

September 2020

## Regional Cooperation Debt Initiative

### Phase I partnership saves \$2.79 billion

Since 2001, Energy Northwest and the Bonneville Power Administration have leveraged remaining debt on three Washington nuclear projects to save the region hundreds of millions of dollars in federal interest payments and restore valuable Federal Borrowing Authority. Energy Northwest and BPA share the view that all of this debt is regional cooperation debt; it is both a regional obligation and a regional financial resource that can provide remarkable debt management opportunities to lower power costs and allow investments into the federal system for the benefit of the region.

In 2014, EN and BPA began refinancing low-interest municipal bond debt from EN's Columbia Generating Station and its two unfinished nuclear power plants to pay off BPA's higher-interest federal debt.

The revenues collected from BPA's rates that would have been used to pay the lower debt service costs are instead used to repay higher interest rate debt to the U.S. Treasury. This action effectively trades a more expensive debt burden for EN's less expensive debt.

The average refinancing interest rate assumed in 2014 for Phase I of the initiative was 3.5% to pay off federal debt ranging from 5 to 7.15%. Energy Northwest and BPA achieved an average all-in true interest cost over the eight transactions of 2.88% and accelerated the repayment of BPA's federal debt with an average of 6.53%.

Columbia's original debt would have been paid off during 2012 while Project 1 and 3 would have been paid off during 2017 and 2018, respectively, if not for the financial benefits of debt extension. The difference in interest payments by extending EN's nuclear debt to pay off the higher-interest federal debt



"EN's willingness to carry the debt and the joint cooperation of the region's stakeholders has resulted in an amazing opportunity to lower the cost of power and help BPA retain long-term liquidity."

Jeff Windham  
Energy Northwest  
treasury manager

totaled \$2.79 billion in gross debt service savings to ratepayers through 2058.

As regional partners, we effectively transferred EN-only debt, including debt we would have paid off years ago, to what is now shared regional cooperation debt. This debt transfer alleviates regional ratepayers from high-interest payments to the federal government.

Although regional cooperation debt represents a continuing, beneficial relationship, every transaction and debt management initiative was individually justified by BPA and approved by EN's executive board.

In an effort to accelerate savings, EN and BPA agreed to utilize short-term lines of credit to allow BPA to retain additional funds that would have been sent to EN and instead repay high-rate federal debt one year earlier than originally anticipated. Below is a table indicating the key results related to the completion of Phase I of the regional cooperation debt initiative:

TIME FRAME OF PHASE I: 2014-2020	
NUMBER OF TRANSACTIONS: 8 LONG-TERM BOND TRANSACTIONS	DEBT PLACEMENT: PROJECT 1/3 ≤ 2028; COLUMBIA ≤ 2039
AMOUNT OF EN DEBT ISSUED	\$2.258 BILLION
AMOUNT OF EN DEBT REFUNDED	\$2.718 BILLION
AMOUNT OF BPA FEDERAL DEBT REPAYED	\$2.718 BILLION
TOTAL GROSS DEBT SERVICE SAVINGS (1)	\$2.788 BILLION
TOTAL NET PRESENT VALUE SAVINGS (2)	\$1.358 BILLION
WEIGHTED AVERAGE MATURITY REDUCTION: ~10 YEARS ON REFERENCED DEBT (3)	

1. Gross debt service savings realized between 2014 and 2058. Includes approximately \$54 million as a result of acceleration efforts by EN and BPA.
2. Net present value calculations based on an average discount rate of 2.88% equal to the issuance rate on the long-term bonds.
3. Average maturity reduction includes average retired federal appropriations year equal to 2039 less average issued regional cooperation debt year of 2029.

# Regional Cooperation Debt Initiative

## Phase II protects long-term regional liquidity

During 2018, BPA issued its strategic and financial plans covering years 2018 through 2023. As part of this effort, EN and BPA held or attended several public meetings to discuss the potential of Phase II extensions under the extremely successful regional cooperation debt initiative. The primary goal of Phase II is to retain a minimum of \$1.5 billion in BPA borrowing authority capacity to ensure long-term liquidity is in place to meet strategic system objectives.

The executive board unanimously supported Phase II of the regional cooperation debt program in September 2018 following regional support from Public Power Council, Northwest Requirements Utilities, PNGC Power, Public Generating Pool and EN's participants review board.

**“Phase II of the regional cooperation debt initiative represents the next milestone in EN’s quest to provide its regional stakeholders with financial flexibility and value.”**

**Jeff Windham**  
EN treasury manager

Revenues freed up from EN's Columbia, Project 1 and 3 tax-exempt, regional cooperation debt issuance not related to EN's Columbia capital needs will be used to repay within a reasonable period of time an equal amount of federal debt or used for directly funding BPA capital investments. Any deviation from these uses of freed up revenues would be structured in a manner that provides the most overall benefit to the region, as determined through a public process involving BPA customers.

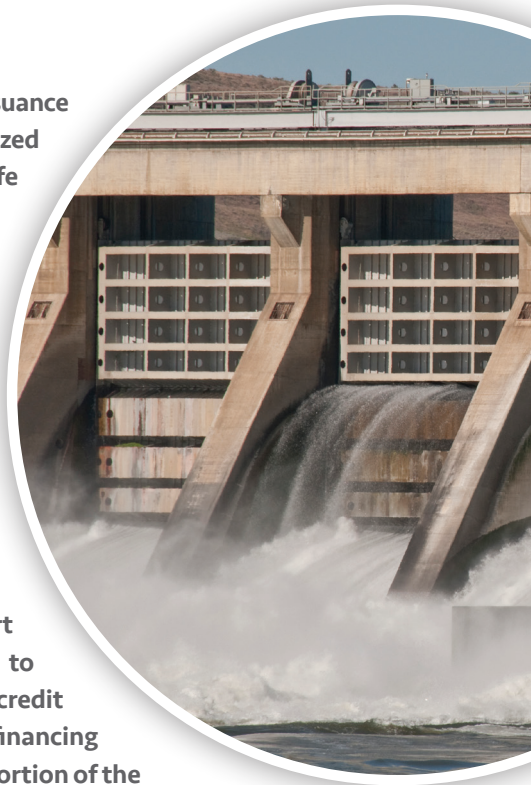
Phase II includes up to \$3.5 billion in issuance of tax-exempt long-term bonds by EN between 2021 and 2030 related to Columbia as well as Projects 1 and 3. Approximately \$3 billion of the \$3.5 billion bond issuance is expected to refinance existing bond maturities currently in EN fiscal years 2021-2030. In addition, EN and BPA expect to issue up to \$500 million of long-term tax-exempt debt during fiscal years 2021-2030 to fund a portion of the interest expense payments related to certain outstanding bonds. The issuance supported above does not include costs related to the issuance of bonds or bonds issued directly to fund ongoing Columbia capital expenses.

As a result of EN issuing premium bonds historically, EN's outstanding principal has decreased and became interest expense (example: a \$100 bond is refunded at a 15% premium resulting in \$85 in principal and \$15 in original issuance premium that is amortized as interest over the life of the refunded

bond). This original issuance premium that is amortized as interest over the life of the bond can be refunded on a tax-exempt basis. The effect of this during Phase I resulted in approximately \$460 million of reduced principal outstanding (\$2.718 billion refunded less \$2.258 billion issued).

To implement this part of Phase II, EN intends to seek annual lines of credit or other short-term financing alternatives to fund a portion of the January interest payments, preserving these amounts to be issued during the long-term bond transactions.

As part of the support provided by regional stakeholders, BPA agreed to provide a “regional check in.” The regional check in is expected to occur in late calendar year 2025; BPA has committed to a regional update with stakeholders including EN's participants review board and executive board and a regional public meeting. The update is expected to address the status of the program and the benefits derived including the regional cooperation debt transactions impact on BPA's financial health. The executive board retains the right and responsibility to approve each individual transaction throughout Phase II. Additionally, BPA has committed to provide an update and key information annually as to how Phase II is progressing and achieving its desired results.



## Energy Northwest Facts

**Headquarters**  
Richland, Wash.

**Employment**  
Approximately 1,000 full-time employees

### Projects and Services

- Four power generation projects
- Environmental and analytical services
- Operations and maintenance services
- Equipment calibration services
- Power system solutions
- Project development
- Demand-side management services

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