



## 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 owned and operated by the U.S. Army Corps of Engineers and Bureau of Reclamation, one nonfederal nuclear plant owned and operated by a consortium of utilities, 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 or exchanging wholesale power and related services at cost to meet the needs of consumer-owned utilities and investor-owned utilities in the region. BPA also sells or exchanges power with some large industries in the region and with marketers and utilities in Canada and the western United States. Its service area includes Oregon, Washington, Idaho, western Montana and small parts of Wyoming, Nevada, Utah, California and eastern Montana.

BPA promotes energy efficiency, renewable energy and new technologies. The agency funds regional efforts to protect and enhance 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 water year as the basis for calculating its 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. Financial reserves are the sum of BPA cash, current market values for market-based specials and deferred borrowing authority.

The FCRPS financial statements that follow are a combination of the accounts of BPA, the accounts of the Pacific Northwest generating facilities of 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 six months ended March 31, 2010, total operating revenues increased \$103 million, or about 7 percent from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services gross sales increased \$33 million, or 3 percent. The increase is primarily the result of higher rates that went into effect Oct. 1, 2009, partially offset by lower revenues from secondary sales due to reduced runoff and lower market prices. Transmission Services gross sales increased \$28 million, or 8 percent, mainly due to ancillary services and point-to-point long-term sales. The ancillary services increase was primarily due to higher rates for wind balancing services that went into effect Oct. 1, 2009, and increasing the installed capacity of wind generation.

The increase in the unrealized fair value of BPA's derivative instruments of \$43 million for the six months ended March 31, 2010, as compared to the same period in fiscal year 2009, was due primarily to the termination of two floating-to-fixed LIBOR interest rate swaps during the quarter. This resulted in the realization of a \$29 million loss which is included in nonfederal projects expenses in the quarter ended March 31, 2010, and the corresponding removal of this position from this balance which includes only unrealized positions. Additionally, a decrease in the forward price curves, physical delivery and a change in the overall portfolio mix caused increased gains of approximately \$14 million.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA increased \$14 million, or 31 percent, due to higher capital and program expenses needed for fish mitigation measures in fiscal year 2010 when compared with fiscal year 2009. The Pacific Northwest Electric Power Planning and Conservation Act of 1980 obligate the BPA administrator to make expenditures for fish and wildlife

protection, mitigation and enhancement for both power and nonpower purposes on a reimbursement basis. The Northwest Power Act also specifies that consumers of electric power, through their rates for power services, “shall bear the costs of measures designed to deal with adverse impacts caused by the development and operation of electric power facilities and programs only.” Section 4(h)(10)(C) of the Northwest Power Act was designed to ensure that the costs of mitigating these impacts are properly accounted for among the various purposes of the hydroelectric projects. As such, BPA reduces its cash payments to the U.S. Treasury by an amount equal to the mitigation measures funded on behalf of the nonpower purposes.

### *Operating Expenses*

Operations and maintenance decreased \$13 million, or 2 percent for the six months ended March 31, 2010, from the comparable period a year earlier due in part to previously scheduled maintenance and biennial refueling being completed in fiscal year 2009 for the Energy Northwest Columbia Generating Station nuclear power plant. These decreased costs were partially offset by higher program expenses needed for fish mitigation measures in fiscal year 2010 when compared with fiscal year 2009.

Purchased power expense increased \$27 million, or 14 percent for fiscal year 2010 when compared to fiscal year 2009. This increase was mainly due to purchasing power in the market to fulfill load obligations as a result of below normal basin-wide precipitation and stream flows. Operations to allow for fish mitigation also contributed to the increased expense.

Nonfederal projects expense increased \$75 million, or 30 percent, primarily due to increased repayments of \$37 million for Energy Northwest’s Columbia Generating Station and \$21 million for WNP No.1. The fluctuation in annual Energy Northwest debt service is predominantly the result of debt restructuring actions taken two decades ago reducing Energy Northwest’s debt service payments as well as those taken more recently under the Debt Optimization Program. By reducing Energy Northwest’s debt service payments in earlier years, ratepayers benefited from front loaded savings. The Debt Optimization Program further enabled extension of nonfederal debt and early repayment of federal debt within the total FCRPS debt portfolio (refer to modified net revenues below). Libor interest expense increased \$21 million primarily as a result of terminating two floating-to-fixed LIBOR interest rate swaps transacted in fiscal year 2003 to manage interest rate risk related to nonfederal debt.

### *Net Interest Expense*

Allowance for funds used during construction increased \$2 million, or 13 percent for the six months ended March 31, 2010, when compared to the first six months of the previous year. The primary driver was an increase for transmission construction. Interest income decreased \$11 million, or 27 percent. Cash balances from operations decreased over the last two quarters of fiscal year 2009 and in October

\$100 million was transferred from the BPA fund to market-based special securities which earned significantly lower yields.

## Liquidity and Capital Resources

### *Net Revenues and Operating Activities*

As a result of the factors previously discussed, the FCRPS earned net revenues of \$34 million for the six months ended March 31, 2010. By coincidence, net revenues were \$34 million for the six months ended March 31, 2009.

Cash provided by operating activities of the FCRPS increased \$120 million to \$285 million for the six months ended March 31, 2010, when compared to the comparable period a year earlier, as reported in the Combined Statements of Cash Flows. The change in operating cash flow primarily reflects 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 an \$83 million inflow.

### *Investment Activities*

When compared to the six months ended March 31, 2009, cash used for investment activities of the FCRPS increased \$4 million to \$408 million for the six months ended March 31, 2010.

Utility plant investment increased \$66 million, driven primarily by investments for additional transmission assets and at generating facilities.

Nonfederal generation investment increased \$76 million primarily for capital improvements at the Columbia Generating Station nuclear plant.

BPA invested an additional \$100 million in U.S. Treasury market-based special securities and \$35 million matured and was re-invested into a 90-day security now reflected in cash and cash equivalents.

### *Financing Activities*

Compared to \$207 million for the comparable period a year earlier, cash provided by financing activities of the FCRPS was \$237 million for the six months ended March 31, 2010. BPA borrowed \$299 million from the U.S. Treasury during the six months ended March 31, 2010, to fund additional investments. Of the \$299 million, \$166.5 million was for transmission investments, \$106.5 million for generation investments and \$26 million for fish & wildlife investments.

# Non-GAAP Financial Information

## *Modified Net Revenues*

Modified net revenues are net revenues after removing the effects of the unrealized loss or (gain) derivative instruments and nonfederal debt management actions that differ from rate case assumptions. 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 instruments market prices.

Modified net revenues were \$33 million higher for the six months ended March 31, 2010, compared to the comparable period a year earlier, primarily due to the increase in net revenues previously discussed.

The table below demonstrates the calculation for modified net revenues.

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## Modified Net Revenues

*Federal Columbia River Power System  
For the fiscal year-to-date ended March 31 — thousands of dollars*

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	<b>2010</b>	<b>2009</b>
<b>Net revenues</b>	<b>\$ 33,751</b>	<b>\$ 34,067</b>
Derivative instruments	<b>(7,986)</b>	35,023
Nonfederal debt management actions	<b>18,658</b>	(57,643)
Modified net revenues	<b>\$ 44,423</b>	<b>\$ 11,447</b>

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## Additional Information

To see BPA's most recent annual report including audited financial statements, go to [www.bpa.gov/corporate/finance/a\\_report](http://www.bpa.gov/corporate/finance/a_report)

To see BPA news, go to [www.bpa.gov/corporate/bpanews](http://www.bpa.gov/corporate/bpanews)

For general information about BPA, refer to BPA's Home page at [www.bpa.gov](http://www.bpa.gov)

For information on Power Services including rates, go to [www.bpa.gov/power](http://www.bpa.gov/power)

For information about Power Generation, go to [www.bpa.gov/power/pg/genspl.shtml](http://www.bpa.gov/power/pg/genspl.shtml)

For information on Wind Power, go to [www.bpa.gov/corporate/windpower](http://www.bpa.gov/corporate/windpower)

For information on Transmission Services including rates, go to [www.transmission.bpa.gov](http://www.transmission.bpa.gov)

# Federal Columbia River Power System Combined Balance Sheets

(Unaudited)

March 31,  
2010

Sept. 30,  
2009

(thousands of dollars)

<b>Assets</b>		
<b>Utility plant</b>		
Completed plant	\$ 13,940,476	\$ 13,883,626
Accumulated depreciation	(5,171,829)	(5,106,884)
	<b>8,768,647</b>	<b>8,776,742</b>
Construction work in progress	1,158,371	985,624
Net utility plant	<b>9,927,018</b>	<b>9,762,366</b>
<b>Nonfederal generation</b>	<b>2,590,655</b>	<b>2,520,245</b>
<b>Current assets</b>		
Cash and cash equivalents	1,471,155	1,357,019
U.S. Treasury market-based special securities	43,281	14,554
Accounts receivable, net of allowance	118,023	112,251
Accrued unbilled revenues	218,361	172,842
Materials and supplies, at average cost	84,572	77,612
Prepaid expenses	27,928	24,652
Total current assets	<b>1,963,320</b>	<b>1,758,930</b>
<b>Other assets</b>		
Regulatory assets	5,030,191	5,112,346
U.S. Treasury market-based special securities	116,505	83,041
Nonfederal nuclear decommissioning trusts	179,616	167,232
Deferred charges and other	203,550	235,119
Total other assets	<b>5,529,862</b>	<b>5,597,738</b>
<b>Total assets</b>	<b>\$ 20,010,855</b>	<b>\$ 19,639,279</b>
<b>Capitalization and Liabilities</b>		
<b>Capitalization and long-term liabilities</b>		
Accumulated net revenues	\$ 2,590,023	\$ 2,556,272
Federal appropriations	4,436,835	4,392,405
Borrowings from U.S. Treasury	2,039,440	1,765,440
Nonfederal debt	6,272,208	6,244,954
Total capitalization and long-term liabilities	<b>15,338,506</b>	<b>14,959,071</b>
<b>Commitments and contingencies (See Note 12 to annual financial statements)</b>		
<b>Current liabilities</b>		
Federal appropriations	3,784	3,784
Borrowings from U.S. Treasury	240,000	365,000
Nonfederal debt	311,610	319,980
Accounts payable and other	642,626	474,349
Total current liabilities	<b>1,198,020</b>	<b>1,163,113</b>
<b>Other liabilities</b>		
Regulatory liabilities	2,522,673	2,567,271
IOU exchange benefits	84,336	83,655
Asset retirement obligations	166,421	162,943
Deferred credits	700,899	703,226
Total other liabilities	<b>3,474,329</b>	<b>3,517,095</b>
<b>Total capitalization and liabilities</b>	<b>\$ 20,010,855</b>	<b>\$ 19,639,279</b>

## Federal Columbia River Power System Combined Statements of Revenues and Expenses

(Unaudited)

	Three Months Ended March 31,		Fiscal Year-to-Date Ended March 31,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(thousands of dollars)			
<b>Operating revenues</b>				
Sales	\$ 756,728	\$ 746,627	\$ 1,523,763	\$ 1,473,145
Derivative instruments	16,585	4,924	7,986	(35,023)
U.S. Treasury credits for fish	33,743	22,224	57,486	43,814
Miscellaneous revenues	14,117	18,497	29,410	33,430
Total operating revenues	821,173	792,272	1,618,645	1,515,366
<b>Operating expenses</b>				
Operations and maintenance	384,758	400,067	737,642	750,257
Purchased power	129,806	69,201	219,484	192,591
Nonfederal projects	179,000	130,706	329,852	254,658
Depreciation and amortization	90,616	88,491	180,475	176,492
Total operating expenses	784,180	688,465	1,467,453	1,373,998
Net operating revenues	36,993	103,807	151,192	141,368
<b>Interest expense and (income)</b>				
Interest expense	83,600	82,286	165,370	163,598
Allowance for funds used during construction	(9,632)	(9,365)	(19,772)	(17,507)
Interest income	(14,501)	(19,828)	(28,157)	(38,790)
Net interest expense	59,467	53,093	117,441	107,301
<b>Net revenues (expenses)</b>	\$ (22,474)	\$ 50,714	\$ 33,751	\$ 34,067

**Federal Columbia River Power System**  
**Combined Statements of Cash Flows**  
(Unaudited)

Fiscal Year-to-Date Ended  
March 31,

2010  2009

(thousands of dollars)

**Cash provided by and (used) for operating activities**

Net revenues	\$ 33,751	\$ 34,067
Non-cash items:		
Depreciation and amortization	180,475	176,492
Unrealized (gain) loss on derivative instruments	(6,614)	35,052
Changes in:		
Receivables and unbilled revenues	(48,293)	9,052
Materials and supplies	(6,960)	(5,118)
Prepaid expenses	(3,276)	(4,369)
Accounts payable and other	143,955	(62,506)
Regulatory assets and liabilities	51	(5,601)
Other assets and liabilities	(7,964)	(11,598)
Net cash provided by operating activities	285,125	165,471

**Cash provided by and (used) for investing activities**

Investment in:		
Utility plant (including AFUDC)	(279,736)	(214,185)
Nonfederal generation	(70,410)	5,110
U.S. Treasury market-based special securities:		
Purchases	(100,000)	(100,000)
Maturities	34,812	-
Nonfederal nuclear decommissioning trusts	(4,181)	(3,924)
Special purpose corporations' trust funds:		
Deposits to	(1,769)	(176,192)
Receipts from	13,480	85,133
Net cash used for investing activities	(407,804)	(404,058)

**Cash provided by and (used) for financing activities**

Federal construction appropriations:		
Increase	44,430	34,376
Repayment	-	-
Borrowings from U.S. Treasury:		
Increase	299,000	95,000
Repayment	(150,000)	(120,000)
Nonfederal debt:		
Increase	29,064	176,193
Repayment	(10,180)	(9,715)
Customers:		
Advances for construction	41,178	34,208
Reimbursements to customers	(16,677)	(3,470)
Net cash provided by financing activities	236,815	206,592

Net increase (decrease) in cash and cash equivalents	114,136	(31,995)
Cash and cash equivalents at beginning of year	1,357,019	1,731,238
Cash and cash equivalents at end of quarter	\$ 1,471,155	\$ 1,699,243

Cash paid for interest, net of AFUDC and U.S. Treasury credits	\$ 18,356	\$ 9,991
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Supplemental schedule of noncash operating activities:

U.S. Treasury interest credits on the BPA fund	\$ 26,168	\$ 37,105
U.S. Treasury credits for fish and other purposes	\$ -	\$ -