Quarterly Financial Report

2013 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

This agency-approved financial information was made publicly available by BPA on 01-25-2013.

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 2013, 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. Energy conserved by a utility will contribute to reducing 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, 2012, sales increased $9 million, or 1 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Transmission Services sales increased $10 million, or 5 percent, mainly due to increased sales of Ancillary Services and Point-to-Point sales. Power Services sales decreased slightly by about $1 million, or 0.1 percent.

U.S. Treasury credits for certain fish and wildlife expenditures incurred by BPA increased $5 million, or 25 percent. The change was primarily driven by estimated power purchases made for fish and wildlife mitigation purposes. 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.

Miscellaneous revenues increased $5 million, due to increases in Transmission Services reimbursables, wireless, fiber, and Power Services miscellaneous sales.

Operating Expenses

Operations and maintenance expense increased $34 million, or 8 percent, for the three months ended Dec. 31, 2012, from the comparable period a year earlier due mainly to additional costs of $19 million for maintenance and biennial refueling scheduled in fiscal year 2013 for the Energy Northwest Columbia Generating Station nuclear power plant. Additional increases of $13 million in federal hydro operations and maintenance, including projects at Grand Coulee Dam, and $5 million for Transmission Services maintenance were offset partially by reduced conservation and fish and wildlife spending.

Purchased power expense decreased $4 million, or 10 percent, for the three months ended Dec. 31, 2012, from the comparable period a year earlier. This decrease was mainly due to higher year-over-year hydro generation which reduced the amount of power purchased to meet load for the current fiscal year when compared to the prior fiscal year.

Nonfederal projects expense increased $18 million, or 11 percent, for the three months ended Dec. 31, 2012, from the comparable period a year earlier primarily due to increased scheduled debt payments for WNP No. 1 and WNP No. 3, slightly offset by reduced scheduled debt payments for Columbia Generating Station.

Liquidity and Capital Resources

Net Revenues and Operating Activities

As a result of the factors previously discussed, the FCRPS had net expenses of $5 million for the three months ended Dec. 31, 2012. Net revenues were $29 million for the three months ended Dec. 31, 2011. Net cash provided by operating activities of the FCRPS decreased $12 million to $77 million for the three months ended Dec. 31, 2012, when compared to the three months ended

Dec. 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 investing activities of the FCRPS increased $107 million to $399 million for the three months ended Dec. 31, 2012, when compared to the three months ended Dec. 31, 2011.

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 at least $100 million per year through fiscal year 2018 or until the BPA fund is fully invested. During the three months ended Dec. 31, 2012, $104 million of investments matured and were re-invested in other market-based special securities. In addition, $60 million of cash from investments that matured in September 2012 and $45 million of cash equivalents were invested in market-based special securities in accordance with BPA's cash management and investment strategies. BPA's current investment portfolio consists of short-term securities.

During the three months ended Dec. 31, 2012, the consolidated special purpose corporations deposited $30 million into their restricted trust funds and transferred $27 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, 2011, the $35 million decrease in deposits to the special purpose corporations' trust funds reflects a decrease in new lease agreement executions which are based on construction dates for new lease projects.

Financing Activities

Net cash provided by financing activities of the FCRPS was $108 million for the three months ended Dec. 31, 2012, compared to $208 million for the comparable period a year earlier.

In the current fiscal year BPA borrowings from the U.S. Treasury were $120 million, or $15 million lower than borrowings during the three months ended Dec. 31, 2011. The $120 million was at fixed interest rates and includes $70 million for transmission investments, $25 million for fish and wildlife investments and $25 million for conservation and generation investments.

Additional nonfederal debt of $30 million was issued under the Lease Financing Program, compared to the $66 million issued in prior year.

Non-GAAP Financial Information

Adjusted Net Revenue

Adjusted Net Revenue is net revenue after removing the effects of debt management actions related to Debt Service Reassignment which is a component of the Debt Optimization Program to refinance Energy Northwest (EN) debt to extend U.S. Treasury borrowing authority. During fiscal year 2013, management determined that Adjusted Net Revenue is a better representation of the outcomes of normal operations that would exclude the ongoing impacts of past debt management actions. Adjusted Net Revenue for the three months ended Dec. 31, 2012, was $34.7 million. The effects of Debt Service Reassignment were immaterial to the quarter ended Dec. 31, 2011.

The table below presents the calculation for Adjusted Net Revenue. Expenses related to Debt Service Reassignment are not recorded to Power and Transmission Services and, as such, Adjusted Net Revenue is equivalent to the sum of Power and Transmission Services net revenues.

Adjusted Net Revenue

Federal Columbia River Power System
For the fiscal year-to-date ended Dec. 31 — thousands of dollars

	2012
FCRPS net revenues (expenses)	$ (5,275)
Less: Adjustment for Debt Service Reassignment	(40,009)
Adjusted Net Revenue	$ 34,734

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, go to www.bpa.gov/power

For information on Transmission Services, go to www.transmission.bpa.gov

Federal Columbia River Power System

Combined Balance Sheets (Unaudited)

(Thousands of dollars)

	As of December 31, 2012	As of September 30, 2012
Assets		
Utility plant		
Completed plant	**$ 15,452,360**	$ 15,401,287
Accumulated depreciation	**(5,515,110)**	(5,449,470)
	9,937,250	9,951,817
Construction work in progress	**1,530,077**	1,412,134
Net utility plant	**11,467,327**	11,363,951
Nonfederal generation	**3,306,668**	3,318,494
Current assets		
Cash and cash equivalents	**734,593**	948,859
Short-term investments in U.S. Treasury securities	**449,712**	242,495
Accounts receivable, net of allowance	**25,377**	86,632
Accrued unbilled revenues	**323,839**	248,769
Materials and supplies, at average cost	**105,147**	99,436
Prepaid expenses	**32,699**	26,060
Total current assets	**1,671,367**	1,652,251
Other assets		
Regulatory assets	**7,303,349**	7,464,988
Investments in U.S. Treasury securities	**49,467**	49,623
Nonfederal nuclear decommissioning trusts	**236,826**	235,598
Deferred charges and other	**190,615**	180,444
Total other assets	**7,780,257**	7,930,653
Total assets	**$ 24,225,619**	$ 24,265,349
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 2,590,665**	$ 2,595,940
Federal appropriations	**4,265,666**	4,249,022
Borrowings from U.S. Treasury	**3,383,040**	3,263,040
Nonfederal debt	**6,397,497**	6,370,733
Total capitalization and long-term liabilities	**16,636,868**	16,478,735
Commitments and contingencies (See Note 14 to 2012 Audited Financial Statements)		
Current liabilities		
Borrowings from U.S. Treasury	**122,800**	157,800
Nonfederal debt	**493,655**	493,650
Accounts payable and other	**464,841**	554,006
Total current liabilities	**1,081,296**	1,205,456
Other liabilities		
Regulatory liabilities	**2,517,317**	2,545,370
IOU exchange benefits	**3,059,107**	3,081,053
Asset retirement obligations	**163,205**	161,215
Deferred credits and other	**767,826**	793,520
Total other liabilities	**6,507,455**	6,581,158
Total capitalization and liabilities	**$ 24,225,619**	$ 24,265,349

Federal Columbia River Power System

Combined Statements of Revenues and Expenses (Unaudited)

(Thousands of dollars)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Fiscal Year-to-Date Ended December 31, 2012	Fiscal Year-to-Date Ended December 31, 2011
Operating revenues				
Sales	**$ 793,160**	$ 784,216	**$ 793,160**	$ 784,216
U.S. Treasury credits for fish	**25,405**	20,342	**25,405**	20,342
Miscellaneous revenues	**18,777**	13,632	**18,777**	13,632
Total operating revenues	**837,342**	818,190	**837,342**	818,190
Operating expenses				
Operations and maintenance	**450,588**	416,714	**450,588**	416,714
Purchased power	**40,132**	44,615	**40,132**	44,615
Nonfederal projects	**180,007**	161,951	**180,007**	161,951
Depreciation and amortization	**103,890**	97,831	**103,890**	97,831
Total operating expenses	**774,617**	721,111	**774,617**	721,111
Net operating revenues	**62,725**	97,079	**62,725**	97,079
Interest expense and (income)				
Interest expense	**84,462**	86,264	**84,462**	86,264
Allowance for funds used during construction	**(11,810)**	(13,323)	**(11,810)**	(13,323)
Interest income	**(4,652)**	(5,089)	**(4,652)**	(5,089)
Net interest expense	**68,000**	67,852	**68,000**	67,852
Net (expenses) revenues	**$ (5,275)**	$ 29,227	**$ (5,275)**	$ 29,227

Federal Columbia River Power System

Combined Statements of Cash Flows (Unaudited)

(Thousands of dollars)

	Fiscal Year-to-Date Ended December 31, 2012	2011
Cash provided by and (used for) operating activities		
Net (expenses) revenues	**$ (5,275)**	$ 29,227
Non-cash items:		
Depreciation and amortization	**103,890**	97,831
Amortization of nonfederal projects	**122,507**	11,165
Changes in:		
Receivables and unbilled revenues	**(13,815)**	(44,414)
Materials and supplies	**(5,711)**	(5,257)
Prepaid expenses	**(6,639)**	(10,006)
Accounts payable and other	**(72,402)**	102,971
Regulatory assets and liabilities	**(9,795)**	(38,133)
Other assets and liabilities	**(36,247)**	(54,417)
Net cash provided by operating activities	**76,513**	88,967
Cash provided by and (used for) investing activities		
Investment in:		
Utility plant, including AFUDC	**(188,606)**	(196,782)
U.S. Treasury Securities:		
Purchases	**(310,000)**	(135,000)
Maturities	**103,917**	79,050
Deposits to nonfederal nuclear decommissioning trusts	**(932)**	(2,937)
Special purpose corporations' trust funds:		
Deposits to	**(30,045)**	(65,510)
Receipts from	**26,860**	28,912
Net cash used for investing activities	**(398,806)**	(292,267)
Cash provided by and (used for) financing activities		
Federal appropriations:		
Proceeds	**16,644**	21,309
Repayment	**-**	-
Borrowings from U.S. Treasury:		
Proceeds	**120,000**	135,000
Repayment	**(35,000)**	-
Nonfederal debt:		
Proceeds	**30,045**	65,510
Repayment	**(3,276)**	(11,165)
Customers:		
Net advances (refunds) for construction	**(10,089)**	7,897
Repayment of funds used for construction	**(10,297)**	(10,067)
Net cash provided by financing activities	**108,027**	208,484
Net (decrease) and increase in cash and cash equivalents	**(214,266)**	5,184
Cash and cash equivalents at beginning of year	**948,859**	892,125
Cash and cash equivalents at end of quarter	**$ 734,593**	$ 897,309
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 79,070**	$ 78,774