

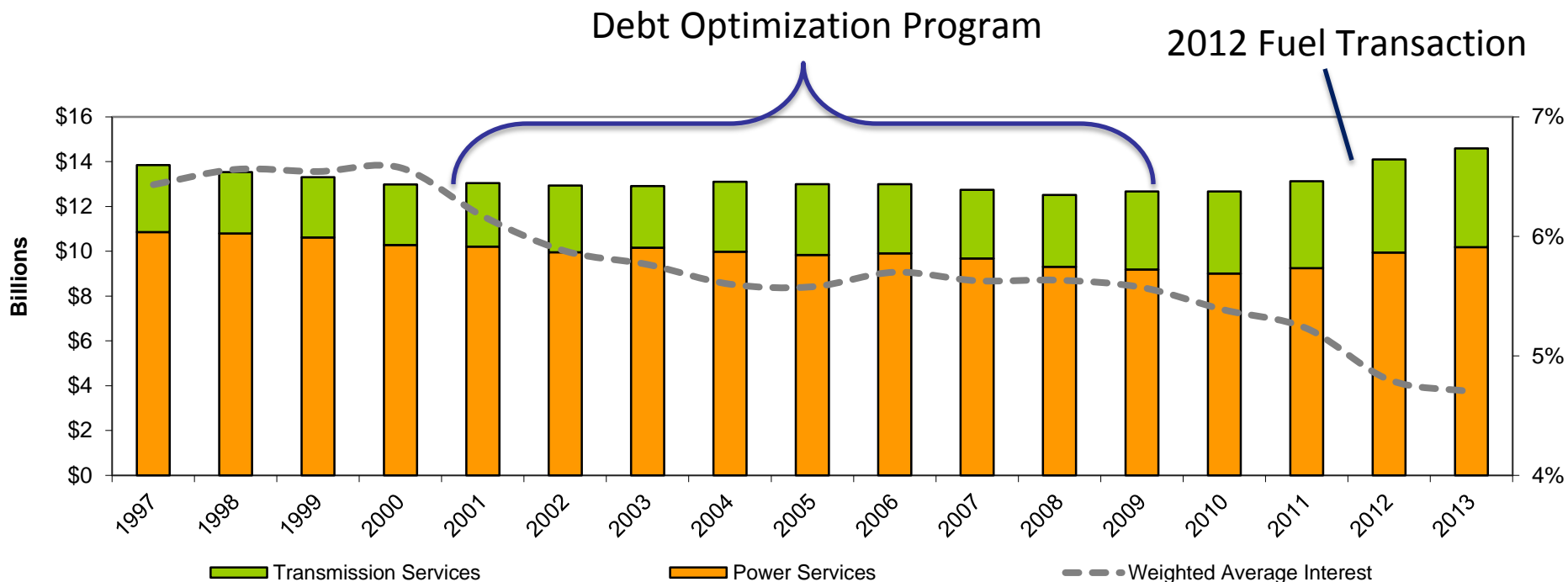
# Refinancing of Projects 1 and 3 Regional Cooperation Debt

Presentation to EN Board  
April 24, 2014

## Energy Northwest and Bonneville Power Recent Pricing

- On April 9<sup>th</sup>, Energy Northwest priced \$634 million of BPA supported debt
- This transaction included:
  - \$202 million new money for Columbia
  - \$46 million Columbia extension assumed in the FY14/15 rate case
  - \$386 million refinancing for savings
- Energy Northwest and BPA undertook a significant investor outreach program for this financing.
  - Outreach included in person meetings and an internet “roadshow” presentation
    - 12 one-on-one investor meetings led to \$448 million of orders from 10 investors, and 83% success rate
    - The internet roadshow was viewed by 27 investors who submitted \$631 million of orders
  - 65 institutional investors participated in the financings, 24 of which did not report holdings of Energy Northwest or BPA supported debt prior to this financing.
    - Largest investors included Susquehanna, State Farm, Vanguard, Eaton Vance and J.P. Morgan CIO
    - Orders ranged from \$250,000 to \$364 million
- EN and BPA's investor outreach program was extremely successful resulting in the transaction being 6x over subscribed and the final pricing tighter than New York Transit Finance Authority, a similarly sized, Aa1/AAA/AAA financing
- BPA would like to thank Brent Ridge and his team for their part in making this transaction so successful.

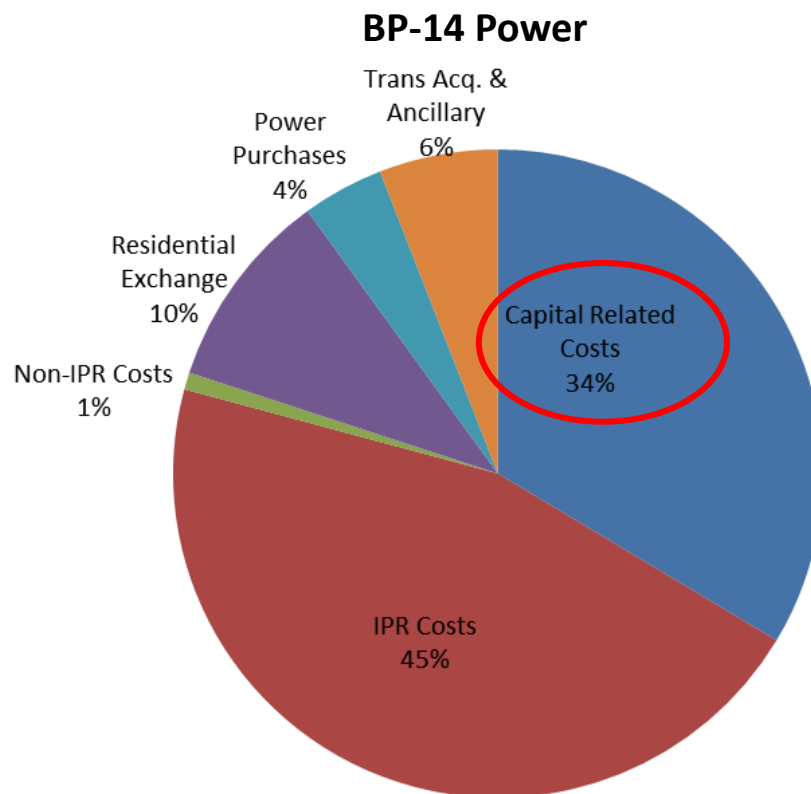
# Federal Columbia River Power System – Total Liabilities Over Time



- BPA continues to invest into the Federal Columbia River Power System and Columbia.
- Each year, BPA pays off both principal and interest.
- Debt Optimization did not cause BPA's principal outstanding to increase.
- BPA's total liabilities have remained stable over time.
- BPA's weighted average interest rate has decreased significantly over time, in part due to the Debt Optimization Program.
- BPA manages its debt on a total portfolio basis.

## BPA Power Rates – Revenue Requirement Breakdown

Capital related costs make up 34% of Power's Revenue Requirement. Debt Service is the primary component of capital related costs.



Integrated Program Review (IPR) includes, among other things, Columbia O&M, BPA internal costs, and fish and wildlife.

# Debt Optimization and Regional Cooperation Debt

## *Background*

- Through the Debt Optimization program (2002-2009), BPA collaborated with Energy Northwest (EN) to refinance debt and restore U.S. Treasury Borrowing Authority.
- Debt Optimization is viewed as a successful program.
  - It restored over \$2 billion in U.S. Treasury Borrowing Authority, allowing for additional investments into the Federal Columbia River Power System.
  - It helped to reduce BPA's weighted average interest rate by 1%, saving an estimated \$500 million in interest expense savings for the ratepayers of the Pacific Northwest.
- Debt Optimization allowed BPA to invest in assets for the region at lower costs.
- The Debt Optimization transactions used the EN debt for the region under a comprehensive debt management plan, removing the relationship between the debt from its original purposes.
  - At this point, the EN debt became Regional Cooperation Debt.
- Energy Northwest capital funding is not dependent on BPA's access to U.S. Treasury Borrowing Authority.

## Benefits of a Regional Cooperation Debt Refinancing

- Between now and 2018, \$1.7 billion of Projects 1 and 3 Regional Cooperation debt is maturing.
- By collaborating with EN to refinance to 2028 Regional Cooperation Debt for Project 1 and 3 at low tax-exempt rates, BPA can pay off high interest rate (~7%) Federal Appropriations.
  - Federal Appropriations are debt obligations owed by BPA to the U.S. Treasury for funds appropriated to BPA and other Federal agencies for the original construction and maintenance of the Federal Columbia River Power System, including the original investments into the dams.
- Federal Appropriations are the most expensive in the BPA portfolio. The spread between BPA's Federal Appropriation interest rates and BPA/EN forecasted interest rates is 3.45%.

	Weighted Average Interest Rate	Weighted Average Maturity
Federal Debt	5.02%	28.57 years
Nonfederal Debt	4.31%	20.14 years
Total Portfolio	4.69%	24.62 years

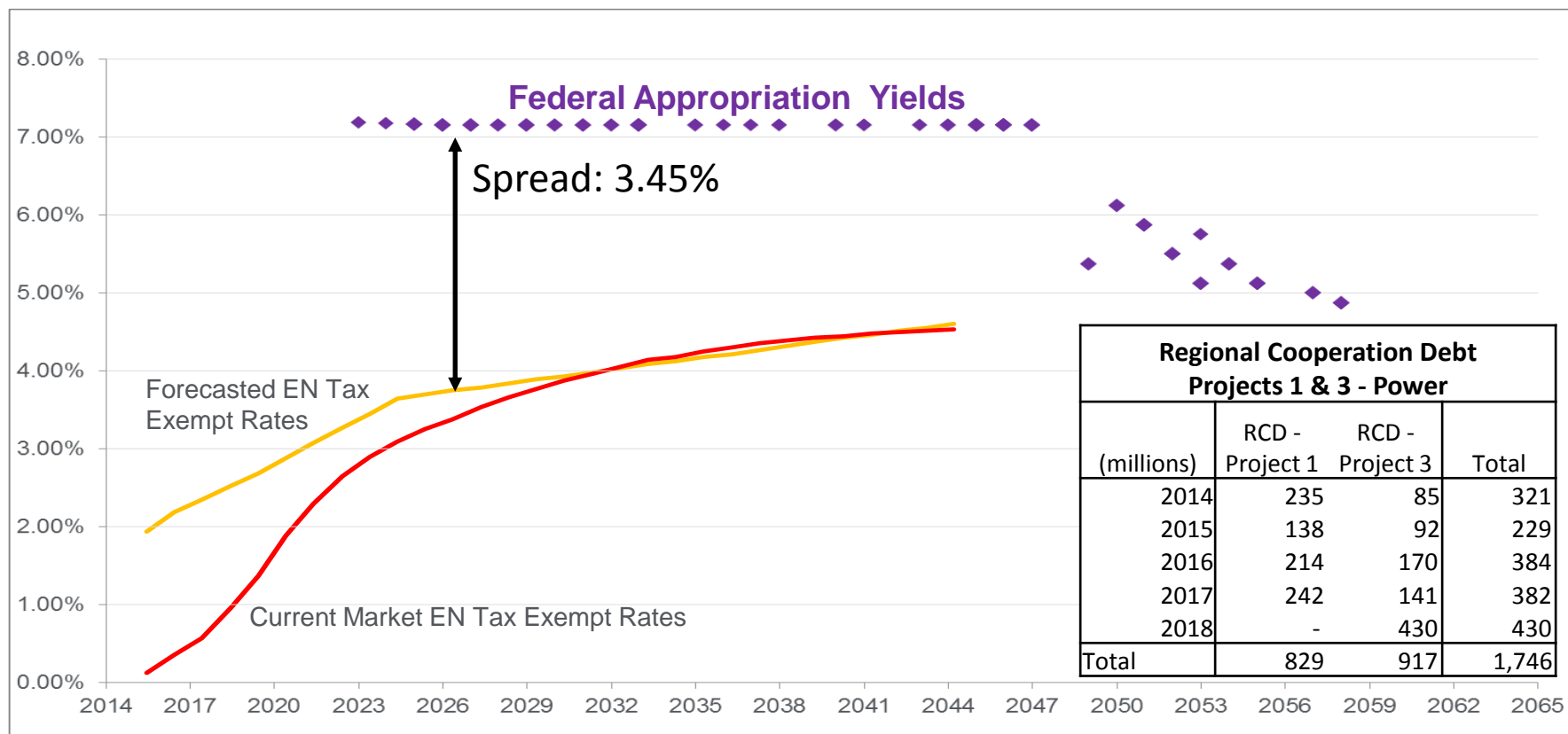
**Energy Northwest can provide the lowest cost borrowing to help meet future capital needs.**

## Benefits of a Regional Cooperation Debt Refinancing

- Refinancing of Regional Cooperation Debt to pay Federal Appropriations would
  - Improve the **long-term financial health** of BPA and the region
  - Result in **lower interest expense** (estimated at up to ~\$2,000 million) and stable capital-related revenue requirement in the near- and long-term.
  - **Restore reliable U.S. Treasury Borrowing Authority** (estimated at ~\$1,900 million) to continue solving the access to capital challenge, approximately through 2030.
  - BPA's **weighted average maturity** is not extended.
  - BPA's **weighted average interest** rate is not increased.

**Refinancing of Regional Cooperation Debt for Projects 1 and 3 does not impact future capital investments of Columbia.**

# Outstanding Yields vs. Borrowing Rates



- Much of BPA’s Federal Appropriations carry high interest rates.
- By refinancing Federal Appropriations with Regional Cooperation Debt, Energy Northwest can provide ratepayers with long-term financial sustainability at lowest cost.



## Benefits of a Regional Cooperation Debt Refinancing

The interest expense savings could provide restoration of U.S. Treasury Borrowing Authority or reduction and stabilization to rates over time.

Statistics Shown for the following Periods:      2014-2028      2014-2044

### Actions

Project 1 and 3 Debt Refinanced	\$1,746 million	
Federal Appropriations Repaid	\$1,746 million	

### Benefits

Estimated Interest Expense Savings	~\$800 million	~\$2,000 million
Estimated U.S. Treasury Borrowing Authority Restored	~\$850 million	~\$1,900 million
Estimated Annual Average Reduction on Power Rates	TBD	TBD
U.S. Treasury Borrowing Authority Restored Until	2030	2030
Decrease in Weighted Average Maturity	2.25 years	2.01 years

## Summary and Takeaways

- Refinancing Regional Cooperation Debt for Projects 1 and 3 improves the long-term health of BPA by
  1. Reducing interest expense.
  2. Restoring U.S. Treasury Borrowing Authority.
  3. Providing flexibility to stabilize capital related costs.
  4. Maintains or lowers the portfolio weighted average maturity.
  5. Maintains or lowers the portfolio weighted average interest rate.
- Energy Northwest is in a unique position to add value to the region by refinancing Regional Cooperation Debt.
- Refinancing of Regional Cooperation Debt is financially prudent.

## Financial Disclosure

This information has been made publicly available by BPA on April 29, 2014 and contains information not reported in agency financial statements.