

# Quarterly Financial Report

## 2012 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 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 six months ended March 31, 2012, sales decreased \$79 million, or 5 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales decreased \$100 million, or 8 percent. Firm sales decreased \$68 million, or 6 percent. The decrease in firm sales 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 six months ended March 31, 2012. Secondary sales revenues decreased \$39 million in the six months ended March 31, 2012, compared to the same period in fiscal year 2011. There are two major drivers to the decrease in secondary revenues. First, lower streamflows during the six months ended March 31, 2012, compared to the same period in fiscal year 2011 reduced the amount of surplus energy available for sale. Second, a lower market price environment, primarily driven by low natural gas prices, further reduced the

amount of revenue from surplus sales. Offsetting the reductions in firm and secondary sales is the Residential Exchange Program Refund amount, which decreased by \$7 million year-over-year.

Transmission Services sales increased \$21 million, or 6 percent, mainly due to Point-to-Point Long-Term, a one year or more firm transmission service delivering federal and non-federal power across the Federal Columbia River Transmission System, and Ancillary Service Operating Reserves, a reserve obligation needed to serve load in the event of a system contingency. Point-to-Point Long-Term sales increased by \$11 million due to Conditional Firm sales, deferrals that started service, and Network Open Season sales that began service. Operating Reserve revenue was higher by \$8 million largely due to a rate increase for this product in the current fiscal year and a decrease in customer self-supplied Operating Reserves.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA decreased \$9 million, or 18 percent. The change was primarily due to lower forecasted direct capital program costs, lower prices of purchased power for fish mitigation, as well as lower volumes of power purchases made so far in fiscal year 2012 compared to 2011, which will be discussed in greater detail below.

### *Operating Expenses*

Operations and maintenance expense increased \$30 million, or 4 percent, for the six months ended March 31, 2012, from the comparable period a year earlier due mainly to increases for fish and wildlife of \$26 million, \$15 million direct funding for federal hydro projects, Residential Exchange Program of \$15 million, Transmission Services operations and maintenance programs of \$14 million and other agency expenses of \$7 million. Fish and wildlife increases were driven by the ongoing funding for the Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program and the implementation ramp up of work in support of the Endangered Species Act biological opinions and the Columbia River Basin Fish Accords. These increases were partially offset by decreases for operating generation costs at the Energy Northwest Columbia Generating Station nuclear power plant of \$47 million as biennial maintenance and refueling were completed in fiscal year 2011.

Purchased power expense decreased \$13 million, or 11 percent, for the six months ended March 31, 2012, from the comparable period a year earlier. This decrease was due to a number of changes including lower market prices previously discussed, combined with an improved start-of-year streamflow outlook for fiscal year 2012 compared to fiscal year 2011, which reduced the amount of power purchases required to mitigate the risk of dry water conditions during the winter. Largely offsetting the decrease previously discussed was an increase of \$32 million for BPA's current obligations under a hydro storage agreement. This agreement is through September 2024 and allows BPA to use additional storage space in Canada beyond the storage provided by the Columbia River Treaty.

Nonfederal projects expense increased \$25 million, or 9 percent, for the six months ended March 31, 2012, 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 decreased \$24 million, or 19 percent, for the six months ended March 31, 2012, from the comparable period a year ago. Interest expense decreased \$6 million, or 3 percent, due to a reduction of costs allocated to power purposes at the Cougar Dam partially offset by increases for conservation, fish & wildlife and continued expansion of transmission construction activity. Allowance for funds used during construction increased \$8 million, or 45 percent, reflecting increased construction work in progress balances related to capital investments for generation and transmission assets. Interest income increased \$10 million, or 57 percent, as the result of a \$16 million accrual for interest income related to outstanding receivables. This one time accrual was partially offset by the effect 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 \$111 million for the six months ended March 31, 2012. Net revenues were \$211 million for the six months ended March 31, 2011. Net cash provided by operating activities of the FCRPS increased \$68 million to \$308 million for the six months ended March 31, 2012, when compared to the six months ended March 31, 2011. 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 increased \$40 million to \$499 million for the six months ended March 31, 2012, when compared to the six months ended March 31, 2011. Investment in utility plant assets was comparable for both periods.

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 six months ended March 31, 2012, \$199 million of investments

matured and were re-invested in other market-based special securities of which \$115 million were cash equivalents. BPA's current investment portfolio consists primarily of short-term securities.

During the six months ended March 31, 2012, the consolidated special purpose corporations deposited \$130 million into their restricted trust funds and transferred \$89 million to the BPA fund to support construction activities on leased transmission projects. When compared to the same activities for the six months ended March 31, 2011, the \$63 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 \$461 million for the six months ended March 31, 2012, compared to \$442 million for the comparable period a year earlier.

In the current fiscal year BPA borrowings from the U.S. Treasury were \$310 million, or \$60 million lower than borrowings during the six months ended March 31, 2011. Of the \$310 million, \$265 million is at variable interest rates, \$45 million is at fixed rates, and includes \$55 million for conservation investments, \$120 million for transmission investments, \$105 million for generation investments and \$30 million for fish & wildlife investments.

Additional nonfederal debt of \$130 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](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, go to [www.transmission.bpa.gov](http://www.transmission.bpa.gov)

# Federal Columbia River Power System

## Combined Balance Sheets <sup>(Unaudited)</sup>

(Thousands of dollars)

	As of March 31, <u>2012</u>	As of September 30, <u>2011</u>
<b>Assets</b>		
<b>Utility plant</b>		
Completed plant	\$ 14,765,325	\$ 14,741,720
Accumulated depreciation	(5,511,988)	(5,436,160)
	<u>9,253,337</u>	<u>9,305,560</u>
Construction work in progress	1,631,504	1,396,097
Net utility plant	<u>10,884,841</u>	<u>10,701,657</u>
<b>Nonfederal generation</b>	<u>2,594,846</u>	<u>2,604,078</u>
<b>Current assets</b>		
Cash and cash equivalents	1,161,884	892,125
Short-term investments in U.S. Treasury securities	338,120	253,348
Accounts receivable, net of allowance	127,124	119,596
Accrued unbilled revenues	310,340	207,089
Materials and supplies, at average cost	101,682	93,924
Prepaid expenses	33,717	29,430
Total current assets	<u>2,072,867</u>	<u>1,595,512</u>
<b>Investments and other assets</b>		
Regulatory assets	7,575,007	7,812,358
Investments in U.S. Treasury securities	24,648	39,129
Nonfederal nuclear decommissioning trusts	224,869	198,809
Deferred charges and other	284,337	223,736
Total investments and other assets	<u>8,108,861</u>	<u>8,274,032</u>
<b>Total assets</b>	<u>\$ 23,661,415</u>	<u>\$ 23,175,279</u>
<b>Capitalization and Liabilities</b>		
<b>Capitalization and long-term liabilities</b>		
Accumulated net revenues	\$ 2,621,145	\$ 2,510,373
Federal appropriations	4,318,323	4,324,881
Borrowings from U.S. Treasury	2,928,440	2,678,440
Nonfederal debt	5,961,285	5,843,046
Total capitalization and long-term liabilities	<u>15,829,193</u>	<u>15,356,740</u>
<b>Commitments and contingencies (See Note 13 to annual financial statements)</b>		
<b>Current liabilities</b>		
Federal appropriations	24,622	24,622
Borrowings from U.S. Treasury	325,000	265,000
Nonfederal debt	430,100	429,545
Accounts payable and other	509,208	523,459
Total current liabilities	<u>1,288,930</u>	<u>1,242,626</u>
<b>Other liabilities</b>		
Regulatory liabilities	2,444,892	2,456,343
IOU exchange benefits	3,113,122	3,161,251
Asset retirement obligations	180,277	176,212
Deferred credits and other	805,001	782,107
Total other liabilities	<u>6,543,292</u>	<u>6,575,913</u>
<b>Total capitalization and liabilities</b>	<u>\$ 23,661,415</u>	<u>\$ 23,175,279</u>

# Federal Columbia River Power System

## Combined Statements of Revenues and Expenses <sup>(Unaudited)</sup>

(Thousands of dollars)

	Three Months Ended March 31,		Fiscal Year-to-Date Ended March 31,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Operating revenues</b>				
Sales	\$ 837,249	\$ 890,377	\$ 1,621,465	\$ 1,700,687
U.S. Treasury credits for fish	21,382	25,130	41,724	50,896
Miscellaneous revenues	20,744	16,182	34,376	31,128
Total operating revenues	<b>879,375</b>	931,689	<b>1,697,565</b>	1,782,711
<b>Operating expenses</b>				
Operations and maintenance	447,154	428,308	863,868	834,202
Purchased power	61,567	32,353	106,182	119,238
Nonfederal projects	158,707	147,745	320,658	295,492
Depreciation and amortization	94,532	99,156	192,363	195,214
Total operating expenses	<b>761,960</b>	707,562	<b>1,483,071</b>	1,444,146
Net operating revenues	<b>117,415</b>	224,127	<b>214,494</b>	338,565
<b>Interest expense and (income)</b>				
Interest expense	72,088	82,532	158,351	163,999
Allowance for funds used during construction	(13,496)	(9,357)	(26,818)	(18,557)
Interest income	(22,722)	(10,234)	(27,811)	(17,687)
Net interest expense	<b>35,870</b>	62,941	<b>103,722</b>	127,755
<b>Net revenues (expenses)</b>	<b>\$ 81,545</b>	\$ 161,186	<b>\$ 110,772</b>	\$ 210,810

# Federal Columbia River Power System

## Combined Statements of Cash Flows <sup>(Unaudited)</sup>

(Thousands of dollars)

	Fiscal Year-to-Date Ended March 31,	
	<u>2012</u>	<u>2011</u>
<b>Cash provided by and (used for) operating activities</b>		
Net revenues (expenses)	\$ 110,772	\$ 210,810
Non-cash items:		
Depreciation and amortization	192,363	195,214
Amortization of nonfederal projects	181,501	10,665
Changes in:		
Receivables and unbilled revenues	(110,760)	(56,404)
Materials and supplies	(7,758)	(1,670)
Prepaid expenses	(4,287)	86
Accounts payable and other	14,881	27,443
Regulatory assets and liabilities	6,526	(92,361)
Other assets and liabilities	(75,532)	(53,904)
Net cash provided by operating activities	<u>307,706</u>	<u>239,879</u>
<b>Cash provided by and (used for) investing activities</b>		
Investment in:		
Utility plant (including AFUDC)	(385,723)	(374,865)
U.S. Treasury Securities:		
Purchases	(264,999)	(135,000)
Maturities	198,813	34,541
Deposits to nonfederal nuclear decommissioning trusts	(5,608)	(4,808)
Special purpose corporations' trust funds:		
Deposits to	(129,958)	(191)
Receipts from	88,607	21,812
Net cash used for investing activities	<u>(498,868)</u>	<u>(458,511)</u>
<b>Cash provided by and (used for) financing activities</b>		
Federal appropriations:		
Proceeds	35,984	40,267
Borrowings from U.S. Treasury:		
Proceeds	310,000	370,000
Nonfederal debt:		
Proceeds	129,958	95,893
Extinguished through refinancing	-	(90,000)
Repayment	(11,165)	(12,767)
Customers:		
Advances for construction	17,410	44,949
Reimbursements to customers	(21,266)	(6,021)
Net cash provided by financing activities	<u>460,921</u>	<u>442,321</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>269,759</b>	<b>223,689</b>
Cash and cash equivalents at beginning of year	892,125	1,078,671
<b>Cash and cash equivalents at end of quarter</b>	<b>\$ 1,161,884</b>	<b>\$ 1,302,360</b>
<b>Supplemental disclosures:</b>		
Cash paid for interest, net of amount capitalized	\$ 163,628	\$ 175,338
<b>Significant noncash investing and financing activities:</b>		
Accrued capital expenditures (decrease) increase	\$ (28,572)	\$ (49,533)
Federal appropriations write-off	\$ (42,542)	\$ -
Nonfederal debt increase for Energy Northwest	\$ -	\$ 155,805