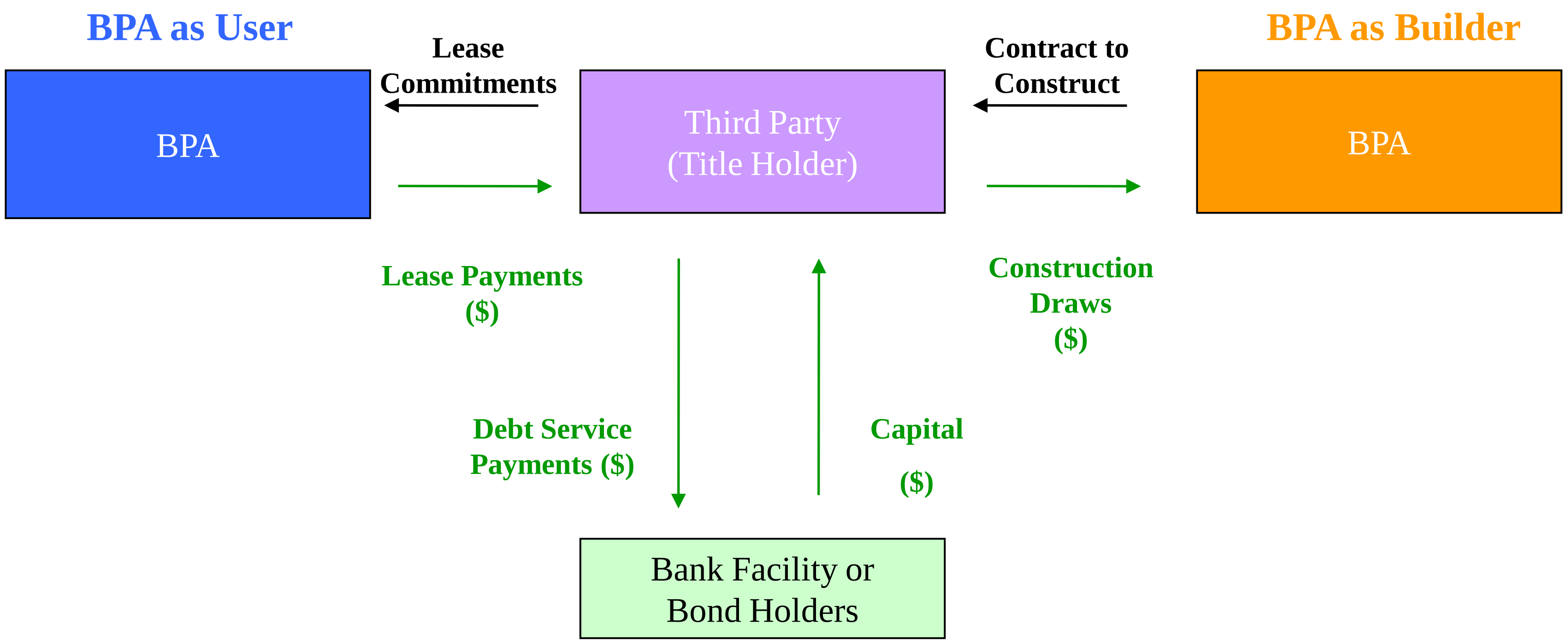
Access to Capital Background

Topics

- Lease Financing
- Third Party Conservation Financing
- Prepayment of Customer Revenues

Lease Financing

Lease Financing Model



Key Features:

- BPA preserves its borrowing authority
- BPA retains full use and benefit of the assets

How Lease Financing Works

- BPA enters into a series of individual lease commitments with one or more bankruptcy remote special purpose entities.
- BPA's lease payment commitments are made regardless of whether the related facility is completed, operable, or operating.
- The third party irrevocably pledges BPA lease payments to the payment of bank loans or other debt.
- The related project assets are not pledged as collateral.
- The third party initially holds title to the assets, but BPA obtains full benefit and use of the assets.
- BPA pays all costs to operate and maintain the assets.
- At the end of the lease, BPA will acquire title to the assets for a nominal charge.
- BPA has only used this mechanism to finance Transmission capital projects.
  - BPA does not own the Corps of Engineers and Bureau of Reclamation assets
  - Conservation and Fish & Wildlife capital are intangible assets and BPA typically doesn't hold title.
- Lease financing cannot be used for all Transmission capital projects. Land and access roads are some examples of projects that are excluded from the program.
- Assets not leased initially become a permanent lost opportunity for preserving borrowing authority.

Types of Financing

- BPA has implemented two types of lease financing:

  1. The third party can issue long-term bonds to finance the construction of the asset. This method is used primarily to finance stand alone, large projects such as the Schultz-Wautoma line. In this situation, BPA enters into a long-term lease with the third party to match the terms of the financing.

  2. The third party may use funds from a short-term line of credit to finance the construction. This structure is also used to finance multiple smaller projects. BPA enters into a short-term lease with the third party (seven years) to match the terms of the financing. After the construction of the assets is complete, the third party issues long-term bonds and renegotiates the term of the lease to reflect the remaining useful lives of the related assets.
     - Project completion guarantee's that BPA and the issuer know construction costs, thus mitigating the risk of over or under borrowing.
     - By pooling short-term leases the costs of issuance also decreases due to a reduction in the number of transactions that take place.

Lease Financing Program Status

- Since the start of the Lease Financing program in 2004, BPA has entered into roughly $738 million leases for projects located in three different states with six different third parties:
  - BPA has lease agreements with the Northwest Infrastructure Financing Corporation (NIFC), NIFC II, NIFC III, NIFC IV, NIFC V, and NIFC VI. All of these third parties are bankruptcy remote, special purpose entities under Global Securitization Services.

Lease Commitment Amount by Entity

NIFC	$120
NIFC II	$90
NIFC III	$200
NIFC IV	$100
NIFC V	$118
NIFC VI	$111
	$738

Lease Financing Rate Comparison

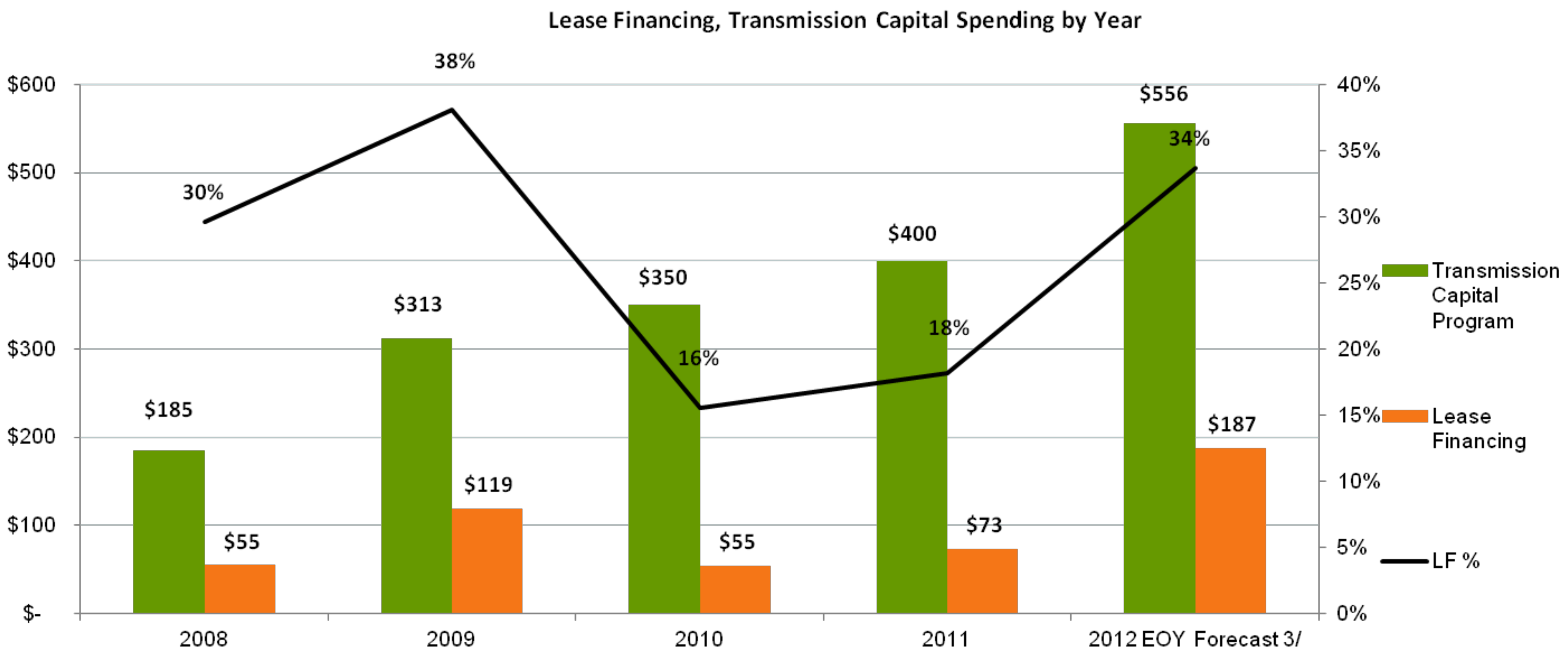
	Weighted Average All In Rate**	Comparable Treasury Financing Rate	Delta
NIFC	5.52%	5.23%	0.29%
NIFC II	5.53%	4.63%	0.90%
NIFC III	4.11%	3.73%	0.39%
NIFC IV	4.24%	2.62%	1.61%
NIFC V	2.81%	1.65%	1.16%
NIFC VI	2.48%	1.63%	0.84%

Lease Commitment Amount by Fiscal Year*

2004	$120
2007	$51
2008	$148
2009	$126
2010	$5
2011	$106
2012	$183
	$738

Numbers in millions
*Lease commitment refers to the dollar amount of leases signed in a year, not annual spending.
**Weighted Average All in Rate does not include property taxes.

Lease Financing Program Status



3/ Current fiscal year amounts are based on forecasts as reported at the end of the Second Quarter

Challenges for the Lease Financing Program

- Access to Lines of Credit–this issue only affects the Lease Financing program when the third party uses a line of credit to finance the initial investment.
  - A seven year repayment term on the short-term line of credit is a requirement for the Lease Financing program. During the financial crisis, it was difficult to obtain lines of credit sufficient to provide enough capital for the duration of the term. There continues to be a risk to the availability of credit.
  - We manage this challenge by continually communicating BPA's needs to banks and sharing information about this important program.

Lease Financing Summary

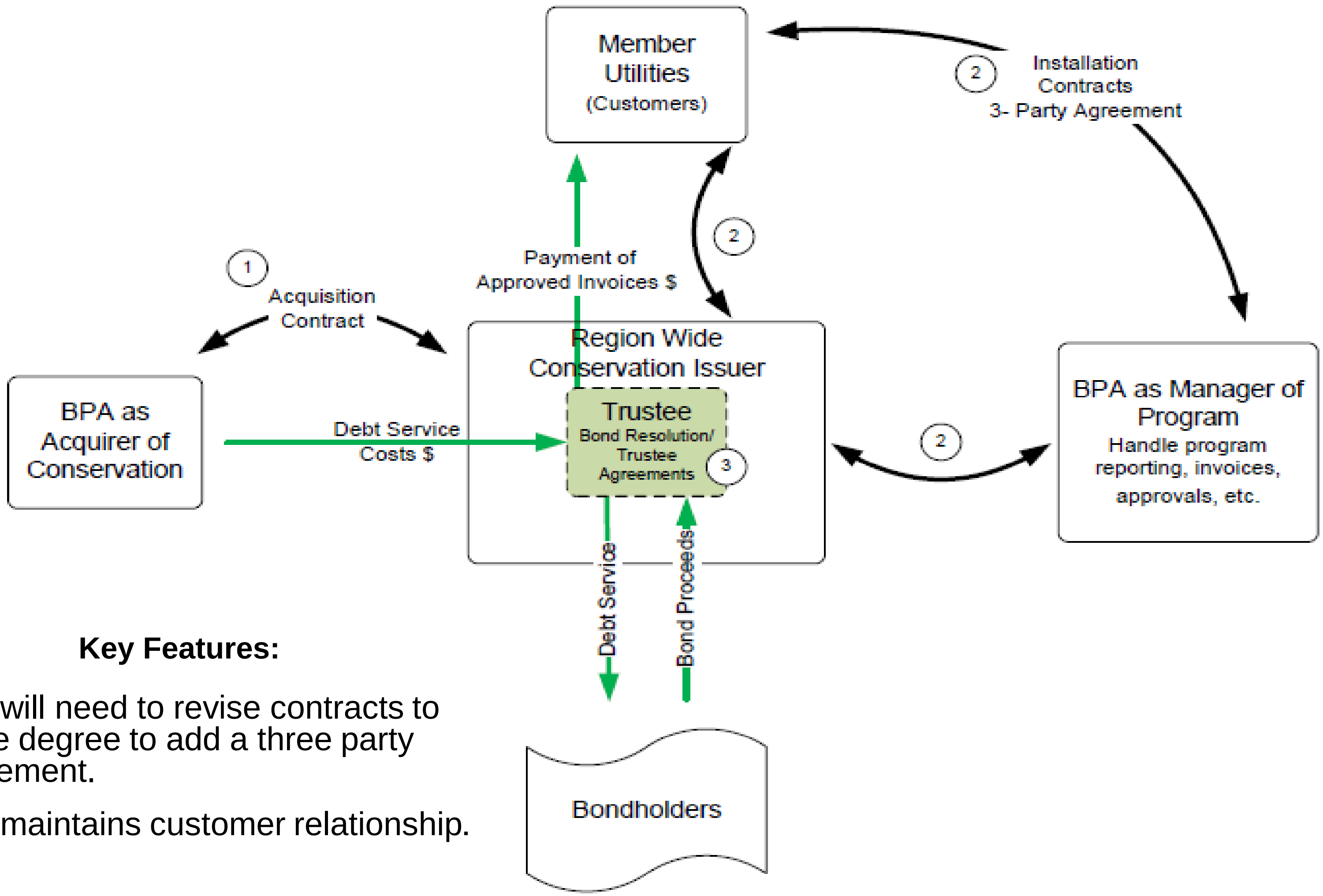
- BPA has only used this mechanism to finance Transmission capital projects.
- Lease financing cannot be used for all Transmission capital projects.
- Assets not leased initially become a permanent lost opportunity for preserving borrowing authority.

Third Party Conservation Financing Model

Financing Construct Model:

Taxable/Tax-Exempt Financing

"BPA-backed Bond Model"



Key Features:

- BPA will need to revise contracts to some degree to add a three party agreement.
- BPA maintains customer relationship.

How Third Party Conservation Financing Works

- To use a third party as a source of financing, BPA would need to contract with the third party to acquire conservation.
- The third party would then issue debt secured by BPA's acquisition payments.
- The third party would also contract with BPA and BPA's customers to implement conservation in the customer's utility service area.
- The new agreement will be to assure the third party that the proceeds from the issuance of its debt are being used for implementation of the program.
- BPA would continue to be responsible for management of the conservation program.

Re-Introduction to Third Party Conservation Financing

- Third Party conservation non-Federal financing can be a significant funding tool to help with BPA's access to capital situation (estimate about 50-70% of annual budget).
- Conservation third party financing is a viable, effective funding source either through taxable or ideally, tax-exempt bond issuance.
- Changing the conservation amortization period policy from 5 to 12 years makes bond financing efficient and cost-effective.
- The size of the multi-year conservation program for BPA is substantial enough to warrant a permanent, long-term funding tool.
- BPA is familiar with non-Federal financing and its requirements and previously completed several third party financings in the mid-90's.
- The NW Power Act gives BPA clear authority to secure bonds issued by others for conservation projects (third party financing).

Prepayment of Customer Revenues for Power Services

How A Power Prepayment Works

- Customers would offer to prepay a portion of their existing Power Sales Agreements through purchasing blocks of credits from BPA.
- BPA would target the proceeds from the prepayment to fund Hydro related investments.

Background

- BPA may offer a power prepay program that will establish an additional financing tool to assure Fed Hydro Investments are made.

- The following principles guided the program design:

1. ***Fixed credit/adjustable price***: A prepay transaction locks in the value of the prepayment (a credit), not power prices. BPA's future rates may go up or down, but the customer will always receive a fixed credit for the prepaid portion of their bill equal to the prepay bond debt service (if applicable) plus an incentive.
   - BPA is mandated to recover its costs from customers and bases its power rates on this mandate. Therefore, BPA cannot lock a fixed power purchase price to recover its future costs when we do not know those costs.
   - BPA believes that any prepay program should maintain equity among participants and non-participants; a fixed price would violate this goal.
2. ***Consistent with existing Regional Dialogue contracts***: A prepay transaction should fit within existing Regional Dialogue contracts and does not constitute an "assignment" of power sold at a Tier 1 rate, which may trigger the Tiered Rates Methodology voting process or a 7(i) process.
3. ***Placement of credits***: BPA has limited degrees of freedom in terms of when credits will occur and needs to define the timing of credits to minimize the impacts to future revenue requirements.
   - BPA will minimize rate impacts by timing credits using repayment study and revenue requirement analysis.
   - The precise timing mentioned above means that the credit streams should be considered fixed and are not liquid.

Power Prepay Basic Terms

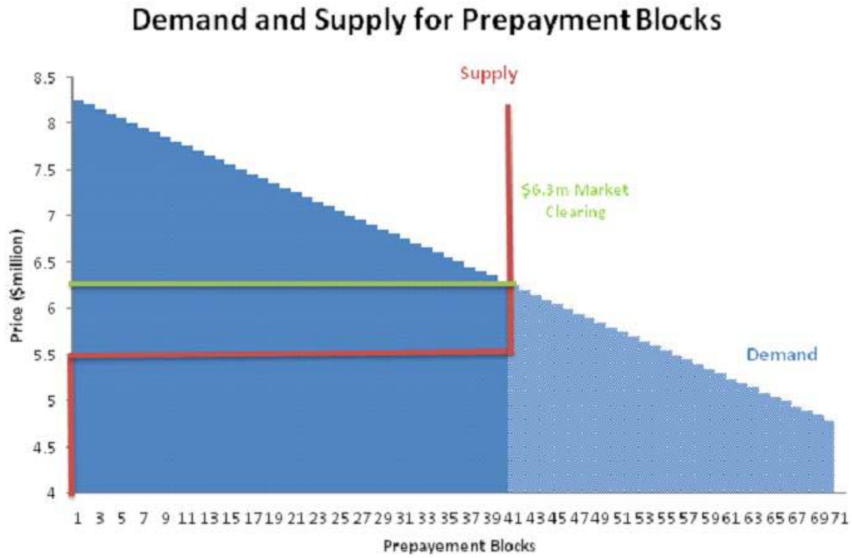
- $50,000 monthly level prepay “Blocks”
- Credit term matches the current Power Sales Agreement’s (PSA’s) and go through FY2028
- Credits are not transferable or sellable by customers
- No minimum Block requirement
- No partial Blocks
- No performance deposit requirement
- BPA will use the Market Clearing Auction to determine the price of the blocks
- In the unlikely event a customer has monthly unused credits, there will be deemed assignments of prepayment credits, BPA will remit cash to the prepaying customer as long as BPA has power purchases from other customers
- Monthly credits start accruing the day after the prepayments are funded and will appear on customer’s power bill the following month.
- If a utility issues debt to fund the prepayment:
  - BPA will assure that the customer is not exposed to interest rate environment risk between the offer(s) date and the date of the customer’s debt pricing. This will be achieved by adjusting the customer’s prepayment amount to reflect the changed interest rate environment (using the Treasury 10-year yield)
  - BPA will provide off-ramps to customers for credit spread risk between bid and funding date of the customer’s debt pricing. This ensures that the selected customers will not under-achieve expected benefits.
  - The payment of principal or interest on any debt issued by or for the benefit of the prepaying customer will not be guaranteed by BPA

Auction Specifics

- BPA will seek offers for a specified number of prepayments. Depending on a variety of factors there could be more than one such auction, but they would likely be every 2 years, sequenced ahead of power rate cases.
- Customers will bid prices (prepayment amounts) to purchase one or more blocks. A customer is not limited to offering the same price for all Blocks it offers to purchase.
- Each bid is a dollar amount of prepayment offered for a Block for about 15 years (or the remaining term of the Regional Dialogue contracts as measured from April 1, 2013). A Block is therefore equal to about $9.2 million in nominal total credits over the life of the agreement.
- For this RFO, the Blocks represent equal monthly credit through the term of the Regional Dialogue contracts—Blocks will not be shaped.
- BPA will establish a “reservation price” per Block that will be the minimum dollar amount BPA is willing to accept for each block.
- Customer bids, subject to BPA’s reservation price floor, will establish a market clearing price, which will be the competitively determined price for participation in the program. All customers that bid at or above this price will be offered the clearing price for each Block they bid at or above this price.

Evaluation Example

- BPA sells 80 Blocks ($50,000 equal monthly credits) for 15 years.
- BPA determines to use a reservation price of $6.0 million per Block, which reflects an implicit rate of approximately 5.8 percent.
- Suppose BPA receives 100 bids as follows:
  - 4,…,4.5,…,5,5.5,6.0,……,6.3,…,7,7.5,…,8.15,8.2,8.25
  - 10 bids are less than the $6.0 million dollar reservation price
  - 90 bids remain, of which the 80th lowest bid = $6.3 million
  - $6.3 million is the market clearing price
  - The program generates $504 million in prepay revenues (80 blocks times $6.3 million per pre-pay)
- Effectively results in BPA paying an implicit 5.1 percent rate



Consolidator Model

- BPA wants to ensure all customers have an opportunity to participate in the initial prepay program.
- Some customers may be restricted in participating in the program directly due to their existing net billing constraints.
- Other customers may not wish to purchase a full block from BPA.
- Customers in either category may work with a “consolidator” to participate in the program.
- The consolidator model is not intended to move transactions “off balance sheet” for other customers.
- The consolidator framework is strictly a financial transaction between the two parties and is a separate agreement from the prepayment agreement with BPA.
- For more information on the Consolidator Model, please contact your Account Executive.

Financial Disclosure

This information has been made publicly available by BPA on July 16, 2012 and contains information not reported in agency financial statements.