

Quarterly Financial Report

2019 Second 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-funded 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 six months ended March 31, 2019, and March 31, 2018:

<i>(Millions of dollars)</i>	Fiscal Year 2019	Fiscal Year 2018	Revenue Increase (Decrease)	% Change
Sales				
Consolidated gross sales				
Power	\$ 1,339.2	\$ 1,372.6	\$ (33.4)	(2) %
Transmission	452.3	467.3	(15.0)	(3)
Bookouts (Power)	(15.0)	(6.4)	(8.6)	134
Consolidated gross sales	1,776.5	1,833.5	(57.0)	(3)
Other revenues				
Power	32.1	15.3	16.8	110
Transmission	23.1	18.6	4.5	24
Other revenues	55.2	33.9	21.3	63
Sales	1,831.7	1,867.4	(35.7)	(2)
U.S. Treasury credits	77.2	49.4	27.8	56
Total operating revenues	\$ 1,908.9	\$ 1,916.8	\$ (7.9)	-

Total operating revenues decreased \$7.9 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, decreased \$35.7 million.

Power Services gross sales decreased \$33.4 million.

- Firm power sales increased \$12.6 million largely due to higher sales to Alcoa, which is under a contract that expires at the end of August 2019. In addition, persistent cold weather during the second quarter of fiscal year 2019 led to higher load shaping and demand revenues.
- Surplus power sales, including revenues from derivative instruments decreased \$46.0 million. This decrease was mainly driven by comparatively dry weather, resulting in lower streamflows and water available to generate power for surplus sales. This was the case generally through the first half of fiscal year 2019 and also during the period of very cold weather in February and early March.

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 \$15.0 million primarily as a result of lower stream flows and price spreads on short-term point-to-point services. In addition, revenues from wind-related services decreased due to certain customers leaving BPA's balancing authority.

Other power revenues increased \$16.8 million, nearly all of which was due to gains realized on financial futures trades. BPA uses financial futures contracts on energy as an operational hedge to mitigate for price volatility in the physical energy market. As a result of the high power prices during the second quarter of fiscal year 2019, BPA recognized realized gains on financial futures contracts.

Other transmission revenues increased \$4.5 million due to an increase in both reimbursable work performed for certain customers and higher fiber revenues.

U.S. Treasury credits increased \$27.8 million year over year for fish and wildlife mitigation due to increased purchased power requirements resulting from reduced streamflows through the first half of fiscal year 2019. Power purchases were 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 six months ended March 31, 2019, and March 31, 2018:

<i>(Millions of dollars)</i>	Fiscal Year 2019	Fiscal Year 2018	Expense Increase (Decrease)	% Change
Operations and maintenance	\$ 1,045.8	\$ 1,002.6	\$ 43.2	4 %
Purchased power	249.5	63.3	186.2	294
Nonfederal projects	103.9	147.0	(43.1)	(29)
Depreciation and amortization	264.3	246.6	17.7	7
Total operating expenses	<u>\$ 1,663.5</u>	<u>\$ 1,459.5</u>	<u>\$ 204.0</u>	14

Total operating expenses increased \$204.0 million when compared to the same period of fiscal year 2018.

Operations and maintenance expense increased \$43.2 million primarily because of the following factors:

- Energy Northwest's Columbia Generating Station nuclear power plant costs increased \$53.6 million because fiscal year 2019 is a refueling year. Refueling occurs biennially, most recently in fiscal year 2017, and refueling and maintenance expenses are higher in refueling years.
- Bureau of Reclamation operations and maintenance costs increased \$5.6 million largely due to an overall increase in non-routine work performed on Grand Coulee Dam's third power plant overhaul and coaster gates.
- Corps of Engineers operations and maintenance costs increased \$3.8 million largely due to an overall increase in non-routine work performed on the Chief Joseph Dam spillway gate and for efforts related to the Columbia River System Operations Environmental Impact Statement.
- Contributions for post-retirement benefit programs and pension costs increased \$4.6 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.
- Transmission-related operations and maintenance expenses increased \$3.6 million due to increased grid modernization efforts, Puget Sound Area Northern Intertie work, and reimbursable work performed for the Department of Energy.
- Fish and Wildlife costs decreased \$13.6 million due to the impact of the recent federal furlough. BPA provides funds for certain fish and wildlife work performed by other federal agencies that were impacted by the furlough and were unable to complete this work through the second quarter. BPA

expects the work delays to be temporary and that these projects will be resumed during the remainder of fiscal year 2019.

- Generation Conservation costs decreased \$14.1 million due to a decrease in the amount of energy efficiency projects completed by customers which are reimbursed by BPA.

Purchased power expense, including the effects of bookouts, increased \$186.2 million primarily because of the following factors:

- Contracted power purchases increased \$100.5 million due to dry conditions and lower water available for power generation, which resulted in an increased amount of power purchases during times of high market prices and extremely cold weather.
- High power prices through the second quarter of 2019 resulted in BC Hydro, an electric utility owned by the Province of British Columbia, releasing water from Arrow Dam in Canada under certain water storage agreements. Per terms of these agreements between BPA and BC Hydro, water was released from storage accounts which caused BPA to accrue a liability to BC Hydro for the value of the water released at the prevailing price at time of release. The expense recognized for amounts due to BC Hydro was \$88.8 million higher through the first six months of fiscal year 2019 compared to the same period in 2018.

Nonfederal projects debt service decreased \$43.1 million primarily due to the receipt of additional revenues by Energy Northwest in fiscal year 2019 for the sale of its nuclear fuel that is treated as an offset to debt service related to outstanding debt for Columbia Generating Station.

Depreciation and amortization increased \$17.7 million due to revised depreciation rates that went into effect in March 2018 resulting from a new depreciation study completed in February 2018 and an increase in the utility plant assets in service.

Other Operational Matters

U.S. Treasury liquidity facility

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 repaid this amount in February 2019.

Energy Northwest line of credit activity

In January 2019, Energy Northwest obtained a new \$227.0 million bank line of credit (that may be increased up to \$457.4 million upon agreement among BPA, Energy Northwest, and the bank) to finance operations and maintenance expenses and interest payments for outstanding bonds related to Columbia Generating Station (CGS). The line is available for draws until Sept. 30, 2019, and amounts borrowed are due to be repaid on or before June 30, 2020, unless extended for one year. Through March 31, 2019, Energy Northwest had borrowed \$50.0 million on this line of credit, thereby relieving BPA of providing an equivalent amount of funding to Energy Northwest for CGS. As with recent Energy Northwest line of credit arrangements, BPA will fund the repayment of all amounts borrowed.

Decommissioning study

In March 2019 as a result of a site-specific decommissioning study on CGS, BPA management increased its asset retirement obligation (ARO) liability for CGS by \$594.8 million. For fiscal year 2019 or the 2020–2021 rate period, BPA management does not expect the increased ARO liability to affect power rates charged to customers or to require any adjustments to its current trust fund contribution levels. A \$594.8 million increase to the Nonfederal generation asset on the Combined Balance Sheets offset the increased ARO liability. There were no impacts to cash flows, revenues or expenses as a result of the aforementioned items. For fiscal year 2020, and as a result of the increased ARO liability, BPA management expects amortization expense related to the CGS nonfederal generation asset to increase approximately \$58 million.

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 March 31, <u>2019</u>	As of September 30, <u>2018</u>
Assets		
Utility plant		
Completed plant	\$ 19,511.0	\$ 19,307.4
Accumulated depreciation	(7,033.4)	(6,883.4)
Net completed plant	12,477.6	12,424.0
Construction work in progress	1,335.0	1,290.1
Net utility plant	13,812.6	13,714.1
Nonfederal generation	3,846.4	3,350.9
Current assets		
Cash and cash equivalents	746.6	804.2
Short-term investments in U.S. Treasury securities	-	40.2
Accounts receivable, net of allowance	41.9	75.2
Accrued unbilled revenues	328.3	292.4
Materials and supplies, at average cost	108.7	109.1
Prepaid expenses	160.5	48.2
Total current assets	1,386.0	1,369.3
Other assets		
Regulatory assets	5,433.2	5,587.7
Nonfederal nuclear decommissioning trusts	375.2	377.6
Deferred charges and other	135.5	176.8
Total other assets	5,943.9	6,142.1
Total assets	\$ 24,988.9	\$ 24,576.4
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	\$ 4,266.2	\$ 4,123.8
Debt		
Federal appropriations	1,814.9	1,791.7
Borrowings from U.S. Treasury	4,824.7	4,955.7
Nonfederal debt	7,016.8	7,111.4
Total capitalization and long-term liabilities	17,922.6	17,982.6
Commitments and contingencies (See Note 13 to 2018 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	473.9	574.9
Nonfederal debt	748.8	598.3
Accounts payable and other	479.1	511.4
Total current liabilities	1,701.8	1,684.6
Other liabilities		
Regulatory liabilities	1,841.6	1,912.0
IOU exchange benefits	2,161.2	2,256.7
Asset retirement obligations	805.5	208.0
Deferred credits and other	556.2	532.5
Total other liabilities	5,364.5	4,909.2
Total capitalization and liabilities	\$ 24,988.9	\$ 24,576.4

Federal Columbia River Power System

Combined Statements of Revenues and Expenses ^(Unaudited)

(Millions of dollars)

	Three Months Ended March 31,		Fiscal Year-to-Date Ended March 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Operating revenues				
Sales	\$ 966.5	\$ 1,013.3	\$ 1,831.7	\$ 1,867.4
U.S. Treasury credits	32.3	20.4	77.2	49.4
Total operating revenues	998.8	1,033.7	1,908.9	1,916.8
Operating expenses				
Operations and maintenance	529.5	524.3	1,045.8	1,002.6
Purchased power	189.0	20.1	249.5	63.3
Nonfederal projects	52.0	73.5	103.9	147.0
Depreciation and amortization	132.4	124.6	264.3	246.6
Total operating expenses	902.9	742.5	1,663.5	1,459.5
Net operating revenues	95.9	291.2	245.4	457.3
Interest expense and (income)				
Interest expense	61.1	60.1	123.3	119.9
Allowance for funds used during construction	(7.1)	(7.9)	(15.7)	(16.4)
Interest income	(2.0)	(1.1)	(4.6)	(1.8)
Net interest expense	52.0	51.1	103.0	101.7
Net revenues	\$ 43.9	\$ 240.1	\$ 142.4	\$ 355.6

Federal Columbia River Power System

Combined Statements of Cash Flows ^(Unaudited)

(Millions of dollars)

	Fiscal Year-to-Date Ended March 31,	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Net revenues	\$ 142.4	\$ 355.6
Adjustments to reconcile net revenues to cash provided by operations:		
Depreciation and amortization	264.3	246.6
Amortization of nonfederal projects	101.4	99.2
Deferred payments for Energy Northwest-related O&M and interest	50.0	55.0
Changes in:		
Receivables and unbilled revenues	(2.6)	(44.1)
Materials and supplies	0.4	(0.8)
Prepaid expenses	(112.3)	(58.9)
Accounts payable and other	(21.7)	(98.5)
Regulatory assets and liabilities	15.7	69.1
IOU exchange benefits	(95.5)	(93.1)
Other assets and liabilities	32.9	(21.6)
Net cash provided by operating activities	375.0	508.5
Cash flows from investing activities		
Investments in utility plant, including AFUDC	(297.4)	(365.0)
U.S. Treasury securities:		
Purchases	(110.0)	(137.1)
Maturities	150.0	40.0
Deposits to nonfederal nuclear decommissioning trusts	(1.9)	(1.9)
Lease-purchase trust funds:		
Deposits to	-	(9.6)
Receipts from	27.7	28.6
Net cash used for investing activities	(231.6)	(445.0)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	23.2	53.1
Borrowings from U.S. Treasury:		
Proceeds	75.0	-
Repayment	(307.0)	(56.1)
Nonfederal debt:		
Proceeds	4.1	10.1
Repayment	(12.2)	(105.0)
Customers:		
Net advances for construction	22.9	50.5
Repayment of funds used for construction	(7.0)	(10.4)
Net cash used for financing activities	(201.0)	(57.8)
Net (decrease) increase in cash and cash equivalents	\$ (57.6)	\$ 5.7
Cash and cash equivalents at beginning of year	804.2	597.9
Cash and cash equivalents at end of quarter	\$ 746.6	\$ 603.6
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	\$ 140.6	\$ 135.4
Significant noncash activities:		
Nonfederal debt increase for Energy Northwest	\$ 50.0	\$ 376.9
Nonfederal debt decrease for Energy Northwest	\$ -	\$ (261.0)
Other Nonfederal debt actions	\$ 14.0	\$ -
Increase in Nonfederal generation asset	\$ 594.8	\$ -