

Prepay Framework

Live Meeting
June 27th and 28th
9am-12pm

Call-in information:

June 27th: Dial USA Toll-Free: 877- 322-9654 ; at the prompt, enter participant code 320823.

June 28th: Dial USA Toll-Free: 877-807-5706; at the prompt, enter participant code 228865.



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Disclaimer

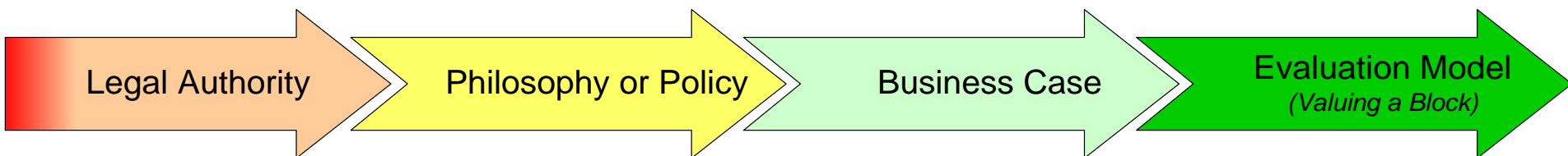


- BPA is providing this information and analytical frame work ("Material") to you, your utility and any other employees or agents of your utility ("You") for the sole purpose of assisting You in understanding the basic framework of the Power Prepay Program that BPA is now considering for possible implementation. BPA does not warrant the effectiveness or completeness or accuracy of the Material in any way and the Material should not be relied on by You in your pricing, formulation or preparation of any offer, or a decision not to provide any offers should BPA ultimately establish the Power Prepay Program. Please understand that it is possible that the Material may not comport with the final terms and conditions of the Power Prepay Program. By accepting the Material, You assume all responsibility for its use and agree to waive, to the extent permissible by law, any claim of any nature whatsoever against BPA based on the Material or its use.
- Representations in this package are for illustrative purposes only.
- Participation decisions should be based upon your own financial analysis.
- Customers should contact their own counsel, Financial Advisor or other consultant to determine their legal authority and to review their financial analysis.

Basic Customer Framework



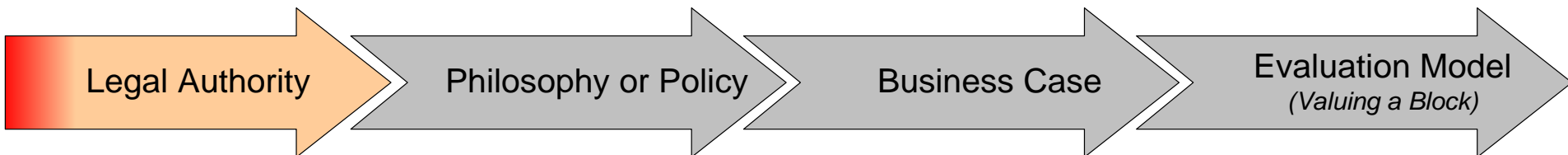
- Customers have four hurdles they may want to consider while evaluating if they want to participate in this program.
 1. Legal Authority: Do they have the legal authority to participate in the program?
 2. Philosophy or Utility's Policy: What is the position on BPA's prepay program?
 3. Business Case: From a macro prospective, does participation in the program have enough value to the utility?
 4. Evaluation Model: What to consider when evaluating how much to bid on a block of power.



Legal Authority



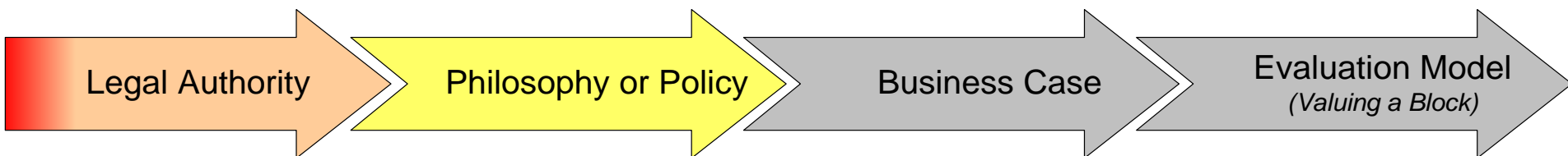
- Participating customers should confirm their legal authority to enter into a transaction.



Philosophy or Policy



- BPA has designed the prepay program in an open collaborative forum with customers and other stakeholders to ensure equity among participants and non-participants.
- Each utility has to determine its individual philosophy and policy towards BPA's prepay program and whether or not to participate.



Business Case



- BPA has developed a Business Case Model to help utilities understand some of the basic features of the program, should it proceed.

- This model evaluates potential future rate impacts without the prepay program if the utility decides to seek to participate or not in the program.

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Regional Participation Effects

Enter the annual dollar amount of revenue financing, and/or additional O&M expenses due to capital cuts in lieu of revenue financing, which would be necessary for BP-14 rate case if BPA does not succeed in finding additional sources of capital:

Enter the two-year amount of dollars achieved in the 2014 Prepay offering from other utilities than input in the customer section:

Once Above Two Values are entered, please run the "Update Rate Base"

Customer Participation Effects

Customer Name:

Prepay Limit (number of blocks):

Desired Level of Participation:

Enter the # of Blocks:

Enter Assumed Financing Rate:

Enter Assumed Incentive Rate:

Savings Rate on Cash/Alternative Investment Rate:

Discount Rate for NPV Calculations:

BPA Implied Cost of Capital for Prepay:

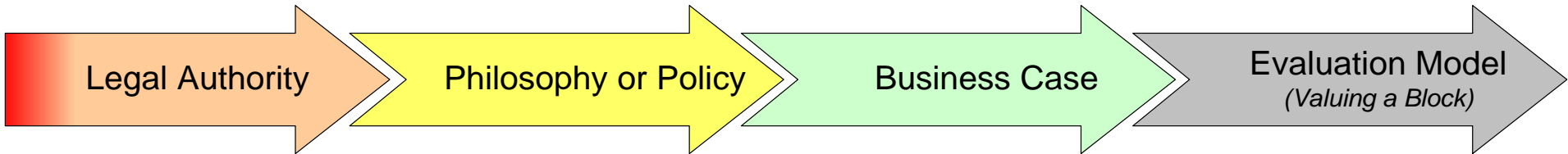
Enter Amount Financed with Cash (cannot exceed \$6,808,001):

Remaining Amount to be Financed: \$ 1,808,001

Total Amount of Prepay: \$ 6,808,001

Summary Outputs Illustrative Purposes Only - Subject to Change

Rate Effects Due to Program Participation	2012	2013	2014	2015	2016	2017
Revenues	\$ 2,072,684	\$ 2,081,902	\$ 2,481,102	\$ 2,492,271	\$ 2,595,608	\$ 2,606,042
Loads in MWh (combined)	74,954	75,082	75,406	75,748	76,298	76,440
Incentive (\$)						
If NO USE of CASH	\$ -	\$ 12,811	\$ 25,622	\$ 25,622	\$ 25,622	\$ 25,622
If USE of Cash Levelized	\$ -	\$ 47,801	\$ 95,601	\$ 95,601	\$ 95,601	\$ 95,601
Is USE Cash with Rapid Repayment	\$ -	\$ 24,492	\$ 45,313	\$ 40,376	\$ 35,390	\$ 30,354
Rate Deltas (\$/MWh)						
Avoided Rate Impact Assuming \$6,808,001 of Prepayments and \$0,000 Revenue Financing and/or Higher O&M Costs Imbedded in Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additional Rate Benefit if Incentive Applied to Customer Power Rates						
If NO USE of CASH	\$ -	\$ (0.17)	\$ (0.34)	\$ (0.34)	\$ (0.34)	\$ (0.34)
If USE of Cash Levelized	\$ -	\$ (0.64)	\$ (1.27)	\$ (1.26)	\$ (1.25)	\$ (1.25)
Is USE Cash with Rapid Repayment	\$ -	\$ (0.33)	\$ (0.60)	\$ (0.53)	\$ (0.46)	\$ (0.40)

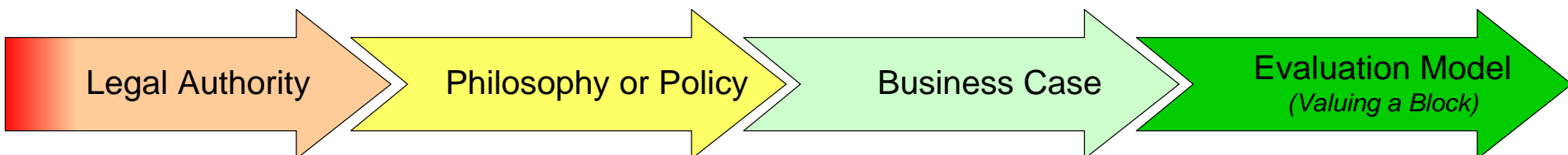


Evaluation Model



- This model does not take into account various financing structure questions, for example:
 - Funding the prepayment with cash or issuing debt?
 - If issuing debt:
 - What is the borrowing cost?
 - What is the cost of issuance associated with the debt?
 - Will interest be capitalized?
 - Will there be a reserve fund?
 - If there is a reserve fund, what will the earnings rate be on the funds?
 - Will the utility hedge credit spread risk?
 - How long will the proceeds be escrowed until payment is made to BPA?
 - What is the target incentive?

- Representations in this model are for illustrative purposes only. Participation decisions should be based upon your own financial analysis.



Formulating A Bid (Breakeven)



- The first step in formulating a bid is to identify the breakeven point for a bid if funding the prepayment through a debt offering.
- The breakeven point is where the monthly debt service on the debt equals the monthly credits and is driven by the borrowing rate.
- Assuming a 3.50% customer financing rate, the breakeven point is \$7.06 million

Amount of borrowing which can be supported when interest cost is factored in

Inputs

Program Parameters

Program Start	4/1/2013
First Credit Provided	5/1/2013
Program End	10/1/2028
# of Months	186
Size of 1 Block (per month)	50,000
Number of blocks bid	1
Total Annual Value of Block(s)	600,000
Total Value of Block(s) through Term	9,300,000

Customer Inputs

Delivery/Prepayment Date	4/1/2013
First Interest Payment	10/1/2013
First Year Months	6
First Principal Payment	10/1/2013
Utility Financing Cost	3.50%

BLUE indicates required input
BLACK indicates automatic calculation

Outputs

	A	B	C	D	E=B+D	F=annual E	G=A-F
Date	Annual Credits	Principal	Rate	Interest	Total Debt Service	Annual Debt Service	Credits Minus Debt Service
Total	9,300,000	7,060,000		2,205,875	9,265,875	9,265,875	34,125
4/1/13							
10/1/13	300,000	175,000	3.50%	123,550	298,550	298,550	1,450
4/1/14				120,488	120,488	-	-
10/1/14	600,000	355,000	3.50%	120,488	475,488	595,975	4,025
4/1/15				114,275	114,275	-	-
10/1/15	600,000	370,000	3.50%	114,275	484,275	598,550	1,450
4/1/16				107,800	107,800	-	-
10/1/16	600,000	380,000	3.50%	107,800	487,800	595,600	4,400
4/1/17				101,150	101,150	-	-
10/1/17	600,000	395,000	3.50%	101,150	496,150	597,300	2,700
4/1/18				94,238	94,238	-	-
10/1/18	600,000	410,000	3.50%	94,238	504,238	598,475	1,525
4/1/19				87,063	87,063	-	-
10/1/19	600,000	425,000	3.50%	87,063	512,063	599,125	875
4/1/20				79,625	79,625	-	-
10/1/20	600,000	440,000	3.50%	79,625	519,625	599,250	750
4/1/21				71,925	71,925	-	-
10/1/21	600,000	455,000	3.50%	71,925	526,925	598,850	1,150
4/1/22				63,963	63,963	-	-
10/1/22	600,000	470,000	3.50%	63,963	533,963	597,925	2,075
4/1/23				55,738	55,738	-	-
10/1/23	600,000	485,000	3.50%	55,738	540,738	596,475	3,525
4/1/24				47,250	47,250	-	-
10/1/24	600,000	505,000	3.50%	47,250	552,250	599,500	500
4/1/25				38,413	38,413	-	-
10/1/25	600,000	520,000	3.50%	38,413	558,413	596,825	3,175
4/1/26				29,313	29,313	-	-
10/1/26	600,000	540,000	3.50%	29,313	569,313	598,625	1,375
4/1/27				19,863	19,863	-	-
10/1/27	600,000	560,000	3.50%	19,863	579,863	599,725	275
4/1/28				10,063	10,063	-	-
10/1/28	600,000	575,000	3.50%	10,063	585,063	595,125	4,875

Adding a Rate of Return



- As a utility lowers its bid from the breakeven price of \$7.06 million, its debt service is lowered and savings are generated.
- How low a Utility bids will depend on the perceived risk in the prepayment and the utility's desire to receive an additional incentive payment.
- The following table shows the relationships between a lower bid price, spread over the utility's borrowing rate (the implied additional cost to Bonneville), and the savings realized by the utility.

<u>Inputs</u>		<u>Outputs</u>							
		A	B	C	D	E=B+D	F=annual E	G=A-F	
		Date	Annual Credits	Principal	Rate	Interest	Total Debt Service	Annual Debt Service	Credits Minus Debt Service
Program Parameters		Total	9,300,000	6,700,000		2,093,175	8,793,175	8,793,175	506,825
Program Start	4/1/2013	4/1/13							
First Credit Provided	5/1/2013	10/1/13	300,000	165,000	3.50%	117,250	282,250	282,250	17,750
Program End	10/1/2028	4/1/14				114,363	114,363	-	-
# of Months	186	10/1/14	600,000	340,000	3.50%	114,363	454,363	568,725	31,275
Size of 1 Block (per month)	50,000	4/1/15				108,413	108,413	-	-
Number of blocks bid	1	10/1/15	600,000	350,000	3.50%	108,413	458,413	566,825	33,175
Total Annual Value of Block(s)	600,000	4/1/16				102,288	102,288	-	-
Total Value of Block(s) through Term	9,300,000	10/1/16	600,000	365,000	3.50%	102,288	467,288	569,575	30,425
		4/1/17				95,900	95,900	-	-
Customer Inputs		10/1/17	600,000	375,000	3.50%	95,900	470,900	566,800	33,200
Delivery/Prepayment Date	4/1/2013	4/1/18				89,338	89,338	-	-
First Interest Payment	10/1/2013	10/1/18	600,000	390,000	3.50%	89,338	479,338	568,675	31,325
First Year Months	6	4/1/19				82,513	82,513	-	-
First Principal Payment	10/1/2013	10/1/19	600,000	400,000	3.50%	82,513	482,513	565,025	34,975
Utility Financing Cost	3.50%	4/1/20				75,513	75,513	-	-
Targeted Incentive Rate	5%	10/1/20	600,000	415,000	3.50%	75,513	490,513	566,025	33,975
		4/1/21				68,250	68,250	-	-
		10/1/21	600,000	430,000	3.50%	68,250	498,250	566,500	33,500
		4/1/22				60,725	60,725	-	-
		10/1/22	600,000	445,000	3.50%	60,725	505,725	566,450	33,550
		4/1/23				52,938	52,938	-	-
		10/1/23	600,000	460,000	3.50%	52,938	512,938	565,875	34,125
		4/1/24				44,888	44,888	-	-
		10/1/24	600,000	480,000	3.50%	44,888	524,888	569,775	30,225
		4/1/25				36,488	36,488	-	-
		10/1/25	600,000	495,000	3.50%	36,488	531,488	567,975	32,025
		4/1/26				27,825	27,825	-	-
		10/1/26	600,000	510,000	3.50%	27,825	537,825	565,650	34,350
		4/1/27				18,900	18,900	-	-
		10/1/27	600,000	530,000	3.50%	18,900	548,900	567,800	32,200
		4/1/28				9,625	9,625	-	-
		10/1/28	600,000	550,000	3.50%	9,625	559,625	569,250	30,750

Lower amount of borrowing can be supported

Adding a Rate of Return



- If a Utility requires too high of an incentive payment, the BPA Implied Cost of Capital may be too high and the utility's bid may not meet the reservation price.
- The following table shows the relationships between a lower bid price, spread over the utility's borrowing rate (the implied additional cost to Bonneville), and the savings realized by the Utility.

Bid Price/Savings Sensitivity

Total Credits	Total bid	Total Debt Service	Gross Savings	Savings %	BPA Implied Cost of Capital	Spread Over Utility Financing Rate
9,300,000	7,060,000	9,265,875	-	0%	3.50%	0.00%
9,300,000	6,845,000	8,983,413	316,588	3%	3.94%	0.44%
9,300,000	6,700,000	8,793,175	506,825	5%	4.24%	0.74%

(1) Gross savings as a percentage of total credits

Adjusting the Bid for Credit Risk



- BPA provides an “off ramp” if credit spreads increase over a predetermined amount.
 - When customers bid on a block of credits, they would include a purchase price and an assumed credit spread over Treasuries.
 - If a Utility’s credit spread exceeds 25 bps over the stated credit spread at a date determined in the future (very probably the pricing date if a Utility is issuing debt), customers could elect to take an “off ramp” and terminate its prepayment obligation. BPA would reimburse the utility for up to \$100k of reasonable out-of-pocket expenses
 - If a Utility’s credit spread is below the 25 bps over the stated credit spread at a date determined in the future, customers would complete the transaction.
 - Customers would benefit if the credit spread at debt pricing proves to be below the set threshold, assuming they priced it into their bid.
 - This approach would guarantee a level of savings to customers assuming they formed their bids to cover the credit spread risk and add the potential for additional savings if the actual credit spread is lower than 25 bps versus the bid.

Adjusting the Bid for Credit Risk (Continued)



Inputs

Program Parameters

Program Start	4/1/2013
First Credit Provided	5/1/2013
Program End	10/1/2028
# of Months	186
Size of 1 Block (per month)	50,000
Number of blocks bid	1
Total Annual Value of Block(s)	600,000
Total Value of Block(s) through Term	9,300,000

Customer Inputs

Delivery/Prepayment Date	4/1/2013
First Interest Payment	10/1/2013
First Year Months	6
First Principal Payment	10/1/2013

Utility Financing Cost	3.50%
Additional Cushion	0.25%
Total Assumed Financing Cost	3.75%

Targeted Incentive Rate 5%

Lower amount of borrowing can be supported

Higher financing cost assumed

Outputs

	A	B	C	D	E=B+D	F=annual E	G=A-F
Date	Annual Credits	Principal	Rate	Interest	Total Debt Service	Annual Debt Service	Credits Minus Debt Service
Total	9,300,000	6,580,000		2,213,438	8,793,438	8,793,438	506,563
4/1/13							
10/1/13	300,000	160,000	3.75%	123,375	283,375	283,375	16,625
4/1/14				120,375	120,375	-	-
10/1/14	600,000	325,000	3.75%	120,375	445,375	565,750	34,250
4/1/15				114,281	114,281	-	-
10/1/15	600,000	340,000	3.75%	114,281	454,281	568,563	31,438
4/1/16				107,906	107,906	-	-
10/1/16	600,000	350,000	3.75%	107,906	457,906	565,813	34,188
4/1/17				101,344	101,344	-	-
10/1/17	600,000	365,000	3.75%	101,344	466,344	567,688	32,313
4/1/18				94,500	94,500	-	-
10/1/18	600,000	380,000	3.75%	94,500	474,500	569,000	31,000
4/1/19				87,375	87,375	-	-
10/1/19	600,000	395,000	3.75%	87,375	482,375	569,750	30,250
4/1/20				79,969	79,969	-	-
10/1/20	600,000	405,000	3.75%	79,969	484,969	564,938	35,063
4/1/21				72,375	72,375	-	-
10/1/21	600,000	425,000	3.75%	72,375	497,375	569,750	30,250
4/1/22				64,406	64,406	-	-
10/1/22	600,000	440,000	3.75%	64,406	504,406	568,813	31,188
4/1/23				56,156	56,156	-	-
10/1/23	600,000	455,000	3.75%	56,156	511,156	567,313	32,688
4/1/24				47,625	47,625	-	-
10/1/24	600,000	470,000	3.75%	47,625	517,625	565,250	34,750
4/1/25				38,813	38,813	-	-
10/1/25	600,000	490,000	3.75%	38,813	528,813	567,625	32,375
4/1/26				29,625	29,625	-	-
10/1/26	600,000	510,000	3.75%	29,625	539,625	569,250	30,750
4/1/27				20,063	20,063	-	-
10/1/27	600,000	525,000	3.75%	20,063	545,063	565,125	34,875
4/1/28				10,219	10,219	-	-
10/1/28	600,000	545,000	3.75%	10,219	555,219	565,438	34,563

Adjusting the Bid for Credit Risk



- If a customer is using cash or borrowing from sources like the Cooperative Financing Corporation (CFC), then they should not be exposed to credit spread risk.

	Total bid	Total Credits	Total Debt Service	Gross Savings	Savings %	BPA Implied Cost of Capital	Utility Cost of Capital	Spread Over Utility Financing Rate
Baseline (5% base savings)	6,700,000	9,300,000	8,793,175	506,825	5%	4.24%	3.50%	0.74%
1 25 bps increase in credit spread <i>No cushion included</i>	6,700,000	9,300,000	8,954,313	345,688	4%	4.24%	3.50%	0.74%
2 25 bps increase in credit spread <i>Full cushion included</i>	6,580,000	9,300,000	8,793,438	506,563	5%	4.49%	3.50%	0.99%
3 No increase in spread <i>Full cushion included</i>	6,580,000	9,300,000	8,637,125	662,875	7%	4.49%	3.50%	0.99%

Note: savings % is rounded

Valuing a Block Summary



- To help educate customers about the program BPA has developed a simple Evaluation Model to assist utilities in identifying some germane factors.
- The Evaluation model walked customers from the nominal value of the total credits worth \$9.3 million:
 - \$7.060 million to break even
 - \$6.700 million including a 5% incentive
 - \$6.580 million including a 5% incentive and .25% credit risk adjustment
- The Evaluation model did not include other structuring items and participation decisions should be based upon your own financial analysis.
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