

Third-Party Financing Proposals (August 3, 2004)

Introduction

The Bonneville Power Administration (“Bonneville” or “BPA”) completed a third party financing transaction in March 2004. This transaction provided BPA with an alternative source of capital to its usual source, the U.S. Treasury. This financing created a model for third party financing transactions that will be used as the benchmark for future models. BPA is providing this document as a guideline for entities to use when developing proposals for Bonneville’s consideration.

Process

All third party financing proposals, whether solicited or unsolicited, should fully address the criteria described in this document. Upon receipt of a proposal, BPA staff will complete an initial internal review, and the submitter will be notified of one of the following results. 1) If Bonneville staff believes that the proposal fully addresses the third party financing criteria and is a viable alternative financing proposal, a conference call or meeting will be scheduled with the submitter. 2) If it does not appear that the proposal adequately addresses the third party financing criteria, the submitter will be notified of such determination. BPA’s intention is to be consistent when addressing solicited or unsolicited proposals as well as to review proposals in a fair and equitable manner. BPA will ensure that adequate time is devoted to more closely review and consider those proposals that fully address the third party financing criteria.

Third Party Financing Criteria

Financial Criteria:

- Proposals will be measured against BPA’s traditional borrowing from the U.S. Treasury and Bonneville’s next best alternative to capital.
- Proposals cannot interfere with any net billing arrangements or assume some alteration of BPA’s priority of payments.
- The transaction cannot be a loan or score against BPA’s Treasury Borrowing Authority.
- The proposal must address any tax (local, state, property, etc.) issues that would arise under the proposal.

At this time it is *not* Bonneville’s current policy to transfer any tax benefits to a third party as a way to lower the cost of capital. We believe this would be problematic in our relationship with the Treasury Department, the U.S. Office of Management and Budget, and the U.S. Senate Finance Committee. However, Bonneville may consider proposals that do this if it can be shown that all other criteria are met. Proposed prepayment transactions which use tax exempt financing as a source of funds are not viewed by BPA as highly promising given the political climate and the effect of such transactions on BPA’s power sales contracts. Therefore, such proposals are not likely alternatives for consideration at this time.

Legal Criteria:

- Proposals will be measured against existing statutory and regulatory requirements as well as potential changes to such statutory and regulatory requirements.
- Proposals must be within current Bonneville authority.
- Proposals must be within current federal requirements and/or standards.
- Proposals must provide BPA the opportunity to acquire ownership of the asset.
- Proposals must address federal and state regulatory and tax requirements.

Operational Criteria:

- Proposals will be measured against Bonneville's standard business practices, including, but not limited to, accounting and other record keeping.
- Proposals should estimate potential additional administrative and accounting requirements for BPA.
- Bonneville must retain exclusive operational control over the asset.
- Bonneville must retain exclusive maintenance authority over the asset.

Political Criteria:

- Proposals will be measured against BPA's current political climate.
- Proposals will be evaluated on their ability to address local, state, and federal political concerns. These include, but are not limited to, concerns from the following groups: Northwest Power Planning Council, U.S. Office of Management and Budget, U.S. Department of Energy, the Northwest Regional Congressional Delegation, and the U.S. Senate Finance Committee.

Risk Criteria:

- Proposals will be measured against best practices through review by BPA's Chief Risk Officer.
- The transference of any business, credit or financial risk either to BPA, BPA's customers or the U.S. Treasury must be acceptable to BPA.

Contacts

Jon M. Dull
Don Carbonari

E-mail: jmdull@bpa.gov
E-mail: dwcarbonari@bpa.gov

Phone: 503.230.7544
Phone: 503.230.3798

Where to Submit

Bonneville Power Administration
Jon M. Dull KFW-2
P.O Box 3621
Portland, OR 97208-3621

BPA's Recent Lease Transaction

Summary: On March 15, 2004, BPA entered into a lease agreement with Northwest Infrastructure Financing Corporation (NIFC) to lease the Schultz-Wautoma transmission line. Following are key items with regard to this transaction:

- Title to the assets is held by NIFC.
- BPA is leasing the line from NIFC for 30 years.
- BPA has exclusive use and control of the line during the lease period.
- NIFC issued bonds that are backed solely by lease revenues from BPA.
- Once the bonds are repaid and at the end of the lease term, BPA has an option to acquire the line at minimal additional cost (\$10).

Legal: Under both the Project Act of 1937 and the Transmission Act of 1974 Bonneville has legal authority to enter into lease transactions: *(16 U.S.C. 8386), (16 U.S.C. 838e), 16 U.S.C. 832a(c), (16 U.S.C. 832a(f)), (16 U.S.C. 838i(b)(5))*

Political: This transaction did not include any component that transferred tax benefits to the third party to reduce the interest rate.

Financial: Bonneville traditionally borrows from the U.S. Treasury for capital projects and considers that rate the benchmark to measure all third party transactions against. The following are key statistics of this recent transaction, which was priced on March 9, 2004:

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| ➤ 30-year Treasury Rate: | 4.68% |
| ➤ BPA's 30-year Treasury Borrowing Rate (Agency Rate): | 5.23% |
| ➤ Northwest Infrastructure Rate (Bond Rate): | 5.37% |
| ➤ Northwest Infrastructure Rate (All-in-cost): | 5.47% |
| ➤ Lease Transaction All-in Rate: | 5.52% |

Total Spread Paid Above BPA's Borrowing Rate: **0.29%**

Note: The U.S. Treasury Rate yield curve is updated daily at <http://www.bloomberg.com/markets/rates/index.html>

For this particular transaction, the spread BPA paid above the 30-year Treasury Rate was **84 basis points** (5.52% - 4.68%).

This information has been made publicly available by BPA on June 8, 2004 and is consistent with BPA's final pricing documents in support of the bond transaction.