

 Quarterly Financial Report1<sup>st</sup> Quarter  
2009

## Management's Discussion & Analysis

### General

The Bonneville Power Administration is proud to serve the 12 million people residing in the 300,000 square mile region known as the Pacific Northwest, which includes the states of Idaho, Oregon, Washington, western Montana, and small parts of western Wyoming, northern Nevada and northern California. BPA supplies nearly 35 percent of the electric power consumed in this region through wholesale power contracts with more than 100 publicly and cooperatively owned utilities and a few federal agencies. About 80 percent of this power comes from hydroelectric generation. The agency owns and operates three-fourths of the high-voltage transmission lines in the region.

Headquartered in Portland, Ore., BPA is a federal power marketing administration within the U.S. Department of Energy that is also a separate and distinct legal entity. Many of BPA's statutory authorities are vested in the Secretary of Energy, who appoints and acts by and through the BPA Administrator. Other statutory authorities are vested directly in the Administrator.

Congress created BPA in 1937 to market electricity from Bonneville Dam on the Columbia River and to construct transmission facilities to deliver that power. Today, BPA markets wholesale power from 31 federal hydroelectric projects, most of which are located in the Columbia River Basin. BPA also markets power from Energy Northwest's Columbia Generating Station nuclear power plant and the Cowlitz Falls hydro project.

BPA sells power and transmission services at cost and recovers all costs of the Federal Columbia River Power System through its power and transmission rates. BPA repays with interest the federal investment in the hydropower and transmission facilities of the FCRPS. Although BPA is not under the jurisdiction of the Federal Energy Regulatory Commission for most of its operations, it voluntarily provides open access, non-discriminatory transmission service to all requestors. In addition, BPA conforms to FERC standards of conduct to ensure its transmission function does not discriminatorily advantage its merchant power function.

BPA's largely hydroelectric power supply depends on the amount and shape of annual precipitation in the Columbia River Basin. BPA monitors the snow pack 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 is in excess of what is needed to serve the region's obligations. When setting power rates, BPA assumes an average level of secondary energy sales. In an average water year BPA has about 1,400 to 1,600

average megawatts of secondary energy available for sale. Because precipitation and market prices vary widely, BPA builds contingencies into its rates to cover poor hydro 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 and cost recovery adjustment clauses in rates.

The FCRPS financial statements that follow are a combination of the accounts of BPA, the accounts of the Pacific Northwest generating facilities of both 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 in the fiscal year-to-date ended Dec. 31, 2008, sales revenues decreased \$31 million, or about 4 percent from the comparable period a year earlier, as reported in the Comparative Statements of Revenues and Expenses. Power Services sales declined \$37 million or 6 percent. The decline is the result of lower firm power rates and the return of Residential Exchange Program Lookback Amounts of approximately \$18 million credited on customers' bills. The Lookback Amounts represent BPA's overpayments to investor-owned utilities from prior years, which was also the amount over-collected from preference customers. Lookback credits on customer bills started Oct. 1, 2008. Transmission Services sales increased \$6 million, or 4 percent. Several factors resulted in the increase. The major drivers include Ancillary Services of \$6.3 million with an offset of Network revenues of \$1.5 million and an increase of Intertie revenues of \$.5 million.

The decrease in the unrealized fair value of BPA's derivative instruments of \$24 million was due to fluctuations in the forward prices curves, physical delivery and a change in the overall portfolio mix. The change was primarily the result of a \$28 million decrease in the value of swap agreements due to a decrease in the LIBOR index rate.

U.S. Treasury credits for fish decreased \$1 million, or 6 percent because market prices for purchased power are lower than they were last year.

### *Operating Expenses*

Operations and maintenance increased \$3 million, or 1 percent for the three months ended Dec. 31, 2009, from the comparable period a year earlier.

Purchased power decreased \$10 million, or 8 percent, due to lower market prices.

Nonfederal projects increased \$3 million or 2 percent primarily due to increased amortization for Energy Northwest's Columbia Generating Station nuclear plant. During both periods early federal debt repayments were made in lieu of nonfederal debt. The overall objective of these debt management actions has been to achieve an optimal total debt portfolio. The portfolio includes federal appropriations, U.S. Treasury borrowings, and nonfederal projects debt. Higher debt optimization during the prior period resulted in lower nonfederal projects debt service. Refer to modified net revenues below.

### *Net Interest Expense*

Interest expense increased \$1 million, or 2 percent for the three months ended Dec. 31, 2008, from the comparable period a year earlier. The primary drivers were increases for the Lease Financing Program and on customer advances for construction. Allowance for funds used during construction increased \$2 million, or 43 percent with the primary drivers being direct funded projects and the Lease Financing Program. Interest income increased \$.4 million, or 2 percent due to higher cash balances.

## Liquidity and Capital Resources

### *Net Revenues and Operating Activities*

As a result of the factors previously discussed, the FCRPS incurred net expenses of \$17 million for the three months ended Dec. 31, 2008. By comparison, net revenues were \$34 million for the three months ended Dec. 31, 2007.

Cash provided by operating activities of the FCRPS decreased \$173 million to \$(51) million for the three months ended Dec. 31, 2008, compared to \$122 million for the comparable period a year earlier, as reported in the Combined Statements of Cash Flows. The change in operating cash flow primarily reflects the changes in net revenues, net of the impact of changing derivative values, and differences in the timing of collecting receivables and payments of accounts payable and accrued liabilities. The net change attributable to the REP was \$167 million.

### *Investment Activities*

Cash used for investment activities of the FCRPS increased \$80 million to \$178 million for the three months ended Dec. 31, 2008. BPA and the U.S. Treasury reached agreement in the third quarter of fiscal year 2008 to establish a new, more formal and detailed banking arrangement. The new arrangement will better meet BPA's business needs by providing greater flexibility and more certain liquidity. Under the new arrangement and beginning Oct. 1, 2008, BPA will invest \$100 million in U.S. Treasury investment securities, referred to as "market-based specials", with an incremental \$100 million invested each year,

thereafter for up to 10 years. During the quarter BPA invested \$100 million under the new agreement. This resulted in an outflow of cash to these new investment instruments.

### *Financing Activities*

Cash provided by financing activities of the FCRPS was \$19 million for the three months ended Dec. 31, 2008, compared to \$2 million for the comparable period a year earlier. Increases to nonfederal debt and customers advances for construction were partially offset by repayment of borrowing from the U.S. Treasury.

## Non-GAAP Financial Information

### *Modified Net Revenues*

Management has determined that modified net revenues are a better representation of the outcomes of normal operations during periods of debt management actions and fluctuations in derivative market prices. Modified net revenues are net revenues after removing the effects of derivative instruments and nonfederal debt management actions that differ from rate case assumptions.

Modified net revenues were \$25 million lower for the three months ended Dec 31, 2008, compared to the comparable period a year earlier, primarily due to the decline in net revenues previously discussed.

The table below demonstrates the calculation for modified net revenues.

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## Modified Net Revenues

*Federal Columbia River Power System*

*For the fiscal year-to-date ended Dec. 31 — thousands of dollars*

	<b>2008</b>	<b>2007</b>
<b>Net (expenses) revenues</b>	<b>\$ (16,646)</b>	<b>\$ 34,493</b>
Derivative instruments	<b>39,947</b>	16,120
Nonfederal debt management actions	<b>(33,482)</b>	(35,760)
Modified net (expenses) revenues	<b>\$ (10,181)</b>	<b>\$ 14,853</b>

## 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's 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 hydro power or current hydrological information, go to [www.bpa.gov/power/pgf/hydrology/weekly.shtml](http://www.bpa.gov/power/pgf/hydrology/weekly.shtml)

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)

December 31,  
2008

September 30,  
2008

(thousands of dollars)

<b>Assets</b>		
<b>Utility plant</b>		
Completed plant	\$ 13,514,188	\$ 13,480,633
Accumulated depreciation	(4,980,940)	(4,933,348)
	<b>8,533,248</b>	<b>8,547,285</b>
Construction work in progress	934,731	890,883
Net utility plant	<b>9,467,979</b>	<b>9,438,168</b>
<b>Nonfederal generation</b>	<b>2,487,535</b>	<b>2,492,645</b>
<b>Current assets</b>		
Cash	1,521,102	1,731,238
U.S. Treasury market-based special securities	9,728	-
Accounts receivable, net of allowance	115,076	112,129
Accrued unbilled revenues	255,339	203,011
Materials and supplies, at average cost	77,765	75,719
Prepaid expenses	19,835	21,682
Total current assets	<b>1,998,845</b>	<b>2,143,779</b>
<b>Other assets</b>		
Regulatory assets	5,404,590	5,447,404
U.S. Treasury market-based special securities	88,971	-
Nonfederal nuclear decommissioning trusts	149,223	157,743
Deferred charges and other	175,845	176,045
Total other assets	<b>5,818,629</b>	<b>5,781,192</b>
<b>Total assets</b>	<b>\$ 19,772,988</b>	<b>\$ 19,855,784</b>
<b>Capitalization and Liabilities</b>		
<b>Capitalization and long-term liabilities</b>		
Accumulated net revenues	\$ 2,647,814	\$ 2,664,460
Federal appropriations	4,264,536	4,247,972
Borrowings from U.S. Treasury	1,745,500	1,745,500
Nonfederal debt	6,195,423	6,182,403
Total capitalization and long-term liabilities	<b>14,853,273</b>	<b>14,840,335</b>
<b>Commitments and contingencies (See Note 10 to annual financial statements)</b>		
<b>Current liabilities</b>		
Federal appropriations	9,889	9,889
Borrowings from U.S. Treasury	405,400	440,400
Nonfederal debt	284,934	284,469
Accounts payable and other	496,107	588,275
Total current liabilities	<b>1,196,330</b>	<b>1,323,033</b>
<b>Other Liabilities</b>		
Regulatory liabilities	2,635,487	2,665,517
IOU exchange benefits	69,600	69,600
Asset retirement obligations	160,870	159,800
Deferred credits	857,428	797,499
Total other liabilities	<b>3,723,385</b>	<b>3,692,416</b>
<b>Total capitalization and liabilities</b>	<b>\$ 19,772,988</b>	<b>\$ 19,855,784</b>

## 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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(thousands of dollars)			
<b>Operating revenues</b>				
Sales	\$ 726,519	\$ 757,045	\$ 726,519	\$ 757,045
Derivative instruments	(39,947)	(16,120)	(39,947)	(16,120)
U.S. Treasury credits for fish	21,589	22,955	21,589	22,955
Miscellaneous revenues	14,932	17,440	14,932	17,440
<b>Total operating revenues</b>	<b>723,093</b>	<b>781,320</b>	<b>723,093</b>	<b>781,320</b>
<b>Operating expenses</b>				
Operations and maintenance	350,190	347,565	350,190	347,565
Purchased power	123,390	133,841	123,390	133,841
Nonfederal projects	123,952	121,274	123,952	121,274
Depreciation and amortization	88,000	88,531	88,000	88,531
<b>Total operating expenses</b>	<b>685,532</b>	<b>691,211</b>	<b>685,532</b>	<b>691,211</b>
<b>Net operating revenues</b>	<b>37,561</b>	<b>90,109</b>	<b>37,561</b>	<b>90,109</b>
<b>Interest expense and (income)</b>				
Interest expense	81,312	79,851	81,312	79,851
Allowance for funds used during construction	(8,143)	(5,706)	(8,143)	(5,706)
Interest income	(18,962)	(18,529)	(18,962)	(18,529)
<b>Net interest expense</b>	<b>54,207</b>	<b>55,616</b>	<b>54,207</b>	<b>55,616</b>
<b>Net (expenses) revenues</b>	<b>\$ (16,646)</b>	<b>\$ 34,493</b>	<b>\$ (16,646)</b>	<b>\$ 34,493</b>

# Federal Columbia River Power System

## Combined Statements of Cash Flows

(Unaudited)

Fiscal Year-to-Date Ended  
December 31,

2008

2007

(thousands of dollars)

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

Net revenues	\$ (16,646)	\$ 34,493
Non-cash items:		
Depreciation and amortization	88,000	88,531
Amortization:		
Terminated facilities and sponsored conservation	4,605	4,385
Capitalization adjustment	(16,226)	(16,226)
Changes in:		
Receivables and unbilled revenues	(55,275)	(18,491)
Materials and supplies	(2,046)	(6,648)
Prepaid expenses	1,847	(24,434)
Accounts payable and other	(55,000)	60,533
Cash provided by and (used) for operating activities	(50,741)	122,143

### Cash provided by and (used) for investment activities

Investment in:		
Utility plant (including AFUDC)	(83,568)	(96,837)
Nonfederal generation	5,110	4,930
U.S. Treasury market-based special securities	(100,000)	-
Nonfederal nuclear decommissioning trusts	(1,962)	(1,780)
Special purpose corporation's trust funds:		
Deposits to	(23,199)	(9,951)
Receipts from	25,327	5,184
Cash used for investment activities	(178,292)	(98,454)

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

Federal construction appropriations:		
Increase	16,564	22,148
Repayment	-	-
Borrowings from U.S. Treasury:		
Increase	-	-
Repayment	(35,000)	(20,000)
Refinanced	-	-
Nonfederal debt:		
Increase	13,484	637
Repayment	-	-
Customers:		
Advances for construction	27,934	653
Billing credits	(4,085)	(1,437)
Cash provided by financing activities	18,897	2,001
(Decrease) increase in cash	(210,136)	25,690
Beginning cash balance	1,731,238	1,475,544
Ending cash balance	\$ 1,521,102	\$ 1,501,234