



NORTHERN CALIFORNIA POWER AGENCY

HYDRO LOC SUBSTITUTION AND MARKET UPDATE

May 14, 2014

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TERM SHEET NEGOTIATIONS

- NCPA addressed the major concerns associated with BMO's proposal at the term sheet stage

NCPA 2008A/B Hydroelectric BMO Term Sheet Changes		
Term Sheet Revision	Initial Offer Term Sheet	Third Revision to Term Sheet (NCPA Signed Off)
A2/A/A Rating Level Fee Adjustment	Original Fee + 15 bps	Original Fee + 5 bps
A3/A-/A- Rating Level Fee Adjustment	Original Fee + 35 bps	Original Fee + 15 bps
Baa1/BBB+/BBB+ Rating Level Fee Adjustment	Original Fee + 75 bps	Original Fee + 65 bps
Rating Determination Rating Level	Based upon lowest rating (fee would increase with 1 downgrade)	Based upon lowest one of the two highest ratings (fee would increase with 2 downgrades)
Reporting Requirements	Financials 180 days after each fiscal year end, unaudited financings 60 days after each fiscal quarter	Financials 210 days after each fiscal year end, BMO will use Commission reports from NCPA website
Early Termination/Reduction Fee	Through first year except if increased costs are applied	Through first year except if 1) increased costs are applied, 2) BMO short-term rating is downgraded, 3) bonds are refinanced with fixed rate debt
Capital Adequacy Charges	Passed on as increased costs	BMO will use reasonable efforts NCPA of any imposed increased costs, and will not invoice NCPA for such costs for 90 days after such notice.
Transaction Fees	Capped at \$48,000	Capped at \$48,000 and NCPA is not liable for costs if BMO's short-term rating is downgraded

- NCPA has directed BMO and BMO's counsel, Chapman Cutler, to begin drafting the Reimbursement Agreement and LOC using the Bank of America documents and the term sheet as the starting point

3-YEAR VS. 5-YEAR LOC

- BMO provided a 3 year LOC bid of 31 bps and a 5 year LOC bid of 39 bps
- Advantages of 3 year offer:
 - Cost savings of approximately \$75,000 per year
 - Lowest commitment to counterparty, fee range and terms
- Advantages of 5 year offer:
 - Reduced administrative burdens
 - 5 year LOC bids are relatively unusual in the market and are typically significantly more expensive than offers that are shorter than 3 years
 - Locks in counterparty, fee range and terms
 - Bridges Basel III implementation period
- Transaction costs associated with LOC substitution in 2014 are estimated at \$200,000-\$250,000
 - Similar costs would apply for a future LOC substitutions (but much less for a renewal)

PROPOSED TIMELINE

- The timeline for the LOC substitution will depend upon how quickly documents can be prepared and which NCPA Commission date is achievable
- Initial steps are in progress...
 - 2-3 weeks for first draft of BMO bank documents
 - 2-3 weeks for Disclosure Counsel to provide disclosure documents to participants
- Followed by...
 - 2-4 weeks for BMO bank document negotiation
 - 2-4 weeks for disclosure document drafting
- Slim possibility that documents could be ready for filing for NCPA Commission June 26th meeting
 - More likely July 27th meeting
- Notice requirements for bondholders will necessitate a 30+ day separation between NCPA Commission approval and remarketing of the 2008A/B Bonds with the new LOC
- Process will conclude sometime between late July and early September

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ECONOMIC SUMMARY

- According to the advance estimate, the U.S. economy barely grew in the first quarter of the year, registering growth of just 0.1%, impacted in part by severe winter weather
- The labor market accelerated in April, creating 288,000 new jobs; the prior twelve months averaged 190,000 per month; the national unemployment rate fell to 6.3%, the lowest since September 2008
- The Federal Reserve noted that growth in economic activity had picked up recently, after having slowed sharply during the winter; household spending also appeared to be rising more quickly; the FOMC announced a further \$10 billion reduction in its bond-purchasing program to \$45 billion a month

FOMC STATEMENT HIGHLIGHTS

January

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"In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to make a further measured reduction in the pace of its asset purchases . . . It likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5%"

March

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"The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market condition . . . decided to make a further measured reduction in the pace of its asset purchases . . . will likely reduce the pace of asset purchases in further measured steps . . . it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends"

April

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"Information received since...March indicates that growth in economic activity has picked up recently . . . decided to make a further measured reduction in the pace of its asset purchases . . . Beginning in May, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$20 billion per month rather than \$25 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$25 billion per month rather than \$30 billion per month..."

- The next FOMC meeting is June 17th and 18th

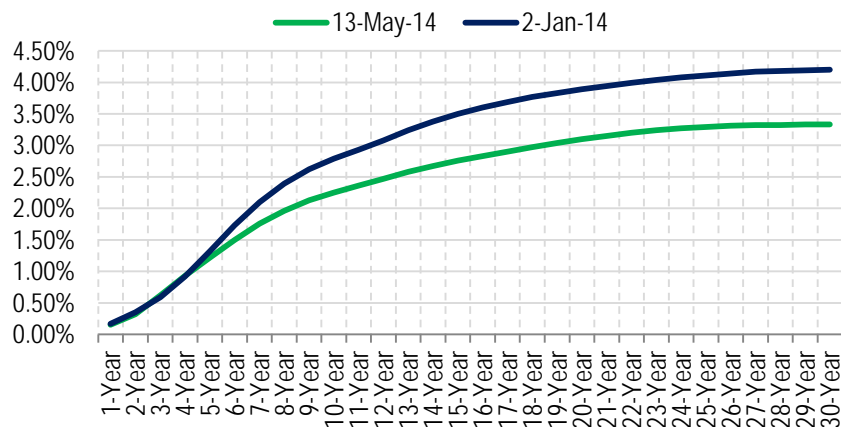
MARKET SNAPSHOT

INTEREST REMAIN AT ATTRACTIVE LEVELS; MUNI MARKET ENJOYING POSITIVE MARKET TECHNICALS WITH LOW SUPPLY AND INCREASED DEMAND

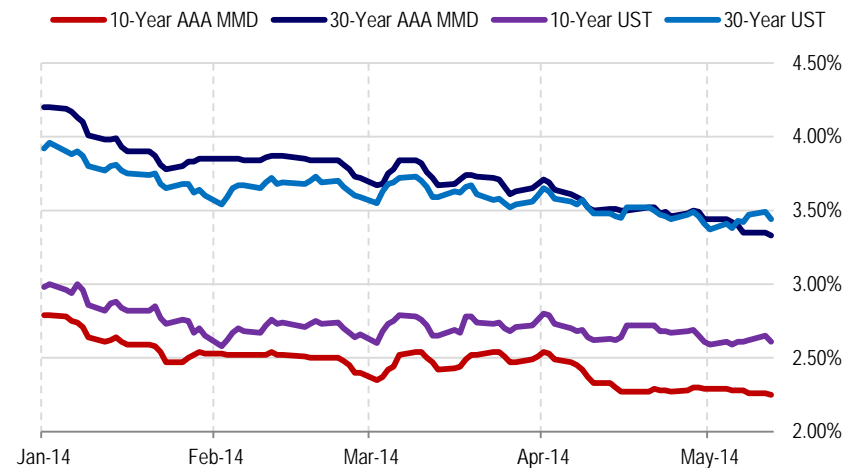
Interest Rates as of May 13, 2014

Year	Maturity	MMD	UST	Year	Maturity	MMD	UST
1	2015	0.15%	0.09%	16	2030	2.83%	-
2	2016	0.32%	0.38%	17	2031	2.90%	-
3	2017	0.62%	0.85%	18	2032	2.97%	-
4	2018	0.93%	-	19	2033	3.04%	-
5	2019	1.22%	1.61%	20	2034	3.10%	3.24%
6	2020	1.50%	-	21	2035	3.15%	-
7	2021	1.76%	-	22	2036	3.20%	-
8	2022	1.96%	-	23	2037	3.24%	-
9	2023	2.13%	-	24	2038	3.27%	-
10	2024	2.25%	2.61%	25	2039	3.29%	-
11	2025	2.36%	-	26	2040	3.31%	-
12	2026	2.47%	-	27	2041	3.32%	-
13	2027	2.58%	-	28	2042	3.32%	-
14	2028	2.67%	-	29	2043	3.33%	-
15	2029	2.76%	3.03%	30	2044	3.33%	3.44%

THE AAA MMD YIELD CURVE FLATTENED: FRONT-END RATES INCREASED FOLLOWING JANET YELLEN'S COMMENTS ABOUT TIMING OF RATE HIKES



INTEREST RATES ON THE INTERMEDIATE- AND LONG-END OF THE YIELD CURVE HAVE RALLIED SUBSTANTIALLY YTD



DECLINING YTD INTEREST RATES NOTWITHSTANDING, MARKET OBSERVERS EXPECT INTEREST RATES TO RISE OVER THE NEXT SEVERAL QUARTERS

The Street's Interest Rate Forecast (As of May 13, 2014)

Average Forecasts	Current	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15
30-Year UST	3.44%	3.70%	3.87%	4.03%	4.14%	4.28%	4.38%
10-Year UST	2.61%	2.87%	3.06%	3.24%	3.36%	3.51%	3.63%
2-Year UST	0.38%	0.49%	0.61%	0.76%	0.92%	1.14%	1.39%
3M LIBOR	0.22%	0.27%	0.30%	0.35%	0.42%	0.55%	0.83%
Fed Funds Target Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.38%	0.63%