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 Q3

2021 Third 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% 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 7-30-2021.

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.

See Other Operational Matters, COVID-19 Pandemic and Effects on the Bonneville Power Administration, for a short discussion of how BPA is responding to the evolving risks and uncertainties resulting from the COVID-19 pandemic.

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 weighted average transmission rate increase was 3.6%, while the average base power rate increase was zero. The base power rate does not include the impact of the Financial Reserves Policy surcharge, which triggered in October 2019 for application to fiscal year 2020 power rates. Under the surcharge, BPA recorded $21 million of revenue from power customers through June 2020.

Due to financial hardship experienced by certain customers in the region because of the COVID-19 pandemic, in June 2020 BPA suspended the Financial Reserves Policy surcharge for the remainder of the BP-20 rate period. BPA did not collect an additional $9 million of surcharge revenue between July and September of fiscal year 2020 and will not collect any amounts related to the Financial Reserves Policy surcharge in fiscal year 2021. Final approval of the surcharge suspension was granted by the Federal Energy Regulatory Commission (FERC) on Oct. 8, 2020.

As with the 2018-2019 rate period, power and transmission rates in the BP-20 rate period also include other rate adjustment mechanisms, such as a Cost Recovery Adjustment Clause (CRAC) and Reserves Distribution Clause (RDC), that BPA employs if certain financial conditions occur.

Based upon final fiscal year 2020 reserve levels, the Transmission RDC triggered for $79.7 million for application in fiscal year 2021. As defined in the BP-20 rate case, if business line financial reserves and agency financial reserves are above their respective upper thresholds, the BPA Administrator shall consider the above-threshold financial reserves for investment in other high-value business line-specific purposes including, but not limited to, debt retirement, incremental capital investment, or rate reduction. In December 2020, the Administrator determined that the entire Transmission RDC of $79.7 million would be applied toward debt reduction in fiscal year 2021. In March 2021, and in alignment with the

Administrator's decision, BPA repaid $79.7 million of variable rate borrowings from U.S. Treasury. With this debt reduction the RDC obligation has been fulfilled and there is no further commitment.

Rates for Fiscal Years 2022-2023

To establish rates for fiscal years 2022 and 2023, BPA concluded the BP-22 rate proceeding in July 2021 by releasing the Administrator's Final Record of Decision and Final Proposal. Rates are expected to go into effect on Oct. 1, 2021, and will be effective through Sept. 30, 2023, assuming approval by the 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. 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 6.1%.

As with the 2020-2021 rate period, power and transmission rates in the BP-22 rate period also include other rate adjustment mechanisms, such as a Cost Recovery Adjustment Clause (CRAC) and Reserves Distribution Clause (RDC), that 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, 2021, and June 30, 2020:

(Millions of dollars)	Fiscal Year 2021	Fiscal Year 2020	Revenue Increase (Decrease)	% Change
Sales				
Consolidated sales				
Power gross sales	$ 2,047.4	$ 1,937.9	$ 109.5	6 %
Transmission	716.8	700.5	16.3	2
Bookouts (Power)	(37.9)	(29.2)	(8.7)	30
Consolidated sales	2,726.3	2,609.2	117.1	4
Other revenues				
Power	26.2	25.5	0.7	3
Transmission	29.7	34.7	(5.0)	(14)
Other revenues	55.9	60.2	(4.3)	(7)
Sales	2,782.2	2,669.4	112.8	4
U.S. Treasury credits	81.6	83.3	(1.7)	(2)
Total operating revenues	$ 2,863.8	$ 2,752.7	$ 111.1	4

Total operating revenues increased $111.1 million when compared to the same period of fiscal year 2020. Sales of Power and Transmission Services, including other revenues and the effect of bookouts, increased $112.8 million.

Power Services gross sales increased $109.5 million. Surplus power sales, including revenue from derivative instruments settled with physical deliveries, increased $133.7 million. This increase was mainly driven by higher electricity prices realized for surplus sales when compared to the same period of fiscal year 2020. Partially offsetting this increase was a $24.2 million decrease in firm power sales. Through the third quarter of fiscal year 2020, BPA recorded $21.0 million under the Financial Reserves Policy surcharge with no such revenue recorded during fiscal year 2021.

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 revenues increased $16.3 million primarily due to an increase in the sale of point-to-point long-term transmission service.

Other revenues saw slight increases and decreases but were largely comparable to the same period of fiscal year 2020.

U.S. Treasury credits decreased $1.7 million for fish and wildlife mitigation. 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, 2021, and June 30, 2020:

(Millions of dollars)	Fiscal Year 2021	Fiscal Year 2020	Expense Increase (Decrease)	% Change
Operations and maintenance	$ 1,590.4	$ 1,517.1	$ 73.3	5 %
Purchased power	157.1	92.3	64.8	70
Depreciation, amortization and accretion	620.1	612.6	7.5	1
Total operating expenses	$ 2,367.6	$ 2,222.0	$ 145.6	7

Total operating expenses increased $145.6 million when compared to the same period of fiscal year 2020.

Operations and maintenance expense increased $73.3 million due to the following factors:

- $65.3 million increase for Energy Northwest's Columbia Generating Station nuclear power plant due to fiscal year 2021 being a refueling year. Refueling occurs biennially, most recently in fiscal year 2019, and refueling and maintenance expenses are higher in refueling years.
- $9.2 million decrease in Conservation Purchases due to lower amounts of work performed in fiscal year 2021.

- $8.6 million increase for Fish and Wildlife Program expenses. This was primarily caused by an increase in spending on offsite mitigation measures in the Columbia River Basin. Offsite mitigation includes habitat restoration, supplementation of fish stocks through hatcheries, research, monitoring and evaluation of fish populations and other related efforts such as data management. In fiscal year 2020, fish and wildlife spending was lower than expected due to the COVID-19 pandemic. However, as expected for fiscal year 2021 the Fish and Wildlife Program is seeing greater amounts of work performed, resulting in a corresponding increase to expense.
- $4.1 million increase related to the Spokane Reservation Equitable Conservation Act of 2019, which obligates BPA to compensate the Spokane Tribe of Indians for use of reservation lands in the production of power by the Grand Coulee Dam. Fiscal year 2021 is the first year that BPA has recorded this annual settlement expense, which BPA will pay by March 1 of the next fiscal year.
- $4.5 million net increase to various other Power, Transmission and Enterprise Services program costs.

Purchased power expense, including the effects of bookouts, increased $64.8 million primarily due to a $47.2 million expense 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. Additionally, due to the dry weather conditions and high market prices, contracted power purchases increased by a total of $16.3 million.

Depreciation, amortization and accretion increased $7.5 million, primarily due to higher amortization expense related to capital additions at the Columbia Generating Station.

Interest expense and other income, net

A comparison of FCRPS interest expense and other income, net follows for the nine months ended June 30, 2021, and June 30, 2020:

(Millions of dollars)

	Fiscal Year 2021	Fiscal Year 2020	Expense Increase (Decrease)	% Change
Interest expense	$ 319.9	$ 355.2	$ (35.3)	(10) %
Allowance for funds used during construction	(21.6)	(22.3)	0.7	(3)
Interest income	(1.1)	(2.8)	1.7	(61)
Other income, net	(191.5)	(5.4)	(186.1)	NM*
Total interest expense and other income, net	$ 105.7	$ 324.7	$ (219.0)	(67)

*The percentage change is not meaningful.

Total interest expense and other income, net decreased $219.0 million when compared to the same period of fiscal year 2020.

Interest expense decreased $35.3 million, primarily due to a $12.7 million reduction related to borrowings from U.S. Treasury and $19.5 million of reduced interest expense on nonfederal debt, primarily for the Columbia Generating Station. These decreases are due in large part to lower interest rates on debt held through the third quarter of fiscal year 2021 when compared to the same period of fiscal year 2020. Slightly lower debt balances during fiscal year 2021 when compared to the same period in fiscal year 2020 have also contributed to the lower interest expense realized through the third quarter of fiscal year 2021.

Other income, net, increased $186.1 million primarily because of the following factors:

- $161.1 million increase in dividends and net realized gains on investments held in the nonfederal nuclear decommissioning trusts. Of this increase, $156.6 million is associated with net realized gains in the trust funds for Columbia Generating Station due to changes in the investment portfolio in alignment with a new asset allocation study.
- $15.0 million associated with the WNP-1 and WNP-4 decommissioning and site restoration regulatory liability. In total during fiscal year 2021, BPA plans to record $20.0 million of other income ($5.0 million per quarter) and reduce a regulatory liability for decommissioning and site restoration activities. This accounting treatment is consistent with the BP-20 rate case.
- $3.7 million associated with power-related financing adjustments at the Minto Fish Facility in Oregon. In May 2021, USACE and BPA reached agreement on the prior financing and cost assignment to the power purpose related to this facility. As a result, BPA recorded non-cash transactions to reduce net utility plant by $10.3 million and to reduce federal appropriations by $11.5 million. BPA also reduced accounts payable by $2.5 million and recorded $3.7 million of other income.
- $3.6 million decrease in lease-purchase loss on debt extinguishment when compared to the same period of fiscal year 2020.
- $2.7 million gain from debt extinguishment associated with Energy Northwest issuing bonds in May 2021 and paying off long-term debt with part of the proceeds.

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 $67 million and $70 million as of June 30, 2021, and 2020, respectively.

Other Operational Matters

Energy Northwest line of credit activity

In December 2020, Energy Northwest borrowed approximately $141 million under existing short-term borrowing arrangements. Of the $141 million borrowed, EN used $43 million 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. The remaining $98 million provided EN with interim funding for a nuclear fuel purchase due to anticipated supply constraints resulting in projected significant future price increases. In December BPA recorded a $43 million decrease to Accounts payable and other, a $98 million increase to Nonfederal generation asset, and a $141 million increase to current Nonfederal debt on the Combined Balance Sheet.

The BPA Administrator has elected to defer recovery of the cost associated with this fuel purchase until BP-30 when the fuel is installed. BPA management expects to begin amortizing the nuclear fuel asset in fiscal year 2030, over a period spanning six years to align with the fuel’s expected useful life.

In May 2021, Energy Northwest used some of the proceeds from a long-term bond offering to repay the $141 million it borrowed in December. In addition, BPA funded the repayment of the $10 million line of credit that was outstanding as of Sept. 30, 2020.

In June 2021, Energy Northwest drew an additional $86 million on an existing line of credit. This amount financed accrued expenses. Energy Northwest expects to repay this $86 million before Sept. 30, 2021.

COVID-19 Pandemic and Effects on the Bonneville Power Administration

The COVID-19 pandemic has not materially affected FCRPS net revenues through the nine months ended June 30, 2021. Electric power loads served by BPA continue to remain stable and comparable to fiscal year 2020 levels. Currently there are no significant operational impacts to mission essential functions because of the COVID-19 pandemic.

Most of the BPA non-field workforce remain in a telework status. However, management continues to evaluate various physical return-to-work options. On March 13, 2020, BPA implemented maximum telework operations for non-essential employees and contract personnel and closed its Portland, Vancouver and Spokane facilities to non-essential staff until further notice. BPA continues to fulfill its mission to deliver reliable power and transmission service throughout the region, and management continues to actively monitor and take actions in response to this evolving public health threat under its continuity of operations plans. As of June 30, 2021, some operational restrictions have eased to allow access to a facility or worksite for those workers whose jobs cannot be performed remotely.

BPA cannot predict the potential impacts of COVID-19, if any, on BPA's future operations or financial results. If the COVID-19 pandemic continues and efforts to contain it are unsuccessful or disrupt BPA's ability to operate, FCRPS financial results could be adversely impacted.

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 June 30, 2021	As of September 30, 2020
Assets		
Utility plant and nonfederal generation		
Completed plant	$ 20,612.1	$ 20,499.4
Accumulated depreciation	(7,688.0)	(7,507.9)
Net completed plant	12,924.1	12,991.5
Construction work in progress	1,337.4	1,151.0
Net utility plant	14,261.5	14,142.5
Nonfederal generation	3,619.4	3,543.3
Net utility plant and nonfederal generation	17,880.9	17,685.8
Current assets		
Cash and cash equivalents	1,213.2	846.5
Accounts receivable, net of allowance	19.9	50.5
Accrued unbilled revenues	319.4	299.1
Materials and supplies, at average cost	110.2	107.1
Prepaid expenses	106.3	36.4
Total current assets	1,769.0	1,339.6
Other assets		
Regulatory assets	4,842.1	5,018.9
Nonfederal nuclear decommissioning trusts	518.6	405.4
Deferred charges and other	212.4	209.2
Total other assets	5,573.1	5,633.5
Total assets	$ 25,223.0	$ 24,658.9

Federal Columbia River Power System
Combined Balance Sheets (Unaudited)
(Millions of Dollars)

	As of June 30, 2021	As of September 30, 2020
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 4,927.5**	$ 4,537.0
Debt		
Federal appropriations	**1,552.8**	1,544.0
Borrowings from U.S. Treasury	**5,095.9**	4,982.6
Nonfederal debt	**7,014.0**	6,348.9
Total capitalization and long-term liabilities	**18,590.2**	17,412.5
Commitments and contingencies (See Note 14 to 2020 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	**666.0**	666.0
Nonfederal debt	**542.2**	971.4
Accounts payable and other	**475.0**	559.3
Total current liabilities	**1,683.2**	2,196.7
Other liabilities		
Regulatory liabilities	**1,549.6**	1,649.7
IOU exchange benefits	**1,760.9**	1,910.4
Asset retirement obligations	**921.5**	890.7
Deferred credits and other	**717.6**	598.9
Total other liabilities	**4,949.6**	5,049.7
Total capitalization and liabilities	**$ 25,223.0**	$ 24,658.9

Federal Columbia River Power System

Combined Statements of Revenues and Expenses (Unaudited)

(Millions of Dollars)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Fiscal Year-to-Date Ended June 30, 2021	Fiscal Year-to-Date Ended June 30, 2020
Operating revenues				
Sales	**$ 887.1**	$ 863.4	**$ 2,782.2**	$ 2,669.4
U.S. Treasury credits	**38.5**	23.1	**81.6**	83.3
Total operating revenues	**925.6**	886.5	**2,863.8**	2,752.7
Operating expenses				
Operations and maintenance	**536.1**	506.8	**1,590.4**	1,517.1
Purchased power	**60.5**	22.3	**157.1**	92.3
Depreciation, amortization and accretion	**205.9**	205.3	**620.1**	612.6
Total operating expenses	**802.5**	734.4	**2,367.6**	2,222.0
Net operating revenues	**123.1**	152.1	**496.2**	530.7
Interest expense and other income, net				
Interest expense	**101.9**	116.4	**319.9**	355.2
Allowance for funds used during construction	**(6.9)**	(7.5)	**(21.6)**	(22.3)
Interest income	**(0.3)**	(0.5)	**(1.1)**	(2.8)
Other income, net	**(169.6)**	0.4	**(191.5)**	(5.4)
Total interest expense and other income, net	**(74.9)**	108.8	**105.7**	324.7
Net revenues	**$ 198.0**	$ 43.3	**$ 390.5**	$ 206.0

Federal Columbia River Power System

Combined Statements of Cash Flows (Unaudited)

(Millions of Dollars)

	Fiscal Year-to-Date Ended June 30, 2021	2020
Cash flows from operating activities		
Net revenues	**$ 390.5**	$ 206.0
Adjustments to reconcile net revenues to cash provided by operations:		
Depreciation, amortization and accretion	**620.1**	612.6
Deferred payments for Energy Northwest-related O&M and interest	**-**	10.0
Other	**(5.4)**	4.7
Changes in:		
Receivables and unbilled revenues	**10.3**	21.4
Materials and supplies	**(3.1)**	(3.9)
Prepaid expenses	**(69.9)**	(40.4)
Accounts payable and other	**297.2**	(18.2)
Regulatory assets and liabilities	**(285.9)**	(8.9)
IOU exchange benefits	**(149.5)**	(145.2)
Nonfederal nuclear decommissioning trusts	**(110.0)**	8.5
Other assets and liabilities	**84.6**	(53.3)
Net cash provided by operating activities	**778.9**	593.3
Cash flows from investing activities		
Investment in utility plant, including AFUDC	**(448.8)**	(415.7)
Proceeds from sale of utility plant	**2.0**	6.4
Deposits to nonfederal nuclear decommissioning trusts	**(3.2)**	(3.0)
Lease-purchase trust funds:		
Deposits to	**(19.6)**	(71.0)
Receipts from	**26.9**	36.8
Net cash used for investing activities	**(442.7)**	(446.5)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**20.3**	26.1
Borrowings from U.S. Treasury:		
Proceeds	**429.0**	1,358.0
Repayment	**(315.7)**	(768.0)
Nonfederal debt:		
Proceeds	**6.6**	71.1
Repayment	**(137.4)**	(382.2)
Debt extinguishment costs	**(1.5)**	(5.1)
Customers:		
Net advances for construction	**41.9**	18.5
Repayment of funds used for construction	**(12.9)**	(11.4)
Net cash provided by financing activities	**30.3**	307.0
Net increase in cash, cash equivalents and restricted cash	**366.5**	453.8
Cash, cash equivalents and restricted cash at beginning of year	**857.5**	534.9
Cash, cash equivalents and restricted cash at end of quarter	**$ 1,224.0**	$ 988.7
Less: Restricted cash at end of quarter, reported in Deferred charges and other	**10.8**	11.0
Cash and cash equivalents at end of quarter	**$ 1,213.2**	$ 977.7
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 279.8**	$ 331.1
Significant noncash investing and financing activities:		
Nonfederal debt increase	**$ 1,569.2**	$ 930.8
Nonfederal debt decrease	**$ (1,196.2)**	$ (784.3)
Nonfederal debt cost of issuance	**$ (6.3)**	$ (4.2)
Federal appropriations decrease	**$ (11.5)**	$ -

A caption from the prior period has been expanded for comparability with the current period.