

Quarterly Financial Report

2019 First Quarter

Management's Discussion and Analysis

Profile

The Bonneville Power Administration (BPA) is a nonprofit federal power marketing administration based in the Pacific Northwest. Although BPA is part of the U.S. Department of Energy, it is self-funding and covers its costs by selling its products and services. BPA markets wholesale electrical power from 31 federal hydroelectric projects in the Northwest, one nonfederal nuclear plant and several small nonfederal power plants. The dams are operated by the U.S. Army Corps of Engineers (USACE) and the Bureau of Reclamation (Reclamation). The nonfederal nuclear plant, Columbia Generating Station, is owned and operated by Energy Northwest, a joint operating agency of the state of Washington. BPA provides about 28 percent of the electric power used in the Northwest, and its resources – primarily hydroelectric – make its power nearly carbon free.

BPA also operates and maintains about three-fourths of the high-voltage transmission in its service territory. BPA's service territory includes Idaho, Oregon, Washington, western Montana and small parts of eastern Montana, California, Nevada, Utah and Wyoming.

BPA promotes energy efficiency, renewable resources and new technologies that improve its ability to deliver on its mission. It also funds regional efforts to protect and enhance fish and wildlife populations affected by hydropower development in the Columbia River Basin.

BPA is committed to public service and seeks to make its decisions in a manner that provides opportunities for input from stakeholders. In its vision statement, BPA dedicates itself to providing high system reliability, low rates consistent with sound business principles, environmental stewardship and accountability.

General

The Federal Columbia River Power System (FCRPS) financial statements combine the accounts of BPA with the accounts of the Pacific Northwest generating facilities of the USACE and Reclamation. The FCRPS combined financial statements also include the operations and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan facilities. Consolidated with BPA is a variable interest entity (VIE) of which BPA is the primary beneficiary, and from which BPA leases certain transmission facilities.

Use of Estimates and Forward-Looking Information

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

This Management's Discussion and Analysis is unaudited and may contain statements which, to the extent they are not recitations of historical facts, constitute "forward-looking statements." In this respect, the words "planned," "predict," "could," "estimate," "expect" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting FCRPS business and financial results could cause actual results to differ materially from those stated in forward-looking statements due to factors such as changes in



economic, industry, political and business conditions; changes in laws, regulations and policies and the application of the laws; and changes in climate, weather, hydroelectric conditions and power services supply and demand. BPA does not plan to issue updates or revisions to the forward-looking statements.

Results of Operations

Operating revenues

A comparison of FCRPS operating revenues follows for the three months ended Dec. 31, 2018, and Dec. 31, 2017:

<i>(Millions of dollars)</i>	Fiscal Year 2019	Fiscal Year 2018	Revenue Increase (Decrease)	% Change
Sales				
Consolidated gross sales				
Power	\$ 627.6	\$ 609.0	\$ 18.6	3 %
Transmission	219.2	229.7	(10.5)	(5)
Bookouts (Power)	(5.1)	(1.5)	(3.6)	240
Consolidated gross sales	841.7	837.2	4.5	1
Other revenues				
Power	12.8	7.2	5.6	77
Transmission	10.8	9.8	1.0	10
Other revenues	23.6	17.0	6.6	39
Sales	865.3	854.2	11.1	1
U.S. Treasury credits	44.9	29.0	15.9	55
Total operating revenues	\$ 910.2	\$ 883.2	\$ 27.0	3

Total operating revenues increased \$27.0 million when compared to the same period of fiscal year 2018. Consolidated gross sales for Power and Transmission Services, including other revenues and the effect of bookouts, increased \$11.1 million.

Power Services gross sales increased \$18.6 million.

- Firm power sales increased \$12.3 million largely due to higher loads to meet customer demand during the first quarter of fiscal year 2019.
- Surplus power sales, including revenues from derivative instruments, increased \$6.3 million. This increase was mainly driven by higher electricity prices for surplus sales when compared to the same period last year.

Bookouts are presented on a net basis in the Combined Statements of Revenues and Expenses. When sales and purchases are scheduled with the same counterparty on the same transmission path for the same hour, the power is typically booked out and not scheduled for physical delivery. The megawatt-hours that offset each other net to zero. The dollar values of these offsetting transactions reduce both sales and purchased power expense and are recorded as bookouts. Therefore, the accounting treatment for bookouts has no effect on net revenues, cash flows or margins.

Transmission Services gross sales decreased \$10.5 million, primarily because of the following factors.

- Variable Energy Resource Balancing Service (VERBS) revenues decreased \$5.8 million. Certain wind generation plants moved out of the BPA Balancing Area, which decreased the need for balancing services when compared to the same period last year.
- Network Transmission load service (NT) revenues decreased \$3.3 million largely because of warmer winter temperatures in fiscal year 2019 compared to the same period in fiscal year 2018.

U.S. Treasury credits increased \$15.9 million for fish and wildlife mitigation due to decreased streamflows in the first quarter of fiscal year 2019. This led to an increase in the amount of purchased power needed to replace lost hydroelectric generation due to fish mitigation measures. Under the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), BPA reduces its payment to the U.S. Treasury for the nonpower expenditures made by BPA for fish and wildlife mitigation.

Operating expenses

A comparison of FCRPS operating expenses follows for the three months ended Dec. 31, 2018, and Dec. 31, 2017:

<i>(Millions of dollars)</i>	Fiscal Year 2019	Fiscal Year 2018	Expense Increase (Decrease)	% Change
Operations and maintenance	\$ 516.2	\$ 478.4	\$ 37.8	8 %
Purchased power	60.5	43.2	17.3	40
Nonfederal projects	52.0	73.5	(21.5)	(29)
Depreciation and amortization	131.9	122.0	9.9	8
Total operating expenses	<u>\$ 760.6</u>	<u>\$ 717.1</u>	<u>\$ 43.5</u>	6

Total operating expenses increased \$43.5 million when compared to the same period of fiscal year 2018. Operations and maintenance expense increased \$37.8 million primarily because of the following factors:

- Energy Northwest's Columbia Generating Station nuclear power plant costs increased \$26.9 million because fiscal year 2019 is a refueling year. Refueling occurs biennially, most recently in fiscal year 2017, and refueling and maintenance expenses are typically higher in refueling years.
- Transmission operations increased \$4.6 million largely because of efforts to improve transmission system reliability in the Puget Sound area, projects to modernize the transmission grid, and to perform mission critical control center support work.
- Contributions for post-retirement benefit programs and pension costs increased \$4.2 million as a result of changes in the cost factors developed by the Office of Personnel Management. The changes were made during the latter half of fiscal year 2018.
- Bureau of Reclamation operations and maintenance costs increased by \$3.1 million largely due to an overall increase in labor costs and work on the pump generating plant at Grand Coulee Dam.
- Fish and Wildlife costs decreased \$4.5 million as a result of program spending reductions in support of BPA's Strategic Plan and financial health objectives.

Purchase power expense, including the effects of bookouts, increased \$17.3 million mainly due to lower streamflows which reduced federal generation and increased the need for purchased power.

Nonfederal projects debt service decreased \$21.5 million and reflects terms of the related outstanding debt for Columbia Generating Station and terminated nuclear Projects 1 and 3. Debt service also reflects past debt management decisions and actions under Regional Cooperation Debt efforts.

In February 2018, BPA completed a depreciation study on BPA's transmission and general plant assets. As a result, BPA implemented revised depreciation rates in March 2018 on applicable assets. Depreciation and amortization increased \$9.9 million due to the revised depreciation rates and higher amounts of utility plant assets in service.

Other Operational Matters

In December 2018, BPA issued \$75.0 million of short-term debt on its liquidity facility with the U.S. Treasury to meet operating expenses and manage within-year working capital. BPA plans to repay the \$75.0 million by September 2019.

Additional Information

To see BPA's annual and quarterly reports, go to www.bpa.gov/goto/AnnualReport

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.bpa.gov/transmission

Federal Columbia River Power System

Combined Balance Sheets ^(Unaudited)

(Millions of dollars)

	As of December 31, <u>2018</u>	As of September 30, <u>2018</u>
Assets		
Utility plant		
Completed plant	\$ 19,342.3	\$ 19,307.4
Accumulated depreciation	(6,957.6)	(6,883.4)
Net completed plant	12,384.7	12,424.0
Construction work in progress	1,379.2	1,290.1
Net utility plant	13,763.9	13,714.1
Nonfederal generation	3,301.3	3,350.9
Current assets		
Cash and cash equivalents	559.7	804.2
Short-term investments in U.S. Treasury securities	110.5	40.2
Accounts receivable, net of allowance	32.6	75.2
Accrued unbilled revenues	322.2	292.4
Materials and supplies, at average cost	109.2	109.1
Prepaid expenses	70.8	48.2
Total current assets	1,205.0	1,369.3
Other assets		
Regulatory assets	5,521.3	5,587.7
Nonfederal nuclear decommissioning trusts	340.1	377.6
Deferred charges and other	152.7	176.8
Total other assets	6,014.1	6,142.1
Total assets	\$ 24,284.3	\$ 24,576.4
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	\$ 4,222.3	\$ 4,123.8
Debt		
Federal appropriations	1,803.4	1,791.7
Borrowings from U.S. Treasury	4,868.7	4,955.7
Nonfederal debt	7,109.7	7,111.4
Total capitalization and long-term liabilities	18,004.1	17,982.6
Commitments and contingencies (See Note 13 to 2018 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	528.9	574.9
Nonfederal debt	598.6	598.3
Accounts payable and other	329.1	511.4
Total current liabilities	1,456.6	1,684.6
Other liabilities		
Regulatory liabilities	1,841.7	1,912.0
IOU exchange benefits	2,216.1	2,256.7
Asset retirement obligations	209.6	208.0
Deferred credits and other	556.2	532.5
Total other liabilities	4,823.6	4,909.2
Total capitalization and liabilities	\$ 24,284.3	\$ 24,576.4

Federal Columbia River Power System

Combined Statements of Revenues and Expenses ^(Unaudited)

(Millions of dollars)

	Three Months Ended December 31,		Fiscal Year-to-Date Ended December 31,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Operating revenues				
Sales	\$ 865.3	\$ 854.2	\$ 865.3	\$ 854.2
U.S. Treasury credits	44.9	29.0	44.9	29.0
Total operating revenues	910.2	883.2	910.2	883.2
Operating expenses				
Operations and maintenance	516.2	478.4	516.2	478.4
Purchased power	60.5	43.2	60.5	43.2
Nonfederal projects	52.0	73.5	52.0	73.5
Depreciation and amortization	131.9	122.0	131.9	122.0
Total operating expenses	760.6	717.1	760.6	717.1
Net operating revenues	149.6	166.1	149.6	166.1
Interest expense and (income)				
Interest expense	62.3	59.9	62.3	59.9
Allowance for funds used during construction	(8.6)	(8.6)	(8.6)	(8.6)
Interest income	(2.6)	(0.7)	(2.6)	(0.7)
Net interest expense	51.1	50.6	51.1	50.6
Net revenues	\$ 98.5	\$ 115.5	\$ 98.5	\$ 115.5

Federal Columbia River Power System

Combined Statements of Cash Flows ^(Unaudited)

(Millions of dollars)

	Fiscal Year-to-Date Ended December 31,	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Net revenues	\$ 98.5	\$ 115.5
Adjustments to reconcile net revenues to cash provided by operations:		
Depreciation and amortization	131.9	122.0
Amortization of nonfederal projects	50.7	49.6
Changes in:		
Receivables and unbilled revenues	12.8	(30.3)
Materials and supplies	(0.1)	1.3
Prepaid expenses	(22.6)	(62.4)
Accounts payable and other	(161.3)	(59.7)
Regulatory assets and liabilities	(39.1)	29.6
IOU exchange benefits	(40.6)	(39.5)
Other assets and liabilities	60.4	(15.1)
Net cash provided by operating activities	90.6	111.0
Cash flows from investing activities		
Investments in utility plant, including AFUDC	(167.6)	(207.5)
U.S. Treasury securities:		
Purchases	(109.9)	(10.0)
Maturities	40.0	30.0
Deposits to nonfederal nuclear decommissioning trusts	(1.0)	(0.9)
Lease-purchase trust funds:		
Receipts from	15.0	10.7
Net cash used for investing activities	(223.5)	(177.7)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	11.7	25.7
Borrowings from U.S. Treasury:		
Proceeds	75.0	-
Repayment	(208.0)	-
Nonfederal debt:		
Proceeds	4.0	-
Repayment	(6.8)	(6.5)
Customers:		
Net advances for construction	16.0	12.8
Repayment of funds used for construction	(3.5)	(5.8)
Net cash (used for) provided by financing activities	(111.6)	26.2
Net decrease in cash and cash equivalents	\$ (244.5)	\$ (40.5)
Cash and cash equivalents at beginning of year	804.2	597.9
Cash and cash equivalents at end of quarter	\$ 559.7	\$ 557.4
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	\$ 59.0	\$ 58.9
Significant noncash investing and financing activities:		
Other nonfederal	\$ 1.4	\$ -