2012 Access to Capital

Written Follow-Up Responses

August 9, 2012

MSR Request:
In calculating rate impact did you consider the amount of non-cash revenue will be generated as a result of lease financing and prepay (as opposed to the impact of the changes that the various debt tools would present in rates)?

BPA Response:
Yes, BPA included the non-cash revenues whenever they were applicable. They were significant in the prepay scenarios because the revenue credits are how BPA will recognize the prepayments over time. Lease financing, on the other hand, involves cash transactions and are no non-cash revenues associated with them.

MSR Request:
How does BPA calculate lease payments in the scenarios since BPA is compounding the amount of interest actually being paid with lease financing (and presumably prepay.)

BPA Response:
Pending

MSR Request:
When Jon said the AAC has changed, how has it changed and does this reflect agency financial reserves (i.e. power and transmission) or simply power?

BPA Response:
This was described in the access to capital presentation on slides 28-29. The variables in the cash flow calculation, particularly depreciation expense and Federal principal payments, continue to change which affect the AAC.

MSR Request:
What is missing in your presentations is tying the debt optimization to a program or other expenditure, say for discussion, technology to satisfy wecc/nerc. In that case outside the agency, someone would say that he has a project for XYZ with a total cost of $$$, which would be financed by 1) X dollars from prepay; plus Y dollars from lease financing; plus a short term note. Instead your materials present a lot of options without any real sense of need. So in the scenarios above, it would be a project that could be financed by some lease financing plus a component of rates. Since nothing is tied to any real capital decisions, is this really a presentation for folks like Citigroup and Wells Fargo or filing? otherwise it feels like an interesting analysis that doesn't really inform the parties but does allow BPA to do an examination of what might be the maximum rate increase the parties can live with and how much debt optimization is needed to get there.

BPA Response:
1. Debt optimization is not tied to specific capital investments because it does not directly provide funds for such investments. Funds generated through debt optimization are used to pay down outstanding Treasury bonds. This increases the amount of borrowing authority

available for future capital investments.
2. The presentation was not designed for bankers. It was designed to allow customers to assess BPA's capital program in light of our capital constraints and the possible effects of alternatives to Treasury borrowing. Information on BPA's proposed capital program investments is available in Capital Investment Review materials posted at http://www.bpa.gov/corporate/Finance/IBR/CIR/index.cfm

MSR Request:
The assumptions on lease financing - if BPA is considering transmission related financing, the 50 percent number is probably inflated. The wind industry is in a lull, BPA has eight new substations recently by use of the financing, and the difficulty to get transmission makes the likelihood of any construction for at least four to five years. What did you use to determine whether 50 percent is a feasible number?

BPA Response:
Despite the fluctuations in the renewable energy industry, BPA's Transmission business unit has significant capital requirements. Transmission's capital program was described in the 2012 Capital in Review process. BPA has set a goal to lease finance at least 50% of the Transmission capital program described during that process. Please see the presentations at: http://www.bpa.gov/corporate/Finance/IBR/CIR/index.cfm

MSR Request:
Of the tools, only lease financing applies to transmission. It is shown as 50 percent. What causes the impact on transmission rates to change over time? It looks as if that it should be constant?

BPA Response:
The Transmission revenue requirement increases fall in a fairly narrow range, from roughly $41 million in 2016 and gradually growing to $51 million in 2028. See slide 51 of the access to capital presentation. The reason the change in rates differs from rate period to rate period is that the denominator, the base revenue requirement for each rate period, also changes. An example of this can be found on slide 50 of the access to capital presentation which shows the fluctuations in the capital-related components of the revenue requirement. As a result, the percentage change in the rate will not be static over the period evaluated.

FINANCIAL DISCLOSURE

FY 2011 actuals have been made publicly available by BPA and contains Agency-approved Financial Information.

FY 2012-13 forecasts for Rate Case and Start of Year have been made publicly available by BPA and contains Agency-approved Financial Information.

FY 2013-15 IPR target and Proposed IPR levels have been made publicly available by BPA on June 5, 2012 and reflect information not reported in agency financial statements.