Quarterly Financial Report
2013 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 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

This agency-approved financial information was made publicly available by BPA on 07-26-2013.

can raise rates, if needed. For fiscal year 2013, financial reserves consist 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 operations 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 limited amount of power at Tier 1 rates. Tier 1 rates recover the costs of the majority of the FCRPS resources, fish & wildlife costs and energy efficiency. Tier 2 rates recover costs of resources that BPA acquires specifically for publicly owned utility customers that request 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. As designed, 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 nine months ended June 30, 2013, sales increased $29 million, or 1 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses. Power Services sales increased $18 million, or 1 percent primarily due to changes in priority firm and secondary sales. Power priority firm sales decreased by $8 million for the nine months ended June 30, 2013, compared to the same period in fiscal year 2012. Preference utility peak loads were lower as a result of above average temperatures over the last nine months. Secondary sales increased $32 million, primarily due to higher market prices that offset decreased streamflows year over year. Transmission Services sales increased $11 million, or 2 percent, compared to fiscal year 2012. A primary driver of increased transmission sales was an $8 million increase of Variable Energy Resource Balancing Service sales due to additional installed wind generation facilities. Secondarily, Point-to-Point Long-Term sales increased by $3 million due to increased Conditional Firm sales and the effect of Network Open Season sales that began in fiscal year 2012.

U.S. Treasury credits for fish increased $9 million for the nine months ended June 30, 2013, from the comparable period a year earlier. The fiscal year 2013 increase was primarily driven by a higher volume of power purchases made for fish and wildlife mitigation purposes.

Operating Expenses

Operations and maintenance expense increased $81 million, or 6 percent, for the nine months ended June 30, 2013, from the comparable period a year earlier. Energy Northwest Columbia Generating Station nuclear power plant costs increased $56 million year over year for maintenance and biennial refueling. Federal hydro operations and maintenance increased $27 million, transmission maintenance increased $11 million, and transmission and ancillary purchases increased $5 million. These costs were offset partially by reduced expenses for transmission operations, transmission engineering, conservation and for fish & wildlife program costs.

Purchased power expense increased $13 million, or 11 percent, for the nine months ended June 30, 2013, from the comparable period a year earlier. The increase in purchased power was driven mainly by lower year-over-year hydro generation and reduced output of the Columbia Generating Station due to scheduled refueling and maintenance in fiscal year 2013.

Nonfederal projects debt service increased $61 million, or 13 percent, for the nine months ended June 30, 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 $27 million, or 9 percent, for fiscal year 2013 when compared to fiscal year 2012 primarily due to higher transmission and generation completed plant.

Net Interest Expense

Net interest expense increased $40 million, or 24 percent, for the nine months ended June 30, 2013, from the comparable period a year ago. Interest expense increased $17 million, or 7 percent, due to increased borrowing necessary to finance power-related construction projects and lease financed transmission construction projects, and to a one-time reduction in fiscal year 2012 of interest and other costs allocated to power purposes at the Cougar Dam. Allowance for funds used during construction decreased $8 million year over year, primarily due to a lower AFUDC rate. Interest income decreased $15 million primarily as the result of interest income recognized in 2012 related to outstanding receivables and, to a lesser extent, a lower interest rate earned on a lower cash balance 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 $7 million for the nine months ended June 30, 2013. Net revenues were $173 million for the nine months ended June 30, 2012. Net cash provided by operating activities of the FCRPS decreased $104 million to $500 million for the nine months ended June 30, 2013, when compared to the nine months ended June 30, 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 decreased $32 million to $712 million for the nine months ended June 30, 2013, when compared to the nine months ended June 30, 2012.

BPA continues to make significant investment in utility plant with $580 million invested year-to-date in fiscal year 2013, which is down $27 million, or less than 5 percent, from the comparative period in fiscal year 2012. BPA's net incremental investment in U.S. Treasury market-based special securities, purchases less maturities, was $136 million during the nine months ended June 30, 2013, which is an increase of $35 million over the comparative period in the prior year. The increase in fiscal year 2013 is primarily the result of $60 million of market-based specials that matured in 2012 that were reinvested in fiscal year 2013. 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. BPA manages restricted trust funds in connection with its Lease Financing program activities through consolidated special purpose corporations and an unconsolidated third party, the Port of Morrow. Receipts from, and deposits into these restricted funds are investing activities. Net cash inflows were $7 million in the nine months ended June 30, 2013, as compared with net cash outflows of $27 million in the comparative period in fiscal year 2012. This change is primarily the result of lower overall trust fund activity in fiscal year 2013 when smaller construction projects were financed through the Lease Financing program.

Financing Activities

Net cash provided by financing activities of the FCRPS was $457 million for the nine months ended June 30, 2013, compared to $504 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 that began in April 2013 and continue 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 recognizes interest expense as electricity is provided to customers based on the established fixed prepayment credit schedules using a weighted-average effective interest rate of 4.5 percent.

During the nine months ended June 30, 2013, BPA borrowings from the U.S. Treasury were $504 million, or $96 million lower than borrowings during the nine months ended June 30, 2012. The $504 million was borrowed at fixed interest rates and were used to fund investments of $226 million for transmission, $178 million for generation, $51 million for conservation, and $49 million for fish & wildlife programs.

Nonfederal debt proceeds increased from $183 million for the nine months ended June 30, 2012, to $453 million for the nine months ended June 30, 2013. Of the $453 million, $340 million was for customer prepayment power purchases received in March 2013 and $113 million was for new Lease Financing program arrangements with consolidated special purpose corporations and an unconsolidated third party, the Port of Morrow. Nonfederal debt repayments increased from $343 million for the nine months ended June 30, 2012, to $485 million for the nine months ended June 30, 2013. The $142 million increase was primarily due to higher principal payments for Energy Northwest's WNP No. 1, WNP No. 3 and Columbia Generating Station.

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, in particular the Debt Service Reassignment, 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 management has therefore determined that Adjusted Net Revenue is a better representation of FCRPS financial performance for the period. Adjusted Net Revenue for the nine months ended June 30, 2013, was $113 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 June 30 — millions of dollars

	2013
FCRPS net revenues (expenses)	$ (7)
Adjustment for Debt Service Reassignment	120
Adjusted Net Revenue	$ 113

Additional Information

To see BPA's most recent annual report including audited financial statements, go to www.bpa.gov/Finance/FinancialInformation/AnnualReports/Pages/default.aspx

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 June 30, 2013	As of September 30, 2012
Assets		
Utility plant		
Completed plant	$ 15,618,865	$ 15,401,287
Accumulated depreciation	(5,637,092)	(5,449,470)
	9,981,773	9,951,817
Construction work in progress	1,726,261	1,412,134
Net utility plant	11,708,034	11,363,951
Nonfederal generation	3,283,015	3,318,494
Current assets		
Cash and cash equivalents	1,194,549	948,859
Short-term investments in U.S. Treasury securities	428,626	242,495
Accounts receivable, net of allowance	32,376	86,632
Accrued unbilled revenues	258,816	248,769
Materials and supplies, at average cost	110,625	99,436
Prepaid expenses	52,718	26,060
Total current assets	2,077,710	1,652,251
Other assets		
Regulatory assets	7,006,551	7,464,988
Investments in U.S. Treasury securities	-	49,623
Nonfederal nuclear decommissioning trusts	246,943	235,598
Deferred charges and other	171,153	180,444
Total other assets	7,424,647	7,930,653
Total assets	$ 24,493,406	$ 24,265,349
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	$ 2,588,961	$ 2,595,940
Federal appropriations	4,307,399	4,249,022
Borrowings from U.S. Treasury	3,697,040	3,263,040
Nonfederal debt	6,229,668	6,370,733
Total capitalization and long-term liabilities	16,823,068	16,478,735
Commitments and contingencies (See Note 14 to 2012 Audited Financial Statements)		
Current liabilities		
Borrowings from U.S. Treasury	192,800	157,800
Nonfederal debt	602,132	493,650
Accounts payable and other	500,629	554,006
Total current liabilities	1,295,561	1,205,456
Other liabilities		
Regulatory liabilities	2,458,581	2,545,370
IOU exchange benefits	3,008,450	3,081,053
Asset retirement obligations	166,977	161,215
Deferred credits and other	740,769	793,520
Total other liabilities	6,374,777	6,581,158
Total capitalization and liabilities	$ 24,493,406	$ 24,265,349

Federal Columbia River Power System

Combined Statements of Revenues and Expenses (Unaudited)

(Thousands of dollars)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Fiscal Year-to-Date Ended June 30, 2013	Fiscal Year-to-Date Ended June 30, 2012
Operating revenues				
Sales	**$ 800,516**	$ 794,437	**$ 2,445,225**	$ 2,415,902
U.S. Treasury credits for fish	**20,452**	16,673	**67,073**	58,397
Miscellaneous revenues	**18,350**	18,409	**55,897**	52,785
Total operating revenues	**839,318**	829,519	**2,568,195**	2,527,084
Operating expenses				
Operations and maintenance	**462,076**	440,258	**1,385,224**	1,304,126
Purchased power	**19,106**	7,430	**126,326**	113,612
Nonfederal projects	**180,007**	158,340	**539,994**	478,998
Depreciation and amortization	**105,259**	96,537	**315,705**	288,900
Total operating expenses	**766,448**	702,565	**2,367,249**	2,185,636
Net operating revenues	**72,870**	126,954	**200,946**	341,448
Interest expense and (income)				
Interest expense	**91,966**	85,858	**261,469**	244,210
Allowance for funds used during construction	**(11,025)**	(13,986)	**(32,905)**	(40,805)
Interest income	**(10,702)**	(7,636)	**(20,639)**	(35,447)
Net interest expense	**70,239**	64,236	**207,925**	167,958
Net (expenses) revenues	**$ 2,631**	$ 62,718	**$ (6,979)**	$ 173,490

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

	Fiscal Year-to-Date Ended June 30, 2013	2012
Cash provided by and (used for) operating activities		
Net (expenses) revenues	**$ (6,979)**	$ 173,490
Non-cash items:		
Depreciation and amortization	**315,705**	288,900
Amortization of nonfederal projects	**367,551**	266,884
Changes in:		
Receivables and unbilled revenues	**44,325**	39,307
Materials and supplies	**(11,189)**	(4,607)
Prepaid expenses	**(26,658)**	(22,160)
Accounts payable and other	**(22,976)**	35,432
Regulatory assets and liabilities	**(63,837)**	(100,442)
Other assets and liabilities	**(95,553)**	(72,284)
Net cash provided by operating activities	**500,389**	604,520
Cash provided by and (used for) investing activities		
Investment in:		
Utility plant, including AFUDC	**(580,012)**	(607,420)
U.S. Treasury Securities:		
Purchases	**(670,000)**	(520,000)
Maturities	**533,917**	418,787
Deposits to nonfederal nuclear decommissioning trusts	**(2,797)**	(8,278)
Lease financing trust funds:		
Deposits to	**(110,137)**	(182,558)
Receipts from	**117,412**	155,663
Net cash used for investing activities	**(711,617)**	(743,806)
Cash provided by and (used for) financing activities		
Federal appropriations:		
Proceeds	**58,377**	65,687
Borrowings from U.S. Treasury:		
Proceeds	**504,000**	600,000
Repayment	**(35,000)**	-
Nonfederal debt:		
Proceeds	**452,539**	182,558
Repayment	**(485,122)**	(343,090)
Customers:		
Net advances (refunds) for construction	**(6,973)**	26,507
Repayment of funds used for construction	**(30,903)**	(27,219)
Net cash provided by financing activities	**456,918**	504,443
Net increase in cash and cash equivalents	**245,690**	365,157
Cash and cash equivalents at beginning of year	**948,859**	892,125
Cash and cash equivalents at end of quarter	**$ 1,194,549**	$ 1,257,282
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 270,698**	$ 244,527
Significant noncash investing and financing activities:		
Federal appropriations	**$ -**	$ (42,542)
Nonfederal debt increase for Energy Northwest	**$ -**	$ 61,769
Extinguished through refinancing for Energy Northwest	**$ -**	$ (66,865)