

# Quarterly Financial Report

## 2011 Second 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 six months ended March 31, 2011, sales increased \$177 million, or 12 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales increased \$180 million, or nearly 16 percent. The increase is primarily the result of increased streamflows which led to higher federal 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 decreased \$3 million, or 1 percent.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA decreased \$7 million, or 11 percent, due to increased streamflows and higher federal generation which reduced the amount of purchased power for fish mitigation 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 \$97 million, or 13 percent, for the six months ended March 31, 2011, from the comparable period a year earlier due mainly to increases for operating generation costs of \$69 million for maintenance including condenser replacement and biennial refueling scheduled in fiscal year 2011 for the Energy Northwest Columbia Generating Station nuclear power plant. Other year over year increases were for Transmission Services operations and maintenance programs of \$11 million, direct funded federal hydro projects of \$5 million, fish and wildlife of \$5 million, and other agency expenses of \$7 million.

Purchased power expense decreased \$100 million, or 46 percent, for fiscal year 2011 when compared to 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 federal generation, which reduced the amount of power purchased to meet load.

Nonfederal projects debt service expense decreased \$34 million, or 10 percent, for fiscal year 2011 when compared to fiscal year 2010. This decrease was primarily a result of termination in the second quarter of fiscal year 2010 of two floating-to-fixed LIBOR interest rate swaps transacted in fiscal year 2003 to manage interest rate risk related to nonfederal debt.

Depreciation and amortization expense increased \$15 million, or 8 percent, in for fiscal year 2011 when compared to fiscal year 2010. New transmission and generation plant placed in service resulted in increases to depreciation of \$6 million and \$1 million, respectively, and amortization of conservation and fish and wildlife regulatory assets increased \$6 million and \$2 million respectively.

### *Net Interest Expense*

Net interest expense increased \$10 million, or 9 percent, for fiscal year 2011 when compared to fiscal year 2010. The primary driver was a \$10 million, or 37 percent, reduction of interest income which decreased 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 \$211 million for the six months ended March 31, 2011. Net revenues were \$34 million for the six months ended March 31, 2010. Notwithstanding the net revenues increase, net cash provided by operating activities of the FCRPS decreased \$2 million to \$240 million for the six months ended March 31, 2011, when compared to the comparable period a year earlier. The other changes in operating cash flows reflect

differences in the timing of collecting receivables and unbilled revenues, payments of accounts payable and accrued liabilities, regulatory and other accounts.

### *Investing Activities*

When compared to the six months ended March 31, 2010, net cash used for investment activities of the FCRPS increased \$121 million to \$459 million for the six months ended March 31, 2011. Utility plant investment increased \$95 million, for 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 six months ended March 31, 2011, \$35 million of investments matured and was re-invested.

During the six months ended March 31, 2011, the consolidated special purpose corporations advanced \$22 million to the BPA fund to support transmission construction activities on leased projects. The \$8 million change when compared to the same activity for the six months ended March 31, 2010, reflects an increase in construction activity on several large leased projects.

### *Financing Activities*

Net cash provided by financing activities of the FCRPS was \$442 million for the six months ended March 31, 2011, compared to \$210 million for the comparable period a year earlier. In the current fiscal year BPA borrowings from the U.S. Treasury were \$370 million, or \$71 million higher than borrowings during the six months ended March 31, 2010. Of the \$370 million in new borrowings from the U.S. Treasury, \$150 million was for transmission investments, \$105 million for generation investments, \$65 million for fish and wildlife investments, \$40 million for conservation investments and \$10 million for current operations using the Treasury short-term liquidity facility. Whereas repayments of borrowings were \$150 million through March 31, 2010, BPA has not made repayments during the current fiscal year. Additional nonfederal debt of \$96 million was issued under the Lease Financing Program in order to refinance \$90 million at a beneficial 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](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)**

As of March 31,  
2011

As of September 30,  
2010

(Thousands of dollars)

**Assets**

**Utility plant**

Completed plant	\$ 14,425,739		\$ 14,362,387
Accumulated depreciation	(5,325,753)		(5,247,971)
	9,099,986		9,114,416
Construction work in progress	1,305,286		1,105,165
Net utility plant	10,405,272		10,219,581

<b>Nonfederal generation</b>	2,600,040		2,449,865
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**Current assets**

Cash and cash equivalents	1,302,360		1,078,671
Short-term investments	196,139		65,783
Accounts receivable, net of allowance	110,473		122,400
Accrued unbilled revenues	267,477		197,603
Materials and supplies, at average cost	87,467		85,797
Prepaid expenses	25,746		25,832
Total current assets	1,989,662		1,576,086

**Investments and other assets**

Regulatory assets	4,984,286		4,983,142
Investments in U.S. Treasury securities	48,845		82,328
Nonfederal nuclear decommissioning trusts	204,588		188,850
Deferred charges and other	160,553		169,318
Total investments and other assets	5,398,272		5,423,638

<b>Total assets</b>	\$ 20,393,246		\$ 19,669,170
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**Capitalization and Liabilities**

**Capitalization and long-term liabilities**

Accumulated net revenues	\$ 2,639,501		\$ 2,428,691
Federal appropriations	4,278,434		4,238,167
Borrowings from U.S. Treasury	2,468,440		2,188,440
Nonfederal debt	6,164,016		6,015,585
Total capitalization and long-term liabilities	15,550,391		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	415,000		325,000
Nonfederal debt	306,675		306,175
Accounts payable and other	598,070		613,052
Total current liabilities	1,340,977		1,265,459

**Other liabilities**

Regulatory liabilities	2,460,735		2,494,019
IOU exchange benefits	85,699		85,017
Asset retirement obligations	173,617		170,334
Deferred credits and other	781,827		783,458
Total other liabilities	3,501,878		3,532,828

<b>Total capitalization and liabilities</b>	\$ 20,393,246		\$ 19,669,170
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**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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
(Thousands of dollars)				
<b>Operating revenues</b>				
Sales	\$ 890,377	\$ 756,728	\$ 1,700,687	\$ 1,523,763
Derivative instruments	-	16,585	-	7,986
U.S. Treasury credits for fish	25,130	33,743	50,896	57,486
Miscellaneous revenues	16,182	14,117	31,128	29,410
Total operating revenues	931,689	821,173	1,782,711	1,618,645
<b>Operating expenses</b>				
Operations and maintenance	428,308	384,758	834,202	737,642
Purchased power	32,353	129,806	119,238	219,484
Nonfederal projects	147,745	179,000	295,492	329,852
Depreciation and amortization	99,156	90,616	195,214	180,475
Total operating expenses	707,562	784,180	1,444,146	1,467,453
Net operating revenues	224,127	36,993	338,565	151,192
<b>Interest expense and (income)</b>				
Interest expense	82,532	83,600	163,999	165,370
Allowance for funds used during construction	(9,357)	(9,632)	(18,557)	(19,772)
Interest income	(10,234)	(14,501)	(17,687)	(28,157)
Net interest expense	62,941	59,467	127,755	117,441
<b>Net revenues (expenses)</b>	\$ 161,186	\$ (22,474)	\$ 210,810	\$ 33,751

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

Fiscal Year-to-Date Ended  
March 31,

2011

2010

(Thousands of dollars)

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

Net revenues	\$	210,810	\$	33,751
Non-cash items:				
Depreciation and amortization		195,214		180,475
Amortization of nonfederal projects		10,665		10,180
Unrealized loss on derivative instruments		-		(6,614)
Changes in:				
Receivables and unbilled revenues		(56,404)		(48,293)
Materials and supplies		(1,670)		(6,960)
Prepaid expenses		86		(3,276)
Accounts payable and other		27,443		143,955
Regulatory assets and liabilities		(92,361)		(53,244)
Other assets and liabilities		(53,904)		(7,964)
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Net cash provided by operating activities		239,879		242,010

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

Investment in:				
Utility plant (including AFUDC)		(374,865)		(279,736)
U.S. Treasury Securities:				
Purchases		(135,000)		(100,000)
Maturities		34,541		34,812
Nonfederal nuclear decommissioning trusts		(4,808)		(4,181)
Special purpose corporations' trust funds:				
Deposits to		(191)		(1,769)
Receipts from		21,812		13,480
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Net cash used for investing activities		(458,511)		(337,394)

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

Federal construction appropriations:				
Increase		40,267		44,430
Repayment		-		-
Borrowings from U.S. Treasury:				
Increase		370,000		299,000
Repayment		-		(150,000)
Nonfederal debt:				
Increase		95,893		1,769
Extinguished through refinancing		(90,000)		-
Repayment		(12,767)		(10,180)
Customers:				
Advances for construction		44,949		41,178
Reimbursements to customers		(6,021)		(16,677)
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Net cash provided by financing activities		442,321		209,520

**Net increase in cash and cash equivalents**

		223,689		114,136
Cash and cash equivalents at beginning of year		1,078,671		1,357,019
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<b>Cash and cash equivalents at end of quarter</b>	<b>\$</b>	<b>1,302,360</b>	<b>\$</b>	<b>1,471,155</b>

**Supplemental disclosures:**

Cash paid for interest, net of amount capitalized	\$	175,338	\$	176,585
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**Significant noncash investing and financing activities:**

Accrued capital expenditures (decrease) increase	\$	(49,533)	\$	24,322
Nonfederal debt increase	\$	155,805	\$	75,770