B O N N E V I L L E   P O W E R   A D M I N I S T R A T I O N

Quarterly Financial Report

2023 Third Quarter

Q3

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% 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 in its service territory. 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. To mitigate the impacts of the federal dams, BPA implements a fish and wildlife program that includes working with its partners to make the federal dams safer for fish passage.

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 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. The FCRPS fiscal year is from October 1 to September 30.

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

This BPA-approved financial information was made publicly available on 7-28-2023.

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 (MD&A) 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 2022-2023

Rates for the two year BP-22 rate period began on Oct. 1, 2021, and will be effective through Sept. 30, 2023. When compared to the BP-20 rate period, the final average power rate decrease was 2.5%, and the final weighted average transmission rate increase was 5.4%.

As with the 2020-2021 rate period, power and transmission rates in the BP-22 rate period also include rate adjustment mechanisms, such as a Cost Recovery Adjustment Clause (CRAC), Financial Reserves Policy (FRP) Surcharge and a Reserves Distribution Clause (RDC), that BPA employs if certain financial conditions occur.

Based upon fiscal year 2022 financial results and year-end reserves for risk levels for both Power and Transmission Services, the RDC triggered for application to fiscal year 2023 power and transmission rate levels. The Power RDC Amount is $500 million and the Transmission RDC is $63.1 million. In December 2022, the BPA Administrator determined that the Transmission RDC Amount would be applied towards a combination of rate reduction and to offset forecasted cost pressures in the current and subsequent rate period. Of the total $63.1 million Transmission RDC Amount, $33.8 million will be used to fund forecasted cost increases in fiscal year 2023 (that are anticipated to exceed the cost levels assumed when establishing current rates), $16.4 million will be used to support the proposal to hold BP-24 transmission rates at the levels adopted in the BP-22 rate proceeding, and $12.9 million will be used to reduce fiscal year 2023 transmission rates through a Transmission Dividend Distribution, which will result in a downward adjustment of certain transmission rates from December 2022 through September 2023. As of June 30, 2023, BPA has recorded a reduction to Transmission Services revenue of approximately $9 million.

In January 2023, the Administrator released BPA's final decision regarding the Power RDC Amount for application to fiscal year 2023 rate levels. Of the total $500 million Power RDC Amount, $350 million will be used to reduce fiscal year 2023 power rates through a Power Dividend Distribution, which will result in a credit to be applied to December 2022 through September 2023 customer bills. To satisfy this commitment, BPA recorded a reduction to Power Services revenue of $241.8 million through June 30, 2023. In addition, $100 million will be used for debt reduction or revenue financing of capital expenditures (with any amount not used to reduce debt or revenue finance left as financial reserves to support BPA's liquidity and/or increase the probability of a 2023 Power RDC Amount). An additional $50 million will be used to fund high-priority non-recurring fish and wildlife maintenance needs on an accelerated basis (in advance of when such expenditures were originally expected to be made). Expenditure of this $50 million began in fiscal year 2023 and will continue over the next several fiscal years. At this time, BPA expects the $50 million to be fully expended by the end of fiscal year 2027.

Based on the amount of financial reserves available for risk that were attributed to Power Services and BPA at the end of fiscal year 2021, a Power RDC in the amount of $13.7 million triggered for application to fiscal year 2022 power rate levels. As defined in the BP-22 rate case, if business line financial reserves and agency financial reserves are above their respective upper thresholds, and the RDC amount is greater than $5 million, the BPA Administrator shall consider the above-threshold financial reserves for debt reduction, incremental capital investment, rate reduction through a Power Dividend Distribution, distribution to customers, or any other Power-specific purposes determined by the BPA Administrator. In December 2021, the Administrator determined that the entire amount would be used to reduce fiscal year 2022 power rate levels for the remainder of the fiscal year through a Power Dividend Distribution by applying a credit to December 2021 through September 2022 customer bills. To satisfy this commitment, BPA recorded a reduction to Power Services revenue of $13.7 million through Sept. 30, 2022. As of June 30, 2022, BPA had recorded $9.4 million of the total $13.7 million fiscal year 2022 Power Dividend Distribution.

Rates for Fiscal Years 2024-2025

To establish rates for fiscal years 2024 and 2025, BPA plans to conclude the BP-24 rate proceeding in July 2023 by releasing the Administrator's Final Record of Decision and Final Proposal. Rates are expected to go into effect on Oct. 1, 2023, and will be effective through Sept. 30, 2025, assuming approval by the Federal Energy Regulatory Commission (FERC). FERC's practice is to grant approval of BPA's rates on an interim basis at the beginning of the rate period, pending final review.

As with the 2022-2023 rate period, power and transmission rates in the BP-24 rate period will also include other rate adjustment mechanisms, such as the CRAC, FRP Surcharge and RDC, which BPA employs if certain financial conditions occur.

Results of Operations

Operating revenues

A comparison of FCRPS operating revenues follows for the nine months ended June 30, 2023, and June 30, 2022:

(Millions of dollars)	Fiscal Year 2023	Fiscal Year 2022	Revenue Increase (Decrease)	% Change
Sales				
Consolidated sales				
Power gross sales	$ 2,174.1	$ 2,406.7	$ (232.6)	(10) %
Transmission	815.0	789.3	25.7	3
Bookouts (Power)	(82.4)	(43.4)	(39.0)	90
Consolidated sales	2,906.7	3,152.6	(245.9)	(8)
Other revenues				
Power	38.2	33.6	4.6	14
Transmission	40.3	35.4	4.9	14
Other revenues	78.5	69.0	9.5	14
Sales	2,985.2	3,221.6	(236.4)	(7)
U.S. Treasury credits	224.0	90.5	133.5	148
Total operating revenues	$ 3,209.2	$ 3,312.1	$ (102.9)	(3)

Total operating revenues decreased $102.9 million when compared to the same period of fiscal year 2022. Sales of Power and Transmission Services, including other revenues and the effect of bookouts, decreased $236.4 million.

Power Services gross sales decreased $232.6 million.

- Surplus power sales, including revenue from derivative instruments settled with physical deliveries, decreased $70.6 million. This decrease was mainly driven by lower streamflows and drier weather leading to less water available for power generation when compared to the same period of fiscal year 2022.
- Firm power sales decreased $162 million. The change in firm power sales relates to the previously described Power RDC, which reduced fiscal year 2023 firm sales by $241.8 million through June 2023. The fiscal year 2022 RDC through the third quarter was $9.4 million, leading to a net decrease of $232.4 million when compared to the prior third quarter fiscal year to date. Partially offsetting this decrease is a $70.4 million increase primarily due to cold weather increasing load shaping and demand revenues, and higher loads for the composite product.

Transmission Services revenues increased $25.7 million primarily due to increases in network integration and point-to-point revenues driven by new server loads, cold weather and new customers. These increases also led to higher revenues for scheduling, system control and dispatch.

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.

U.S. Treasury credits increased $133.5 million for fish and wildlife mitigation due to higher volumes of replacement power purchases at higher market prices when compared to the same period of fiscal year 2022. 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%, that BPA makes for fish and wildlife protection, mitigation and enhancement. Through the fiscal year, BPA records anticipated U.S. Treasury credits earned through the reporting period. At fiscal year-end, BPA calculates and records the annual amount of U.S. Treasury credits earned.

Operating expenses

A comparison of FCRPS operating expenses follows for the nine months ended June 30, 2023, and June 30, 2022:

(Millions of dollars)	Fiscal Year 2023	Fiscal Year 2022	Expense Increase (Decrease)	% Change
Operations and maintenance	$ 1,709.3	$ 1,586.5	$ 122.8	8 %
Purchased power	852.4	217.3	635.1	292
Depreciation, amortization and accretion	635.5	631.0	4.5	1
Total operating expenses	$ 3,197.2	$ 2,434.8	$ 762.4	31

Total operating expenses increased $762.4 million when compared to the same period of fiscal year 2022.

Operations and maintenance expense increased $122.8 million primarily due to the following factors:

- $45.4 million increase to Columbia Generating Station costs. This increase was largely due to fiscal year 2023 being a refueling year. Refueling occurs biennially, most recently in fiscal year 2021, and refueling and maintenance expenses are higher in refueling years.
- $25.6 million increase in USACE and Reclamation expenses primarily due to increased labor costs.
- $10.8 million increase to Fish and Wildlife Program expenses due to greater amounts of work performed when compared to the same period of fiscal year 2022.
- $8.6 million decrease related to the renewables program due to lower wind output and fewer contracts with wind generation facilities.
- $6.6 million increase related to Transmission System Development (TSD) Planning and Analysis due to increases in the amount of work performed when compared to the same period of fiscal year 2022.
- $6.2 million increase related to the annual settlement paid to the Confederated Tribes of the Colville Reservation. The current year payment is based upon, in part, prior year output at Grand Coulee Dam and Power Services gross sales. Higher than average flows at Grand Coulee Dam and high net secondary revenues experienced in fiscal year 2022 led to an increase in the annual payment made in fiscal year 2023.

- $5.2 million increase related to reimbursable work with external parties. This increase is primarily due to an increase in large generator interconnection and line and load interconnection work being performed in fiscal year 2023. These projects are funded in advance by customers and reimbursable expenses are offset by an equivalent amount of reimbursable revenues.
- $31.6 million net increase to various other Transmission, Power and Enterprise Services program costs primarily due to increases in personnel costs.

Purchased power expense, including the effects of bookouts, increased $635.1 million primarily due to the following factors:

- $554.3 million increase in power purchases 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. Additionally, cold weather experienced through the first and second quarters of fiscal year 2023 led to an increase in power purchases when compared to the prior fiscal year.
- $81 million increase related to water storage agreements with BC Hydro, an electric utility owned by the Province of British Columbia. Yearly fluctuations in water levels, river operations and storage plans, particularly at certain dams in and near Canada, affect the amounts owed to or from BC Hydro. As of June 30, 2023, BPA owed BC Hydro approximately $75 million per terms of these agreements, which reflects an early payment of approximately $18 million made in January 2023. The final amount owed or receivable will be determined as of Aug. 31, 2023.

Interest expense and other income, net

A comparison of FCRPS interest expense and other income, net, follows for the nine months ended June 30, 2023, and June 30, 2022:

(*Millions of dollars)*	Fiscal Year 2023	Fiscal Year 2022	Expense Increase (Decrease)	% Change
Interest expense	$ 338.2	$ 318.9	$ 19.3	6 %
Allowance for funds used during construction	(30.5)	(21.5)	(9.0)	42
Interest income	(48.9)	(3.3)	(45.6)	NM*
Other, net	16.4	(17.1)	33.5	(196)
Total interest expense and other income, net	$ 275.2	$ 277.0	$ (1.8)	(1)

*The percentage change is not meaningful.

Total interest expense and other income, net, decreased $1.8 million when compared to the same period of fiscal year 2022.

Interest expense increased $19.3 million related to Borrowings from U.S. Treasury, primarily because of higher interest rates on existing variable rate debt in fiscal year 2023.

Allowance for funds used during construction increased $9 million due to higher rates and Construction work in progress balances when compared to fiscal year 2022.

Interest income increased $45.6 million primarily due to higher interest rates received on short-term investments in U.S. Treasury securities.

Other, net decreased $33.5 million primarily due to the following factors:

- $31 million net expense related to the Boardman to Hemingway (B2H) with Transfer Service transaction in March 2023. This net expense represents the derecognition of BPA's existing B2H asset and the recognition of new financial receivable assets (recorded as Deferred charges and other), which have been adjusted to reflect the time value of money and other project risks of completion. For additional information regarding this transaction see Other Operational Matters, Boardman to Hemingway with Transfer Service, in this Management's Discussion and Analysis.
- $4.9 million net gain from debt extinguishment associated with Borrowings from U.S. Treasury. BPA recorded no gain or loss on debt extinguishment through the third quarter of fiscal year 2022.
- $5.4 million income reduction related to the nonfederal nuclear decommissioning and site restoration trust funds. Of this decrease, $3 million represents the change in realized gains/losses when compared to the same period of fiscal year 2022. The remaining $2.4 million represents a decrease in dividends received on investments held in the trust funds.

Accrued Construction work in progress

Amounts accrued in Accounts payable and other on the Combined Balance Sheet for Construction work in progress assets were approximately $90 million and $85 million as of June 30, 2023, and 2022, respectively.

Other Operational Matters

Energy Northwest line of credit activity

In December 2022, Energy Northwest borrowed approximately $48 million under an existing short-term borrowing arrangement to pay a portion of the interest coupon payment allocable to unamortized bond premiums related to certain outstanding bonds for Columbia Generating Station and terminated nuclear facilities Projects 1 and 3. In May 2023, Energy Northwest used a portion of the proceeds from a long-term bond issuance to repay the $48 million it borrowed in December 2022.

Additionally, in June 2023, Energy Northwest borrowed approximately $27 million under an existing short-term borrowing arrangement to pay principal related to certain maturing bonds for Columbia Generating Station. BPA management expects Energy Northwest to repay this amount within the next fiscal year. The repayment will either be funded by BPA or with proceeds of a long-term bond issuance.

BPA has financial responsibility for meeting all costs of Energy Northwest's Projects 1 and 3, including debt service costs of bonds and other financial instruments, even though these projects have been terminated.

Boardman to Hemingway with Transfer Service

In March 2023, BPA executed a set of contracts designed to serve preference customers in southeast Idaho in a firm, reliable, cost-effective and long-term manner. In connection with these contracts, BPA transferred its 24.24% permitting interest share in the proposed Boardman to Hemingway (B2H) transmission line to Idaho Power (IPC). Adjusted to reflect the time value of money and project risks, the permitting interest transfer resulted in a $27.9 million asset reduction to Deferred charges and other, and a corresponding $27.9 million non-cash net loss recorded to Other, net. Additionally BPA paid IPC a $10 million security payment which, once adjusted for time value of money, resulted in a $7 million asset increase to Deferred charges and other, and a $3 million loss recorded to Other, net. BPA expects to receive approximately $31 million, plus interest, from IPC over 20 years after IPC builds and energizes the B2H transmission line and also reaches service thresholds as defined in the aforementioned March 2023 contracts. Additionally, upon energization BPA expects to recover the $10 million security payment from IPC.

Additional Information

To see BPA's annual and quarterly reports, go to www.bpa.gov/about/finance/investor-relations

For general information about BPA, go to BPA's home page at www.bpa.gov

For information on Power Services, go to www.bpa.gov/energy-and-services/power

For information on Transmission Services, go to www.bpa.gov/energy-and-services/transmission

Federal Columbia River Power System

Combined Balance Sheets (Unaudited)

(Millions of Dollars)

	As of June 30, 2023	As of September 30, 2022
Assets		
Utility plant and nonfederal generation		
Completed plant	$ 21,451.3	$ 21,300.0
Accumulated depreciation	(8,244.2)	(7,994.8)
Net completed plant	13,207.1	13,305.2
Construction work in progress	1,709.7	1,316.7
Net utility plant	14,916.8	14,621.9
Nonfederal generation	3,396.5	3,404.6
Net utility plant and nonfederal generation	18,313.3	18,026.5
Current assets		
Cash and cash equivalents	1,975.5	1,663.0
Short-term investments in U.S. Treasury securities	-	500.8
Accounts receivable, net of allowance	21.9	41.7
Accrued unbilled revenues	286.6	458.2
Materials and supplies, at average cost	117.9	109.4
Prepaid expenses	100.4	49.0
Total current assets	2,502.3	2,822.1
Other assets		
Regulatory assets	4,061.7	4,452.2
Nonfederal nuclear decommissioning trusts	500.3	414.6
Deferred charges and other	217.4	237.2
Total other assets	4,779.4	5,104.0
Total assets	$ 25,595.0	$ 25,952.6

Federal Columbia River Power System

Combined Balance Sheets (Unaudited)

(Millions of Dollars)

	As of June 30, 2023	As of September 30, 2022
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 5,596.4**	$ 5,859.6
Debt		
Federal appropriations	**1,651.6**	1,640.9
Borrowings from U.S. Treasury	**5,515.7**	5,384.7
Nonfederal debt	**6,990.8**	6,901.4
Total capitalization and long-term liabilities	**19,754.5**	19,786.6
Commitments and contingencies (See Note 14 to 2022 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	**279.0**	294.0
Nonfederal debt	**513.3**	468.5
Accounts payable and other	**481.4**	725.4
Total current liabilities	**1,273.7**	1,487.9
Other liabilities		
Regulatory liabilities	**1,543.2**	1,565.6
IOU exchange benefits	**1,344.1**	1,514.0
Asset retirement obligations	**992.3**	964.3
Deferred credits and other	**687.2**	634.2
Total other liabilities	**4,566.8**	4,678.1
Total capitalization and liabilities	**$ 25,595.0**	$ 25,952.6

Federal Columbia River Power System
Combined Statements of Revenues and Expenses (Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Fiscal Year-to-Date Ended June 30,	
	2023	2022	**2023**	2022
Operating revenues				
Sales	**$ 890.2**	$ 1,054.2	**$ 2,985.2**	$ 3,221.6
U.S. Treasury credits	**61.0**	34.1	**224.0**	90.5
Total operating revenues	**951.2**	1,088.3	**3,209.2**	3,312.1
Operating expenses				
Operations and maintenance	**565.7**	531.5	**1,709.3**	1,586.5
Purchased power	**166.7**	116.8	**852.4**	217.3
Depreciation, amortization and accretion	**213.3**	210.6	**635.5**	631.0
Total operating expenses	**945.7**	858.9	**3,197.2**	2,434.8
Net operating revenues	**5.5**	229.4	**12.0**	877.3
Interest expense and other income, net				
Interest expense	**114.3**	107.2	**338.2**	318.9
Allowance for funds used during construction	**(10.4)**	(5.8)	**(30.5)**	(21.5)
Interest income	**(18.3)**	(2.3)	**(48.9)**	(3.3)
Other, net	**(3.3)**	(4.9)	**16.4**	(17.1)
Total interest expense and other income, net	**82.3**	94.2	**275.2**	277.0
Net revenues (expenses)	**$ (76.8)**	$ 135.2	**$ (263.2)**	$ 600.3

Federal Columbia River Power System

Combined Statements of Cash Flows (Unaudited)

(Millions of Dollars)

	Fiscal Year-to-Date Ended June 30, 2023	2022
Cash flows from operating activities		
Net revenues (expenses)	**$ (263.2)**	$ 600.3
Adjustments to reconcile net revenues to cash provided by operations:		
Depreciation, amortization and accretion	**635.5**	631.0
Boardman to Hemingway non-cash net loss	**27.9**	-
Other	**(14.3)**	(16.2)
Changes in:		
Receivables and unbilled revenues	**191.4**	(88.9)
Materials and supplies	**(8.5)**	(3.4)
Prepaid expenses	**(51.4)**	(78.9)
Accounts payable and other	**(42.3)**	116.1
Regulatory assets and liabilities	**79.7**	29.2
IOU exchange benefits	**(169.9)**	(165.0)
Nonfederal nuclear decommissioning trusts	**(82.1)**	69.6
Other assets and liabilities	**(3.5)**	(109.2)
Net cash provided by operating activities	**299.3**	984.6
Cash flows from investing activities		
Investment in utility plant, including AFUDC	**(610.5)**	(504.9)
Proceeds from sale of utility plant	**2.7**	12.8
U.S. Treasury securities:		
Purchases	**(250.0)**	(750.0)
Maturities	**750.0**	500.0
Deposits to nonfederal nuclear decommissioning trusts	**(3.6)**	(3.5)
Net cash used for investing activities	**(111.4)**	(745.6)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**10.7**	10.8
Borrowings from U.S. Treasury:		
Proceeds	**483.0**	478.0
Repayment	**(367.0)**	(246.0)
Nonfederal debt:		
Repayment	**(50.3)**	(125.3)
Customers:		
Net advances for construction	**62.4**	15.1
Repayment of funds used for construction	**(14.8)**	(14.5)
Net cash provided by financing activities	**124.0**	118.1
Net increase in cash, cash equivalents and restricted cash	**311.9**	357.1
Cash, cash equivalents and restricted cash at beginning of year	**1,671.8**	1,218.7
Cash, cash equivalents and restricted cash at end of quarter	**$ 1,983.7**	$ 1,575.8
Less: Restricted cash at end of quarter, reported in Deferred charges and other	**8.2**	8.8
Cash and cash equivalents at end of quarter	**$ 1,975.5**	$ 1,567.0
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 291.5**	$ 284.5
Significant noncash investing and financing activities:		
Nonfederal debt increase	**$ 671.2**	$ 705.3
Nonfederal debt decrease	**$ (483.3)**	$ (435.4)
Nonfederal debt cost of issuance	**$ (3.4)**	$ (3.0)