

 Quarterly Financial Report3rd Quarter
2009

Management's Discussion & Analysis

Profile

The Bonneville Power Administration is a federal agency under the Department of Energy. Based in the Pacific Northwest, the agency markets wholesale electrical power from 31 federal hydro projects, one nonfederal nuclear plant and several other small nonfederal power plants. BPA also operates and maintains about three-fourths of the region's high-voltage transmission. About one-third of the electric power used in the Northwest comes from BPA. BPA is a self-funding agency that covers its costs by selling wholesale power and transmission services at cost to the region's public utilities, municipalities, investor-owned utilities and some large direct service industries. Its service area includes Oregon, Washington, Idaho, western Montana and small parts of Wyoming, Nevada, Utah, California and eastern Montana. BPA also sells or exchanges power with marketers and utilities in Canada and the western United States. BPA promotes energy efficiency, renewable energy and new technologies. The agency funds regional efforts to protect and rebuild fish and wildlife populations affected by hydropower development in the Columbia River Basin. BPA is committed to providing public service and seeks to make its decisions in a manner that provides financial transparency and opportunities for input from all stakeholders. In its vision statement, BPA dedicates itself to providing high system reliability, low rates consistent with sound business principles, environmental stewardship and accountability. BPA's core values are trustworthy stewardship, collaborative relationships and operational excellence.

General

BPA's largely hydroelectric power supply depends on the amount of annual precipitation in the Columbia River Basin and timing of the precipitation and runoff. BPA monitors the snowpack that drains into the Columbia River Basin to predict each year's water and secondary energy supply. BPA assumes the lowest historical runoff as the basis for calculating its available power supply to meet its firm power obligations. BPA sells secondary energy to purchasers in the Western Interconnection at market prices when available generation exceeds what is needed to serve BPA's firm obligations. When setting power rates, BPA assumes an average level of secondary energy sales. In an average water year, BPA generally has about 1,400 to 1,600 average megawatts of secondary energy available for sale. Because precipitation and market prices vary widely, BPA builds contingencies into its rates to cover poor hydro and/or market conditions. To ensure BPA is able to meet its financial responsibilities to counterparties

and to the U.S. Treasury, BPA relies on risk mitigation measures such as financial reserves and a cost recovery adjustment clause that can raise rates, if needed.

The FCRPS financial statements that follow are a combination of the accounts of BPA, the accounts of the Pacific Northwest generating facilities of both the U.S. Army Corps of Engineers and the Bureau of Reclamation as well as the operation and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan Facilities. Consolidated with BPA are "Special Purpose Corporations" known as Northwest Infrastructure Financing Corporations, from which BPA leases certain transmission facilities.

Results of Operations

Operating Revenues

For the nine months ended June 30, 2009, revenues decreased \$304 million, or about 12 percent from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales declined \$342 million, or 17 percent. The decline is the result of reduced revenues from surplus sales due to the combination of below-average precipitation and lower prices for surplus sales, lower priority firm power rates for consumer-owned utilities, and the return of approximately \$53 million of Residential Exchange Program Lookback Amounts as credits on COUs power bills. The 2007 Supplemental Wholesale Power Rate Case Final Record of Decision was issued on Sept. 22, 2008. The Final ROD established the Lookback Amount, representing BPA's overpayments to investor-owned utilities from prior years, which was also the amount over-collected from COUs. Lookback Amount credits on COUs bills started Oct. 1, 2008. In addition, due to the Avista settlement, there is an additional \$10.8 million which has been applied to the Lookback Amount and will be paid out as direct disbursements to the COUs prior to the end of current year. Transmission Services sales increased \$16 million, or 3 percent, mainly due to ancillary services. Ancillary services are those services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of BPA's Transmission System in accordance with good utility practice. The ancillary services variance was primarily due to within-hour balancing for resources, a new product this year, and energy and generation imbalance.

The unrealized loss on derivative instruments increased \$5 million for the nine months ended June 30, 2009 as compared to the same period in 2008 due to fluctuations in the forward prices curves, physical delivery and a change in the overall portfolio mix.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA decreased \$12 million, or 16 percent, due to decreased market prices for replacement power purchases largely driven by lower natural gas prices and there were less replacement power purchases needed for fish mitigation measures in fiscal year 2009 when compared with fiscal year 2008.

Operating Expenses

Operations and maintenance increased \$87 million, or 8 percent for the nine months ended June 30, 2009, from the comparable period a year earlier due to scheduled maintenance and biennial refueling of the Energy Northwest Columbia Generating Station nuclear power plant in fiscal year 2009, increases to contract work for transmission right of way maintenance, direct funding costs, particularly at the Bureau of Reclamation, and unfunded retirement benefits. These increased costs were partially offset by a \$60 million reduction in the Residential Exchange Program.

Purchased power expense decreased \$137 million, or 38 percent, due to lower market prices and volume of purchases.

Nonfederal projects expense decreased \$16 million, or 4 percent, primarily due to lower repayment for Energy Northwest's WNP No.1 and No.3 terminated nuclear facilities debt, partially offset by increased repayment for Columbia Generating Station debt. During both periods, restructured nonfederal debt enabled the early repayment of federal debt in lieu of nonfederal debt repayment. Refer to modified net revenues below.

Net Interest Expense

For the nine months ended June 30, 2009, interest expense increased \$7 million, or 3 percent, from the comparable period a year earlier. The primary drivers were increases arising from the Lease Financing Program and customer advances for transmission construction. Allowance for funds used during construction increased \$2 million, or 12 percent, with the primary drivers being increases for the Lease Financing Program and customer advances for transmission construction. Interest income increased \$3 million, or 5 percent due to higher cash balances.

Liquidity and Capital Resources

Net Revenues and Operating Activities

As a result of the factors previously discussed, the FCRPS earned net revenues of \$52 million for the nine months ended June 30, 2009. By comparison, net revenues were \$291 million for the nine months ended June 30, 2008.

Cash provided by operating activities of the FCRPS decreased \$175 million to \$238 million for the nine months ended June 30, 2009, when compared to the comparable period a year earlier, as reported in the Combined Statements of Cash Flows. The change in operating cash flow reflects the changes in net revenues, net of the impact of changing derivative values, and differences in the timing of collecting

receivables and payments of accounts payable and accrued liabilities. The net change attributable to the Residential Exchange Program was a \$54 million outflow.

Investment Activities

Cash used for investment activities of the FCRPS increased \$304 million to \$661 million for the nine months ended June 30, 2009, when compared to the nine months ended June 30, 2008.

The increase in utility plant investment was driven primarily by investments at Corps of Engineers and Bureau of Reclamation generating facilities. The increase in utility plant investment for nonfederal generation was driven by capital improvements at Columbia Generating Station nuclear plant.

BPA invested \$100 million under a new agreement with the U.S. Treasury under which BPA purchased investment securities referred to as "market-based specials." BPA plans to invest an incremental \$100 million each year for up to 10 years or until the BPA fund is fully invested in Treasury securities.

During the nine months ended June 30, 2009, the consolidated special purpose corporations deposited \$200 million into their restricted trust funds and advanced \$99 million to the BPA fund to support transmission construction activities on leased projects. This represents a net outflow of \$69 million when compared to the same activity for the nine months ended June 30, 2008.

Financing Activities

Cash provided by financing activities of the FCRPS was \$307 million for the nine months ended June 30, 2009, compared to \$100 million for the comparable period a year earlier. Increases to nonfederal debt and customer advances for transmission construction were partially offset by repayment of borrowing from the U.S. Treasury.

Non-GAAP Financial Information

Modified Net Revenues

Management has determined that modified net revenues are a better representation of the outcomes of normal operations during periods of debt management actions and fluctuations in derivative market prices. Modified net revenues are net revenues after removing the effects of derivative instruments and nonfederal debt management actions that differ from rate case assumptions.

Modified net revenues were \$244 million lower for the nine months ended June 30, 2009, compared to the comparable period a year earlier, primarily due to the decline in net revenues previously discussed.

The table below demonstrates the calculation for modified net revenues.

Modified Net Revenues

Federal Columbia River Power System

For the fiscal year-to-date ended June 30 — thousands of dollars

	2009	2008
Net revenues	\$ 52,352	\$ 291,475
Derivative instruments	32,066	26,608
Nonfederal debt management actions	(116,672)	(106,176)
Modified net (expenses) revenues	\$ (32,254)	\$ 211,907

Additional Information

To see BPA's most recent annual report including audited financial statements, go to www.bpa.gov/corporate/finance/a_report

To see BPA's news, go to www.bpa.gov/corporate/BPAnews

For general information about BPA, refer to BPA's Home page at www.bpa.gov

For information on Power Services including rates, go to www.bpa.gov/power

For information about Power Generation, go to www.bpa.gov/power/pg/genspl.shtml

For information on Transmission Services including rates, go to www.transmission.bpa.gov

Federal Columbia River Power System Combined Balance Sheets

(Unaudited)

June 30,
2009

September 30,
2008

(thousands of dollars)

Assets			
Utility plant			
Completed plant	\$	13,584,330	\$ 13,480,633
Accumulated depreciation		(5,068,353)	(4,933,348)
		<u>8,515,977</u>	<u>8,547,285</u>
Construction work in progress		1,090,350	890,883
Net utility plant		<u>9,606,327</u>	<u>9,438,168</u>
Nonfederal generation		<u>2,567,391</u>	<u>2,492,645</u>
Current assets			
Cash		1,615,303	1,731,238
U.S. Treasury market-based special securities		19,496	-
Accounts receivable, net of allowance		107,715	112,129
Accrued unbilled revenues		180,163	203,011
Materials and supplies, at average cost		76,554	75,719
Prepaid expenses		48,307	21,682
Total current assets		<u>2,047,538</u>	<u>2,143,779</u>
Other assets			
Regulatory assets		5,305,896	5,447,404
U.S. Treasury market-based special securities		78,399	-
Nonfederal nuclear decommissioning trusts		155,057	157,743
Deferred charges and other		258,411	176,045
Total other assets		<u>5,797,763</u>	<u>5,781,192</u>
Total assets	\$	<u>20,019,019</u>	\$ <u>19,855,784</u>

Capitalization and Liabilities

Capitalization and long-term liabilities			
Accumulated net revenues	\$	2,716,812	\$ 2,664,460
Federal appropriations		4,301,231	4,247,972
Borrowings from U.S. Treasury		1,720,500	1,745,500
Nonfederal debt		6,584,211	6,182,403
Total capitalization and long-term liabilities		<u>15,322,754</u>	<u>14,840,335</u>

Commitments and contingencies (See Note 10 to annual financial statements)

Current liabilities			
Federal appropriations		9,889	9,889
Borrowings from U.S. Treasury		430,000	440,400
Nonfederal debt		138,458	284,469
Accounts payable and other		485,426	588,275
Total current liabilities		<u>1,063,773</u>	<u>1,323,033</u>
Other Liabilities			
Regulatory liabilities		2,585,057	2,665,517
IOU exchange benefits		83,314	69,600
Asset retirement obligations		160,700	159,800
Deferred credits		803,421	797,499
Total other liabilities		<u>3,632,492</u>	<u>3,692,416</u>
Total capitalization and liabilities	\$	<u>20,019,019</u>	\$ <u>19,855,784</u>

Federal Columbia River Power System Combined Statements of Revenues and Expenses

(Unaudited)

	Three Months Ended June 30,		Fiscal Year-to-Date Ended June 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(thousands of dollars)			
Operating revenues				
Sales	\$ 668,025	\$ 862,261	\$ 2,141,171	\$ 2,427,269
Derivative instruments	2,957	37,824	(32,066)	(26,608)
U.S. Treasury credits for fish	18,529	25,889	62,342	74,011
Miscellaneous revenues	14,407	16,297	47,837	48,543
Total operating revenues	703,918	942,271	2,219,284	2,523,215
Operating expenses				
Operations and maintenance	414,395	384,844	1,164,651	1,077,732
Purchased power	26,533	124,287	219,125	355,709
Nonfederal projects	95,936	120,671	350,593	367,090
Depreciation and amortization	88,007	88,007	264,499	265,572
Total operating expenses	624,871	717,809	1,998,868	2,066,103
Net operating revenues	79,047	224,462	220,416	457,112
Interest expense and (income)				
Interest expense	82,251	79,032	245,849	238,758
Allowance for funds used during construction	(1,447)	(5,286)	(18,954)	(16,853)
Interest income	(20,041)	(18,189)	(58,831)	(56,268)
Net interest expense	60,763	55,557	168,064	165,637
Net revenues	\$ 18,284	\$ 168,905	\$ 52,352	\$ 291,475

Federal Columbia River Power System

Combined Statements of Cash Flows

(Unaudited)

Fiscal Year-to-Date Ended
June 30,

2009

2008

(thousands of dollars)

Cash provided by and (used) for operating activities

Net revenues	\$ 52,352	\$ 291,475
Non-cash items:		
Depreciation and amortization	264,499	265,572
Amortization:		
Terminated facilities and sponsored conservation	4,650	4,385
Capitalization adjustment	(48,679)	(48,679)
Changes in:		
Receivables and unbilled revenues	27,263	(81,657)
Materials and supplies	(836)	(6,923)
Prepaid expenses	(26,625)	(23,332)
Accounts payable and other	(34,500)	12,215
Cash provided by operating activities	238,124	413,056

Cash provided by and (used) for investment activities

Investment in:		
Utility plant (including AFUDC)	(378,982)	(285,050)
Nonfederal generation	(74,746)	(33,515)
U.S. Treasury market-based special securities	(100,000)	-
Nonfederal nuclear decommissioning trusts	(5,954)	(5,339)
Special purpose corporations' trust funds:		
Deposits to	(199,916)	(69,088)
Receipts from	98,913	36,952
Cash used for investment activities	(660,685)	(356,040)

Cash provided by and (used) for financing activities

Federal construction appropriations:		
Increase	53,259	51,651
Repayment	-	-
Borrowings from U.S. Treasury:		
Increase	235,000	225,000
Repayment	(270,400)	(190,300)
Refinanced	-	(75,000)
Nonfederal debt:		
Increase	265,512	83,594
Repayment	(9,715)	(9,315)
Customers:		
Advances for construction	37,476	21,118
Billing credits	(4,506)	(7,042)
Cash provided by financing activities	306,626	99,706
(Decrease) increase in cash	(115,935)	156,722
Beginning cash balance	1,731,238	1,475,544
Ending cash balance	\$ 1,615,303	\$ 1,632,266