

Quarterly Financial Report

2020 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-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 federal 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 generated in the Northwest, and its resources – primarily hydroelectric – make BPA power nearly carbon free.

BPA also operates and maintains more than 15,000 circuit miles of high-voltage transmission lines. BPA's 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 all 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.

Rates and the Effect of Regulations

Rates for Fiscal Years 2020-2021

Rates for the two year BP-20 rate period began on Oct. 1, 2019, and will conclude on Sept. 30, 2021. When compared to the prior rate period, the average transmission rate increase was 3.6 percent, while the base power rate increase was zero. The base power rate does not include the impact of the Financial Reserves Policy surcharge, which triggered for Power Services in October 2019, resulting in a 1.5 percent increase to Power rates in fiscal year 2020. BPA is implementing a \$30 million power rate surcharge, the maximum allowed under BPA's Financial Reserves Policy, for collection over the remainder of fiscal year 2020. As of Dec. 31, 2019, BPA has billed power customers \$3.4 million for the Financial Reserves Policy surcharge.

During the BP-20 rate case, the actions to recover and ongoing deferrals of certain regulatory assets and liabilities were changed. As a result of the BP-20 rate case, the manner in which certain current costs or credits were included in rates for recovery or refund over future periods, and the method of recovery or refund of certain amounts that were previously deferred were changed. These changes were made to align rate treatment across all FCRPS generating assets and related debt. Additionally, during the BP-20 rate case it was decided to no longer defer the expenses and realized income related to the Columbia Generating Station (CGS) asset retirement obligation (ARO) and decommissioning trust fund as regulatory assets and liabilities. In accordance with Accounting Standards Codification (ASC) 980, Regulated Operations, BPA applies regulatory accounting to account for actions of the regulator. The financial statement impacts of the changes prescribed in the rate case are outlined below.

Nonfederal generation assets and terminated nonfederal generation assets, amortization and interest expense

- The nonfederal generation assets are now amortized on a straight-line basis through their respective license termination dates, rather than over the terms of the related outstanding nonfederal debt as in prior fiscal years.
- Nonfederal generation assets, which include CGS and the Cowlitz Falls Hydroelectric Project, are now recovered in the same manner as utility plant. As a result, these assets are now reported as a significant subtotal within a new Combined Balance Sheets caption titled Utility plant and nonfederal generation.
- Terminated nonfederal generation assets, which include regulatory assets for Nuclear Projects 1 and 3 as well as the Northern Wasco Hydro project, are now amortized on a straight-line basis over periods established in the BP-20 rate case. Prior to fiscal year 2020, these assets were amortized over the terms of the related outstanding nonfederal debt.
- Amortization expense associated with the nonfederal assets described above is recorded within Depreciation, amortization and accretion, a revised caption that now includes 'accretion' in the Combined Statements of Revenues and Expenses. Prior to fiscal year 2020, the amortization of nonfederal generation assets was recorded to Nonfederal projects in the Combined Statements of Revenues and Expenses. However, beginning with fiscal year 2020 the Nonfederal projects caption will no longer be used.
- Interest expense related to nonfederal debt is now recorded within Interest expense in the Combined Statements of Revenues and Expenses. Prior to fiscal year 2020, this interest expense was recorded within Nonfederal projects expense.

Columbia Generating Station (CGS) nuclear decommissioning trust fund assets, income and liability

- Contributions made by BPA to the CGS nuclear decommissioning trust fund are now recorded as an increase to the trust fund asset. Prior to fiscal year 2020, these contributions were recorded to Operations and maintenance in the Combined Statements of Revenues and Expenses.
- CGS decommissioning trust fund realized gains/losses and dividends are now recorded within Other income, net in the Combined Statements of Revenues and Expenses. Prior to fiscal year 2020, these items were deferred as a regulatory liability. Trust fund unrealized gains/losses are still deferred as a regulatory liability or asset, respectively.
- Trust fund interest income is recorded within interest income. Prior to fiscal year 2020, these items were deferred as a regulatory liability.
- Accretion expense recorded in connection with a periodic increase to the CGS asset retirement obligation (ARO) liability to reflect the passage of time is reported among Depreciation, amortization and accretion in the Combined Statements of Revenues and Expense. Fiscal year 2020 is the first year that accretion expense has been recognized in the Combined Statements of Revenues and Expenses. Prior to fiscal year 2020, accretion expense was deferred as a reduction to a regulatory liability. The regulatory liability resulting from the deferral of trust fund earnings and accretion expense was offset against the nonfederal generation asset at the beginning of fiscal year 2020.

BPA management believes the effect of the BP-20 rate changes creates a consistent treatment among all of the FCRPS generating assets.

Results of Operations

Operating revenues

A comparison of FCRPS operating revenues follows for the three months ended Dec. 31, 2019, and Dec. 31, 2018:

<i>(Millions of dollars)</i>	Fiscal Year 2020	Fiscal Year 2019	Revenue Increase (Decrease)	%
				Change
Sales				
Consolidated sales				
Power gross sales	\$ 622.6	\$ 627.6	\$ (5.0)	(1)
Transmission	236.4	219.2	17.2	8
Bookouts (Power)	(10.1)	(5.1)	(5.0)	98
Consolidated sales	848.9	841.7	7.2	1
Other revenues				
Power	6.7	12.8	(6.1)	(48)
Transmission	11.5	10.8	0.7	6
Other revenues	18.2	23.6	(5.4)	(23)
Sales	867.1	865.3	1.8	0
U.S. Treasury credits	34.8	44.9	(10.1)	(22)
Total operating revenues	<u>\$ 901.9</u>	<u>\$ 910.2</u>	<u>\$ (8.3)</u>	<u>(1)</u>

Total operating revenues decreased \$8.3 million when compared to the same period of fiscal year 2019. Sales of Power and Transmission Services, including other revenues and the effect of bookouts, increased \$1.8 million.

Power Services gross sales decreased \$5.0 million.

- Firm power sales decreased \$13.0 million due to expected lower firm revenues in fiscal year 2020. Lower firm revenues are due to lower loads for the composite product, which comprise a majority of BPA's firm revenues.
- Surplus power sales increased \$8.0 million. This increase was mainly driven by a \$26.8 million increase from derivative instruments. BPA has entered into several forward power sales contracts that increased derivative revenues through the first quarter of fiscal year 2020. This was offset by an \$18.8 million decrease in surplus sales due to lower prices realized through the first quarter of fiscal year 2020 compared to the same period of fiscal year 2019.

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 sales increased \$17.2 million due to the 3.6 percent average transmission rate increase for fiscal year 2020. In addition, unusually cold temperatures in October 2019 led to higher loads and revenues for network integration service.

U.S. Treasury credits decreased \$10.1 million for fish and wildlife mitigation due to decreased purchased power requirements resulting from increased streamflows through the first quarter of fiscal year 2020. Power purchases are 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 annual payment to the U.S. Treasury for the nonpower portion of expenditures, set at 22.3 percent, that BPA makes for fish and wildlife protection, mitigation and enhancement.

Operating expenses

A comparison of FCRPS operating expenses follows for the three months ended Dec. 31, 2019, and Dec. 31, 2018:

<i>(Millions of dollars)</i>	Fiscal Year 2020	Fiscal Year 2019	Expense Increase (Decrease)	% Change
Operations and maintenance	\$ 487.9	\$ 516.2	\$ (28.3)	(5) %
Purchased power	45.2	60.5	(15.3)	(25)
Nonfederal projects	-	52.0	(52.0)	(100)
Depreciation, amortization and accretion	203.2	131.9	71.3	54
Total operating expenses	<u>\$ 736.3</u>	<u>\$ 760.6</u>	<u>\$ (24.3)</u>	(3)

Total operating expenses decreased \$24.3 million when compared to the same period of fiscal year 2019.

Operations and maintenance expense decreased \$28.3 million, primarily due to a \$26.6 million decrease at Energy Northwest's Columbia Generating Station nuclear power plant. Refueling occurs biennially, most recently in fiscal year 2019, and refueling and maintenance expenses are higher in refueling years.

Purchased power expense, including the effects of bookouts, decreased \$15.3 million. This was primarily because BPA has made no purchases in fiscal year 2020 to meet preference customers' load growth, which is considered a Tier 2 power obligation. Through the first quarter of fiscal year 2019, BPA had made \$10.3 million of such Tier 2 power purchases.

Nonfederal projects expense is zero as a result of changes set forth in the BP-20 rate case and implemented at the start of fiscal year 2020. For further information, see Rates and the Effect of Regulations section.

Depreciation, amortization and accretion increased \$71.3 million. This was primarily because of \$53.5 million and \$8.3 million increases to the amortization of nonfederal generation assets and accretion expense, respectively. For further information on these fiscal year 2020 changes, see Rates and the Effect of Regulations section.

Interest expense and other income, net

A comparison of FCRPS interest expense and other income, net follows for the three months ended Dec. 31, 2019, and Dec. 31, 2018:

<i>(Millions of dollars)</i>	Fiscal Year 2020	Fiscal Year 2019	Expense Increase (Decrease)	% Change
Interest expense	\$ 120.1	\$ 62.3	\$ 57.8	93 %
Allowance for funds used during construction	(7.8)	(8.6)	0.8	(9)
Interest income	(1.2)	(2.6)	1.4	(54)
Other income, net	(0.2)	-	(0.2)	(100)
Total interest expense and other income, net	<u>\$ 110.9</u>	<u>\$ 51.1</u>	<u>\$ 59.8</u>	<u>117</u>

When compared to the same period of fiscal year 2019, interest expense increased \$57.8 million. The primary driver relates to an increase in nonfederal-related interest due as a result of changes set forth in the BP-20 rate case and implemented at the start of fiscal year 2020. For further information, see Rates and the Effect of Regulations section.

Other Operational Matters

U.S. Treasury liquidity facility

In October 2019, BPA issued \$100.0 million of short-term debt on its liquidity facility with the U.S. Treasury. BPA borrowed this amount to meet operating expenses and manage within-year working capital. BPA repaid this amount in December 2019.

Noncash transactions

Management adopted Topic 842, Leases, effective Oct. 1, 2019. As a result of adoption, management recorded the following noncash transactions during quarter one of fiscal year 2020:

- Recognition of \$41.8 million of operating lease right-of-use assets and \$41.8 million lease liabilities within Deferred charges and other and Deferred credits and other, respectively, on the Combined Balance Sheets.
- Derecognition of \$45.6 million build-to-suit, construction work in progress asset and \$49.2 million of Nonfederal debt, on the Combined Balance Sheets.
- Recognition of \$88.7 million of finance lease assets and \$88.7 million lease liabilities within Completed plant and Nonfederal debt, respectively, on the Combined Balance Sheets.

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>2019</u>	As of September 30, <u>2019</u>
Assets		
Utility plant and nonfederal generation		
Completed plant	\$ 20,095.4	\$ 19,894.9
Accumulated depreciation	(7,260.3)	(7,179.5)
Net completed plant	12,835.1	12,715.4
Construction work in progress	1,200.8	1,248.2
Net utility plant	14,035.9	13,963.6
Nonfederal generation	3,587.7	3,774.3
Net utility plant and nonfederal generation	17,623.6	17,737.9
Current assets		
Cash and cash equivalents	679.5	523.5
Accounts receivable, net of allowance	26.6	40.3
Accrued unbilled revenues	317.6	294.1
Materials and supplies, at average cost	106.7	106.5
Prepaid expenses	44.7	31.0
Total current assets	1,175.1	995.4
Other assets		
Regulatory assets	5,214.7	5,292.1
Nonfederal nuclear decommissioning trusts	403.9	391.6
Deferred charges and other	275.8	140.9
Total other assets	5,894.4	5,824.6
Total assets	\$ 24,693.1	\$ 24,557.9
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	\$ 4,370.1	\$ 4,315.4
Debt		
Federal appropriations	1,604.1	1,595.2
Borrowings from U.S. Treasury	5,111.6	4,850.6
Nonfederal debt	6,804.7	6,701.7
Total capitalization and long-term liabilities	17,890.5	17,462.9
Commitments and contingencies (See Note 13 to 2019 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	418.0	429.0
Nonfederal debt	891.9	891.6
Accounts payable and other	467.9	551.6
Total current liabilities	1,777.8	1,872.2
Other liabilities		
Regulatory liabilities	1,621.2	1,804.5
IOU exchange benefits	2,047.5	2,092.8
Asset retirement obligations	828.2	821.2
Deferred credits and other	527.9	504.3
Total other liabilities	5,024.8	5,222.8
Total capitalization and liabilities	\$ 24,693.1	\$ 24,557.9

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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Operating revenues				
Sales	\$ 867.1	\$ 865.3	\$ 867.1	\$ 865.3
U.S. Treasury credits	34.8	44.9	34.8	44.9
Total operating revenues	901.9	910.2	901.9	910.2
Operating expenses				
Operations and maintenance	487.9	516.2	487.9	516.2
Purchased power	45.2	60.5	45.2	60.5
Nonfederal projects	-	52.0	-	52.0
Depreciation, amortization and accretion	203.2	131.9	203.2	131.9
Total operating expenses	736.3	760.6	736.3	760.6
Net operating revenues	165.6	149.6	165.6	149.6
Interest expense and other income, net				
Interest expense	120.1	62.3	120.1	62.3
Allowance for funds used during construction	(7.8)	(8.6)	(7.8)	(8.6)
Interest income	(1.2)	(2.6)	(1.2)	(2.6)
Other income, net	(0.2)	-	(0.2)	-
Total interest expense and other income, net	110.9	51.1	110.9	51.1
Net revenues	\$ 54.7	\$ 98.5	\$ 54.7	\$ 98.5

Federal Columbia River Power System

Combined Statements of Cash Flows ^(Unaudited)

(Millions of dollars)

	Fiscal Year-to-Date Ended December 31,	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Net revenues	\$ 54.7	\$ 98.5
Adjustments to reconcile net revenues to cash provided by operations:		
Depreciation, amortization and accretion	203.2	131.9
Amortization of nonfederal projects	-	50.7
Changes in:		
Receivables and unbilled revenues	(9.8)	12.8
Materials and supplies	(0.2)	(0.1)
Prepaid expenses	(13.7)	(22.6)
Accounts payable and other	(71.9)	(161.3)
Regulatory assets and liabilities	(13.2)	(39.1)
IOU exchange benefits	(45.3)	(40.6)
Other assets and liabilities	(55.8)	60.4
Net cash provided by operating activities	48.0	90.6
Cash flows from investing activities		
Investments in utility plant, including AFUDC	(153.1)	(168.0)
Proceeds from sale of utility plant	6.4	-
U.S. Treasury securities:		
Purchases	-	(109.9)
Maturities	-	40.0
Deposits to nonfederal nuclear decommissioning trusts	(1.0)	(1.0)
Lease-purchase trust funds:		
Deposits to	(71.0)	-
Receipts from	1.9	15.0
Net cash used for investing activities	(216.8)	(223.9)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	8.9	11.7
Borrowings from U.S. Treasury:		
Proceeds	350.0	75.0
Repayment	(100.0)	(208.0)
Nonfederal debt:		
Proceeds	71.1	4.0
Repayment	(7.3)	(6.8)
Customers:		
Net advances for construction	6.0	16.0
Repayment of funds used for construction	(3.9)	(3.5)
Net cash provided by (used for) financing activities	324.8	(111.6)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 156.0	\$ (244.9)
Cash, cash equivalents and restricted cash at beginning of year	534.9	816.4
Cash, cash equivalents and restricted cash at end of quarter	\$ 690.9	\$ 571.5
Less: Restricted cash at end of quarter, reported in Deferred charges and other	11.4	11.8
Cash and cash equivalents at end of quarter	\$ 679.5	\$ 559.7
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	\$ 94.5	\$ 59.0
Significant noncash activities:		
Other Nonfederal debt increases	\$ 88.7	\$ 1.4
Other Nonfederal debt decreases	\$ (49.2)	\$ -