

# Quarterly Financial Report

## 2011 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 are the sum of BPA cash, excluding short-term borrowings for current operations, 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.

## Residential Exchange Program

BPA implements the Residential Exchange Program, which provides benefits of the federal hydro system to residential and small farm customers of qualifying regional utilities through an exchange of power that results in direct payments to the utilities. The cost of this program is included in BPA's rates. In July 2011, the BPA administrator signed the 2012 Residential Exchange Program Settlement Agreement. Under the provisions of the Settlement, beginning in fiscal year 2012 the IOUs receive a fixed schedule of REP benefit payments (after being adjusted for certain refund amounts related to the Lookback Amounts). The settled Scheduled Amounts to be paid to the IOUs total \$4.066 billion over the 17-year period, and comprise a liability and corresponding regulatory asset with a present value of \$3.056 billion.

Amounts owed by the IOUs under the Lookback were modified to reflect a single amount. Rather than individual IOUs owing money for their share of the Lookback Amount, the collective group owes a single Refund Amount. In addition to scheduled REP Benefits, the Settlement calls for the Refund Amounts of \$76.5 million to be paid each year beginning in fiscal year 2012 through fiscal year 2019 for a total refund of \$612 million. The Refund Amounts replace the Lookback Amounts and are accounted for similar to the Lookback Amounts in that a regulatory asset and regulatory liability have been established for the refunds that will be provided to BPA's customers as credits on customers' monthly bills. The recorded amount of \$563 million represents the present value of future cash flows for the amounts to be refunded to customers, as well as reduced REP benefits. The draft Record of Decision was issued in June and the final ROD executed in July.

# Results of Operations

## *Operating Revenues*

For the nine months ended June 30, 2011, sales increased \$209 million, or 10 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales increased \$209 million, or nearly 13 percent. \$180 million of the increase occurred during the first six months of the fiscal year. 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. Snowpack during winter and spring of fiscal year 2011 resulted in the third highest runoff on record. This spring freshet resulted in unusually high river flows for an extended period during the third quarter, but Power Services sales increased only \$29 million because prices were low. These low prices were the result of an abundance of generation due to river flows, increased installed capacity of wind generation and natural gas prices.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA decreased \$31 million, or 31 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 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 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 \$126 million, or 11 percent, for the nine months ended June 30, 2011, from the comparable period a year earlier due mainly to increases for operating generation costs of \$80 million for maintenance including 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 \$13 million, direct funded federal hydro projects of \$9 million, fish and wildlife of \$13 million, and other agency expenses of \$11 million.

Purchased power expense decreased \$140 million, or 49 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.

Depreciation and amortization expense increased \$21 million, or 8 percent, for fiscal year 2011 when compared to fiscal year 2010. New transmission and generation plant placed in service resulted in increases to depreciation of \$8 million and \$2 million, respectively, and amortization of conservation and fish and wildlife regulatory assets increased \$8 million and \$3 million, respectively.

### *Net Interest Expense*

Net interest expense increased \$14 million, or 8 percent, for fiscal year 2011 when compared to fiscal year 2010. The primary driver was a \$13 million, or 32 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 \$169 million for the nine months ended June 30, 2011. Net revenues were \$36 million for the nine months ended June 30, 2010. Net cash provided by operating activities of the FCRPS increased \$87 million to \$165 million for the nine months ended June 30, 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*

Net cash used for investment activities of the FCRPS increased \$240 million to \$746 million for the nine months ended June 30, 2011, when compared to the nine months ended June 30, 2010. Utility plant investment increased \$114 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 ending in fiscal year 2018 or until the BPA fund is fully invested. During the nine months ended June 30, 2011, \$118 million of investments and \$45 million of cash equivalents matured and were re-invested. BPA's current investment portfolio consists of primarily short-term securities.

During the nine months ended June 30, 2011, the consolidated special purpose corporations advanced \$34 million to the BPA fund to support transmission construction activities on leased projects. The \$2 million change, when compared to the same activity for the nine months ended June 30, 2010, reflects an increase in construction activity on several large leased projects.

### *Financing Activities*

Net cash provided by financing activities of the FCRPS was \$830 million for the nine months ended June 30, 2011, compared to \$334 million for the comparable period a year earlier. In the current fiscal year BPA borrowings from the U.S. Treasury were \$715 million, or \$287 million higher than borrowings during the nine months ended June 30, 2010. The \$715 million includes \$265 million for transmission investments, \$165 million for generation investments, \$80 million for fish and wildlife investments, \$75 million for conservation investments, \$20 million for agency services and \$110 million for current operations using the Treasury short-term liquidity facility. BPA made repayments of \$10 million during the current fiscal year, whereas repayments of borrowings were \$200 million through June 30, 2010. Additional nonfederal debt of \$133 million was issued under the Lease Financing Program, \$96 million of which 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 including rates, go to [www.transmission.bpa.gov](http://www.transmission.bpa.gov)

**Federal Columbia River Power System**  
**Combined Balance Sheets**  
**(Unaudited)**

As of June 30,  
2011

As of September 30,  
2010

(Thousands of dollars)

**Assets**

**Utility plant**

|                               |    |             |    |             |
|-------------------------------|----|-------------|----|-------------|
| Completed plant               | \$ | 14,511,434  | \$ | 14,362,387  |
| Accumulated depreciation      |    | (5,390,587) |    | (5,247,971) |
|                               |    | 9,120,847   |    | 9,114,416   |
| Construction work in progress |    | 1,432,838   |    | 1,105,165   |
| Net utility plant             |    | 10,553,685  |    | 10,219,581  |

**Nonfederal generation**

|  |  |           |  |           |
|--|--|-----------|--|-----------|
|  |  | 2,599,580 |  | 2,449,865 |
|--|--|-----------|--|-----------|

**Current assets**

|   |  |           |  |           |
|---|--|-----------|--|-----------|
| Cash and cash equivalents               |  | 1,328,141 |  | 1,078,671 |
| Short-term investments                  |  | 244,880   |  | 65,783    |
| Accounts receivable, net of allowance   |  | 108,274   |  | 122,400   |
| Accrued unbilled revenues               |  | 177,701   |  | 197,603   |
| Materials and supplies, at average cost |  | 93,874    |  | 85,797    |
| Prepaid expenses                        |  | 61,490    |  | 25,832    |
| Total current assets                    |  | 2,014,360 |  | 1,576,086 |

**Investments and other assets**

|   |  |           |  |           |
|---|--|-----------|--|-----------|
| Regulatory assets                         |  | 8,102,411 |  | 4,983,142 |
| Investments in U.S. Treasury securities   |  | 48,724    |  | 82,328    |
| Nonfederal nuclear decommissioning trusts |  | 209,582   |  | 188,850   |
| Deferred charges and other                |  | 183,373   |  | 169,318   |
| Total investments and other assets        |  | 8,544,090 |  | 5,423,638 |

|                     |           |                   |           |                   |
|---------------------|-----------|-------------------|-----------|-------------------|
| <b>Total assets</b> | <b>\$</b> | <b>23,711,715</b> | <b>\$</b> | <b>19,669,170</b> |
|---------------------|-----------|-------------------|-----------|-------------------|

**Capitalization and Liabilities**

**Capitalization and long-term liabilities**

|  |    |            |    |            |
|--|----|------------|----|------------|
| Accumulated net revenues                       | \$ | 2,598,172  | \$ | 2,428,691  |
| Federal appropriations                         |    | 4,298,484  |    | 4,238,167  |
| Borrowings from U.S. Treasury                  |    | 2,683,440  |    | 2,188,440  |
| Nonfederal debt                                |    | 6,187,528  |    | 6,015,585  |
| Total capitalization and long-term liabilities |    | 15,767,624 |    | 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 |  | 535,000   |  | 325,000   |
| Nonfederal debt               |  | 306,675   |  | 306,175   |
| Accounts payable and other    |  | 498,158   |  | 613,052   |
| Total current liabilities     |  | 1,361,065 |  | 1,265,459 |

**Other liabilities**

|                              |  |           |  |           |
|------------------------------|--|-----------|--|-----------|
| Regulatory liabilities       |  | 2,475,671 |  | 2,494,019 |
| IOU exchange benefits        |  | 3,142,245 |  | 85,017    |
| Asset retirement obligations |  | 175,290   |  | 170,334   |
| Deferred credits and other   |  | 789,820   |  | 783,458   |
| Total other liabilities      |  | 6,583,026 |  | 3,532,828 |

|   |           |                   |           |                   |
|---|-----------|-------------------|-----------|-------------------|
| <b>Total capitalization and liabilities</b> | <b>\$</b> | <b>23,711,715</b> | <b>\$</b> | <b>19,669,170</b> |
|---|-----------|-------------------|-----------|-------------------|

**Federal Columbia River Power System**  
**Combined Statements of Revenues and Expenses**  
**(Unaudited)**

|  | Three Months Ended<br>June 30, |             | Fiscal Year-to-Date Ended<br>June 30, |              |
|--|--------------------------------|-------------|---------------------------------------|--------------|
|  | <u>2011</u>                    | <u>2010</u> | <u>2011</u>                           | <u>2010</u>  |
| (Thousands of dollars)                       |                                |             |                                       |              |
| <b>Operating revenues</b>                    |                                |             |                                       |              |
| Sales  | \$ 698,376                     | \$ 665,887  | \$ 2,399,063                          | \$ 2,189,650 |
| Derivative instruments                       | -                              | 6,814       | -                                     | 14,800       |
| U.S. Treasury credits for fish               | 17,690                         | 41,610      | 68,586                                | 99,097       |
| Miscellaneous revenues                       | 14,756                         | 17,549      | 45,884                                | 46,959       |
| Total operating revenues                     | 730,822                        | 731,860     | 2,513,533                             | 2,350,506    |
| <b>Operating expenses</b>                    |                                |             |                                       |              |
| Operations and maintenance                   | 418,093                        | 388,426     | 1,252,295                             | 1,126,069    |
| Purchased power                              | 27,507                         | 67,307      | 146,745                               | 286,792      |
| Nonfederal projects                          | 165,651                        | 122,490     | 461,143                               | 452,341      |
| Depreciation and amortization                | 97,625                         | 91,785      | 292,839                               | 272,260      |
| Total operating expenses                     | 708,876                        | 670,008     | 2,153,022                             | 2,137,462    |
| Net operating revenues                       | 21,946                         | 61,852      | 360,511                               | 213,044      |
| <b>Interest expense and (income)</b>         |                                |             |                                       |              |
| Interest expense                             | 84,666                         | 82,682      | 248,665                               | 248,052      |
| Allowance for funds used during construction | (10,417)                       | (9,445)     | (28,974)                              | (29,217)     |
| Interest income                              | (10,975)                       | (13,762)    | (28,661)                              | (41,919)     |
| Net interest expense                         | 63,274                         | 59,475      | 191,030                               | 176,916      |
| <b>Net revenues (expenses)</b>               | \$ (41,328)                    | \$ 2,377    | \$ 169,481                            | \$ 36,128    |

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

Fiscal Year-to-Date Ended  
June 30,

2011

2010

(Thousands of dollars)

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

|   |    |                |    |               |
|---|----|----------------|----|---------------|
| Net revenues (expenses)                   | \$ | 169,481        | \$ | 36,128        |
| Non-cash items:                           |    |                |    |               |
| Depreciation and amortization             |    | 292,839        |    | 272,260       |
| Amortization of nonfederal projects       |    | 10,665         |    | 10,180        |
| Unrealized loss on derivative instruments |    | -              |    | (13,428)      |
| Changes in:                               |    |                |    |               |
| Receivables and unbilled revenues         |    | 35,598         |    | (39,434)      |
| Materials and supplies                    |    | (8,077)        |    | (9,793)       |
| Prepaid expenses                          |    | (35,658)       |    | (31,048)      |
| Accounts payable and other                |    | (81,311)       |    | (54,313)      |
| Regulatory assets and liabilities         |    | (175,452)      |    | (91,989)      |
| Other assets and liabilities              |    | (43,006)       |    | (910)         |
| Net cash provided by operating activities |    | <u>165,079</u> |    | <u>77,653</u> |

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

|  |  |                  |  |                  |
|--|--|------------------|--|------------------|
| Investment in:                             |  |                  |  |                  |
| Utility plant (including AFUDC)            |  | (588,217)        |  | (473,930)        |
| U.S. Treasury Securities:                  |  |                  |  |                  |
| Purchases                                  |  | (265,000)        |  | (100,000)        |
| Maturities                                 |  | 118,193          |  | 44,683           |
| Nonfederal nuclear decommissioning trusts  |  | (7,212)          |  | (6,349)          |
| Special purpose corporations' trust funds: |  |                  |  |                  |
| Deposits to                                |  | (36,963)         |  | (1,769)          |
| Receipts from                              |  | 33,591           |  | 31,656           |
| Net cash used for investing activities     |  | <u>(745,608)</u> |  | <u>(505,709)</u> |

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

|   |  |                |  |                |
|---|--|----------------|--|----------------|
| Federal construction appropriations:      |  |                |  |                |
| Increase                                  |  | 60,317         |  | 67,492         |
| Borrowings from U.S. Treasury:            |  |                |  |                |
| Increase                                  |  | 715,000        |  | 428,000        |
| Repayment                                 |  | (10,000)       |  | (200,000)      |
| Nonfederal debt:                          |  |                |  |                |
| Increase                                  |  | 132,665        |  | 1,769          |
| Extinguished through refinancing          |  | (90,000)       |  | -              |
| Repayment                                 |  | (12,767)       |  | (10,180)       |
| Customers:                                |  |                |  |                |
| Advances for construction                 |  | 40,662         |  | 68,372         |
| Reimbursements to customers               |  | (5,878)        |  | (21,764)       |
| Net cash provided by financing activities |  | <u>829,999</u> |  | <u>333,689</u> |

**Net (decrease) increase in cash and cash equivalents**

|  |           |                  |           |                  |
|--|-----------|------------------|-----------|------------------|
|  |           | 249,470          |           | (94,367)         |
| Cash and cash equivalents at beginning of year     |           | 1,078,671        |           | 1,357,019        |
| <b>Cash and cash equivalents at end of quarter</b> | <b>\$</b> | <b>1,328,141</b> | <b>\$</b> | <b>1,262,652</b> |

**Supplemental disclosures:**

|   |    |         |    |         |
|---|----|---------|----|---------|
| Cash paid for interest, net of amount capitalized | \$ | 258,154 | \$ | 260,727 |
|---|----|---------|----|---------|

**Significant noncash investing and financing activities:**

|  |    |          |    |        |
|--|----|----------|----|--------|
| Accrued capital expenditures (decrease) increase | \$ | (43,669) | \$ | 22,562 |
| Nonfederal debt increase                         | \$ | 142,545  | \$ | 22,705 |