

BPA Prepayment Program 101

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FEDERAL COLUMBIA RIVER POWER SYSTEM

COLUMBIA RIVER BASIN & BPA SERVICE AREA

WHAT IS BPA?

- Self-funding federal agency within the DOE. Sets power and transmission rates to recover costs.
- Markets power at cost from 31 federal dams and 1 nuclear plant providing over one-third of electricity used in PNW
- Markets transmission services – owns 75% (15,000 miles) of the high-voltage lines in PNW
- Protects, mitigates & enhances fish & wildlife in the Columbia River Basin
- 300,000-square mile service area – includes WA, OR, ID and Western MT
- Over \$3 billion in annual revenues
- 3,000 employees
- Headquarters in Portland, OR
- Established in 1937



Financial Basics



September 30, 2011 Financial Reserves: \$1.01 billion

	FY 2010 EOY Actual (\$mm)	FY 2011 EOY Actual (\$mm)
Financial Reserves	\$1,114	\$1,006
Operating Revenues	\$3,055	\$3,285
Operating Expenses	\$2,939	\$2,931
Total Expenses	\$3,183	\$3,203
Net Revenues	\$(128)	\$82
Total Treasury Principal Payment	\$460	\$410
Total Non-Federal Principal Payment	\$271	\$308
Total Non-Federal Debt Service	\$600	\$625
Non-Federal Debt Service Coverage	2.2	2.5

Total Treasury Payment of \$830 million was made on time and in full for the 28th year in a row

Moody's: Aa1 (Stable outlook)

High credit ratings on BPA-backed debt

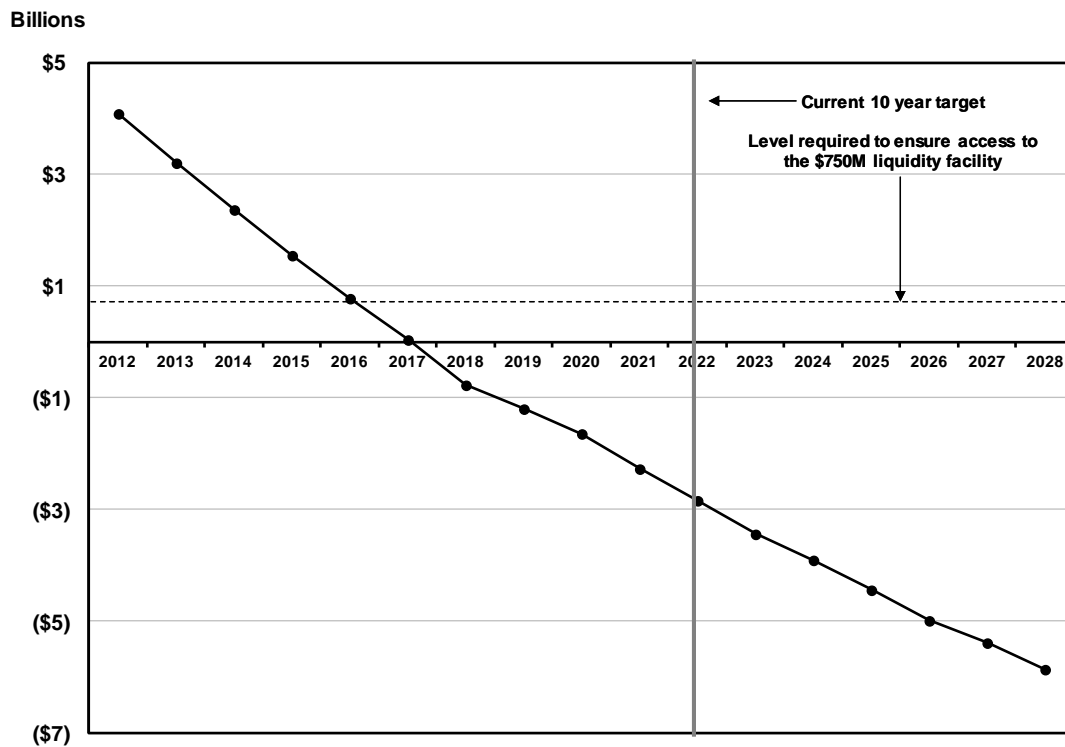
S&P: AA- (Stable outlook)

Fitch: AA (Stable outlook)

BPA's Forecasted Borrowing Authority



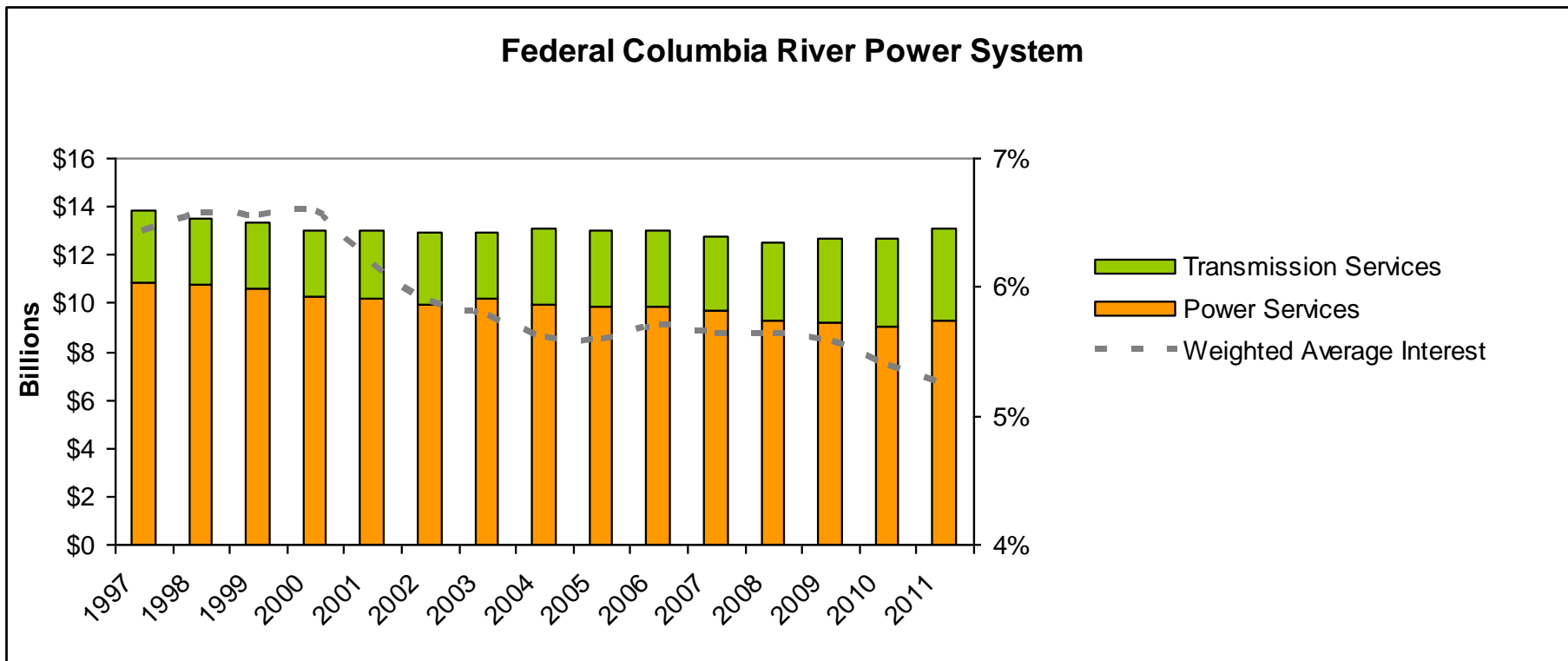
Remaining US Treasury Borrowing Authority



Does not assume any additional third party or lease financing

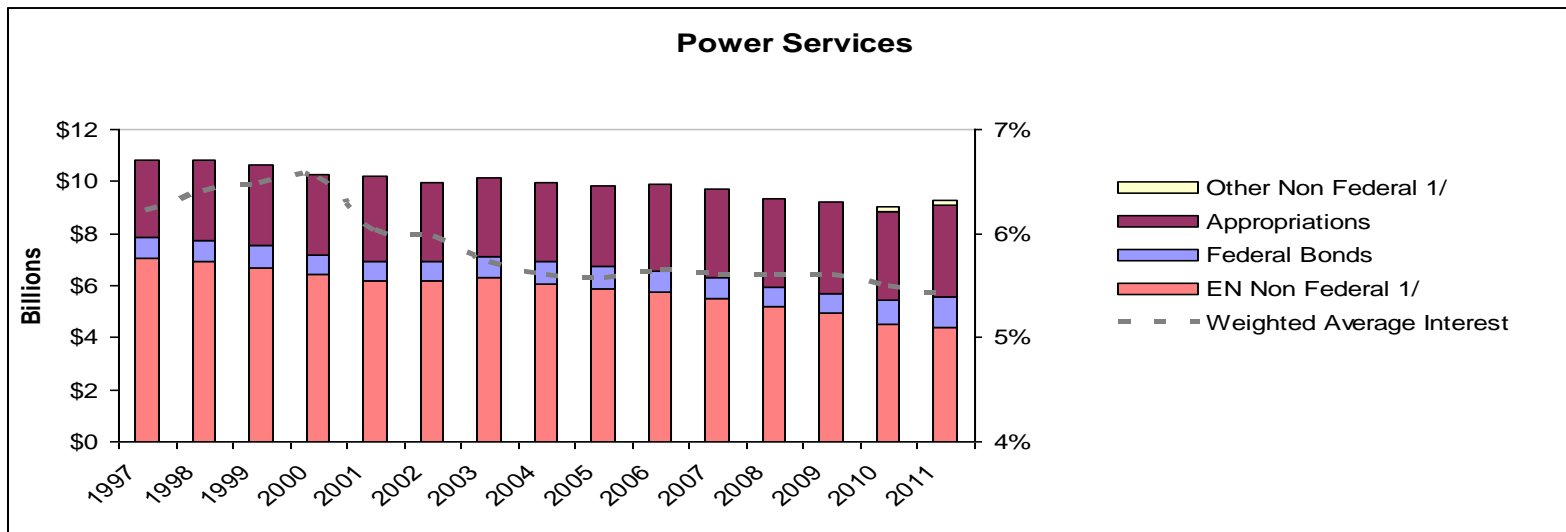
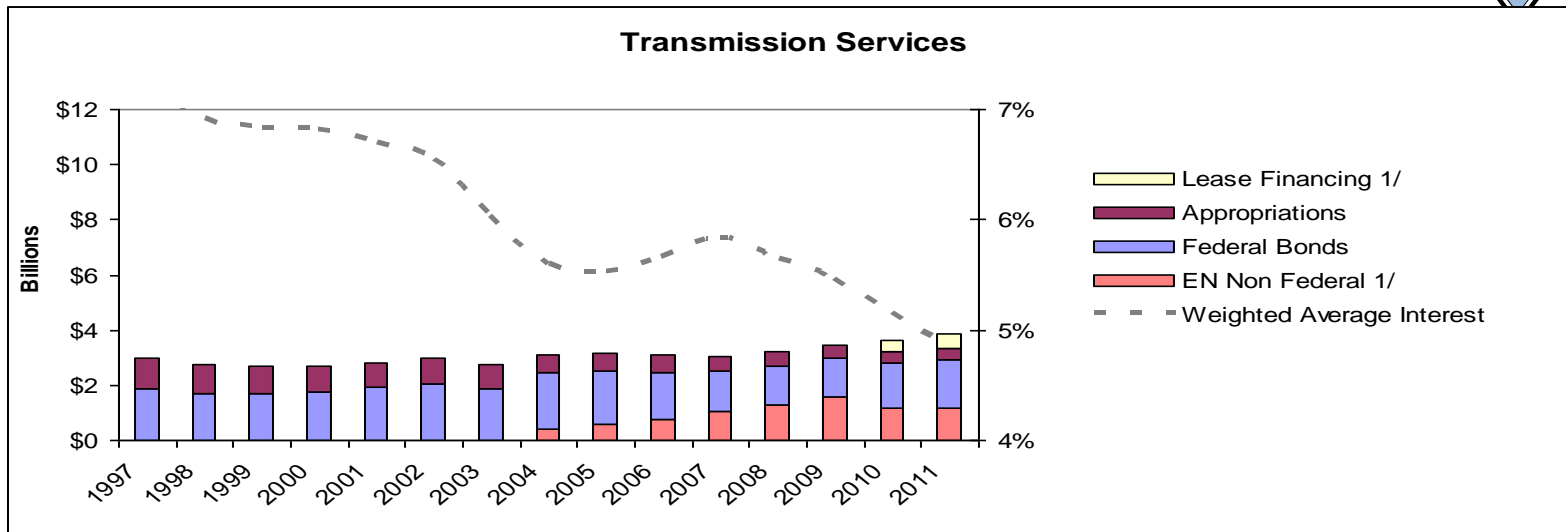
A Look at the Total Portfolio:

BPA's Outstanding Liabilities Over Time



A Look at the Total Portfolio:

BPA's Outstanding Liabilities Over Time



1/ Other Non Federal Projects, including Lease Financing, were included as part of the EN Non Federal Category until 2010

New Long-Term Power Sales Contracts



- Regional Dialogue contracts (PSAs) provide long-term stability signed with 133 municipal, cooperative and public utility district customers.
 - Customers and their consumers will benefit from certainty about long-term access to low-cost federal power.
 - BPA will have an assured source of revenue that will ensure it can cover its costs including Treasury payment.

- The PSAs provide a number of benefits in addition to stability:
 - Facilitate conservation and the development of renewable power.
 - Promote regional resource adequacy.
 - Encourage development of electric infrastructure in the Pacific Northwest.

- The PSAs implement tiered rates through 2028:
 - Ensure the value of the federal system is clear, since augmented power will not be melded into Tier 1 prices.
 - Give customers certainty about the amount of power they can purchase at Tier 1 rates.
 - Give customers advance notice of what power they need to acquire to meet load growth beyond Tier 1.
 - Provide choices, including the choice of Tier 2 power from BPA or power from other sources.
 - Provide price signals that reveal the true power cost of load growth.

- Prepayment Program:

Customers would prepay for the future delivery of power consistent with the PSAs except that payment provisions will be revised to reflect the prepayment.

Power Prepay Overview



The energy industry is capital intensive, and BPA's success in delivering public benefits hinges on sufficient access to capital to maintain and enhance the power and transmission systems, invest in energy efficiency, and fulfill fish and wildlife obligations.

To aid in its access to capital, BPA has initiated an electricity prepayment program to generate funds to assure federal hydroelectric investments can be made. Utilities that choose to participate will submit one or more offers based on their willingness to pay a lump sum up front in return for the receipt of \$50,000 "blocks" of credits on their power bill each month beginning May 2013 and running through Sept. 20, 2028.

The bids will establish a market for the blocks of power. BPA will then use a market clearing auction process to set the clearing price for blocks for all accepted offers. All winning participants will purchase blocks of credits at that same market clearing price. BPA may accept all, some or no offers. BPA will not accept offers that are lower than BPA's "reservation price," which will not be announced until after the bids are submitted. The bids are due to BPA between noon Nov. 29 and noon Nov. 30.

BPA began work on developing a power prepayment program proposal last year as part of the 2011 Strategic Capital discussion. At the conclusion of the discussion, BPA formed a regional team that was composed of representatives from municipal utilities, public utility districts, electric power cooperatives and preference customer associations to help design the program. In June, BPA conducted two webinars for customers. BPA then opened a comment period for stakeholders before deciding to implement the program.

The request for offers can be found at www.bpa.gov/corporate/finance/Power_Prepayment_Program/.

Power Prepay Basics



- \$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 and all participants will pay the same price
- 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 adequate power purchases from other customers
- Monthly credits start accruing the day after the prepayments are due to be funded and will appear on customer’s power bill the following month.
- If a utility issues debt to fund the prepayment:
 - It can avoid exposure to interest rate environment risk between the date of the making of the offer(s) 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

Market Clearing Auction

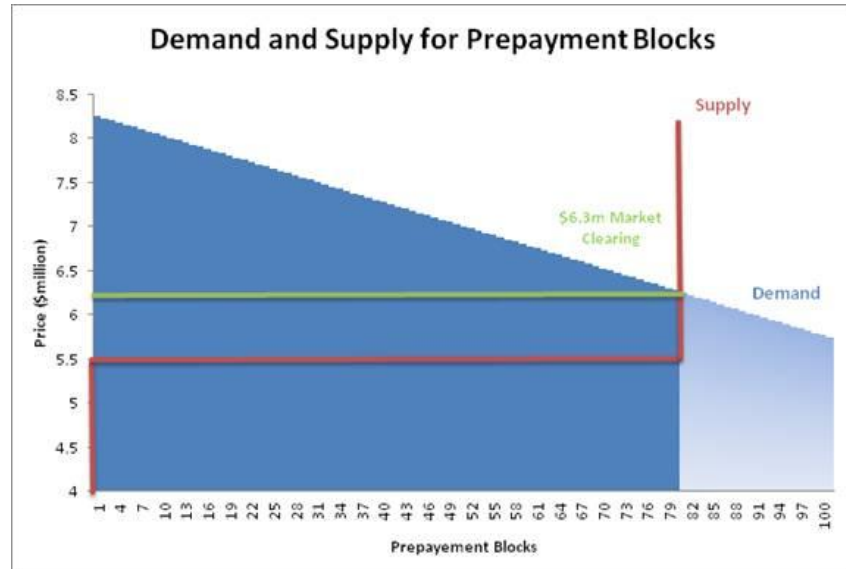


- BPA will seek offers for a specified amount of prepayments. Depending on a variety of factors there could be more than one such auction, but they would likely be every 2 years, sequenced ahead of power rate cases.
- Customers will bid prices (prepayment amounts) to purchase one or more blocks. A customer 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 15.5 years (or the remaining term of the Regional Dialogue contracts as measured from April 1, 2013). A Block is therefore equal to \$9.3 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 in confidence a “reservation price” per Block that will be the minimum dollar amount BPA is willing to accept for each block. BPA will reveal the reservation price after the auction.
- 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. (There is tie breaker in the unlikely event of a tie at the marginal bid.)

Market Clearing Auction Example



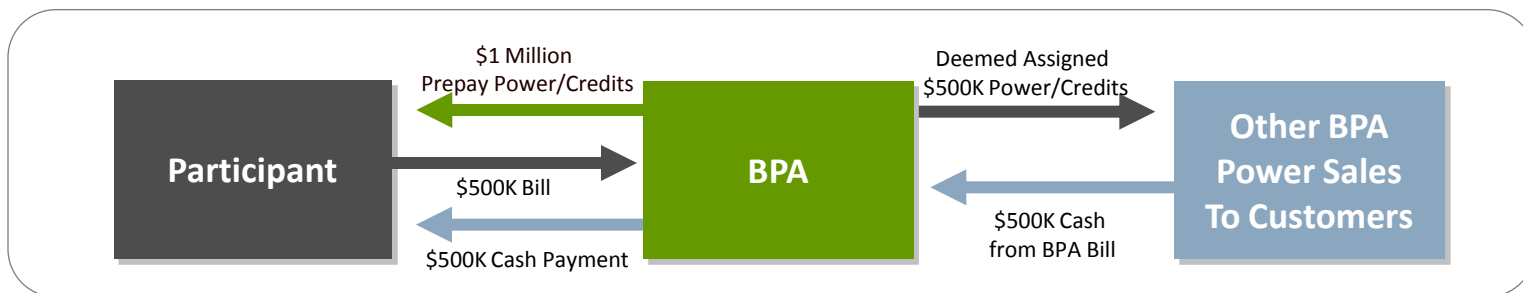
- BPA sells 80 Blocks (\$50,000 equal monthly credits) for 15 years.
- BPA determines to use a reservation price of \$6.0 million per Block, which reflects an implicit rate of approximately 5.8 percent.
- Suppose BPA receives 100 bids as follows:
 - 4, ..., 4.5, ..., 5, 5.5, 6.0, ..., 6.3, ..., 7, 7.5, ..., 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



Deemed Assignment of Credits



The structure provides protections against events where participants power bills owed to BPA are less than the prepay credit and thru deemed assignment of credits, a cash payment may be subsequently provided to participants.



Transaction Risks and Mitigations



The transaction is designed to provide strong protection for the prepaying participant.

Risk	Mitigation
<p><i>BPA Fails to Perform</i></p> <ul style="list-style-type: none"> • BPA fails to deliver 	<ul style="list-style-type: none"> • BPA obligation to deliver is identical to obligation under existing regional dialogue PSAs
<p><i>Participants Failure to Take Power/Credit Exceeds Obligation to BPA</i></p> <ul style="list-style-type: none"> • Participants loss of load 	<ul style="list-style-type: none"> • Program is structured with safeguards to avoid annual prepaid credits to exceed 50% of participants purchases from BPA • BPA cash deemed assignment remittances should the participant's BPA power bill fall below monthly prepaid credits • Prepaid credits carry forward if no re-assignment available

Credit Markets



Credit Market Reactions

- BPA has received input that the credit markets find the prepayment program acceptable and customers that do not have cash reserves should be able to find funding through public offerings or private placements.
 - Cooperative Financing Corporation: May 2012
 - Rating Agencies: July 17th and 23rd

Cooperative Financing Corporation Takeaways

- Open to lending to their normal cooperatives clients but also Muni's and PUD's
- Sent a letter to BPA customers in July 2012
- May make adjustments to their ratio calculations
- Understood that an increase in a participant's debt to fund prepayments would not increase their overall costs since debt service replaces O&M expense

Credit Markets



Rating Agency General Takeaways

- The rating agencies tend to focus on overall fixed charge coverage on all debt (senior or subordinate). Some rating agencies may allocate a portion of a utility's BPA costs to fixed charges to reflect BPA's underlying Federal and non-federal debt.
- Rating agencies are likely to re-calculate debt service coverage and debt ratio to reflect the participants' prepayment debt, resulting in lower overall debt service coverage and a higher debt ratio. These adjustments will not necessarily lead to any rating impact as the rating agencies may take an overall view, including multiple other factors and the benefits of the transaction to the region and cost savings to the participant.
- Utilities in the A+/A1 to AA-/Aa3 range that have an overall debt/fixed charge coverage ratio that will remain in the area of 1.4x or higher may not see any rating impact. Utilities that will fall into the 1.1x to 1.25x range could likely face a challenge to maintain ratings.
- TVA-Memphis transaction is instructive on rating agency analytics.
- Any rating impacts will be decided on a utility-by-utility basis. The opinions expressed above are based on very preliminary discussions with various rating agencies, underwriters and financial advisors. Individual utilities need to contact their rating agency directly.

Cost Comparison to Lease Financing



Lease Financing

- BPA's Lease Financing program is expected to cost approximately 100 bps above the interest rate charged by the US Treasury to BPA, otherwise known as the Agency Rate.
- The lessor issues debt on a taxable basis.
- The credit spread is based on BPA's credit.
- The lessor incentive is about \$10,000 - \$25,000 per year / plus expenses.

Prepays

- BPA's proposed Electricity Prepayment Program is expected to cost above the Agency Rate but remain comparable in cost to BPA's Lease Financing program.*
- For at least the first solicitation, the assumption is customer issued prepayment debt will be taxable, but future transactions may qualify for tax-exempt financing.
- The credit spread is based on the customer's credit.
- Customers' priced-in incentives will impact the Market Clearing Price and therefore the all-in-cost

	10 year Treasury (Taxable)	BPA's 10 Year Agency (Taxable)	BPA's Lease Financing (Taxable)	AA Municipal (Taxable)	AA Municipal (Tax-exempt)
Financing rate	1.65%	2.30%	2.80%	2.95%	2.30%
Lease Financing Costs			0.50%		
Incentive	N/A	N/A	\$10-25k per year ^{1/}	Unknown 5% savings = 0.75%	Unknown 5% savings = 0.75%
Cost of Issuance	No	No	Yes ^{1/}	Yes	Yes
All-in-Cost	1.65%	2.30%	3.30%	3.70%	3.05%

Pricing As of July 5, 2012, as communicated in the July 26, 2012 Access to Capital Public Meeting

1/ Included in the Lease Financing Cost

Prepay Status



- BPA released the Request for Offers (RFO) on August 14th 2012
- The RFO can be found at: http://www.bpa.gov/corporate/Finance/Power_Prepayment_Program/
- BPA will hold six webinars regarding the prepay program. Three webinars will be dedicated to understanding the general program and three will be specific to submitting offers and related forms under the RFO.
 - Prepays 101 (each meeting will cover the same material)
 - September 20th, 2012 from 1:30pm-4:30pm
 - September 26th, 2012 from 9:00am-12:00pm
 - October 4th, 2012 from 9:00am – 12:00pm
 - Prepays 202 (each meeting will cover the same material)
 - October 23rd, from 9:00am-12:00pm
 - November 6th, from 9:00am-12:00pm
 - November 13th, from 9:00am-12:00pm
- Offers under the RFO are due between noon Pacific Time on Nov. 29, 2012, and noon Pacific Time on Nov. 30, 2012

Timeline



Legend

- Webinar Prepay 101
- Webinar Prepay 202

