

# Quarterly Financial Report

## 2012 Third 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. Financial reserves include 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 incentive 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 nine months ended June 30, 2012, sales increased \$17 million, or 1 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales decreased \$21 million, or 1 percent. Firm sales decreased \$9 million, or 1 percent. The decrease in revenue from firm sales was primarily the result of the new tiered rate structure 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 revenues for the nine months ended June 30, 2012. Secondary sales revenues decreased \$18 million for the nine months ended June 30, 2012, compared to the same period in fiscal year 2011. Secondary sales revenues were down year-over-year due to an overall lower market price environment primarily driven by lower natural gas prices. The decline in price from the prior year outweighed the increase of available surplus in fiscal year 2012 compared to fiscal year 2011. Available surplus was lower in fiscal year 2011 due to extended outages at CGS and at the Third Powerhouse at Grand Coulee. Offsetting the reductions in firm and

secondary sales was a \$6 million reduction of the Residential Exchange Program Refund amount.

Transmission Services sales increased \$38 million, or 7 percent, mainly due to Point-to-Point Long-Term and Southern Intertie Long-Term sales, firm transmission services of one year or more 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 \$17 million due to Conditional Firm sales, deferrals that started service, and energizing of the McNary - John Day transmission line, a Network Open Season Project. Southern Intertie Long-Term sales increased by \$7 million due to the California-Oregon Intertie improvement project which enabled additional sales. Operating Reserve revenue was higher by \$14 million largely due to a rate increase for this product and a decrease in customer self-supplied Operating Reserves.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA decreased \$10 million, or 15 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 is discussed in greater detail below.

### *Operating Expenses*

Operations and maintenance expense increased \$52 million, or 4 percent, for the nine months ended June 30, 2012, from the comparable period a year earlier due mainly to increases for Transmission Services operations and maintenance programs of \$27 million, fish and wildlife of \$35 million, Residential Exchange Program of \$18 million, \$13 million direct funding for federal hydro projects, and other agency expenses of \$6 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 2010 Supplemental Columbia River System Biological Opinion 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 \$33 million, or 23 percent, for the nine months ended June 30, 2012, from the comparable period a year earlier. This decrease was due to a number of changes including lower market prices previously discussed, the CGS planned refueling and condenser replacement outage in fiscal year 2011 resulting in decreased generation for that year, and an improved generation outlook for fiscal year 2012 compared to fiscal year 2011. Largely offsetting the decrease previously discussed was an increase of \$31 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 \$18 million, or 4 percent, for the nine months ended June 30, 2012, from the comparable period a year earlier primarily due to increased scheduled debt payments for WNP No. 1 and CGS partially offset by reduced scheduled debt payments for WNP No. 3.

### *Net Interest Expense*

Net interest expense decreased \$23 million, or 12 percent, for the nine months ended June 30, 2012, from the comparable period a year ago. Interest expense decreased \$4 million, or 1 percent, due to a reduction of costs allocated to power purposes at the Cougar Dam partially offset by increases associated with borrowings for continued expansion of transmission construction activity, conservation, and fish & wildlife. Allowance for funds used during construction increased \$12 million, or 41 percent, reflecting increased construction work in progress balances related to capital investments for generation and transmission assets. Interest income increased \$7 million, or 24 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 \$173 million for the nine months ended June 30, 2012. By comparison net revenues were \$169 million for the nine months ended June 30, 2011. Net cash provided by operating activities of the FCRPS increased \$439 million to \$605 million for the nine months ended June 30, 2012, when compared to the nine months ended June 30, 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. BPA's third quarter payments to Energy Northwest included \$332 million for the principal portion of Energy Northwest's annual debt service requirement due to their bondholders on July 1, 2012. This represented a change in timing in reported cash flows in comparison with the prior year when the comparable annual debt service payment was recorded on July 1, 2011, and therefore was not included in the statement of cash flows for the period ended June 30, 2011. This resulted in lower cash provided by financing activities for the nine months ended June 30, 2012.

### *Investing Activities*

Net cash used for investment activities of the FCRPS decreased \$2 million to \$744 million for the nine months ended June 30, 2012, when compared to the nine months ended June 30, 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 nine months ended June 30, 2012, \$419 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 nine months ended June 30, 2012, the consolidated special purpose corporations deposited \$183 million into their restricted trust funds and transferred \$156 million to the BPA fund to support construction activities on leased transmission projects. When compared to the same activities for the nine months ended June 30, 2011, the \$24 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 \$504 million for the nine months ended June 30, 2012, compared to \$830 million for the comparable period a year earlier.

In the current fiscal year BPA borrowings from the U.S. Treasury were \$600 million, or \$115 million lower than borrowings during the nine months ended June 30, 2011. Of the \$600 million, \$300 million is at variable interest rates, \$300 million is at fixed rates, and includes \$176 million for transmission investments, \$155 million for generation investments, \$100 million for conservation investments, \$47 million for fish & wildlife investments, \$22 million for agency services and \$100 million for current operations using the Treasury short-term liquidity facility.

Additional nonfederal debt of \$183 million was issued under the Lease Financing Program, compared to the prior year when \$133 million was issued, \$96 million of which was issued in order to refinance \$90 million at a beneficial lower interest rate. This was offset by an increase of \$330 million in the payment of nonfederal debt.

## Additional Information

To see BPA's annual report, 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 June 30, <u>2012</u>	As of September 30, <u>2011</u>
<b>Assets</b>		
<b>Utility plant</b>		
Completed plant	\$ 14,885,626	\$ 14,741,720
Accumulated depreciation	(5,574,216)	(5,436,160)
	<u>9,311,410</u>	<u>9,305,560</u>
Construction work in progress	1,744,886	1,396,097
Net utility plant	<u>11,056,296</u>	<u>10,701,657</u>
<b>Nonfederal generation</b>	<u>2,609,358</u>	<u>2,604,078</u>
<b>Current assets</b>		
Cash and cash equivalents	1,257,282	892,125
Short-term investments in U.S. Treasury securities	332,502	253,348
Accounts receivable, net of allowance	23,195	119,596
Accrued unbilled revenues	265,334	207,089
Materials and supplies, at average cost	98,531	93,924
Prepaid expenses	51,590	29,430
Total current assets	<u>2,028,434</u>	<u>1,595,512</u>
<b>Investments and other assets</b>		
Regulatory assets	7,485,428	7,812,358
Investments in U.S. Treasury securities	64,396	39,129
Nonfederal nuclear decommissioning trusts	226,423	198,809
Deferred charges and other	261,980	223,736
Total investments and other assets	<u>8,038,227</u>	<u>8,274,032</u>
<b>Total assets</b>	<u>\$ 23,732,315</u>	<u>\$ 23,175,279</u>
<b>Capitalization and Liabilities</b>		
<b>Capitalization and long-term liabilities</b>		
Accumulated net revenues	\$ 2,683,863	\$ 2,510,373
Federal appropriations	4,348,026	4,324,881
Borrowings from U.S. Treasury	3,118,440	2,678,440
Nonfederal debt	5,553,475	5,843,046
Total capitalization and long-term liabilities	<u>15,703,804</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	425,000	265,000
Nonfederal debt	553,489	429,545
Accounts payable and other	539,869	523,459
Total current liabilities	<u>1,542,980</u>	<u>1,242,626</u>
<b>Other liabilities</b>		
Regulatory liabilities	2,373,869	2,456,343
IOU exchange benefits	3,096,155	3,161,251
Asset retirement obligations	182,134	176,212
Deferred credits and other	833,373	782,107
Total other liabilities	<u>6,485,531</u>	<u>6,575,913</u>
<b>Total capitalization and liabilities</b>	<u>\$ 23,732,315</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 June 30,		Fiscal Year-to-Date Ended June 30,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Operating revenues</b>				
Sales	\$ 794,437	\$ 698,376	\$ 2,415,902	\$ 2,399,063
U.S. Treasury credits for fish	16,673	17,690	58,397	68,586
Miscellaneous revenues	18,409	14,756	52,785	45,884
Total operating revenues	<b>829,519</b>	730,822	<b>2,527,084</b>	2,513,533
<b>Operating expenses</b>				
Operations and maintenance	440,258	418,093	1,304,126	1,252,295
Purchased power	7,430	27,507	113,612	146,745
Nonfederal projects	158,340	165,651	478,998	461,143
Depreciation and amortization	96,537	97,625	288,900	292,839
Total operating expenses	<b>702,565</b>	708,876	<b>2,185,636</b>	2,153,022
Net operating revenues	<b>126,954</b>	21,946	<b>341,448</b>	360,511
<b>Interest expense and (income)</b>				
Interest expense	85,858	84,666	244,210	248,665
Allowance for funds used during construction	(13,986)	(10,417)	(40,805)	(28,974)
Interest income	(7,636)	(10,975)	(35,447)	(28,661)
Net interest expense	<b>64,236</b>	63,274	<b>167,958</b>	191,030
<b>Net revenues (expenses)</b>	<b>\$ 62,718</b>	\$ (41,328)	<b>\$ 173,490</b>	\$ 169,481



# Federal Columbia River Power System

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

(Thousands of dollars)

	Fiscal Year-to-Date Ended June 30,	
	<u>2012</u>	<u>2011</u>
<b>Cash provided by and (used for) operating activities</b>		
Net revenues (expenses)	\$ 173,490	\$ 169,481
Non-cash items:		
Depreciation and amortization	288,900	292,839
Amortization of nonfederal projects	266,884	10,665
Changes in:		
Receivables and unbilled revenues	39,307	35,598
Materials and supplies	(4,607)	(8,077)
Prepaid expenses	(22,160)	(35,658)
Accounts payable and other	35,432	(81,311)
Regulatory assets and liabilities	(100,442)	(175,452)
Other assets and liabilities	(72,284)	(43,006)
<b>Net cash provided by operating activities</b>	<b>604,520</b>	<b>165,079</b>
<b>Cash provided by and (used for) investing activities</b>		
Investment in:		
Utility plant (including AFUDC)	(607,420)	(588,217)
U.S. Treasury Securities:		
Purchases	(520,000)	(265,000)
Maturities	418,787	118,193
Deposits to nonfederal nuclear decommissioning trusts	(8,278)	(7,212)
Special purpose corporations' trust funds:		
Deposits to	(182,558)	(36,963)
Receipts from	155,663	33,591
<b>Net cash used for investing activities</b>	<b>(743,806)</b>	<b>(745,608)</b>
<b>Cash provided by and (used for) financing activities</b>		
Federal appropriations:		
Proceeds	65,687	60,317
Borrowings from U.S. Treasury:		
Proceeds	600,000	715,000
Repayment	-	(10,000)
Nonfederal debt:		
Proceeds	182,558	132,665
Extinguished through refinancing	-	(90,000)
Repayment	(343,090)	(12,767)
Customers:		
Advances for construction	26,507	40,662
Reimbursements to customers	(27,219)	(5,878)
<b>Net cash provided by financing activities</b>	<b>504,443</b>	<b>829,999</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>365,157</b>	<b>249,470</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>\$ 1,257,282</b>	<b>\$ 1,328,141</b>
<b>Supplemental disclosures:</b>		
Cash paid for interest, net of amount capitalized	\$ 244,527	\$ 258,154
<b>Significant noncash investing and financing activities:</b>		
Accrued capital expenditures (decrease) increase	\$ (18,461)	\$ (43,669)
Federal appropriations write-off	\$ (42,542)	\$ -
Nonfederal debt increase for Energy Northwest	\$ 61,769	\$ 142,545
Extinguished through refinancing for Energy Northwest	\$ (66,865)	\$ -