Quarterly Financial Report

2010 Third Quarter

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

This agency-approved financial information was made publicly available by BPA on 07-29-2010.

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

Accounting Principles

During the quarter, BPA began applying ASC 980, Regulated Operations, accounting treatment to its derivative instruments that are recorded at market values. This was the result of changes in BPA’s forward energy procurement process in 2010 whereby BPA began entering into forward electricity contracts to meet Tier 2 energy requirements under the new Long-Term Regional Dialogue Final Policy and Record of Decision in effect beginning on Oct. 1, 2011. Many of these contracts are considered derivatives and recorded at fair value. Concurrent with this operational change, BPA evaluated all contracts that are subject to mark-to-market accounting to determine if the related contract costs are included in BPA’s rate structures in effect for fiscal year 2010 and beyond. As a result of this reassessment and evaluation, management determined that all such contracts are included in BPA’s cost of service and are recoverable in future rates.

Upon adoption of this change, BPA recorded a $14 million net regulatory asset for derivatives. For the quarter ended June 30, 2010, BPA recorded $7 million net operating revenues associated with derivative instruments.

Operating Revenues

For the nine months ended June 30, 2010, sales increased $48 million, or 2 percent from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales increased $14 million, or 1 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 sales increased $34 million, or 7 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 $47 million for the nine months ended June 30, 2010, as compared to the same period in fiscal year 2009, was primarily due to the termination of two floating-to-fixed LIBOR interest rate swaps during the quarter ended March 31, 2010. This resulted in the realization of a $29 million loss which is included in nonfederal projects expenses, 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 $18 million.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA increased $37 million, or 59 percent, due to higher capital and program expenses and increased purchased power for operations in support of fish mitigation measures in fiscal year 2010 when compared with fiscal year 2009. The Pacific Northwest Electric Power Planning and Conservation Act of 1980 obligates 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 $39 million, or 3 percent for the nine months ended June 30, 2010, from the comparable period a year earlier due in part to previously scheduled maintenance and biennial refueling 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 pursuant to the Columbia Basin Fish Accords for fish mitigation measures in fiscal year 2010 when compared with fiscal year 2009.

Purchased power expense increased $68 million, or 31 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 measures also contributed to the need to purchase additional power.

Nonfederal projects expense increased $102 million, or 29 percent, primarily due to increased debt repayments of $78 million for Energy Northwest's Columbia Generating Station. For two decades Energy Northwest's debt service was periodically restructured to achieve overall federal and nonfederal debt service objectives which typically reduced nonfederal projects expense. These prior debt management actions have created unlevel Energy Northwest debt service such that there can be significant variances from year-to-year. Libor interest expense increased $18 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

Net interest expense increased $9 million, or 5 percent, with the primary driver being interest income which decreased $17 million, or 29 percent. Cash balances from operations decreased over the last two quarters of fiscal year 2009. Furthermore, in October 2009 $100 million was transferred from the BPA fund to market-based special securities which earned 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 $36 million for the nine months ended June 30, 2010. Net revenues were $52 million for the nine months ended June 30, 2009.

Cash provided by operating activities of the FCRPS decreased $113 million to $125 million for the nine months ended June 30, 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, payments of accounts payable and accrued liabilities, and regulatory accounts. The net change attributable to the Residential Exchange Program was an $83 million outflow in 2009.

Investment Activities

When compared to the nine months ended June 30, 2009, cash used for investment activities of the FCRPS decreased $85 million to $576 million for the nine months ended June 30, 2010.

Utility plant investment increased $95 million, driven primarily by investments for additional transmission assets and assets at generating facilities.

BPA invested $100 million in U.S. Treasury market-based special securities during both periods. Under its banking arrangement with the U.S. Treasury, BPA has agreed to invest at least $100 million annually for up to 10 years or until the BPA fund is fully invested. During the fiscal year-to-date ended June 30, 2010, $45 million matured and was re-invested into 90-day securities now reflected in cash and cash equivalents.

During the nine months ended June 30, 2010, the consolidated special purpose corporations deposited $2 million into their restricted trust funds and advanced $32 million to the BPA fund to support transmission construction activities on leased projects. The $131 million change when compared to the same activity for the nine months ended June 30, 2009, reflects a reduction in construction activity on leased projects as seen by decreases in both deposits to the restricted trust funds and advances to the BPA fund. The availability of American Recovery and Reinvestment Act funds decreased reliance on the Lease Financing Program.

Financing Activities

Cash provided by financing activities of the FCRPS was $356 million for the nine months ended June 30, 2010, compared to $307 million for the comparable period a year earlier. In the current fiscal year no additional nonfederal debt was issued under the Lease Financing Program. In comparison $200 million of nonfederal debt was issued under the program in fiscal year 2009. In place to fund additional investments, BPA borrowings from the U.S. Treasury increased $193 million during the nine months ended June 30, 2010, to $428 million. Of the $428 million, $232 million was for transmission investments, $170 million for generation investments and $26 million for fish & wildlife investments. ARRA funds are being used to fund in part investments across these classes.

Non-GAAP Financial Information

Modified Net Revenues

Modified net revenues are net revenues after removing the effects of the unrealized loss or (gain) on 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 $39 million higher for the nine months ended June 30, 2010, compared to the comparable period a year earlier, primarily due to the change between periods in nonfederal debt management actions.

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

	2010	2009
Net revenues	**$ 36,128**	$ 52,352
Derivative instruments	**(14,800)**	32,066
Nonfederal debt management actions	**(14,449)**	(116,672)
Modified net revenues	**$ 6,879**	$ (32,254)

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 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 Wind Power, go to www.bpa.gov/corporate/windpower

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

Federal Columbia River Power System

Combined Balance Sheets

(Unaudited)

	June 30, 2010	Sept. 30, 2009
	(thousands of dollars)	
Assets		
Utility plant		
Completed plant	**$ 14,062,520**	$ 13,883,626
Accumulated depreciation	**(5,230,416)**	(5,106,884)
	8,832,104	8,776,742
Construction work in progress	**1,217,070**	985,624
Net utility plant	**10,049,174**	9,762,366
Nonfederal generation	**2,590,655**	2,520,245
Current assets		
Cash and cash equivalents	**1,262,652**	1,357,019
U.S. Treasury market-based special securities	**66,366**	14,554
Accounts receivable, net of allowance	**116,214**	112,251
Accrued unbilled revenues	**212,161**	172,842
Materials and supplies, at average cost	**87,405**	77,612
Prepaid expenses	**55,700**	24,652
Total current assets	**1,800,498**	1,758,930
Other assets		
Regulatory assets	**5,046,543**	5,112,346
U.S. Treasury market-based special securities	**82,698**	83,041
Nonfederal nuclear decommissioning trusts	**176,050**	167,232
Deferred charges and other	**194,540**	235,119
Total other assets	**5,499,831**	5,597,738
Total assets	**$ 19,940,158**	$ 19,639,279
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 2,592,400**	$ 2,556,272
Federal appropriations	**4,459,897**	4,392,405
Borrowings from U.S. Treasury	**2,033,440**	1,765,440
Nonfederal debt	**6,308,218**	6,244,954
Total capitalization and long-term liabilities	**15,393,955**	14,959,071
Commitments and contingencies (See Note 12 to annual financial statements)		
Current liabilities		
Federal appropriations	**3,784**	3,784
Borrowings from U.S. Treasury	**325,000**	365,000
Nonfederal debt	**271,010**	319,980
Accounts payable and other	**442,598**	474,349
Total current liabilities	**1,042,392**	1,163,113
Other liabilities		
Regulatory liabilities	**2,510,197**	2,567,271
IOU exchange benefits	**84,676**	83,655
Asset retirement obligations	**168,205**	162,943
Deferred credits	**740,733**	703,226
Total other liabilities	**3,503,811**	3,517,095
Total capitalization and liabilities	**$ 19,940,158**	$ 19,639,279

Federal Columbia River Power System
Combined Statements of Revenues and Expenses
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Fiscal Year-to-Date Ended June 30, 2010	Fiscal Year-to-Date Ended June 30, 2009
	(thousands of dollars)			
Operating revenues				
Sales	**$ 665,887**	$ 668,025	**$ 2,189,650**	$ 2,141,171
Derivative instruments	**6,814**	2,957	**14,800**	(32,066)
U.S. Treasury credits for fish	**41,610**	18,529	**99,097**	62,342
Miscellaneous revenues	**17,549**	14,407	**46,959**	47,837
Total operating revenues	**731,860**	703,918	**2,350,506**	2,219,284
Operating expenses				
Operations and maintenance	**388,426**	414,395	**1,126,069**	1,164,651
Purchased power	**67,307**	26,533	**286,792**	219,125
Nonfederal projects	**122,490**	95,936	**452,341**	350,593
Depreciation and amortization	**91,785**	88,007	**272,260**	264,499
Total operating expenses	**670,008**	624,871	**2,137,462**	1,998,868
Net operating revenues	**61,852**	79,047	**213,044**	220,416
Interest expense and (income)				
Interest expense	**82,682**	82,251	**248,052**	245,849
Allowance for funds used during construction	**(9,445)**	(1,447)	**(29,217)**	(18,954)
Interest income	**(13,762)**	(20,041)	**(41,919)**	(58,831)
Net interest expense	**59,475**	60,763	**176,916**	168,064
Net revenues	**$ 2,377**	$ 18,284	**$ 36,128**	$ 52,352

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

	Fiscal Year-to-Date Ended June 30, 2010		2009
	(thousands of dollars)		
Cash provided by and (used for) operating activities			
Net revenues	**$**	**36,128**	$ 52,352
Non-cash items:			
Depreciation and amortization		**272,260**	264,499
Unrealized (gain) loss on derivative instruments		**(13,428)**	33,425
Changes in:			
Receivables and unbilled revenues		**(39,434)**	29,368
Materials and supplies		**(9,793)**	(836)
Prepaid expenses		**(31,048)**	(26,625)
Accounts payable and other		**(54,313)**	(102,849)
Regulatory assets and liabilities		**(34,104)**	7,372
Other assets and liabilities		**(910)**	(18,582)
Net cash provided by operating activities		**125,358**	238,124
Cash provided by and (used for) investing activities			
Investment in:			
Utility plant (including AFUDC)		**(473,930)**	(378,982)
Nonfederal generation		**(70,410)**	(74,746)
U.S. Treasury market-based special securities:			
Purchases		**(100,000)**	(100,000)
Maturities		**44,683**	-
Nonfederal nuclear decommissioning trusts		**(6,349)**	(5,954)
Special purpose corporations' trust funds:			
Deposits to		**(1,769)**	(199,916)
Receipts from		**31,656**	98,913
Net cash used for investing activities		**(576,119)**	(660,685)
Cash provided by and (used for) financing activities			
Federal construction appropriations:			
Increase		**67,492**	53,259
Repayment		**-**	-
Borrowings from U.S. Treasury:			
Increase		**428,000**	235,000
Repayment		**(200,000)**	(270,400)
Nonfederal debt:			
Increase		**24,474**	265,512
Repayment		**(10,180)**	(9,715)
Customers:			
Advances for construction		**68,372**	37,476
Reimbursements to customers		**(21,764)**	(4,506)
Net cash provided by financing activities		**356,394**	306,626
Net increase (decrease) in cash and cash equivalents		**(94,367)**	(115,935)
Cash and cash equivalents at beginning of year		**1,357,019**	1,731,238
Cash and cash equivalents at end of quarter	**$**	**1,262,652**	$ 1,615,303
Cash paid for interest, net of AFUDC and U.S. Treasury credits	**$**	**18,651**	$ 10,938
Supplemental schedule of noncash operating activities:			
U.S. Treasury interest credits on the BPA fund	**$**	**38,597**	$ 53,647