

Quarterly Financial Report

2011 First Quarter

Management's Discussion & Analysis

Profile

The Bonneville Power Administration is a federal agency under the Department of Energy. BPA markets wholesale electrical power from 31 federal hydroelectric projects owned and operated by the U.S. Army Corps of Engineers and Bureau of Reclamation, one nonfederal nuclear plant and some small nonfederal resources. BPA supplies about one-third of the electric power used in the Northwest.

BPA also operates and maintains about three-fourths of the region's high-voltage transmission system and is a leader in integrating renewable resources, such as wind energy, into its grid. BPA's service area includes Oregon, Washington, Idaho, western Montana, and small parts of Wyoming, Nevada, Utah, California and eastern Montana.

As a self-funding agency, BPA covers its costs by selling wholesale power, transmission and related services at cost. Under federal law, BPA must meet the power needs of its preference customers, "consumer-owned" utilities that include public utility districts, people's utility districts, cooperatives, tribal utilities, municipalities and federal customers. BPA also sells power to investor-owned utilities, some direct-service industries in the region and – when power in the Northwest is surplus – to 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 enhance fish and wildlife populations affected by federal hydropower development in the Columbia River Basin. BPA is committed to public service and seeks to make its decisions in a manner that provides financial transparency and opportunities for input from all stakeholders.

General

BPA's hydroelectric power supply depends on the amount and timing of precipitation in the Columbia River Basin and the shape, or timing, of the resulting 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 and purchases energy when supply is not sufficient to meet obligations. 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, a line of credit with the U.S. Treasury 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 three months ended Dec. 31, 2010, sales increased \$43 million, or 6 percent from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales increased \$38 million, or 7 percent. The increase is primarily the result of increased streamflows which led to higher generation and sales of secondary energy resulting in increased revenues. Increased energy sales to direct-service industrial customers also resulted in higher revenues. Transmission Services sales increased \$5 million, or 3 percent, mainly due to ancillary services.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA increased \$2 million, or 9 percent, due to higher capital and program expenses in support of fish mitigation measures in fiscal year 2011 when compared with fiscal year 2010. 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 increased \$53 million, or 15 percent for the three months ended Dec. 31, 2010, from the comparable period a year earlier due mainly to the additional costs of \$35 million for maintenance and biennial refueling scheduled in fiscal year 2011 for the Energy Northwest Columbia Generating Station nuclear power plant. To a smaller extent, direct funded federal hydro projects increased \$7 million for system operations and maintenance, Transmission Services operations and maintenance programs increased \$3 million, Special Purpose Corporations costs increased \$3 million for refinancing, and other agency expenses increased \$5 million in the first quarter of fiscal year 2011.

Purchased power expense decreased \$3 million, or 3 percent in the first quarter of fiscal year 2011 when compared to first quarter of fiscal year 2010. This decrease was mainly due to higher streamflows during the current fiscal year when compared to the prior fiscal year. Higher streamflows contributed to increased generation, which reduced the amount of power purchased to meet load.

Nonfederal projects expense decreased \$3 million, or 2 percent, in the first quarter of fiscal year 2011 from the first quarter of 2010. The change was primarily due to decreased debt repayments of \$11 million for Energy Northwest's Columbia Generating Station partially offset by increased debt service for WNP No. 3 of \$9 million. 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.

Net Interest Expense

Net interest expense increased \$7 million, or 12 percent, in the first quarter of fiscal year 2011 from the first quarter of 2010 with the primary driver being interest income which decreased \$6 million, or 45 percent, as a result of lower average cash balances. Furthermore, for the third year \$100 million was transferred from the BPA fund to market-based special securities which earn 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 \$50 million for the three months ended Dec. 31, 2010. Net revenues were \$56 million for the three months ended Dec. 31, 2009.

Cash provided by operating activities of the FCRPS decreased \$34 million to \$15 million for the three months ended Dec. 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, payments of accounts payable and accrued liabilities, and regulatory accounts.

Investing Activities

When compared to the three months ended Dec. 31, 2009, cash used for investment activities of the FCRPS increased \$57 million to \$304 million for the three months ended Dec. 31, 2010. Utility plant investment increased \$65 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 at the beginning of both fiscal years. 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 quarter ended Dec. 31, 2010, \$20 million matured and was re-invested.

During the three months ended Dec. 31, 2010, the consolidated special purpose corporations advanced \$12 million to the BPA fund to support transmission construction activities on leased projects. The \$10 million change when compared to the same activity for the three months ended Dec. 31, 2009, reflects an increase in construction activity on several large leased projects.

Financing Activities

Cash provided by financing activities of the FCRPS was \$110 million for the three months ended Dec. 31, 2010, compared to \$202 million for the comparable period a year earlier. In the current fiscal year BPA borrowings from the U.S. Treasury were \$109 million lower than borrowings during the three months ended Dec. 31, 2009, to \$75 million. Of the \$75 million in new borrowings from the U.S. Treasury, \$45 million was for transmission investments, \$20 million for generation investments and \$10 million for current operations using the Treasury short-term liquidity facility. Additional nonfederal debt of \$96 million was issued under the Lease Financing Program in order to refinance \$90 million at a lower interest rate.

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)

As of December 31,
2010

As of September 30,
2010

(Thousands of dollars)

Assets

Utility plant

Completed plant	\$ 14,405,696		\$ 14,362,387
Accumulated depreciation	(5,298,582)		(5,247,971)
	9,107,114		9,114,416
Construction work in progress	1,200,337		1,105,165
Net utility plant	10,307,451		10,219,581

Nonfederal generation	2,600,040		2,449,865
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Current assets

Cash and cash equivalents	899,908		1,078,671
Short-term investments	158,010		65,783
Accounts receivable, net of allowance	86,979		122,400
Accrued unbilled revenues	277,384		197,603
Materials and supplies, at average cost	90,003		85,797
Prepaid expenses	24,492		25,832
Total current assets	1,536,776		1,576,086

Investments and other assets

Regulatory assets	4,995,800		4,983,142
Investments in U.S. Treasury securities	87,731		82,328
Nonfederal nuclear decommissioning trusts	196,216		188,850
Deferred charges and other	175,912		169,318
Total investments and other assets	5,455,659		5,423,638

Total assets	\$ 19,899,926		\$ 19,669,170
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Capitalization and Liabilities

Capitalization and long-term liabilities

Accumulated net revenues	\$ 2,478,315		\$ 2,428,691
Federal appropriations	4,257,588		4,238,167
Borrowings from U.S. Treasury	2,253,440		2,188,440
Nonfederal debt	6,164,016		6,015,585
Total capitalization and long-term liabilities	15,153,359		14,870,883

Commitments and contingencies (See Note 13 to annual financial statements)

Current liabilities

Federal appropriations	21,232		21,232
Borrowings from U.S. Treasury	335,000		325,000
Nonfederal debt	308,777		306,175
Accounts payable and other	567,338		613,052
Total current liabilities	1,232,347		1,265,459

Other liabilities

Regulatory liabilities	2,475,351		2,494,019
IOU exchange benefits	85,358		85,017
Asset retirement obligations	172,120		170,334
Deferred credits and other	781,391		783,458
Total other liabilities	3,514,220		3,532,828

Total capitalization and liabilities	\$ 19,899,926		\$ 19,669,170
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Federal Columbia River Power System
Combined Statements of Revenues and Expenses
(Unaudited)

Three Months Ended December 31,		Fiscal Year-to-Date Ended December 31,	
<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>

(Thousands of dollars)

Operating revenues				
Sales	\$ 810,310	\$ 767,035	\$ 810,310	\$ 767,035
Derivative instruments	-	(8,599)	-	(8,599)
U.S. Treasury credits for fish	25,766	23,743	25,766	23,743
Miscellaneous revenues	14,946	15,294	14,946	15,294
Total operating revenues	851,022	797,473	851,022	797,473
Operating expenses				
Operations and maintenance	405,894	352,884	405,894	352,884
Purchased power	86,885	89,679	86,885	89,679
Nonfederal projects	147,747	150,852	147,747	150,852
Depreciation and amortization	96,059	89,859	96,059	89,859
Total operating expenses	736,585	683,274	736,585	683,274
Net operating revenues	114,437	114,199	114,437	114,199
Interest expense and (income)				
Interest expense	81,468	81,771	81,468	81,771
Allowance for funds used during construction	(9,201)	(10,141)	(9,201)	(10,141)
Interest income	(7,454)	(13,656)	(7,454)	(13,656)
Net interest expense	64,813	57,974	64,813	57,974
Net revenues	\$ 49,624	\$ 56,225	\$ 49,624	\$ 56,225

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

Fiscal Year-to-Date Ended
December 31,

2010

2009

(Thousands of dollars)

Cash provided by and (used for) operating activities

Net revenues	\$	49,624		\$	56,225
Non-cash items:					
Depreciation and amortization		96,059			89,859
Amortization of nonfederal projects		10,665			10,180
Unrealized loss on derivative instruments		-			9,285
Changes in:					
Receivables and unbilled revenues		(42,822)			(79,378)
Materials and supplies		(4,206)			(4,928)
Prepaid expenses		1,340			(3,519)
Accounts payable and other		11,898			9,058
Regulatory assets and liabilities		(71,537)			(22,759)
Other assets and liabilities		(36,424)			(15,112)
Net cash provided by operating activities		14,597			48,911

Cash provided by and (used for) investing activities

Investment in:					
Utility plant (including AFUDC)		(212,431)			(146,992)
U.S. Treasury Securities:					
Purchases		(120,000)			(100,000)
Maturities		19,630			-
Nonfederal nuclear decommissioning trusts		(2,404)			(2,012)
Special purpose corporations' trust funds:					
Deposits to		(191)			-
Receipts from		11,756			1,953
Net cash used for investing activities		(303,640)			(247,051)

Cash provided by and (used for) financing activities

Federal construction appropriations:					
Increase		19,421			22,236
Borrowings from U.S. Treasury:					
Increase		75,000			184,000
Nonfederal debt:					
Increase		95,893			-
Extinguished through refinancing		(90,000)			-
Repayment		(10,665)			(10,180)
Customers:					
Advances for construction		26,901			16,608
Reimbursements to customers		(6,270)			(10,803)
Net cash provided by financing activities		110,280			201,861

Net (decrease) increase in cash and cash equivalents

		(178,763)			3,721
Cash and cash equivalents at beginning of year		1,078,671			1,357,019
Cash and cash equivalents at end of quarter	\$	899,908		\$	1,360,740

Supplemental disclosures:

Cash paid for interest, net of amount capitalized	\$	84,807		\$	78,909
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Significant noncash investing and financing activities:

Accrued capital expenditures (decrease) increase	\$	(56,572)		\$	22,953
Nonfederal debt increase	\$	155,805		\$	-