

Quarterly Financial Report

2012 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 30 percent 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 and operations 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. BPA builds contingencies into its rates to cover poor



hydro and/or market conditions because precipitation and market prices vary widely. 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. For fiscal year 2012, financial reserves are comprised of BPA cash, investments in U.S. Treasury market-based special securities and deferred borrowing.

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.

Tiered Rates

BPA’s publicly owned utility customers may purchase only a set amount of power at Tier 1 rates. Tier 1 rates recover the costs of the federal system resources, fish and wildlife costs, and energy efficiency. Tier 2 rates recover costs of resources that BPA acquires for publicly owned utility customers who request that BPA meet their power requirements in excess of the amount of power they get at Tier 1 rates.

Tiered rates provide BPA’s customers with choices as to how they will serve their full power requirements. Tiered rates also give BPA’s customers even more reason to conserve energy. Every kilowatt-hour saved by a utility reduces its need to add new resources or purchase power from BPA at higher Tier 2 rates. BPA’s 2012–2013 rates also include incentives to reduce and control utilities’ peak power use.

Results of Operations

Operating Revenues

For the three months ended Dec. 31, 2011, sales decreased \$26 million, or 3 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales decreased \$33 million, or 5 percent. The decrease was primarily the result of new tiered rates previously discussed that went into effect Oct. 1, 2011. These rates significantly flatten the Priority Firm revenues across the year compared to the prior rate design, resulting in lower average rates in the three months ended Dec. 31, 2011. The decreased PF revenues were partially offset by increased secondary sales revenues. For the three months ended Dec. 31, 2011, higher start-of-year reservoir

levels and hydro generation drove an increase in secondary megawatt-hour sales. However, increased secondary sales volumes were offset by a persistently lower market price environment compared to the same period a year earlier. Transmission Services sales increased \$7 million, or 4 percent, mainly due to increased sales of Point-to-Point Long Term, and an increase in their associated ancillary services.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA decreased \$5 million, or 21 percent. The change was primarily due to higher federal generation which decreased the need for purchased power. This resulted in lower purchased power costs which were partially offset by higher direct program costs for fish mitigation. The Pacific Northwest Electric Power Planning and Conservation Act 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. Power related costs are recovered in BPA's rates. Nonpower related costs are recovered as a reduction to BPA's cash payment to the U.S. Treasury.

Operating Expenses

Operations and maintenance increased \$11 million, or 3 percent, for the three months ended Dec. 31, 2011, from the comparable period a year earlier due mainly to increases for fish and wildlife of \$24 million, Residential Exchange Program of \$6 million, Transmission Services operations and maintenance programs of \$4 million and other agency expenses of \$5 million. Fish and wildlife increases were driven by changes in the Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program and in the Endangered Species Act biological opinions. These increases were partially offset by decreases for operating generation costs of \$23 million as biennial refueling was completed in fiscal year 2011 for the Energy Northwest Columbia Generating Station nuclear power plant and also by a \$5 million reduction of direct funding for federal hydro projects.

Purchased power expense decreased \$42 million, or 49 percent, for the three months ended Dec. 31, 2011, from the comparable period a year earlier. This decrease was mainly due to higher year-over-year hydro generation during the current fiscal year when compared to the prior fiscal year, which reduced the amount of power purchased to meet load.

Nonfederal projects expense increased \$14 million, or 10 percent, for the three months ended Dec. 31, 2011, from the comparable period a year earlier primarily due to increased scheduled debt payments for WNP No. 1 partially offset by reduced scheduled debt payments for Columbia Generating Station and WNP No. 3.

Net Interest Expense

Net interest expense increased \$3 million, or 5 percent, for the three months ended Dec. 31, 2011, from the comparable period a year earlier. Interest expense increased \$5 million due to higher beginning debt balances while allowance for funds used during construction increased \$4 million reflecting increased construction work in progress balances related to capital investments for generation and transmission assets. Interest income decreased \$2 million, or 32 percent, as a result of lower cash balances and interest rates. Consistent with an agreement with the U.S. Treasury, annually increasing amounts of BPA's reserve balance have been and will be invested in U.S. Treasury market-based special securities in lieu of accruing interest rate credits based on the weighted average interest rate of BPA's outstanding bonds issued to the U.S. Treasury.

Liquidity and Capital Resources

Net Revenues and Operating Activities

As a result of the factors previously discussed, the FCRPS earned net revenues of \$29 million for the three months ended Dec. 31, 2011. Net revenues were \$50 million for the three months ended Dec. 31, 2010. Net cash provided by operating activities of the FCRPS increased \$74 million to \$89 million for the three months ended Dec. 31, 2011, when compared to the three months ended Dec. 31, 2010. The changes in operating cash flow primarily reflect differences in the timing of collecting receivables and payments of accounts payable and accrued liabilities. Cash used for operating activities also includes expenditures for regulatory assets, such as the conservation and fish & wildlife programs.

Investing Activities

Net cash used for investment activities of the FCRPS decreased \$11 million to \$292 million for the three months ended Dec. 31, 2011, when compared to the three months ended Dec. 31, 2010.

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 increase the amount invested in market-based specials by \$100 million per year through fiscal year 2018 or until the BPA fund is fully invested. During the three months ended Dec. 31, 2011, \$79 million of investments matured and were re-invested in other market-based special securities of which \$45 million were cash equivalents. BPA's current investment portfolio consists primarily of short-term securities.

During the three months ended Dec. 31, 2011, the consolidated special purpose corporations deposited \$66 million into their restricted trust funds and transferred \$29 million to the BPA fund to support construction activities on leased transmission projects. When compared to the same activities for the three months ended Dec. 31, 2010, the \$48 million net change in special purpose corporations' trust

funds reflects an increase in construction activity on leased projects as seen by increases in both deposits to the restricted trust funds and advances to the BPA fund.

Financing Activities

Net cash provided by financing activities of the FCRPS was \$208 million for the three months ended Dec. 31, 2011, compared to \$110 million for the comparable period a year earlier.

In the current fiscal year BPA borrowings from the U.S. Treasury were \$135 million, or \$60 million higher than borrowings during the three months ended Dec. 31, 2010. The \$135 million is at variable interest rates and includes \$55 million for conservation investments, \$45 million for transmission investments and \$35 million for generation investments.

Additional nonfederal debt of \$66 million was issued under the Lease Financing Program, compared to the prior year when \$96 million was issued 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

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)

(Thousands of dollars)

	As of December 31, <u>2011</u>	As of September 30, <u>2011</u>
Assets		
Utility plant		
Completed plant	\$ 14,812,954	\$ 14,741,720
Accumulated depreciation	(5,495,833)	(5,436,160)
	9,317,121	9,305,560
Construction work in progress	1,490,422	1,396,097
Net utility plant	10,807,543	10,701,657
Nonfederal generation	2,596,533	2,604,078
Current assets		
Cash and cash equivalents	897,309	892,125
Short-term investments in U.S. Treasury securities	325,684	253,348
Accounts receivable, net of allowance	81,050	119,596
Accrued unbilled revenues	290,068	207,089
Materials and supplies, at average cost	99,181	93,924
Prepaid expenses	39,379	29,430
Total current assets	1,732,671	1,595,512
Investments and other assets		
Regulatory assets	7,701,938	7,812,358
Investments in U.S. Treasury securities	24,667	39,129
Nonfederal nuclear decommissioning trusts	210,763	198,809
Deferred charges and other	265,303	223,736
Total investments and other assets	8,202,671	8,274,032
Total assets	\$ 23,339,418	\$ 23,175,279
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	\$ 2,539,601	\$ 2,510,373
Federal appropriations	4,346,190	4,324,881
Borrowings from U.S. Treasury	2,813,440	2,678,440
Nonfederal debt	5,896,836	5,843,046
Total capitalization and long-term liabilities	15,596,067	15,356,740
Commitments and contingencies (See Note 13 to annual financial statements)		
Current liabilities		
Federal appropriations	24,622	24,622
Borrowings from U.S. Treasury	265,000	265,000
Nonfederal debt	430,100	429,545
Accounts payable and other	471,384	523,459
Total current liabilities	1,191,106	1,242,626
Other liabilities		
Regulatory liabilities	2,442,206	2,456,343
IOU exchange benefits	3,145,430	3,161,251
Asset retirement obligations	178,349	176,212
Deferred credits and other	786,260	782,107
Total other liabilities	6,552,245	6,575,913
Total capitalization and liabilities	\$ 23,339,418	\$ 23,175,279

Federal Columbia River Power System

Combined Statements of Revenues and Expenses ^(Unaudited)

(Thousands of dollars)

	Three Months Ended December 31,		Fiscal Year-to-Date Ended December 31,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Operating revenues				
Sales	\$ 784,216	\$ 810,310	\$ 784,216	\$ 810,310
U.S. Treasury credits for fish	20,342	25,766	20,342	25,766
Miscellaneous revenues	13,632	14,946	13,632	14,946
Total operating revenues	818,190	851,022	818,190	851,022
Operating expenses				
Operations and maintenance	416,714	405,894	416,714	405,894
Purchased power	44,615	86,885	44,615	86,885
Nonfederal projects	161,951	147,747	161,951	147,747
Depreciation and amortization	97,831	96,059	97,831	96,059
Total operating expenses	721,111	736,585	721,111	736,585
Net operating revenues	97,079	114,437	97,079	114,437
Interest expense and (income)				
Interest expense	86,264	81,468	86,264	81,468
Allowance for funds used during construction	(13,323)	(9,201)	(13,323)	(9,201)
Interest income	(5,089)	(7,454)	(5,089)	(7,454)
Net interest expense	67,852	64,813	67,852	64,813
Net revenues (expenses)	\$ 29,227	\$ 49,624	\$ 29,227	\$ 49,624

Federal Columbia River Power System

Combined Statements of Cash Flows ^(Unaudited)

(Thousands of dollars)

	Fiscal Year-to-Date Ended December 31,	
	<u>2011</u>	<u>2010</u>
Cash provided by and (used for) operating activities		
Net revenues (expenses)	\$ 29,227	\$ 49,624
Non-cash items:		
Depreciation and amortization	97,831	96,059
Amortization of nonfederal projects	11,165	10,665
Changes in:		
Receivables and unbilled revenues	(44,414)	(42,822)
Materials and supplies	(5,257)	(4,206)
Prepaid expenses	(10,006)	1,340
Accounts payable and other	102,971	11,898
Regulatory assets and liabilities	(38,133)	(71,537)
Other assets and liabilities	(54,417)	(36,424)
Net cash provided by operating activities	<u>88,967</u>	<u>14,597</u>
Cash provided by and (used for) investing activities		
Investment in:		
Utility plant (including AFUDC)	(196,782)	(212,431)
U.S. Treasury Securities:		
Purchases	(135,000)	(120,000)
Maturities	79,050	19,630
Deposits to nonfederal nuclear decommissioning trusts CF	(2,937)	(2,404)
Special purpose corporations' trust funds:		
Deposits to	(65,510)	(191)
Receipts from	28,912	11,756
Net cash used for investing activities	<u>(292,267)</u>	<u>(303,640)</u>
Cash provided by and (used for) financing activities		
Federal appropriations:		
Proceeds	21,309	19,421
Repayment	-	-
Borrowings from U.S. Treasury:		
Proceeds	135,000	75,000
Repayment	-	-
Nonfederal debt:		
Proceeds	65,510	95,893
Extinguished through refinancing	-	(90,000)
Repayment	(11,165)	(10,665)
Customers:		
Advances for construction	7,897	26,901
Reimbursements to customers	(10,067)	(6,270)
Net cash provided by financing activities	<u>208,484</u>	<u>110,280</u>
Net (decrease) increase in cash and cash equivalents	5,184	(178,763)
Cash and cash equivalents at beginning of year	892,125	1,078,671
Cash and cash equivalents at end of quarter	\$ 897,309	\$ 899,908
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	\$ 78,774	\$ 84,807
Significant noncash investing and financing activities:		
Accrued capital expenditures (decrease) increase	\$ (70,081)	\$ (56,572)
Nonfederal debt increase for Energy Northwest	\$ -	\$ 155,805