Bonneville Power Administration

Debt Optimization Annual Meeting as Required Under the Slice Memorandum of Understanding

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Agenda for Today's Meeting

- Review commitments related to the Debt Optimization Program (DOP) outlined in the Memorandum of Understanding (MOU) of the Slice Settlement Agreement (dated 11/22/06)
- Share DOP and Debt Service Reassignment (DSR) historical results and projections for the current and upcoming years
    - Agency view
    - Business unit breakout
- General review of DOP and DSR
- Demonstrate how DOP and DSR flow through the income statements
    - Power Income Statement
    - Transmission Income Statement
- Discuss close out of the Debt Optimization Program
    - Recap original goals of the program
    - Review results
    - Review next steps

Requirements as Outlined in the DOP MOU of the Slice Settlement Agreement

Section B.2 BPA Commitments Concerning the Debt Optimization Program requires that:

- BPA demonstrate that rates are no higher with the DOP than they would have been in the absence of the DOP.
- BPA will annually demonstrate achievement of this principle by running and presenting repayment studies that compare a base repayment study that includes all debt management activities completed to date with a DOP repayment study that includes new DOP projections for the upcoming years, the results of which comply with such principle.

Section C.1 Annual Communication and Management Protocols require that:

- BPA will provide each year in the late fall/early winter timeframe, the following:
    - i. What DOP activities/transactions occurred through the prior fiscal year;
    - ii. What the current expectation is for DOP activities/transactions in the current fiscal year, including an estimate of the total amount of debt optimization and estimated allocation to each business line; and
    - iii. What the current estimate is for DOP activities/transactions beyond the current fiscal year, both in total and allocation by business function.

Section C.1(i-iii): Historical & Projected Debt Optimization with Allocation by Function

What BPA and Energy Northwest Have Achieved So Far

($ in millions)

Actual and Forecasted

Cash Flow from EN Debt Management Actions — ***Calendar Year (Cash Basis)***

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
1	**2001-A Advance Refunding (Goldman)**		51	31						14	15	36	38	185
2	**2001-B Current "Rollout" (UBS PaineWebber)**	101												101
3	**2002-A Advance Refunding (Salomon)**		32	24	43	40	60	45	51	51	24	34		402
4	**2002-B Current "Rollout" (Salomon)**		180	22	12			12	13	14			15	266
5	**2003-A Current "Rollout" (Citigroup)**			239										239
6	**2004-A Current "Rollout" (Goldman)**				291									291
7	**2005-A Current "Rollout" (Citigroup)**					273	73							347
8	**2006-A Current "Rollout" (Goldman)**						204							204
9	**2007-A Current "Rollout" (Citigroup)**							232						232
10	**2008-A Current "Rollout" (Goldman)**								147					147
11	**2009-A Current "Rollout" (Citi)**									156				156
12	***Forecasted Current Refinancings***										***0***	***0***	***0***	***0***
13	**Total Cash Flow from EN DOP Debt Mgmt Actions**	101	262	315	346	313	337	289	211	234	39	70	53	2,570
14	**Cumulative Net Cash Flow**	**101**	**363**	**679**	**1,025**	**1,338**	**1,675**	**1,964**	**2,174**	**2,408**				

Actual and Forecasted

BPA's Application to Treasury Principal Payments

Forecast (2010–2012)

		2001	2002	2003	2004	2005	2006	2007	*2008*	*2009*	*2010*	*2011*	*2012*	Total
15	**Power - Advance Refundings Portion[1]**	97	83	0	55	40	133	57	64	*78*	*39*	*70*	*53*	768
16	**Power - Current Refinancings Portion[2]**	0	183	0	86	83	0	30	37	*116*	*0*	*0*	*0*	536
17	**Total Power Prepayment**	97	266	0	141	123	133	87	101	*194*	*39*	*70*	*53*	1,303
18	**Total Transmission Prepayment**	0	0	315	205	190	204	202	110	*40*	*0*	*0*	*0*	1,266
19	**Agency Treasury Prepayment**	**97**	**266**	**315**	**346**	**313**	**337**	**289**	**211**	***234***	***39***	***70***	***53***	**2,570**
20	**Cumulative Treasury Prepayment**	**97**	**363**	**679**	**1,025**	**1,338**	**1,675**	**1,964**	**2,174**	**2,408**				

NOTE: In FY01 BPA made a Treasury prepayment of $97M; the amount should have been $101M. Therefore, the payment in FY02 increased from $262M to $266M.

Section C.1(i): Debt Optimization & Debt Service Reassignment General Review

- Debt Optimization (DO) that is allocated to Power results in a reduction to non-Federal debt service in the refinancing year, but creates debt service repayment obligations for future years.

- Debt Service Reassignment (DSR) is the use of DO to replenish availability of Treasury Borrowing Authority by paying Transmission-related Federal repayment obligations.

- DSR impacts both Power's and Transmission's Income Statements, as follows:
  - Power: DSR results in the satisfaction of an original Power obligation; essentially, the EN debt has been deemed paid by Power.
    - To show that Power's original obligation has been satisfied, it is reflected in Power's Income Statement as ***EN Retired Debt***.
    - All future EN debt service costs associated with DSR are assigned to Transmission, and accordingly will be recovered through Transmission's rates.
  - Transmission: DSR is reflected in Transmission's Income Statement as ***Debt Service Reassignment Interest***.
    - Debt Service Reassignment Interest represents the interest expense on the EN bonds that are a Transmission obligation due to DSR.
    - Technically the *debt service* is assigned to Transmission, not the *debt*.

Section C.1(i): Excerpt from the Power Income Statement

Report ID: 0060FY09

Requesting BL: POWER BUSINESS UNIT

Unit of Measure: $ Thousands

Power Services Detailed Statement of Revenues and Expenses

Through the Month Ended September 30, 2009

		FY 2008 Actuals	FY 2009 Rate Case	FY 2009 Actuals
	Non-Federal Debt Service			
76	COLUMBIA GENERATING STATION DEBT SVC	114,911	224,634	160,501
77	WNP-1 DEBT SVC	130,258	169,342	118,068
78	WNP-3 DEBT SVC	145,125	150,817	110,182
79	EN RETIRED DEBT	95,000		27,500
80	EN LIBOR INTEREST RATE SWAP	4,668		19,337
81	**Sub-Total**	489,964	544,793	435,588

Simple Reconciliation: from Rate Case (RC) to Actual Debt Service (DS)

$544	2009 DS as forecasted in the RC (WP-07-FS-BPA-02A(E1))
($126)	Less: DO Refinancing [(75% * $156M) + (25% * $34)]
$28	Add: EN Retired Debt Accrual (see next page)
($10)	Less: Other Adjustments (Refi for savings & misc budget amendments)
$436	

Section C.1(i): The Calculation for Power EN Retired Debt

Fiscal Year	Calculation Explained	The Math
FY06	Actual FY06 DSR - FY06 portion accr'd in FY05, plus	$204 - $42 = $162
	1/4 of projected FY07 DSR	$202 x 25% = $50
	FY06 EN Retired Debt Accrual	$212
FY07	Actual FY07 DSR - FY07 portion accr'd in FY06, plus	$202 - $50 = $151
	1/4 of projected FY08 DSR	$110 x 25% = $28
	FY07 EN Retired Debt Accrual	$179
FY08	Actual FY08 DSR - FY08 portion accr'd in FY07, plus	$110 - $28 = $83
	1/4 of projected FY09 DSR	$50 x 25% = $13
	FY08 EN Retired Debt Accrual	$95
FY09	Actual FY09 DSR - FY09 portion accr'd in FY08, plus	$40 - $13 = $28
	1/4 of projected FY10 DSR	$0 x 25% = $0
	Projected FY09 EN Retired Debt Accrual	$28

Section C.1(i): Excerpt from the Transmission Income Statement

Report ID: 0061FY09
Requesting BL: Trans BU
Unit of Measure: $ Thousands

Transmission Services Detailed Statement of Revenues and Expenses

Through the Month Ended September 30, 2009
Preliminary/ Unaudited

		A	B	E
		FY 2008	FY 2009	FY 2009
		Actuals	Rate Case	Actuals
	Interest Expense and (Income)			
85	Federal Appropriation	40,838	35,714	35,356
86	Capitalization Adjustment	(18,968)	(18,968)	(18,968)
87	Borrowings from US Treasury	80,346	126,523	77,134
88	Debt Service Reassignment	51,137	42,347	55,971
89	Customer Advances	10,915		8,085
90	Lease Financing	11,063		17,369
91	AFUDC	(16,897)	(10,798)	(21,373)
92	Interest Income	(22,075)	(9,876)	(30,681)
93	**Net Interest Expense (Income)**	**136,360**	**164,942**	**122,892**

Simple Reconciliation: Interest Expense from DSR

Fiscal Year	DOP Principal allocated to Transmission	Approximate Interest Rate	Interest Expense	Income Stmt Effect (one-year lag)
FY03	$315	5%	$16	$0
FY04	$205	5%	$9	$16
FY05	$190	5%	$9	$25
FY06	$204	5%	$9	$33
FY07	$201	5%	$9	$43
FY08	$110	4%	$4	$52
FY09	$40	Impact hits in FY10		$56

NOTE: Rate cases do not include forecasts of additional debt optimization. Therefore, the amount shown at FY07 would have been the total forecasted DSR interest going forward into FY09 at the time of the rate case (April 2007).

Closeout: Recap of the Program Goals

- In FY99, BPA determined that during FY04, it would exhaust its available Treasury borrowing authority by funding the capital programs supported by the region, unless other actions were taken.

- BPA decided it was prudent to consider alternative methods of financing its capital-intensive business; the DO Program was developed in response. The program was designed as the least cost alternative for maintaining continued access to Treasury borrowing authority.

- The primary goal of the program was to restore availability of Treasury borrowing authority. Specifically, it was designed to replenish up to $3 billion of available Treasury borrowing authority.

- BPA also stated that:
  - The program would not increase BPA's total debt outstanding.
  - An added benefit of the program was reduced debt service costs overall for the Agency.

- Later, BPA agreed that it would operate the program in a manner such that debt optimization would not cause rates to increase. BPA worked with customers to develop a mutually agreeable interpretation of the "rates no higher" test.

Closeout: Review Results

Amounts Early Amortized Due to Debt Optimization

($$ in millions)

	Generation		**Transmission**		
	Approps	Bonds	Approps	Bonds	Total DO
FY01	95	2	-	-	98
FY02	150	116	-	-	266
FY03	-	-	-	315	315
FY04	58	83	174	31	346
FY05	6	117	-	190	313
FY06	-	133	-	204	337
FY07	-	87	-	202	289
FY08	-	101	-	110	211
FY09	4	191	-	40	234
Totals	$313	$829	$174	$1,093	$2,408

Agency Totals		
Bonds	$1,921	80%
Appropriations	$487	20%
	$2,408	

Restore Treasury Borrowing Authority

- We hoped to restore up to $3B in available Treasury borrowing authority.
- To date, about $2B has been restored. Early amortization payments for FY10-12 will increase this amount by $162M.**
- DO played a critical role in extending BPA's available Treasury borrowing authority.
- By the end of the program and before the recent $3.25B additional borrowing authority was granted, we forecasted running out of available borrowing authority in FY15-16.

** The remaining FY10-12 additional Treasury payments are associated with the advance refundings completed in FY01-02. No additional EN refinancings for debt optimization will be completed.

Closeout: Review Results

Do Not Increase Total Debt Outstanding

- Over the course of the DO Program, BPA's total debt outstanding has actually decreased.
    - At the end of FY00, BPA had $12.9 billion of debt outstanding.
    - At the end of FY09, BPA had $12.6 billion of debt outstanding.

Reduced Overall Debt Service Costs

- At the end of FY00, before the DO program began, the weighted average interest (WAI) rate on BPA's total debt outstanding was 6.6% (see next slide).
- At the end of FY09, the WAI rate was 5.6%. While DO was not the only factor, it did play a significant role in this reduction.
    - Through DO, BPA and EN accessed municipal tax-exempt rates, rates that are lower than even BPA's Treasury borrowing rates, enabling the early pay off of Treasury obligations having 7.0% - 8.5% rates.
    - The program allowed BPA to issue short-term bonds, taking advantage of the lower rates for short term borrowings, without the risk of having to rollover that debt.
    - DO contributed to BPA not needing to use as much alternate, more expensive, sources of financing to keep its capital program running.

Closeout: Review Results

End of FY2000	**Power Marketing**		**Transmission**		**Total**	
	Liabilities Outstanding ($millions)	**WAI Rate**	**Liabilities Outstanding ($millions)**	**WAI Rate**	**Liabilities Outstanding ($millions)**	**WAI Rate**
Total Appropriations [2/]	$3,091	7.1	$977	7.2	$4,068	7.1
Total Bonds Issued to Treasury	779	6.7	1,733	6.6	2,512	6.7
Total Federal Liabilities	3,870	7.0	2,710	6.8	6,580	6.9
BPA Liabilities to Non Federal Parties	6,409	6.2	0	0	6,409	6.2
Total FCRPS Liabilities	$10,279	6.5	$2,710	6.8	$12,989	6.6

1/ Irrigation assistance liability not included ($770 million at zero percent interest).

2/ Appropriation amounts exclude appropriations for work still in progress.

End of FY2009	**Power Marketing**		**Transmission**		**Total**	
	Liabilities Outstanding ($millions)	**WAI Rate**	**Liabilities Outstanding ($millions)**	**WAI Rate**	**Liabilities Outstanding ($millions)**	**WAI Rate**
Total Appropriations [2/]	$3,496	6.4	$479	7.2	$3,975	6.5
Total Bonds Issued to Treasury	723	4.4	1,408	5.3	2,131	5.0
Total Federal Liabilities	4,219	6.1	1,887	5.8	6,106	6.0
BPA Liabilities to Non Federal Parties	4,971	5.2	1,594	5.1	6,565	5.2
Total FCRPS Liabilities	$9,190	5.6	$3,481	5.5	$12,671	5.6

1/ Does not include irrigation assistance liability of $646 million at zero percent interest ($40.3 of this amount is for Lower Teton, for which the Administrator has no obligation to recover costs). “Liabilities” on this page do not directly relate to “liabilities” as reflected in the Combined Statements of Capitalization and Long-Term Liabilities.

2/ Appropriation amounts exclude appropriations for construction work still in progress (CWIP). 2009 CWIP for appropriations was $258.6 million.

3/ Transmission Services (TS) principal is different from the Federal repayment obligation due to: 1) premium bonds issued, 2) timing differences, and 3) transactions costs. TS is assigned the repayment obligation for these items, which equals the additional Federal prepayment made on TBL's behalf.

Closeout: Review Results

Rates No Higher Agreement/Pledge

- As early as FY04, BPA conducted analysis to ensure that transactions completed under the DO Program would not make customers of either business line any worse off than continued use of Treasury financing and to ensure that transactions adhered to FERC and GAAP requirements.
- Starting in FY05, BPA began holding regular public meetings to discuss the prior year's DO transaction and to share the projections for the upcoming year.
- In FY07, after the Slice Settlement, BPA continued to share this information annually with customers through public meetings, as well as the "rates no higher" test results. This information has been available on BPA's website at: http://www.bpa.gov/corporate/Finance/Debt_Management/presentations/
- Customers' commitment and involvement in these meetings contributed greatly to the successful continuation of the DO Program.

Closeout: Review Next Steps

- In the Settlement Agreement, Section C.2.b of Exhibit D states:

> BPA may discontinue such annual meetings after the passage of one year from the date BPA completes the latest of (i) the last planned refunding bond issue for DOP, (ii) the last planned debt reassignment from PBL to TBL under DSR, or (iii) the last planned DOP-related advanced payment to Treasury not already included in rates, *provided, however*, that if BPA resumes any such refunding, reassignment or advance payment activities after having ceased them, then BPA will again be obligated to take the steps set forth in Sections C.1-C.4 so long as it continues such activities. During any period when BPA is not conducting such annual meetings, BPA will provide an annual letter to the Participants and interested stakeholders which states that there have been no changes to the program, and that the repayment obligation on the debt by business line has not changed as a result of DOP related activities/transactions.

- In FY2009, BPA completed an EN refinancing transaction for DO. Consistent with the “rates no higher” pledge, no EN refinancings for DO will take place in FY2010. Moreover, BPA and EN are not planning to undertake further EN refinancings for DO going forward. Therefore, this public meeting satisfies sections (i) and (ii) above.
- BPA will make three additional early amortization payments, one in each of FY2010-12; these are in connection with the advanced refundings completed in FY2001-02.
- The early amortization payments for FY2010-11 have already been included in the WP10 rate case. The early amortization payment in FY2012 will be included in the WP12 rate case.
- Based on the above, it is our belief that additional public meetings will be not be required going forward and that starting next fiscal year, BPA will simply send out a letter annually, as described in Section C.2.b. Are we in agreement?
- Even though DO is coming to a close, BPA does intend to keep customers informed of future debt management activities, as appropriate, through the QBR process.

Appendix

(More on Debt Optimization Basics)

EN Debt Service

Different Fiscal Years = Timing Differences

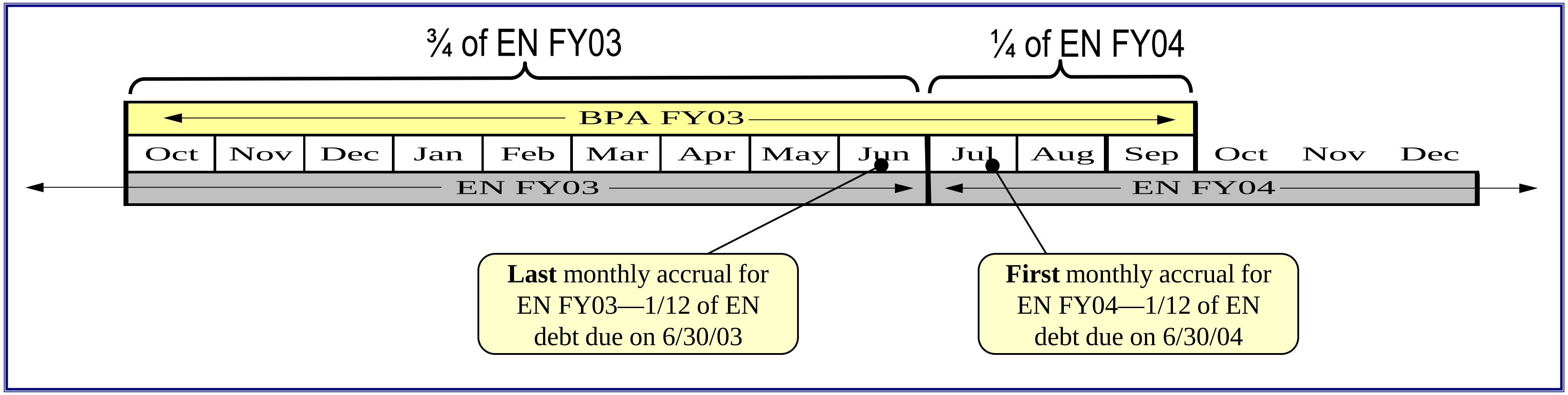
In the current year BPA accrues ¼ of the forecasted EN debt service for the upcoming year because:

- EN debt comes due at the end of their fiscal year, which runs from July 1st to June 30th.
- BPA's fiscal year runs from October 1st to September 30th. This means ¼ of EN's new fiscal year falls into BPA's current fiscal year. Or simply, that EN's fiscal year is three months ahead of BPA's fiscal year.
- BPA maintains its accounts on an accrual accounting basis in accordance with generally accepted accounting principles (GAAP), which means that revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash.
- In accordance with GAAP, each month BPA accrues 1/12 of the EN due principal—this coincides with the liability for the EN principal due.

Accounting for EN Debt Service & the Accrual for EN Retired Debt

Below is an example that converts EN debt service costs from an EN fiscal year into the BPA fiscal year.

BPA FY03 = ¾ of EN FY03 + ¼ of EN FY04



Last monthly accrual for EN FY03—1/12 of EN debt due on 6/30/03

First monthly accrual for EN FY04—1/12 of EN debt due on 6/30/04

The impact of DSR on Power’s Income statement follows a similar accounting pattern. The calculation is shown below. To see it explained in greater detail, see the next page.

Actual DO allocated to Transmission from the current year EN refinancing

− The DSR portion of the current year EN refinancing accrued in the prior FY

+ One-quarter of the projected DSR allocation for the following FY

EN Retired Debt Accrual

Section C: The Calculation Power EN Retired Debt

Fiscal Year	Calculation Explained	The Math
FY02	Actual FY02 DSR - FY02 portion accr'd in FY01, plus	$0 - $0 = $0
	1/4 of projected FY03 DSR	$220 x 25% = $55
	FY02 EN Retired Debt Accrual	$55
FY03	Actual FY03 DSR - FY03 portion accr'd in FY02, plus	$315 - $55 = $260
	1/4 of projected FY04 DSR	$220 x 25% = $55
	FY03 EN Retired Debt Accrual	$315
FY04	Actual FY04 DSR - FY04 portion accr'd in FY03, plus	$205 - $55 = $150
	1/4 of projected FY05 DSR	$190 x 25% = $48
	FY04 EN Retired Debt Accrual	$198
FY05	Actual FY05 DSR - FY05 portion accr'd in FY04, plus	$190 - $48 = $143
	1/4 of projected FY06 DSR	$169 x 25% = $42
	FY05 EN Retired Debt Accrual	$185
FY06	Actual FY06 DSR - FY06 portion accr'd in FY05, plus	$204 - $42 = $162
	1/4 of projected FY07 DSR	$202 x 25% = $50
	FY06 EN Retired Debt Accrual	$212
FY07	Actual FY07 DSR - FY07 portion accr'd in FY06, plus	$202 - $50 = $151
	1/4 of projected FY08 DSR	$110 x 25% = $28
	FY07 EN Retired Debt Accrual	$179
FY08	Actual FY08 DSR - FY08 portion accr'd in FY07, plus	$110 - $28 = $83
	1/4 of projected FY09 DSR	$50 x 25% = $13
	FY08 EN Retired Debt Accrual	$95
FY09	Actual FY09 DSR - FY09 portion accr'd in FY08, plus	$40 - $13 = $28
	1/4 of projected FY10 DSR	$0 x 25% = $0
	Projected FY09 EN Retired Debt Accrual	$28

Section C.1(i): Transmission Debt Service Reassignment

- DSR occurs when BPA uses the funds made available from DO to early-amortize Federal Transmission repayment obligations. For each year of DO/DSR, while the old EN bonds are refinanced in July, the advanced Federal payment is made on September 30th.
  - The debt service associated with DSR is assigned to Transmission on October 1st.
  - Therefore, there is no impact to Transmission until October 1st, the new fiscal year.
  - The interest and transaction costs related to each DO transaction that are the responsibility of Transmission are captured through a "carrying charge" calculation.
- The total payment obligation for Transmission due to DSR in a given year is the sum of the base debt service + transaction costs + carrying charge, adjusted to BPA's fiscal year and reshaped so that the total principal equals the total Federal principal retired.
- EN municipal bonds are issued at different amounts –par, discount or premium—depending on market conditions; reshaping is done so that the total principal equals the total Federal principal retired through the advanced Federal payment.
- In general, the DSR interest expense included in Transmission's income statement is roughly equal to:
  - Transmission Advanced Federal amortization x the average rate on the new extension bonds.
  - For example, the FY03 Transmission advanced Federal payment = $315m; the average rate on the extension bonds was approximately 5%. [$315 X 5% = $15.8m]
  - Any minor differences between the results of this calculation and the numbers recorded in Transmission Income Statement are due to the adjustments noted above.

Note: See 2008 Final Revenue Requirement Study Documentation, TR-08-FS-BPA-01A, Chapter 7 for most recent information; or see 2006 Final Revenue Requirement Study Documentation, TR-06-FS-BPA-01A, Chapter 7 for that which applied to 2007 rates setting.