Quarterly Financial Report
2013 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 one-third 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 & 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. 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

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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 & 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 their purchases 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 six months ended March 31, 2013, sales increased $23 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 $14 million, or 4 percent, primarily due to increased Variable Energy Resource Balancing Service, a control area service to help maintain the power system frequency and to conform to reliability standards, and 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. Variable Energy Resource Balancing Service revenue was higher by $7 million due to additional installed wind generation facilities. Point-to-Point Long-Term sales increased by $3 million due to increased Conditional Firm sales, commencement of service for sales that had been deferred, and the effect of Network Open Season sales that started in fiscal year 2012. Power Services sales increased $9 million, or 1 percent. Power firm sales decreased by $6 million for the six months ended March 31, 2013, compared to the same period in fiscal year 2012. Preference utility peak loads were lower as a result of above average temperatures in the fall and winter months. Power secondary sales increased $15 million. The increase in secondary sales was due primarily to higher market prices which offset decreased streamflows year over year.

U.S. Treasury credits increased $5 million for the six months ended March 31, 2013, from the comparable period a year earlier. The fiscal year 2013 increase was primarily driven by higher power purchases made for fish & wildlife mitigation purposes.

Miscellaneous revenues increased $3 million year over year, primarily due to increases in Transmission Services reimbursable work, offset by a reduction in energy efficiency revenues.

Operating Expenses

Operations and maintenance expense increased $59 million, or 7 percent, for the six months ended March 31, 2013, from the comparable period a year earlier. Energy Northwest Columbia Generating Station nuclear power plant costs increased $40 million year over year for maintenance and biennial refueling. Federal hydro operations and maintenance increased $10 million, transmission maintenance increased $8 million, transmission and ancillary purchases increased $4 million, and fish & wildlife costs were up $3 million. These costs were offset partially by reduced expenses for transmission operations, transmission engineering, conservation and renewables.

Nonfederal projects debt service increased $39 million, or 12 percent, for the six months ended March 31, 2013, from the comparable period a year earlier primarily due to increased scheduled debt payments for Energy Northwest's WNP No. 1 and WNP No. 3.

Depreciation and amortization expense increased $18 million, or 9 percent, for fiscal year 2013 when compared to fiscal year 2012. Transmission and generation plant placed in service, including certain information systems, resulted in increases to depreciation of $9 million and $6 million, respectively. Amortization of conservation and fish & wildlife regulatory assets increased $3 million.

Net Interest Expense

Net interest expense increased $34 million, or 33 percent, for the six months ended March 31, 2013, from the comparable period a year ago. Interest expense increased $11 million, or 7 percent, due to increased borrowing necessary to finance Corps of Engineers and lease financed construction projects and to a one-time reduction in fiscal year 2012 of costs allocated to power purposes at the Cougar Dam. Allowance for funds used during construction decreased $5 million year over year, primarily due to a lower AFUDC rate. Interest income decreased $18 million primarily as the result of a 2012 accrual for interest income related to outstanding receivables and, to a lesser extent, a lower interest rate earned on balances with U.S. Treasury.

Liquidity and Capital Resources

Net Revenues and Operating Activities

As a result of the factors previously discussed, the FCRPS had net expenses of $10 million for the six months ended March 31, 2013. Net revenues were $111 million for the six months ended March 31, 2012. Net cash provided by operating activities of the FCRPS increased $50 million to $358 million for the six months ended March 31, 2013, when compared to the six months ended March 31, 2012. 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 $68 million to $567 million for the six months ended March 31, 2013, when compared to the six months ended March 31, 2012.

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 six months ended March 31, 2013, $234 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 $46 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 six months ended March 31, 2013, the consolidated special purpose corporations deposited $45 million into their restricted trust funds and transferred $56 million to the BPA fund to support construction activities on leased transmission projects. In the current fiscal year BPA entered into a lease financing arrangement to fund transmission construction with an unconsolidated third party, the Port of Morrow. During the six months ended March 31, 2013, the Port deposited $7 million into the restricted trust fund and transferred $2 million to the BPA fund to support construction activities. When compared to the same activities for the six months ended March 31, 2012, the $78 million decrease in deposits to the restricted trust funds reflect a decrease in new lease agreement executions which are dependent on construction timing for new lease projects.

Financing Activities

Net cash provided by financing activities of the FCRPS was $681 million for the six months ended March 31, 2013, compared to $461 million for the comparable period a year earlier.

Through the years BPA has implemented various programs, such as Lease Financing and Debt Optimization, to supplement and optimize BPA's limited authority to borrow from the U.S. Treasury and to assure that BPA has adequate funds to continue to make essential capital program investments when needed. In fiscal year 2013 BPA implemented the Customer Prepayment Power Purchase Program, which allows customers to prepay power purchases in the form of block purchases, providing BPA with an additional source of funding. The participating customers receive a discount embedded in fixed credits applied to future power purchases. In March 2013 BPA received payments totaling $340 million from four regional customers for the express advance payment of future power purchases. Participating customers purchased 51 blocks representing $474 million of prepaid power credits beginning in April 2013 and continuing through fiscal year 2028, the remaining term of the power sales contracts. For each block purchased, the customers' monthly power bills will reflect a credit of $50,000 through the remaining term of the power sales contracts. The difference between prepayment funds received and the total credits of prepaid power purchased represents the financing cost of this program. BPA accounts for the prepayment proceeds as a financing transaction and reports cash received as a prepayment liability. BPA will recognize interest expense as electricity is provided to customers based on the established fixed prepayment credit schedules using the effective interest method.

During the six months ended March 31, 2013, BPA borrowings from the U.S. Treasury were $315 million, or $5 million higher than borrowings during the six months ended March 31, 2012. The $315 million was borrowed at fixed interest rates and included $133 million for transmission investments, $35 million for fish & wildlife investments and $147 million for conservation and generation investments.

Nonfederal debt proceeds increased from $130 million for the six months ended March 31, 2012, to $393 million for the six months ended March 31, 2013. Of the $393 million, $340 million was for customer prepayment power purchases received in March 2013.

Non-GAAP Financial Information

Adjusted Net Revenue

In fiscal year 2013 BPA developed a new Key Agency Target called Adjusted Net Revenue. Adjusted Net Revenue is net revenue after removing the effects of certain debt management actions from prior years. These debt management actions were implemented to increase available U.S. Treasury borrowing authority by extending Energy Northwest's debt repayments and using the resultant debt service savings to repay U. S. Treasury debt. Energy Northwest debt management actions resulted in higher net revenues than would otherwise have been reported in prior years absent debt refinancing. With the Energy Northwest debt now maturing, Nonfederal projects expense is higher, resulting in lower FCRPS net revenues.

The effects of these past debt management actions are not considered to be related to ongoing FCRPS operations, and therefore management has determined that Adjusted Net Revenue is a better representation of FCRPS financial performance for the period. Adjusted Net Revenue for the six months ended March 31, 2013, was $72 million. The table below presents the calculation for Adjusted Net Revenue.

Adjusted Net Revenue

Federal Columbia River Power System
For the fiscal year-to-date ended March 31 — millions of dollars

		2013
FCRPS net revenues (expenses)	$	(10)
Adjustment for Debt Service Reassignment		82
Adjusted Net Revenue	$	72

Additional Information

To see BPA's most recent annual report including audited financial statements, go to www.bpa.gov/corporate/finance/a_report

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 March 31, 2013	As of September 30, 2012
Assets		
Utility plant		
Completed plant	$ 15,571,489	$ 15,401,287
Accumulated depreciation	(5,587,120)	(5,449,470)
	9,984,369	9,951,817
Construction work in progress	1,575,431	1,412,134
Net utility plant	11,559,800	11,363,951
Nonfederal generation	3,294,841	3,318,494
Current assets		
Cash and cash equivalents	1,420,918	948,859
Short-term investments in U.S. Treasury securities	493,515	242,495
Accounts receivable, net of allowance	39,016	86,632
Accrued unbilled revenues	297,852	248,769
Materials and supplies, at average cost	108,762	99,436
Prepaid expenses	44,212	26,060
Total current assets	2,404,275	1,652,251
Other assets		
Regulatory assets	7,156,000	7,464,988
Investments in U.S. Treasury securities	4,910	49,623
Nonfederal nuclear decommissioning trusts	248,967	235,598
Deferred charges and other	159,572	180,444
Total other assets	7,569,449	7,930,653
Total assets	$ 24,828,365	$ 24,265,349
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	$ 2,586,330	$ 2,595,940
Federal appropriations	4,289,889	4,249,022
Borrowings from U.S. Treasury	3,518,040	3,263,040
Nonfederal debt	6,744,636	6,370,733
Total capitalization and long-term liabilities	17,138,895	16,478,735
Commitments and contingencies (See Note 14 to 2012 Audited Financial Statements)		
Current liabilities		
Borrowings from U.S. Treasury	182,800	157,800
Nonfederal debt	509,135	493,650
Accounts payable and other	560,927	554,006
Total current liabilities	1,252,862	1,205,456
Other liabilities		
Regulatory liabilities	2,490,799	2,545,370
IOU exchange benefits	3,026,110	3,081,053
Asset retirement obligations	164,582	161,215
Deferred credits and other	755,117	793,520
Total other liabilities	6,436,608	6,581,158
Total capitalization and liabilities	$ 24,828,365	$ 24,265,349

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

	Three Months Ended March 31,		Fiscal Year-to-Date Ended March 31,	
	2013	2012	**2013**	2012
Operating revenues				
Sales	**$ 851,549**	$ 837,249	**$ 1,644,709**	$ 1,621,465
U.S. Treasury credits for fish	**21,217**	21,382	**46,622**	41,724
Miscellaneous revenues	**18,770**	20,744	**37,547**	34,376
Total operating revenues	**891,536**	879,375	**1,728,878**	1,697,565
Operating expenses				
Operations and maintenance	**472,560**	447,154	**923,149**	863,868
Purchased power	**67,089**	61,567	**107,221**	106,182
Nonfederal projects	**179,981**	158,707	**359,987**	320,658
Depreciation and amortization	**106,556**	94,532	**210,446**	192,363
Total operating expenses	**826,186**	761,960	**1,600,803**	1,483,071
Net operating revenues	**65,350**	117,415	**128,075**	214,494
Interest expense and (income)				
Interest expense	**85,040**	72,088	**169,503**	158,351
Allowance for funds used during construction	**(10,071)**	(13,496)	**(21,881)**	(26,818)
Interest income	**(5,285)**	(22,722)	**(9,937)**	(27,811)
Net interest expense	**69,684**	35,870	**137,685**	103,722
Net (expenses) revenues	**$ (4,334)**	$ 81,545	**$ (9,610)**	$ 110,772

Federal Columbia River Power System

Combined Statements of Cash Flows (Unaudited)

(Thousands of dollars)

	Fiscal Year-to-Date Ended March 31, 2013	2012
Cash provided by and (used for) operating activities		
Net (expenses) revenues	**$ (9,610)**	$ 110,772
Non-cash items:		
Depreciation and amortization	**210,446**	192,363
Amortization of nonfederal projects	**245,029**	181,501
Changes in:		
Receivables and unbilled revenues	**(1,415)**	(110,760)
Materials and supplies	**(9,326)**	(7,758)
Prepaid expenses	**(18,152)**	(4,287)
Accounts payable and other	**41,503**	14,881
Regulatory assets and liabilities	**(38,251)**	6,526
Other assets and liabilities	**(62,257)**	(75,532)
Net cash provided by operating activities	**357,967**	307,706
Cash provided by and (used for) investing activities		
Investment in:		
Utility plant, including AFUDC	**(365,224)**	(385,723)
U.S. Treasury Securities:		
Purchases	**(440,000)**	(264,999)
Maturities	**233,917**	198,813
Deposits to nonfederal nuclear decommissioning trusts	**(1,865)**	(5,608)
Special purpose corporations' trust funds:		
Deposits to	**(51,946)**	(129,958)
Receipts from	**58,495**	88,607
Net cash used for investing activities	**(566,623)**	(498,868)
Cash provided by and (used for) financing activities		
Federal appropriations:		
Proceeds	**40,867**	35,984
Repayment	**-**	-
Borrowings from U.S. Treasury:		
Proceeds	**315,000**	310,000
Repayment	**(35,000)**	-
Nonfederal debt:		
Proceeds	**392,959**	129,958
Repayment	**(3,571)**	(11,165)
Customers:		
Net advances (refunds) for construction	**(8,990)**	17,410
Repayment of funds used for construction	**(20,550)**	(21,266)
Net cash provided by financing activities	**680,715**	460,921
Net increase in cash and cash equivalents	**472,059**	269,759
Cash and cash equivalents at beginning of year	**948,859**	892,125
Cash and cash equivalents at end of quarter	**$ 1,420,918**	$ 1,161,884
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 178,152**	$ 163,628
Significant noncash investing and financing activities:		
Federal appropriations	**$ -**	$ (42,542)