BPA Debt Management Follow Up: EE Capital to Expense Scenario

July 10, 2014

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Debt Management Overview: Objectives

- Parallel to the Integrated Program Review (IPR), BPA held two debt management workshops (June 17th and 26th).
- The purpose of these workshops was to seek feedback on mechanisms for achieving the following debt management objectives.
  - **Access to Capital:** Maintain continual access to U.S. Treasury Borrowing Authority on a rolling 10-year basis.
  - **Cost Stability (Power)**: Long-term cost trajectories that align with the business objectives of each business unit. For Power, Tier 1 sales are capped, therefore, any increases to capital-related costs translate into increases for Tier 1 rates. Maintaining stable capital-related costs to match the stability of Tier 1 sales is a primary focus.
  - **Least Cost:** Ensure capital financing requirements are met at lowest overall cost.

Debt Management Overview: Preferred Scenario

- On June 17th, BPA presented its recommended scenario: EN Regional Cooperation Debt Refinancing (Scenario Two)
- Scenario Two refinances EN bonds to increase the weighted average maturities of outstanding Project 1, Project 3 and Columbia bonds to match more closely the originally expected useful life. By extending maturities of outstanding bonds, these refundings will make available Bonneville revenues which will be used to prepay a portion of Bonneville's higher rate federal appropriations repayment obligations and bonds issued by Bonneville to the United States Treasury. This scenario achieves the following results through 2028:
  - Reduces interest costs by about $790M
  - Restores approximately $2.2B in U.S. Treasury Borrowing Authority
  - Restores availability of U.S. Treasury Borrowing Authority through 2027

Scenario Two: Summary

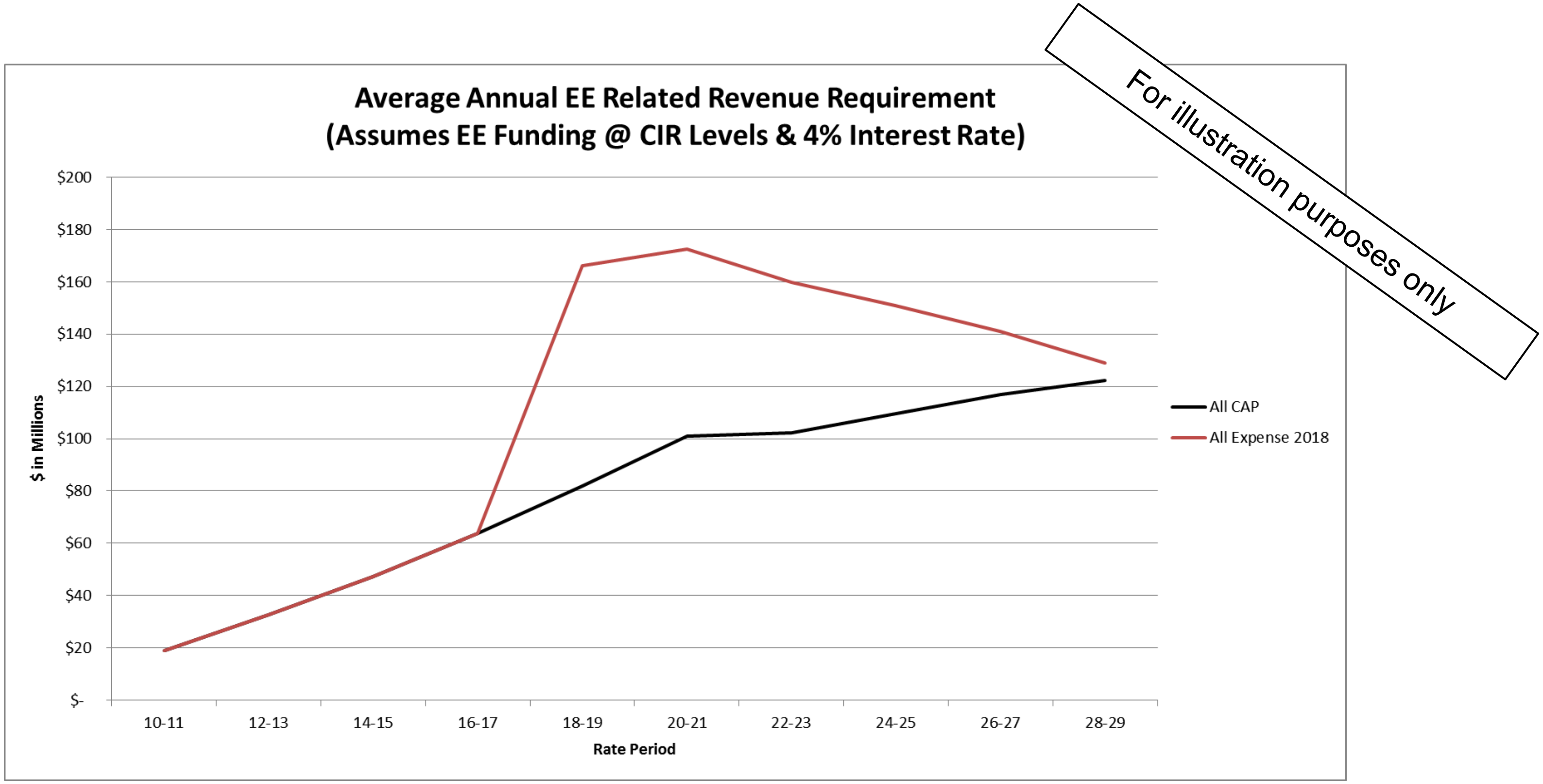
- Scenario Two's capital-related costs are about $29m lower per year when compared to the CIR Close out for the FY 2016-17 Rate Period.
- This equates to an approximate additional 1.5% reduction in Power FY 2016-17 rates.
- Extending all of the EN Regional Cooperation Debt for the Power Business Line:
  - Decreases interest expense.
  - Increases principal repayment.
  - Restores U.S. Treasury Borrowing Authority.
  - Mitigates near-term increases of the Power Business Line's capital-related costs

Scenario Two	
Action (millions)	
Regional Cooperation Debt Refinanced	$3,260
Additional Federal Debt Repaid	$3,260

Benefits (millions)	2014-28	2014-44
Estimated Interest Savings	$790	$1,750
Estimated U.S. Treasury Borrowing Authority Restored	$2,193	$1,178
Estimated Annual Average Change in Power Capital-Related Costs	$17	-$19
U.S. Treasury Borrowing Authority Available Until	2027	
Change in Weighted Average Maturity (years)	-1.6	-1.7

EE Capital to Expense: Context

- Via the Post 2011 Process, BPA received feedback that most members of Workgroup One supported the idea of moving from capital to expense.
- However, utilities expressed concern that a capital to expense shift of ~$100M would have an intolerable rate impact (~5%↑).



Debt Management: Capital to Expense Scenario

- On June 26th, BPA presented two that aired Scenario Two with transitioning EE from capital to expense (Scenario 3-CRC & 3-BA).
- Common Assumptions:
  - All conservation projections are Federally financed with a normal 12 year term until 2019, at which point **all** subsequent projected capital needs are expensed.
  - EE spending levels are consistent with the CIR

	Dollars in Millions									
	10-11 ACT	12-13 ACT	14-15 CIR	16-17 CIR	18-19 CIR	20-21 CIR	22-23 CIR	24-25 Est.	26-27 Est.	28-29 Est.
Avreage annual EEI Capital*	110	79	84	96	102	108	115	119	124	129
*Actuals in 2010-13 and CIR close out amounts for '14-23. Inflated by 4% in '24-28										

  - Includes a 50% Transmission Lease Purchase Program as part of the U.S. Treasury Borrowing Authority assumptions.

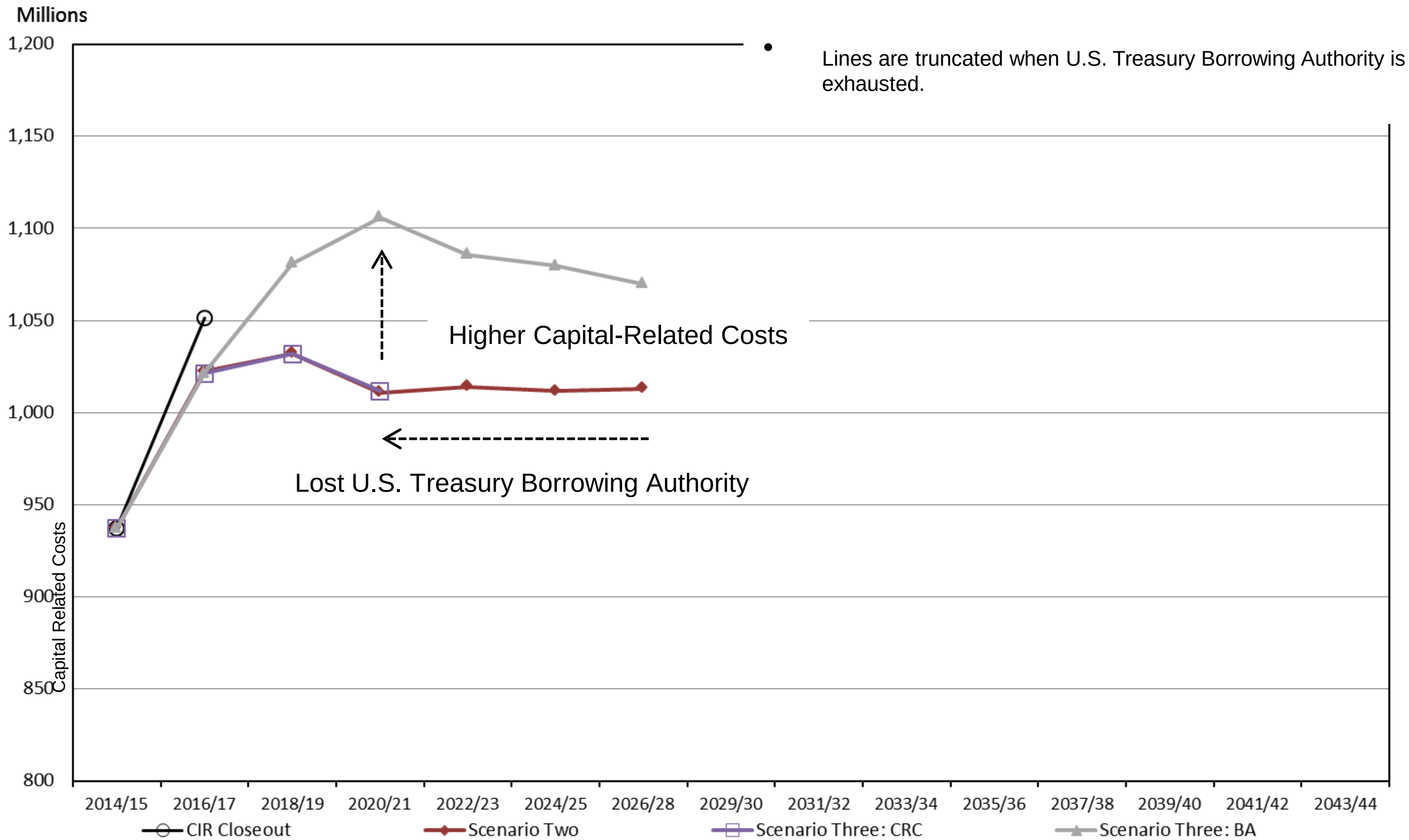
Bookends: 2 Debt Management Scenarios

The two debt management scenarios reveal the range of trade-offs, between capital related costs (rates) and borrowing authority, inherent a capital to expense transition.

- **Scenario Three: CRC** – Capital-related costs consistent with Scenario Two
  - Under this scenario, BPA mitigates the near term rate impact of the capital to expense transition and does not pay off additional Treasury debt.
  - The result is a loss of borrowing authority (compared to Scenario Two)

- **Scenario Three: BA** – U.S. Treasury Borrowing Authority consistent with Scenario Two
  - Under this scenario, BPA uses the available revenues which were then used to prepay a portion of Bonneville's higher rate federal obligations consistent with Scenario Two.
  - The result is higher capital-related costs compared to Scenario Two

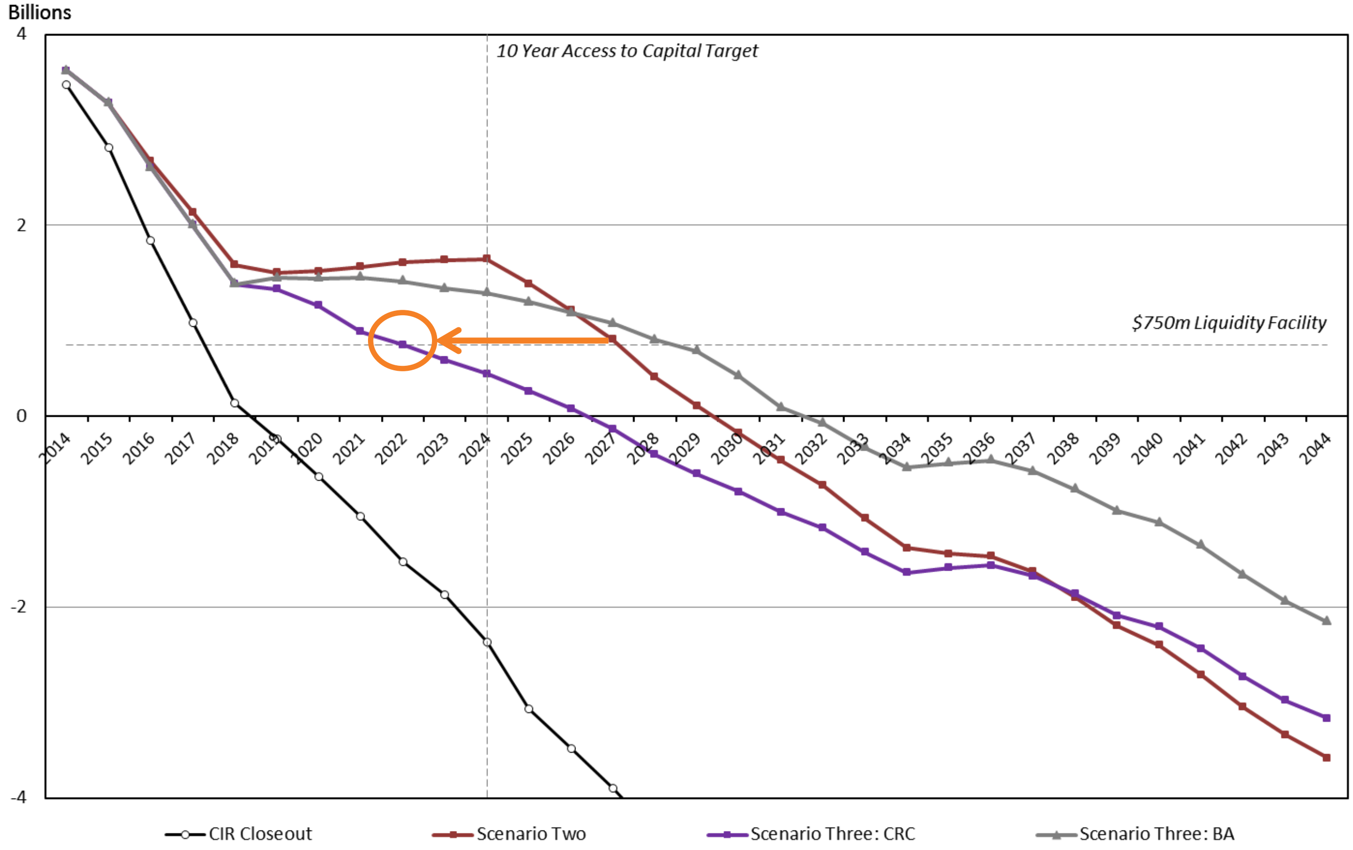
Results: Forecasted Power Capital-Related Costs



Relative Implications of Scenarios 3A and 3B

- **3A: CRC –** Loose 6 years of U.S. Treasury Borrowing Authority
- **3B: BA –** Capital-related cost increase by ~5% in 2019

Results: U.S. Treasury Borrowing Authority



Fully offsetting the capital-related costs of a capital to expense shift results in less than 10-years of access to capital.

Scenario Three Summary

- When paired with Scenario Two, expensing conservation beginning in **2019**:
  - Reduces interest expense
  - Increase U.S. Treasury Borrowing Authority

As compared to Scenario Two	Scenario Three A: CRC		Scenario Three B: BA	
Action (millions)	**2014-28**	**2014-44**	**2014-28**	**2014-44**
Conservation Financing moved to expense	$1,054	$2,670	$1,054	$2,670
Federal Borrowing Authority issuance avoided	$1,054	$2,670	$1,054	$2,670

Benefits (millions)	2014-28	2014-44	2014-28	2014-44
Estimated Interest Savings	$677	$1,606	$954	$2,778
Estimated U.S. Treasury Borrowing Authority Restored*	($808)	$416	$393	$1,422
Estimated Annual Average Change in Power Capital-Related Costs	$3	$21	$49	$14
U.S. Treasury Borrowing Authority Restored Until	2022		2028	
Change in Weighted Average Maturity (years)	0.3	0.5	0.1	0.0

*or not issued

Next Steps

BPA is seeking public comments on this and other Debt Management scenarios through July 15th.

In term of Scenario Three, we would welcome feedback on:

- Whether to consider an EE Capital to Expense transition in 2019, and
- What, if any, rate impacts would be acceptable to achieve a capital to expense transition?

Please submit your comments here:
http://www.bpa.gov/applications/publiccomments/CommentEntry.aspx?ID=239

Financial Disclosure

- The information contained in these slides has been made publicly available by BPA on July 10, 2014 and does not contain BPA-approved Financial Information.