PHOTO: When filled with 16 feet of water, the corner collector at Bonneville Dam carries young fish down a wide, smooth hallway to a deep, safe spot in the river below the dam.
The Bonneville Power Administration is a federal agency based in the Pacific Northwest under the Department of Energy. BPA markets wholesale electrical power from 31 federal hydroelectric projects owned and operated by the U.S. Army Corps of Engineers and Bureau of Reclamation, one nonfederal nuclear plant and some small nonfederal resources. BPA supplies about one-third of the electric power used in the Northwest.

BPA also operates and maintains about three-fourths of the region’s high-voltage transmission system and is a leader in integrating renewable resources, such as wind energy, into its grid. BPA’s service area includes Oregon, Washington, Idaho, western Montana, and small parts of Wyoming, Nevada, Utah, California and eastern Montana.

As a self-funding agency, BPA covers its costs by selling wholesale power, transmission and related services at cost. Under federal law, BPA must meet the power needs of its preference customers, “consumer-owned” utilities that include public utility districts, people’s utility districts, cooperatives, tribal utilities, municipalities and federal customers. BPA also sells power to investor-owned utilities, some direct-service industries in the region and — when power in the Northwest is surplus — to marketers and utilities in Canada and the Western United States.

BPA promotes energy efficiency, renewable energy and new technologies. The agency funds regional efforts to protect and enhance fish and wildlife populations affected by federal hydropower development in the Columbia River Basin. BPA is committed to public service and seeks to make its decisions in a manner that provides financial transparency and opportunities for input from all stakeholders.
Dear Mr. President:

The past year has been both problematic and productive. But I believe we have been more than up to the challenge of managing through difficult economic times while making important progress in areas that advance both national and regional energy goals.

Here in the Pacific Northwest, poor economic conditions have been exacerbated by successive years of low snowpack. Snowpack fuels our hydro-powered system. With this year’s January–July runoff at only 79 percent of the 30-year average, we had little surplus power to sell. Surplus sales normally represent about one-fifth of our revenues. As a consequence, we fell far short of our start-of-year revenue goals.

In other areas, however, we met and frequently exceeded our goals. For example, our expenses for both power and transmission came in below levels established in our rate case. We have made astonishing progress in facilitating wind energy and now have more than 3,000 megawatts integrated into our transmission system, a number we expect to double by 2013. We continue to meet and overcome challenges in integrating wind into a grid whose builders did not envision serving a variable resource. We are excited to be literally inventing new ways of doing things and proud of our leadership.

Thanks to increased borrowing authority granted to us through the American Recovery and Reinvestment Act, we are well into construction of a 79-mile, 500-kilovolt transmission line that will deliver significantly more wind energy to our region. Three more large transmission lines, some to serve local reliability needs, also are undergoing environmental review.

Energy efficiency remains our first-line resource, and last year we captured over 90 megawatts of energy savings. We also committed to meeting our most aggressive efficiency targets ever. In the next five years, the Northwest aims to meet nearly 60 percent of growth in demand for electricity with energy efficiency. Over the next 20 years, the expectation is that 85 percent of new demand will be met with energy efficiency. BPA will play a major role in achieving public power’s 42 percent share of that regional goal.

As stewards of the Federal Columbia River Power System, we also have a mandate to redress the impacts of hydropower development on fish and wildlife. On that front, it has been a very successful year. While ocean conditions clearly play a big role, there is strong evidence
“Much of the success we’ve achieved has been due to growing collaboration in the region, whether it’s fish, wind power, energy efficiency or other issues ... this approach is paying off in better and timelier results.”

that our efforts are contributing to the increasingly robust returns.

After years of investing in improvements to make our rivers safer for fish, we are seeing remarkable results. Some salmon runs, for example, are returning in numbers that haven’t been seen since the 1950s.

Much of the success we’ve achieved has been due to growing collaboration in the region, whether it’s fish, wind power, energy efficiency or other issues. More and more we are working in partnership with others, and this approach is paying off in better and timelier results.

To continue these successes, we are focused on balancing the short-term needs of our economically stressed ratepayers with the long-term need for the investments that will preserve and enhance the value of the Federal Columbia River Power System.

As we move forward, the future is very much on our mind. This past year, we made our largest capital investments ever. We will maintain the positive momentum, continuing our investments in renewables, energy efficiency and the environment. We will make the improvements in our infrastructure that will solidify reliability as well as enhance our operational strengths. At the same time, our staff is committed to keeping our costs down and our own efficiencies high so that we can provide increasing value to the Pacific Northwest and to our nation.

Today that value is considerable. Ours is the largest hydropower system in the nation, and thus the nation’s largest source of carbon-free, low-cost electricity. As stewards of the Columbia River, it is imperative that we preserve this great national and regional treasure.

Stephen J. Wright
ADMINISTRATOR AND CEO

NOTE: Unless otherwise noted, all annual dates in this report refer to the federal fiscal year, which begins Oct. 1 and runs through Sept. 30. For example, fiscal year 2010 began Oct. 1, 2009, and concluded Sept. 30, 2010.
Financial Results

These charts depict important BPA and Federal Columbia River Power System financial measures. Net Revenues, after removing the effects of nonfederal debt management actions that differ from rate case assumptions and derivative instruments, result in Modified Net Revenues. Nonfederal Debt Service Coverage Ratio demonstrates how many times total nonfederal project debt service is covered by net funds available. A ratio of 1.0 is the minimum required to show adequate funds to meet debt service payments to nonfederal bondholders. The Status of Treasury Principal Repayment shows the planned and advance payment of federal appropriations and borrowings from the U.S. Treasury. Financial Reserves are the sum of BPA cash and cash equivalents, investments in U.S. Treasury securities and deferred borrowing at year-end.
IN THE PACIFIC NORTHWEST, EVERY YEAR IS ABOUT WATER.

The region’s electric power system is unique. Its largest source of electricity produces no emissions, something almost inconceivable in other parts of the country. The Bonneville Power Administration supplies over a third of the electric power for the Northwest corner of the United States — Washington, Oregon, Idaho and western Montana. Thanks to the federal dams on the Columbia River, BPA’s resources are nearly 80 percent hydropower. By comparison, the United States derives just 7 percent of its electricity from hydropower.

Looking to the future, hydropower’s value can only increase. It is a clean, non-carbon-emitting renewable that is relatively low cost and — with the exception of Canada — independent of foreign sources of energy. Most recently, hydropower has emerged as a valuable back-up for variable energy output produced by renewable resources such as wind and solar.

But hydropower availability depends on the weather, specifically the region’s winter snowpack. A good water year can produce additional generation that is marketed as surplus power, resulting in surplus revenues. These revenues help keep Pacific Northwest electricity rates lower than they might otherwise be. In contrast, a bad water year can mean less surplus power, fewer surplus sales and ultimately lower revenues.

FOOTNOTES CAN BE FOUND ON PAGE 24.
Fiscal year 2010 was not a good water year. The overall winter snowpack was very low. When the rains finally came in June, they produced a very short, concentrated runoff. In a hydro system, the shape, or timing, of the snowmelt runoff can be even more important than volume. In any event, the overall volume was poor in 2010. The final January–July volume runoff came in at 84.7 million acre-feet, or only 79 percent of the rolling 30-year average. This had a big impact on our revenues for the year.

**REMAINING FUNDAMENTALLY SOUND**

For fiscal year 2010 the agency had net expenses of $127.6 million based on total operating revenues of $3.06 billion. Modified net expenses were $164.4 million, resulting in a shortfall of $368.4 million against the rate case projection of $204.0 million modified net revenues. Power Services revenue was lower due to low hydro inventory, complicated by low market prices and lower demand from the lagging effects of the economic downturn. Transmission Services provided a bright spot due to higher demand for transmission that included wind energy system integration that offset lower power revenue.

Despite the disappointing revenues for the year, all other signs show that BPA has a solid financial foundation. Our expenses for both power and transmission came in under levels established in our rate case. We made our annual payment for fiscal year 2010 to the U.S. Treasury of $864.1 million. This is significant because it is an important sign that BPA is fully repaying U.S. taxpayers for their investment in the Federal Columbia River Power System. The payment represents principal and interest on the federal investment in the dams, transmission system, fish and wildlife projects and other capital projects.

Over all, agency financial reserves were down, but remain sufficient at $1.11 billion which will help buffer poor water years and any future uncertainties.
The three independent credit-rating agencies — Moody’s, Standard & Poor’s and Fitch — evaluated BPA’s finances and reported BPA’s overall financial health is strong. Solid reserves over the last few years put us in a good position to manage through leaner years. Increased borrowing authority made available through the American Recovery and Reinvestment Act has also bolstered BPA’s ability to fund capital projects.

WORKING TO MANAGE DEBT
While BPA cannot control how much water comes down the Columbia River or when, there are things we can and do control. One of our most significant costs is our debt service. We have about $13 billion in debt, nearly equally divided between federal and nonfederal debt. This debt funded construction of the federal hydro and transmission systems, one functioning nuclear plant and two nuclear plants that were never finished. BPA’s debt obligation for the nuclear plants stems from our contract to pay all plant costs so we can market the power output. Energy Northwest, a consortium of utilities, owns and operates Columbia Generating Station, the region’s only commercial operating nuclear plant.

BPA has diligently managed its debt for decades and continues to do so. For example, as part of the Debt Optimization Program we continued to refinance and restructure Energy Northwest debt for other business purposes. As part of this program, BPA worked with Energy Northwest to refinance and extend the maturity date on BPA-backed Energy Northwest bonds. This allowed us to pay back federal debt (bonds and appropriations) earlier than planned.

The program accomplished two things — it reduced overall debt costs and provided BPA with room under its borrowing authority ceiling with the U.S. Treasury. During the course of the program, we restored about $2 billion in available Treasury borrowing authority and reduced the average interest rate on BPA’s debt portfolio by 1 percent.

INCLUDING STAKEHOLDERS IN COST REVIEWS
In addition to working actively to control costs, we devoted several months this year to hosting public workshops under an Integrated Program Review that looked ahead to future program spending levels. The review is “integrated” because it examines program levels and costs, both expense and capital, for Transmission Services, Power Services and all supporting agency services.

The goal was to gather input from agency customers and other stakeholders on program levels before the 2012–2013 rate case begins, because changes to program level costs are not considered in a rate case.

An area that could have a large impact on reducing future power rate increases is, not surprisingly, debt service. As it is currently structured, debt service on Energy Northwest debt begins rising in fiscal year 2011 to a peak in 2017 before dropping sharply in 2019. Over the next two fiscal years, Energy Northwest and BPA are taking actions to further restructure some of the Energy Northwest debt. These actions could produce overall annual debt service reductions for the next rate period.

PREPARING FOR RATE SETTING
Because it informs program funding levels, the Integrated Program Review serves as a precursor to the rate-setting process. BPA is a self-funding federal agency that receives no annual appropriations. We must recover our costs through the sales of power and transmission services. The rate cases are the means by which we set the prices for these services.

BPA is preparing to introduce tiered rates for the first time. Last spring we began a series of preliminary rate case workshops in which our staff and interested parties worked toward a common understanding of the details of a new Tiered Rate Methodology. The initial rate proposal for the first rates under this methodology will be issued in November 2010. This will kick off the formal rate-setting process for both Power and Transmission Services.
We expect there will be much to discuss. Often, the most difficult issue in a rate case is balancing tradeoffs between the long and short term. We must balance the need to keep any rate increase as low as prudently possible, especially given current economic conditions, against the need to invest in projects that will keep our system reliable and efficient in the future.

**USING ARRA BORROWING AUTHORITY**

When Congress passed the American Recovery and Reinvestment Act in 2009, BPA got a welcome boost in its ability to borrow from the U.S. Treasury. The extended borrowing authority was timely, allowing us to make more capital investments in 2010 than in any preceding year. ARRA increased our available Treasury borrowing authority by $3.25 billion. While this is not a grant — BPA will pay taxpayers back with interest for any funds borrowed — it gave us the financial security to move forward with construction of the McNary-John Day transmission project. The line is currently under construction and should be completed in early 2012. Without this additional boost, BPA could have exhausted its remaining borrowing authority as early as 2013.

BPA, the U.S. Department of Energy and the Office of Management and Budget have identified up to $2 billion in projects BPA would fund through the increased borrowing authority. While the McNary-John Day transmission line is the first new line to be constructed using ARRA borrowing authority, we also are looking at using ARRA authority for three more transmission projects as well as hydro system upgrades, energy efficiency initiatives and fish hatchery construction.

In mid-summer, DOE Deputy Secretary Daniel Poneman visited the McNary-John Day line construction site. He had this to say:

“It’s impossible to exaggerate the importance of what’s happening out here to our nation … BPA’s Recovery Act projects will create hundreds of good-paying jobs and help reduce carbon pollution by bringing even more renewable energy to the region. This important investment in the Northwest is an example of the Recovery Act at work — jumpstarting the economy, modernizing the nation’s infrastructure, delivering renewable energy and enhancing energy independence.”

Department of Energy Deputy Secretary Daniel Poneman, left, and BPA Administrator Steve Wright visited the McNary-John Day transmission line now under construction. At right, a helicopter lifts a tower in place. The line is being built with extended borrowing authority granted under the American Recovery and Reinvestment Act.
As Power Services dealt with the operational challenges of the low water year, it also devoted an immense amount of resources preparing to implement the Regional Dialogue power contracts. The contracts are historic due to the introduction of tiered power rates, which are expected to send clearer price signals to encourage customers to develop their own resources thus ensuring the Northwest has adequate resources for the future.

**PREPARING FOR NEW LONG-TERM CONTRACTS**

New wholesale power sales contracts, signed in December 2008, go into effect Oct. 1, 2011. They will continue through Sept. 30, 2028. A major focus throughout 2010 has been preparing to implement these new and complex contracts, which will introduce tiered rates for the first time. They are known as the Regional Dialogue contracts because of the multi-year discussions with BPA’s utility customers and stakeholders that led to their development.

Given their length, the contracts will provide long-term stability at a time when it is sorely needed. Consumer-owned utilities will benefit from certainty about long-term access to federal power, and BPA will have a guaranteed source of revenue that will ensure it can cover its costs and make its Treasury payments.

The contracts also will give the agency and customers far greater certainty while reducing our exposure to volatile power markets. Tiered rates should provide better price signals that reveal the true cost of load growth. There are a number of other benefits. The contracts have been designed to facilitate energy efficiency and the development of renewable power, promote regional resource adequacy and encourage development of electric infrastructure in the Pacific Northwest.

**IMPLEMENTING TIERED RATES**

Under the Regional Dialogue contracts, consumer-owned utility customers have the right to purchase a certain amount of their firm power at BPA’s Tier 1 rates. How much power will be priced at Tier 1 is tied to the relatively low-cost output of the existing federal system. Tier 1 rates will be set to recover costs of the
system. Those customers who anticipate growth and need more power than the federal system produces have a choice. They can secure additional power on their own or purchase it from BPA at Tier 2 rates. Tier 2 rates will be set at a level to recover BPA’s costs of acquiring the additional power.

For the first two years under the new contracts, our consumer-owned utility customers elected to get about 25 percent of the power they need to serve loads above BPA’s existing federal system from BPA.

**FINALIZING OUR RESOURCE PROGRAM**

After two years of collaborative work with the region and especially with the Northwest Power and Conservation Council,² BPA completed its first Resource Program since 1992. The Resource Program analyzes BPA’s potential power supply needs and assesses alternatives for meeting those needs in the context of the Council’s Sixth Power Plan.

The final Resource Program, released in September, confirms that most of BPA’s incremental energy needs for the next several years can be achieved by meeting the conservation targets in the Council’s power plan and through short- and mid-term market purchases.

The Resource Program will not determine our resource acquisition decisions. Instead, it provides analytical support and a road map to inform future acquisitions consistent with the Council’s Power Plan.

**SERVING DIRECT-SERVICE INDUSTRIES**

During the year, BPA signed new contracts with two direct-service industrial customers, the Alcoa smelter in Ferndale and Port Townsend Paper Corp., both in Washington state. The contracts have limited terms due to recent decisions by the U.S. Court of Appeals for the Ninth Circuit that non-obligatory contracts with direct-service industries must be consistent with sound business principles. In other words, the benefits to BPA of serving a direct-service industry must equal or exceed BPA’s cost of serving the load during the period of service.

We have followed a stringent approach that limits the duration of a sale to these companies based on the perceived costs and benefits of selling them power. We believe these contracts, which run through May 2011, are consistent with the guidance from the court.

In late summer, Alcoa asked for a one-year extension of service under its power sales contract with BPA. We conducted an equivalent benefits test to determine if, and for how long, service under the contract could be extended. We also conducted a public review before a final decision³ to extend this service, which is expected to help keep the plant open and save about 500 jobs.

**DEALING WITH AN ANOMALY**

In what otherwise was a very dry year, a series of rainstorms in June dramatically and briefly increased streamflows to 440 percent of normal for the month. Such high streamflows in the Columbia and Snake rivers could lead to nitrogen saturation in the water at levels that cause lethal gas bubble trauma in migrating juvenile salmon. BPA and the Corps operated the hydro system to minimize involuntary spill⁴ at the dams, even to the point of asking other generators to shut down their plants and take our hydropower at no cost.

The storms that provided the late spring rain also propelled wind turbines along the Columbia River Gorge. With demand for electricity relatively light at the time, BPA had to devise creative ways to deal with maximum generation from both hydro and wind turbines while limiting spill to safe levels for fish.

The heavy rains could well be a harbinger of operational challenges ahead, particularly as the region’s wind fleet continues its rapid growth. We were successful in what was basically a two-week event, but we may not
necessarily be successful in the future unless new approaches are developed.

In September, we issued a report containing a factual description of the June event and the operational actions we took. The report is intended to stimulate a regional discussion of mitigation mechanisms that must be developed to prepare for future events.

REVIEWING THE COLUMBIA RIVER TREATY

Since 1964, the Columbia River Treaty has brought benefits to both the United States and Canada by providing a cooperative way to regulate a valuable resource that both countries share — the Columbia River. Under the Treaty, the two nations jointly manage the river for power and flood control.

The U.S. Entity charged with implementing the Treaty is made up of the BPA administrator and the division engineer of the U.S. Army Corps of Engineers’ Northwestern Division. Through the Treaty, BPA and Canada have shared benefits of increased downstream energy production. Originally, BPA made a monetary payment to Canada for its half of these benefits for 30 years, but BPA now returns the physical energy back to British Columbia. During fiscal year 2010, as required by the Treaty, BPA oversaw the delivery to the U.S.-Canada border of 4,754,385 megawatt-hours (4.8 terawatt-hours), in amounts up to 1,326 megawatts on any hour, as pre-scheduled by Canada.

Although the Treaty has no termination date, it does have provisions that take effect on and after Sept. 16, 2024. Absent any other action, these provisions will change how flood control is implemented between the two countries, which may affect power benefits as well. In addition to changes in flood control, either the United States or Canada can terminate the Treaty as early as 2024 with a minimum of 10 years’ written notice.

To evaluate the possible impacts associated with these provisions, the U.S. and Canadian Entities conducted a series of studies called the Phase 1 Report. This joint effort looked at these provisions from the limited perspective of power and flood control, the two original purposes of the Treaty. The Phase 1 Report was released in July.

To provide additional information, the U.S. Entity conducted further work to evaluate how applying current fish operations might alter the results of the Phase 1 studies. The result was the Supplemental Report, which the U.S. Entity released in September. These reports are the starting point for a multiyear Columbia River Treaty Review process that will engage the region in an open, collaborative process with regard to the future of the Treaty.

In the nearly 50 years since the Treaty was signed, the demands on the Columbia River system have grown beyond just power and flood control. Fish and wildlife concerns as well as water supply and quality, climate change, recreation, irrigation, cultural resources and other river uses have emerged and must be considered.

The U.S. and Canada share the bounty of the Columbia River. A treaty between the two has been in place for nearly 50 years, long before fish and wildlife and other constraints were envisioned. Now a regional discussion has begun about the future of the Treaty.
It would be an understatement to say it’s been a busy year for BPA’s Transmission Services. Indeed, it has been one of the busiest years since the first large transmission lines were built, many of them dating back to the 1940s or earlier. Population growth, greater use of air conditioning and the need to interconnect new renewable resources have all put enormous pressure on an aging system.

BUILDING TO RELIEVE A STRAINED GRID
During the year, Transmission Services has undertaken several critical projects throughout the Pacific Northwest to rebuild transmission lines and substations, replace wood poles and otherwise upgrade aging facilities. These projects are needed to maintain and enhance existing transmission line operations and accommodate new line construction.

But upgrades alone won’t meet all the challenges on the grid. To ensure continued reliability and facilitate development of renewable resources, we have proposed a program to construct up to four new 500-kilovolt lines.

One of those lines is well under construction. The 500-kilovolt transmission line known as the McNary-John Day line will run parallel to the Columbia River, crossing the river at one point. The project has created over 100 jobs.

When energized, it will allow BPA to provide transmission service for nearly 700 megawatts of new wind energy. It is currently ahead of schedule and expected to be completed in early 2012.

Three more 500-kilovolt lines have been proposed and are undergoing public and environmental review. These include the proposed I-5 Corridor Reinforcement Project that would serve southwest Washington and the metropolitan Portland, Ore., area. Approximately 80 percent of the power flowing through this line would serve local needs. No new line has been built in the area in 40 years. During that time, the population has doubled. We continue to meet with local citizens and carefully consider their views on a range of options for placement of the line and a new substation.

The other two proposed 500-kilovolt lines include the Big Eddy-Knight Transmission
Project in south central Washington and north central Oregon and the Central Ferry-Lower Monumental Transmission Project in eastern Washington state. Draft environmental impact statements have been released for both projects. We anticipate records of decision in spring 2011.

**PUSHING FOR A SMARTER GRID**

Even as we explore expansion of our transmission grid, we also are working on improving the existing system. One of those ways is through a “smarter” grid, one in which even consumers might interact electronically with the system to use electricity at times when demand and prices are lower. A smart grid also would help integrate variable renewable resources such as wind.

We are supporting two major projects partially funded through the American Recovery and Reinvestment Act — the Pacific Northwest Smart Grid Demonstration Project and the Western Interconnection Synchrophasor Program. In addition, we are leading several smart grid research and pilot projects to explore how different smart grid technologies can benefit BPA’s customers through cost containment and improved reliability.

The Pacific Northwest Smart Grid Demonstration Project, directed by the Battelle Memorial Institute, Pacific Northwest Division, in Richland, Wash., includes a number of partners across five states and is expected to involve more than 60,000 metered customers. BPA is contributing $10 million to the five-year project.

It will measure and validate smart grid costs and benefits for consumers, utilities, regulatory bodies and the nation. Results will inform business cases for future smart grid investments so utilities can select the most cost-effective technologies for their customers. Project participants will use and test a variety of smart grid technologies such as smart appliances, smart meters, distributed generation, in-home displays, home area networks, voltage optimization tools and electric vehicles. The project also will explore ways to improve the integration of renewable energy resources such as solar and wind. Among other things, we will be coordinating with Battelle to create a regional business case for smart grid technologies.

The Western Interconnection Synchrophasor Program deals with synchrophasor measurements, a type of smart grid technology that can help keep the grid stable and enhance reliability. This technology establishes a virtual firewall between generation and transmission to protect equipment. It uses an extensive communication network to help prevent the kind of grid instabilities that can occur when the system gets out of phase. BPA is one of the first transmission operators to use this technology.

Smart grid technologies hold great potential to improve transmission reliability and reduce the need for new transmission infrastructure and power resources.

**COMPLYING WITH RELIABILITY STANDARDS**

Achieving and sustaining compliance with new reliability standards is a major undertaking for the entire utility industry, including BPA. Given the magnitude of these changes, the North American Electric Reliability Corp. allowed utilities to phase in compliance requirements between 2008 and 2010.

BPA achieved a significant milestone in June by demonstrating compliance with a series of regulatory standards known as NERC CIP. CIP stands for critical infrastructure protection. We are complying with all auditable NERC CIP Standards.

We upgraded security measures at substations across the region. These measures include tighter access procedures and controls as well as other physical security monitoring devices and equipment.

In a separate effort, BPA is complying with the Department of Energy’s Graded Security Protection Policy that outlines what BPA must do to protect its critical assets. While NERC CIP standards address security measures to protect
key information technology assets, the DOE security policy focuses more on substation yards and cyber technology equipment.

**CONDUCTING NETWORK OPEN SEASON**
For the third year in a row, we have conducted a Network Open Season, a process that enables us to better manage the numerous transmission requests that come to us. The open season allows us to set priorities for financing and building new transmission projects and, equally important, to determine which requests can be met with current transmission. Because requests can be evaluated in a “cluster,” we are better able to study the interactions among these requests.

This year, we received 76 signed agreements and financial commitments for over 3,700 megawatts of new transmission service. Of that amount, almost 2,500 megawatts would be for wind generation. Since Network Open Seasons were introduced in 2008, we have 263 signed agreements to purchase 11,722 megawatts of transmission capacity. Not all these requests will require new transmission. We also have focused on reducing congestion on existing lines, so capacity can be freed up.

**RENEWING COLUMBIAGRIDGE AGREEMENT**
In July, BPA signed a six-year general funding agreement for its continuing membership and participation in ColumbiaGrid, a regional transmission planning and services organization. The agreement affirms our support for ColumbiaGrid’s participation in broader regional transmission efforts.

These efforts include joint projects, studies of the benefits of utility balancing authority area consolidation and exploration of a regionwide open season for transmission requests. These efforts are central to the region’s efforts to integrate large amounts of new renewable resources cost effectively.

Most ColumbiaGrid costs are recovered through services it provides under functional agreements on regional transmission planning and expansion and development of a common OASIS portal and transmission services. The new 2010 ColumbiaGrid funding agreement will remain in effect through Dec. 31, 2016.

Top: Linemen bolt the top of a banjo tower to its base on the McNary-John Day transmission project. Below: Miles of recently completed towers await stringing with conductor.
The act of integrating massive quantities of wind into our system while maintaining reliability has been described as thrilling, exciting and scary all at the same time. It is all of those things. Demand for clean, renewable electricity continues to drive wind power development in the Pacific Northwest, and BPA’s aggressive and often innovative initiatives are helping make BPA a national leader in facilitating wind development.

HELPING WIND GROW RAPIDLY

The growth rate of wind interconnections on our transmission system has been astounding. In 2009 the amount of wind integrated into our transmission system went from 1,500 megawatts to more than 2,500 megawatts. It is now slightly over 3,000 megawatts, and we expect it to reach 6,000 megawatts by 2013.

The challenge in integrating a variable and hard-to-predict resource into a transmission grid is largely a matter of physics. To keep the grid stable, electric generation must exactly match consumption in real time. When actual wind generation varies from scheduled generation, BPA must immediately increase or curtail other generation to maintain electric system reliability.

Realizing the tremendous value of clean renewable resources to both our region and the nation, we have undertaken this challenge. Often, it has meant inventing new technologies and developing new protocols where none existed before.

MEETING WIND’S CHALLENGES

The Columbia River hydro system has served as a “zero emission storage battery” for the variable output of wind generation, but the capability of the hydro system has its limits. BPA teams are now engaged in three categories of actions to meet the challenge of integrating more wind generation while maintaining system reliability. These actions are increasing transmission capacity, providing more reliability services from the existing system and exploring new resources that could provide additional capacity and flexibility.

The day is rapidly approaching, however, when we are likely to have wrung all of the efficiencies we can from the existing system and will need new tools to provide balancing services for
variable renewable resources. We are working with the Pacific Northwest National Laboratories on a study of energy storage options that could absorb excess wind energy in periods of low demand and return it during periods of greater demand. We also are evaluating enhancing the John W. Keys Pump Generating Plant near Grand Coulee Dam to see if it can provide further capacity and flexibility to accommodate more wind by providing storage for reserves.

Until now, wind power projects located in our transmission balancing authority have relied entirely on federal hydropower to compensate for unscheduled swings in wind output. BPA now reserves significant portions of federal hydro capacity to provide this service. On Sept. 1, we launched two new pilot projects, one with Iberdrola Renewables and one with Calpine Corp., to test approaches to lessen the dependence on hydro reserves.

**FINDING NEW WAYS TO FACILITATE WIND POWER**

We, along with the rest of the wind community in the Pacific Northwest, have been on a steep learning curve to support new renewable generation. We intend to stay focused on actions that support carbon-free resources. In 2010 we introduced new transmission operating rules designed to ensure we can operate the system reliably through variations in wind output. Our dispatchers began using a new wind operations screen, which gives them a real-time picture of what each wind project is doing and how much of our generation reserves is being used.

We are exploring dynamic transfer, which allows a utility to remotely control and manage a power plant in another utility’s balancing authority. We are working with regional wind developers to more accurately predict when and where the wind will blow and at what speed. BPA is now harvesting information from 14 anemometers specifically designed to help forecast wind activity.

For the first time this year, wind farms are using BPA’s new intra-hour system that allows wind projects to sell excess power on the half-hour, rather than the hour. That step, and the flexibility it brought, is delivering more wind power to regional customers and easing pressure on the power system.

And, for the first time, BPA has connected nonfederal generation — three wind plants — to our automated generation control system. This connection allows us to manage deviations of wind power from its scheduled production. This is an exciting step forward. It demonstrates our ability to partner with nonfederal generation, and it opens up a realm of potential new tools for keeping the system reliable.

A Transmission Services employee adjusts the angle of a new anemometer, one of 14 in BPA’s wind forecasting fleet. It’s located atop BPA’s microwave station at Sunnyside, Wash. The anemometers measure wind speed and direction, temperature, humidity and barometric pressure.
Energy Efficiency

Wind may be getting most of the “buzz,” but energy efficiency is still the cleanest and cheapest resource available. Investing in energy efficiency helps our region preserve and stretch the tremendous value of the Columbia River system. That’s good for the economy, and it’s good for the environment. And now, there’s an even bigger goal.

MEETING TOUGH TARGETS
We achieved over 90 megawatts of energy savings in 2010. Now, we have an even bigger goal in front of us. This year, the Northwest Power and Conservation Council issued its Sixth Power Plan. The plan envisions that almost 60 percent of the Pacific Northwest’s new demand for electricity over the next five years and 85 percent over the next 20 years could be met with energy efficiency. This nearly doubles targets from the previous plan. BPA will play a large role in achieving public power’s 42 percent share of that goal.

We have been collaborating with our customers and our stakeholders for more than a year to develop a plan to help meet the region’s new electricity demand over the next 20 years through energy efficiency. The plan offers more flexibility in designing and implementing programs and supports achieving energy efficiency at a comparatively low cost. In addition to providing traditional regional programs, we will offer new programs in other market segments that can clearly benefit from economies of scale and regional implementation.

We have crafted a framework to identify and prioritize emerging efficiency technologies. These technology efforts include pilot and demonstration projects to assess regional considerations, performance and end-user impacts. This work is foundational to developing future energy efficiency programs.

STEPPING UP TO DEMAND RESPONSE
In particular, we are focusing on demand response efforts to use energy most efficiently and for better ways to integrate wind generation. We are sponsoring a number of pilot programs around demand response, which is part of the larger program known as smart grid. With demand response, consumers can control how and when they use electricity and, in some cases, at what price. Utilities
benefit because demand response can lower the amount of energy used during peak times, reducing costs of meeting peak power demand.

These projects, in which we are partnering with customers, include a study of whether real-time customer communication through the Internet will change consumer behavior. This will cover the installation of demand response equipment in residential water heaters, in-home displays and thermal storage devices for home heating. We also are testing whether water heaters can communicate via the Internet with wind generators to allow consumers to take advantage of renewable wind power when it is available.

Demand response can ease strain on the federal hydro system. As electricity use grows, flattening out the demand during peak hours can help keep rates lower by reducing the need to generate additional energy or purchase costly market energy to meet periods of higher demand. Experience gained from these pilots will broaden the base of demand response knowledge in the Pacific Northwest.

**SHORING UP EFFICIENCY AT FEDERAL FACILITIES**

This year, we also completed the Grand Coulee Dam lighting retrofit project in partnership with the Bureau of Reclamation. The dam, operated by Reclamation, is one of the largest concrete structures in the world. The retrofit project saved 1 average megawatt of electricity at the facility, equivalent to the electricity needs of over 850 Pacific Northwest households.

The project responds to executive orders calling for federal facilities to reduce energy use by 30 percent. The new systems at Grand Coulee provide more and better quality lighting while saving about 60 percent of the overall lighting use.

We also completed energy audits on dozens of our own transmission facilities as well as federal hatcheries for which we pay operation and maintenance costs. About 10 hydroelectric facilities, 60 transmission facilities and 15 hatcheries have had energy audits and lighting installations completed. The energy audits showed that lighting retrofits were the most cost-effective projects to gain energy efficiencies.

Celilo Converter Station, which turned 40 this year, converts alternating current electricity into direct current. New lighting was installed as our federal facilities undergo retrofits to be more efficient.
We are acutely aware that climate change could have profound effects on hydro operations and fish health. In fact, climate change is the overarching issue for the utility industry. It has the potential to change everything, including the price of electricity, the timing of hydropower generation, the resources utilities acquire and the way transmission operates because of the rise of variable resources.

**ADDRESSING CLIMATE CHANGE**

Climate change models suggest the Pacific Northwest may come to experience a higher proportion of its precipitation as rain and less as snow, potentially reducing natural water storage and affecting water supply timing. Historically, BPA, the Corps and Reclamation have based their projections of future water supplies on historical patterns.

Now, we are developing joint long-term scenarios of potential Columbia River Basin water supply patterns based on climate change research by the University of Washington Climate Impacts Group. When these studies are completed in spring 2011, the hydro operations agencies will begin evaluating climate change impact scenarios in long-term planning studies, including the Columbia River Treaty review, flood control requirements, impacts to reservoirs, generation and Endangered Species Act flow objectives for the Columbia River Basin.

We also are closely tracking federal and state climate change legislative efforts and providing internal weekly climate change updates covering legislative and regulatory activity, market impacts and physical implications. We are participating in C3 – the region’s federal agency Climate Change Collaboration – and in the River Management Joint Operating Committee project to incorporate climate change data into planning models.

**WALKING THE TALK INTERNALLY**

Because we market carbon-free hydropower, nuclear and wind power, BPA has an exceptionally low carbon footprint among power utilities. Therefore, when President Obama ordered the federal government to lead by example in his Executive Order on Federal Sustainability, BPA was well positioned to comply. The order set strict targets for reducing greenhouse gas emissions at federal facilities. It also set targets for efficient, sustainable
buildings, petroleum use reduction in fleets, water efficiency, waste reduction, purchasing green technologies and products, and supporting sustainable communities.

Since 2007, we have been coordinating internal operations to implement cost-effective policies that reduce the agency’s carbon footprint and support sustainable environmental practices. We are building a strong, sustainable focus on conserving resources and cutting greenhouse gas emissions into our internal operations.

Our Sustainability Team is made up of employees from different business units who consolidate multiple climate change and sustainability-related activities. The team produced a sustainability action plan that includes 27 sustainability goals and sets specific dates and measurements to ensure those goals are met. Activities are aimed at reducing use of electricity, water, fleet fuel and paper, while increasing recycling, employee awareness and acquisition of efficient electronics.

**PURSuing Technological Innovation**

Our research and development program is aligned around BPA’s strategic needs. This year, we requested proposals for projects that BPA would fund in fiscal year 2011. We focused on transmission operations, planning and facilities, energy efficiency, energy storage, smart grid, and quagga mussel prevention and mitigation.

The response — 59 proposals — was beyond our expectations. The real challenge was determining which to fund to get the greatest value for our technological innovation budget. Submissions came from individuals, national laboratories and universities.

We were especially delighted with our employee response. We have traditionally put employee proposals on an even footing with external submissions, but this year we added a new category just for employees. We received nine conceptual proposals from employees for new ideas to explore and develop enough to consider as potential BPA projects. Our criteria were that each must cost less than $30,000, use less than one-tenth of a full-time-equivalent employee and take no more than four months.

By its nature, research and development doesn’t always prove out, but we have had some real success in recent years, such as our ductless heat pumps in energy efficiency and high-temperature shunt compression fittings in transmission construction and maintenance. Either of these projects alone is worth our annual research and development budget in long-term benefits to BPA and the region.

BPA employees volunteer with the Community Energy Project to weatherize homes to help senior citizens and those with disabilities reduce their energy bills and remain comfortably in their homes.
Of all the momentous events in 2010, this may be the most remarkable of all. We are seeing astonishing returns of salmon and steelhead. Endangered, as well as nonendangered, fish returned to their spawning grounds in numbers not seen in decades. We are clearly seeing results. The past year is shaping up to be one of the best for migrating salmon and steelhead since Bonneville Dam was completed in 1937.

**SEEING RESULTS IN RETURNING FISH**

Snake River fall chinook set an all-time record for returns up the Snake River through Lower Granite Dam. By the end of the fiscal year, 31,187 adult fall chinook had been counted returning through the dam on their way to their spawning grounds. That’s a new record since counts began in 1975. The fall run will continue through Dec. 15. Snake River fall chinook are listed as threatened under the Endangered Species Act.

The first Columbia River fish to be listed under the Act were the Snake River sockeye that travel 900 miles to spawn in Redfish Lake in Idaho’s Sawtooth Mountains. In 1992, only one sockeye returned to the lake and was immediately dubbed Lonesome Larry. By the end of the fiscal year, 2,201 had returned. This is a larger return than in any year since the 1950s.

BPA has a public responsibility to protect and mitigate impacts to fish and wildlife populations affected by the federal Columbia Basin dams under the Endangered Species Act and the Northwest Power Act. This responsibility has led to aggressive programs in the Columbia River Basin at a cost of about $11 billion in the last 25 years. We work closely with the region’s tribes, states and other federal and nonfederal entities in this effort.

Biologists offer a number of reasons for these recent increases. For example, juvenile salmon encountered highly productive ocean conditions in 2007 and 2008, and the region has made marked improvements to freshwater rearing habitat and hatchery practices in the Columbia Basin. Scientists also point to fish-friendly improvements at the basin’s hydroelectric dams, and thus to better conditions for migrating fish and better management of salmon harvests.
We are not declaring victory. But the higher returns of the last three years are a powerful signal that the region’s efforts to help threatened and endangered fish are headed in the right direction.

**MAKING FISH MIGRATION SAFER**

Thanks to improvements completed in 2010, young salmon had easier and safer routes to pass through Snake and Columbia river dams on their migration to the Pacific Ocean. New routes let fish stay close to the water’s surface where they naturally swim. This massive retrofit effort, under way for a decade, is now complete. Six of eight mainstem dams now include spillway weirs that let fish slide smoothly past dams in the surface water they prefer.

Operational changes at the dams are only part of the effort. We are funding other projects — primarily habitat and hatcheries — to ensure that fish have a healthy start.

Many of these projects fall under the Columbia Basin Fish Accords, historic agreements among three federal agencies (BPA, the Corps and Reclamation), three states and several Columbia Basin tribes. Through the Accords, federal agencies, primarily BPA, provide a 10-year commitment to fund habitat and hatchery actions. Each action is recommended by the Northwest Power and Conservation Council and reviewed by an independent science panel.

**HELPING HATCHERIES WORK BETTER**

Lifeline hatcheries to save sockeye diversity are an example of the effort. Designed to be a safety net for a species that biologists once called “functionally extinct,” the Snake River sockeye hatchery program emphasizes preserving the species’ unique genetic material. The goal is to produce fish whose genes are as close as possible to those of their wild ancestors.

In July, BPA funded the Idaho Department of Fish and Game’s purchase of a former southeast Idaho trout hatchery site with the goal of constructing a new state-of-the-art hatchery, known as the Springfield Hatchery, to further boost rebounding numbers of endangered Snake River sockeye salmon.

We also are funding construction of the Chief Joseph Hatchery in Washington’s Okanogan River Basin. Pending Corps approval, construction will begin in 2011. The hatchery will promote recovery of chinook salmon in the Columbia River below Chief Joseph Dam and in the Okanogan River. The Confederated Tribes of the Colville Reservation will manage the hatchery under guidelines recommended by the Hatchery Scientific Review Group, a committee of scientists that recently completed a review of all salmon and steelhead hatcheries in the Columbia River Basin at the request of the U.S. Congress.

**ACQUIRING HABITAT FOR FISH AND WILDLIFE**

For the last 30 years, BPA has been funding acquisitions of habitat to protect both endangered and nonlisted fish and wildlife. So far we have protected more than 540,000 acres in Oregon, Washington, Idaho and Montana to mitigate the impacts of federal dams on fish and wildlife.

BPA works with project partners, including tribes and states, to identify important fish and wildlife projects and then funds protection and restoration activities to improve the habitat value. BPA funds the original acquisition and adds a conservation easement but does not own the land. States, tribes, land conservancies, local conservation groups and others protect and manage the land. BPA receives credit toward its fish and wildlife obligations for habitat acquisitions.

At year’s end, we signed an agreement with the state of Oregon for major habitat acquisitions. As a condition of the agreement, we funded the acquisition of two substantial and ecologically important parcels in the Willamette Valley totaling about 2,600 acres. The tracts are referred to as Wildish and Trappist Abbey. The properties include floodplain habitat, upland prairie, oak woodland and conifer forest habitats as well as riparian habitat. The habitat supports numerous wildlife species, resident and migratory birds and fish species.
The preceding highlights of key agency events and issues for fiscal year 2010 suggest the breadth and depth of work required to carry out our stewardship of what arguably is the Pacific Northwest’s most valuable natural resource — the Columbia River. We are proud to perform this public service and have worked hard to develop an agency culture that embraces the values of trustworthy stewardship, collaborative relationships and operational excellence.

Given the state of the economy, we have particularly intensified our focus on operational excellence over the past two years to ensure we bring our customers the greatest value cost effectively and without jeopardizing future system reliability. Our employees have risen to the challenge magnificently — finding ways to cut or defer costs and, when expenses could not be deferred or eliminated, coming up with new ways to provide even better service more efficiently and at less cost.

Ultimately, we measure our success by answering the question, “Do we bring value to the Pacific Northwest?” Throughout our long history, delivering value is the test we have sought to meet.

We are keenly aware that we are public servants and that we have many constituencies, some with competing interests. They include consumer-owned utilities, direct-service industries, investor-owned utilities, tribes, states, other federal agencies, public interest groups and interested stakeholders. It requires a work force of high dedication and engagement to equitably and productively balance everyone’s interests.
Footnotes

1 Because BPA purchases small amounts of nonfederal power to augment its system, hydropower accounts for 78.8 percent of BPA’s energy resource portfolio, with nuclear representing 11.6 percent and firm contracts and other power purchase contracts (including some wind) representing 9.6 percent.

2 Runoff from mountain snow is measured during this period because it is most relevant to fueling the hydro system. After July, very little runoff occurs.

3 The 30-year average spans 1971 to 2000.

4 The rate case is a formal evidentiary proceeding that establishes the administrator’s record on which rates are based. A rate case follows the procedures outlined in Section 7(i) of the Northwest Power Act of 1980.

5 In nominal dollars.

6 The Pacific Northwest Electric Power and Conservation Planning Council, now known as the Northwest Power and Conservation Council, was established through the Northwest Power Act of 1980. The governors of the four Northwest states each appoint two members. The Act called on the Council to develop a Northwest Power Plan and a Columbia Basin Fish and Wildlife Program. Both guide BPA’s actions.

7 A record of decision to extend service to Alcoa under its contract was posted on Oct. 29, 2010.

8 In spring and summer, hydro operators send fish-laden waters through the dams’ spillways so the fish avoid turbines. But too much spill traps nitrogen bubbles in the water, which can result in a lethal situation for fish, similar to what humans experience with “the bends.”

9 In this case, each is acting on behalf of the U.S. State Department, and not BPA or the Corps. However, both the administrator and division engineer are uniquely positioned to lead the review so that the State Department can make an informed decision.

10 Established in 2006, ColumbiaGrid now serves as the regional transmission organization for BPA, Avista Corp., Chelan County PUD, Grant County PUD, Puget Sound Energy, Seattle City Light, Snohomish County PUD and Tacoma Power.

11 A balancing authority is an entity that is responsible for maintaining a constant balance between power load and power generation in a geographic area. It is usually a utility or other transmission provider such as a regional transmission organization. There are 14 balancing authorities in the Pacific Northwest, including BPA’s.

12 OASIS stands for Open Access Same-time Information System, a common transmission reservation site.

13 The executive order was signed in October 2009.

14 Quagga mussels are an invasive species. They are mollusks that infest and clog waterways, shutting down transportation, reducing food supplies and generally crowding out other aquatic species. They are transported from one waterway to another by attaching themselves, like barnacles, to boats.

15 In late October 2010, Oregon Gov. Ted Kulongoski and BPA Administrator Steve Wright signed the landmark agreement to jointly protect nearly 20,000 acres of Willamette Basin wildlife habitat – more than twice the area of Oregon’s largest state park.
Performance Target Results

For several years, BPA has set key agency targets that the organization as a whole is responsible for achieving in the specified year. These targets serve as indicators of the agency’s annual performance.

Stakeholder Perspective

**Transmission System Infrastructure**

**TARGET MET.** BPA made transmission system infrastructure investments totaling $267 million. BPA met cost and schedule milestones for 21 out of 23 high impact capital projects, a result of 91 percent against a target of 85 percent.

**Hydro Generation System Infrastructure**

**TARGET MET.** BPA made infrastructure investments totaling $136.4 million. BPA met its 80 percent target for the capital investment program expenditure rate with a result of 88.2 percent and met its milestone completion rate of 80 percent with a result of 88 percent. BPA is on track for completing Capital Allocation Board-approved capital cost, schedule and scope for 20 out of 21 projects, a result of 95 percent, well above the target of 80 percent.

**Energy Efficiency/Demand Management**

**TARGET MET.** BPA achieved over 90 average megawatts of new conservation savings against a target of 80 average megawatts and did so at an average cost of $1.4 million per average megawatt, well below the targeted cost of $2.2 million per average megawatt.

**Transmission Reliability**

**TARGET MET.** The BPA transmission system experienced no high-risk, high-severity level violations of reliability compliance standards. BPA did not experience any involuntary curtailments of firm load due to a reliability violation, transmission system security breach or cascading outage originating on the BPA system. BPA also met its target for meeting the milestones for all Western Electricity Coordinating Council approved or revised mitigation plans.

**Transmission Availability**

**TARGET MET.** BPA’s most important transmission lines were available for service 98.9 percent of the time, exceeding the target of 98 percent.

**Generation Reliability**

**TARGET MET.** The Federal Columbia River Power System’s generators experienced no high-risk violations of reliability compliance standards at any level and experienced no involuntary curtailments of firm load due to inadequate power supply or breach of generation system security. BPA also met the target compliance requirements for the generation-related Western Electricity Coordinating Council approved or revised mitigation plans.
Generation Availability
**TARGET MET.** BPA and its Federal Columbia River Power System partners achieved 99.6 percent of planned heavy-load-hour availability, exceeding the target of 97.5 percent.

Columbia Generating Station Performance and Cost
**TARGET NOT MET.** The cost of power at Columbia Generating Station was $37.79 per megawatt-hour, exceeding the targeted range of $33.45 and $36.97 per megawatt-hour. The Columbia Generating Station overall performance index indicator was 52.34 points, above the target of 51.31 points.

Wind Integration
**TARGET MET.** BPA successfully completed the 2010 elements of the Wind Integration Team Work Plan on time and on budget. Elements successfully completed include: implemented Dispatcher Standing Order 216; developed a methodology to manage dynamic scheduling in BPA’s network and interties; initiated an intra-hour scheduling pilot program; developed policies and procedures to support customer self-supply of within-hour balancing requirements; initiated a self-supply pilot program; installed 14 wind metering sites; and drafted a report on recommended energy storage options. BPA also further defined its long-term wind strategy.

Endangered Species Act Compliance
**TARGET MET.** BPA met its implementation requirements for the 2008 Biological Opinion Reasonable Prudent Alternatives, Adaption Management Implementation Plan, and Fish Accords with no court action resulting in a “material change.”

Climate Change Response Strategy
**TARGET MET.** BPA successfully tracked and evaluated legislative and regulatory proposals related to climate change. No key federal legislation was passed in fiscal year 2010.

Customer Satisfaction
**TARGET MET.** Survey results showed a customer satisfaction rating of 7.7, exceeding the target range of 7.0 to 7.5 out of 10.

Constituent Satisfaction
**TARGET MET.** Survey results showed a constituent satisfaction rating of 8.0, exceeding the target range of 7.0 to 7.5 out of 10.

Tribal Government Satisfaction
**TARGET MET.** Survey results showed a tribal government satisfaction rating of 7.5, within the target range of 7.0 to 7.5 out of 10.

Modified Net Revenue
**TARGET NOT MET.** Due to low net secondary sales caused by below average streamflows and low market prices, BPA’s modified net expenses were $164 million against a modified net revenue target range of $75 million to $225 million.

Treasury Payment
**TARGET MET.** BPA’s fiscal year 2010 payment to the U.S. Treasury of $864.1 million was made on time and in full for the 27th consecutive year. The payment consisted of $459.8 million for principal, $364.3 million for interest and $40 million for other obligations.
Financial Perspective (CONTINUED)

**Bond Rating**
**Target Met.** BPA maintained ratings of “AA” from all three credit rating agencies for BPA-backed bonds as affirmed by Moody’s (Aaa), Standard and Poor’s (AA), and Fitch (AA).

**Internal Operating Cost**
**Target Met.** Internal operating costs of $639 million were below the targeted range of $662 million to $679 million.

**Systems & Process Improvement**
**Target Not Met.** BPA met two out of three major systems and process improvement programs in fiscal year 2010. The Regional Enterprise Program achieved all major milestones and ran under budget to implement BPA’s Long-Term Regional Dialogue Final Policy. The Real-time Operations Dispatch Scheduling System Replacement and Retirement Project met its milestones on time and on budget against a target of 80 percent. BPA’s Transmission Process Improvements Program, an essential element for end-of-year success, did not meet its targeted performance because four out of five of the projects did not meet 80 percent of scheduled milestones within budget. Microsoft Project Integration met its end-of-year milestones while the following four projects did not: Enterprise Geospatial Information System; e-Commerce; Work Planning and Scheduling System; and Transmission Asset System.

**Workforce Gap Closure**
**Target Met.** BPA implemented 100 percent of agency workforce plan actions to effectively recruit, retain and develop critical skills and occupations, exceeding the target of 80 percent.

**Safety**
**Target Not Met.** BPA achieved a lost-time frequency rate of 0.9 per 200,000 hours worked, which is significantly below the industry lost-time frequency rate target of 2.1 as reported by the Bureau of Labor Statistics. However, BPA did not meet its safety target because a contract worker fatality occurred on March 1, 2010.
Financial Section

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Forward-Looking Information

This forward-looking information contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting BPA’s business and financial results could cause actual results to differ materially from those stated in the forward-looking statements. BPA does not plan to issue any updates or revisions to the forward-looking statements.

INFRASTRUCTURE

Infrastructure for the Federal Columbia River Power System is aging, both for hydro and transmission projects. Not only does this increase cost pressures on operations and maintenance, but it also means the system may be vulnerable in terms of reliability. Making planned investments will reduce the likelihood of forced outages.

This issue is central to protecting the value and assets of the FCRPS. Building or replacing infrastructure does not directly impact current rates, but the resulting interest and depreciation will impact rates many years into the future. In addition, BPA must maintain adequate cash reserves to cover the cash requirements to repay Treasury and to mitigate financial risk exposure.

COLUMBIA GENERATING STATION

Energy Northwest, a joint operating agency of the State of Washington formed and maintained by certain municipal utilities and utility districts, owns and operates Columbia Generating Station, the region’s only operating commercial nuclear plant. BPA funds the plant and markets its energy. The plant represents a significant portion of BPA’s wholesale power rates, with annual operations and maintenance costs on average roughly equaling the similar costs for the 31 federal dams that produce close to 90 percent of BPA’s power.

For the past three years, Columbia Generating Station has fallen short of performance goals, primarily due to unplanned outages, unscheduled power reductions and long refueling outages. BPA and Energy Northwest are working together to address plant performance and have agreed on steps to move forward. Energy Northwest is focusing on improved equipment reliability, including replacement of the main condenser in 2011. Past condenser leaks led to lower generation than planned. While BPA is concerned about the cost of this replacement, BPA agrees with Energy Northwest that the condenser replacement is necessary to improve performance. The plant is a valuable carbon-free resource that is being operated safely. In the future, if carbon costs are included in electricity pricing, BPA would expect the plant to become even more valuable.

TIERED RATES

At the end of calendar year 2008, BPA signed new wholesale power sales contracts with its preference customers and certain other agreements with some investor-owned utilities for fiscal years 2012-2028. In addition, BPA issued the Tiered Rate Methodology at about the same time, which was the result of several years of negotiations among BPA and its customers. The new contracts together with the Tiered Rate Methodology provide BPA and its preference customers with greater long-term rate stability and protection from volatile energy markets.

Preference customers have a contract-defined right to purchase an amount of power at Tier 1 rates beginning in October, 2011. The aggregate amount of power available at Tier 1 rates is limited to the output of the existing resources of the federal system, subject to certain possible limited adjustments. Tier 1 rates are expected to remain relatively low and stable because they recover the cost of the existing federal system, which in aggregate is expected to continue as a low-cost portfolio of generating resources.

ENDANGERED SPECIES ACT

In 1991, the federal government listed certain fish species that are affected by operation of the federal system’s Columbia River and Snake River dams as endangered or threatened. Since that time, the federal government has prepared several “biological opinions” that sought to address, among other things, the means by which the federal system dams may be operated without jeopardizing the existence of the listed species. These prior biological opinions were
challenged successfully in court. In 2008, the federal government issued a 2008 Federal Columbia River Power System Biological Opinion that seeks to address the Court-identified deficiencies of the prior biological opinions. In 2010, the federal government supplemented the 2008 biological opinion with additional information. The 2008 biological opinion and the 2010 supplemental information have been challenged in court.

Because the biological opinion governs how the federal hydropower system should be operated to protect salmon and steelhead listed under the Endangered Species Act and establishes fish and wildlife programs that aid in avoiding jeopardy of the species, the outcome of this litigation could have major financial consequences by affecting the electric generation of the system and the costs that BPA faces.
# Management’s Discussion & Analysis

## RESULTS OF OPERATIONS

### OPERATING REVENUES

Federal Columbia River Power System  
For the years ended Sept. 30 (thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
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<tr>
<td><strong>GROSS SALES:</strong></td>
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<td></td>
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<td>Power</td>
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<td>Transmission</td>
<td>738,330</td>
<td>689,197</td>
<td>683,964</td>
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<td>Bookouts</td>
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<td>U.S. Treasury credits for fish</td>
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<td><strong>MISCELLANEOUS REVENUES:</strong></td>
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<td>Transmission</td>
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<td><strong>Total operating revenues</strong></td>
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### FISCAL YEAR 2010 REVENUES COMPARED TO FISCAL YEAR 2009

For the fiscal year ended Sept. 30, 2010, Power Services and Transmission Services consolidated gross sales increased by $192 million, or 7 percent, from the prior year.

Power Services gross sales increased $143 million, or 7 percent. The change was primarily due to the following key factors:

- Firm sales increased $164 million in fiscal year 2010 compared to fiscal year 2009 due to higher rates in fiscal year 2010. The Wholesale Power 2010 Rate Case established BPA power rates for fiscal years 2010 and 2011. As a result, the Priority Firm preference average rates were $28.77 per megawatt-hour in fiscal year 2010 compared with $26.90 per megawatt-hour in fiscal year 2009. The Slice PF rate was 4.8 percent higher in fiscal year 2010 than in fiscal year 2009. The rate increase for fiscal year 2010 was 7 percent on average for non-Slice customers.
- Power gross sales increased slightly to 76,545,126 megawatt-hours in fiscal year 2010 from 76,421,688 megawatt-hours in fiscal year 2009. Columbia Generating Station output increased 33 percent to 9,003,577 megawatt-hours in fiscal year 2010 compared to 6,775,649 megawatt-hours in fiscal year 2009. Reduced CGS output in fiscal year 2009 was due to planned outages for maintenance and refueling and unplanned outages.
- Secondary sales decreased $22 million in fiscal year 2010 compared to fiscal year 2009 due to lower than average streamflows and hydro generation. Basin-wide precipitation and streamflows were well below normal during the first half of fiscal year 2010. Although the June record rainfall increased streamflows, it was not enough to overcome the precipitation deficit that occurred early in the year. A typical metric to measure runoff is million acre-feet. Runoff measured at The Dalles Dam was 110 maf and 117 maf for fiscal years 2010 and 2009, respectively, compared to the historical average of 131 maf.
- Transmission Services gross sales increased $49 million, or 7 percent, in fiscal year 2010 from the prior year, mainly due to Network and Ancillary Service product sales.
- Point-To-Point long-term and Network Integration revenues increased by $15 million and $4 million, respectively, due to overall increases in transmission reservations and product deliveries.

- Ancillary Services products increased by $30 million. Higher rates for Within-Hour Balancing Resources and for Operating Reserves caused $27 million of the increase, and Energy and Generation Imbalance sales, driven in part by additional wind generation, increased $3 million. When sales and purchases are scheduled on the same path for the same hour, the power is typically booked out and not scheduled for physical delivery. The megawatt-hours booked out net to zero. The value of these transactions that offset are recorded as bookouts, and revenues and expenses are presented on a net basis in the Combined Statements of Revenues and Expenses. Therefore the accounting treatment for bookouts has no effect on net revenues, cash flows or margins.

The change in derivative instruments to an unrealized gain of $15 million in fiscal year 2010 from an unrealized loss of $35 million in fiscal year 2009 was primarily due to the following factors:

- BPA’s termination of its Libor interest rate swaps in February 2010.

- BPA’s application of regulatory operations accounting to its derivative instruments. Regulatory operations accounting was applied in conjunction with the finalization of BPA’s new long-term Tier 2 power sales contracts in 2010, and means that unrealized gains and losses from derivative instruments are recorded as regulatory assets and liabilities on the Combined Balance Sheet as opposed to operating revenues on the Combined Statement of Revenues and Expenses.

The unrealized gain of $15 million recorded in operating revenues in fiscal year 2010 represents the reversal of the ending unrealized loss position for fiscal year 2009, which was the net of a gain position on commodity contracts and a loss position on the Libor interest rate swaps.

U.S. Treasury credits for fish increased to $123 million in fiscal year 2010 from $99 million in fiscal year 2009, or about 24 percent. The change was primarily due to below normal streamflows, increased purchased power and increases in program expenses.

**FISCAL YEAR 2009 REVENUES COMPARED TO FISCAL YEAR 2008**

For the fiscal year ended Sept. 30, 2009, Power Services and Transmission Services consolidated gross sales decreased $228 million, or 8 percent, from the prior year.

Power Services gross sales decreased $233 million, or 10 percent. The change was primarily due to the following key factors:

- Revenues were down $490 million from fiscal year 2008 due to the downturn in the economy resulting in lower demand as well as reduced runoff and lower market prices. Runoff measured at The Dalles Dam was 117 maf and 126 maf for fiscal years 2009 and 2008, respectively, compared to the historical average of 133 maf. Lower market prices for electricity were mainly driven by lower natural gas prices.

- Reduced Columbia Generating Station output was due to planned and unplanned outages.

- The WP-07 Supplemental Rate Case revised BPA’s power rates for fiscal year 2009, resulting in non-Slice PF rates being about 1 percent lower than the fiscal year 2008 rates.

- The decrease in revenue was offset by the effects of the Residential Exchange Program refunds. Refunds under the program were approximately $83 million and $341 million in fiscal years 2009 and 2008, respectively, which results in a net $257 million increase in revenue.

Transmission Services gross sales increased $5 million, or 1 percent. The change was primarily due to the following key factors:

- An increase in Ancillary Services, primarily due to the introduction of a new product called Within-Hour Balancing for Resources and Regulation and Frequency Response.

- An overall decrease in Network sales driven by a decrease in Point-to-Point short-term sales that were caused by a lower spring runoff. An increase in Point-to-Point long-term sales partially offset the decrease of Point-to-Point short-term sales.
The increase in the unrealized loss of BPA’s derivative instruments of $4 million, or 13 percent, was due primarily to the following key factors:

- Decrease in the 10- and 15-year forward Libor swap curves;
- Decrease in the forward power price curve and its effect on BPA’s commodity derivative instruments.

**FISCAL YEAR 2010 EXPENSES COMPARED TO FISCAL YEAR 2009**

For the fiscal year ended Sept. 30, 2010, operating expenses increased $186 million, or 7 percent, from fiscal year 2009.

Operations and maintenance increased $11 million, or 1 percent, from the prior fiscal year as reported in the Combined Statements of Revenues and Expenses. Increased expenses were primarily for the Fish and Wildlife Program of $24 million driven by the Northwest Power and Conservation Council’s Columbia River Basin Fish and Wildlife Program and biological opinions, direct funded federal hydro projects of $18 million for system operations and maintenance, Energy Efficiency Program of $6 million driven primarily by federal energy efficiency reimbursable projects, Transmission Operations Program of $5 million due to substation operations, scheduling and technical operations, and miscellaneous expenses of $14 million. These increases were partially offset by decreased expenses of $31 million for Columbia Generating Station associated with scheduled refueling and maintenance and Residential Exchange Program payments of $25 million primarily due to the Avista settlement that occurred in 2009.

Gross purchased power expense increased $104 million, or 37 percent, mainly due to below normal basin-wide precipitation and streamflows not providing sufficient generation to fulfill load obligations. The increase was partially offset by a $40 million reduction due to discontinuing payments in lieu of power deliveries to the direct-service industries, consistent with a Ninth Circuit Court opinion. Operations to allow for fish mitigation measures also contributed to the need to purchase additional power.

Nonfederal projects debt service increased $99 million, or 20 percent, primarily due to an increase in debt repayments of $96 million for Energy Northwest’s Project 1 and CGS. Over the past two decades, Energy Northwest’s debt service was periodically restructured to achieve overall federal and nonfederal debt service objectives which typically reduced nonfederal projects expense. These debt management actions have created uneven Energy Northwest debt service such that there can be significant variances from year-to-year.

Net interest expense for the fiscal year ended Sept. 30, 2010, increased $25 million, or 11 percent, compared to fiscal year 2009 primarily due to a $22 million decrease in interest income as a result of lower cash balances and interest rates.

**FISCAL YEAR 2009 EXPENSES COMPARED TO FISCAL YEAR 2008**

For the fiscal year ended Sept. 30, 2009, operating expenses increased $209 million, or 8 percent from fiscal year 2008.

Operations and maintenance increased $322 million, or 26 percent, from the prior fiscal year, as reported in the Combined Statements of Revenues and Expenses, due primarily to: $206 million associated with the effects of the Residential Exchange Program; $51 million increase in Energy Northwest CGS scheduled maintenance and biennial refueling; and $29 million increase in Fish and Wildlife Program Expense.

Gross purchased power expense decreased $172 million, or 38 percent, mainly due to lower market prices and volume of purchases. The decrease was partially offset by a $40 million increase due to payments in lieu of power deliveries to the direct-service industries and an increase in purchased power due to the unplanned outage at CGS.
Nonfederal projects debt service increased $22 million, or 5 percent, due to increased Libor interest expense and repayment for CGS debt, partially offset by lower repayment of Energy Northwest’s terminated nuclear facilities debt.

Net interest expense for the fiscal year ended Sept. 30, 2009, decreased $14 million, or 4 percent, compared to fiscal year 2008 as the weighted-average interest rate on federal appropriations decreased. Interest income decreased $3 million, or 4 percent, due to lower cash balances and lower interest rates.

**SELECTED QUARTERLY INFORMATION**

Due to heating loads for Northwest utilities, the winter quarters normally have the highest revenues. This was the case for fiscal years 2010 and 2009; however, the late snow melt in fiscal year 2008 resulted in increased secondary sales in the third quarter. Maintenance on transmission facilities occurs mainly during the summers, usually resulting in higher operating expenses for the fourth quarters. A Residential Exchange Program adjustment of $341 million was recorded in the fourth quarter of fiscal year 2008.

<table>
<thead>
<tr>
<th></th>
<th>Dec 31</th>
<th>Mar 31</th>
<th>Jun 30</th>
<th>Sep 30</th>
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<tr>
<td><strong>2010</strong></td>
<td></td>
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<tr>
<td>Revenues</td>
<td>$ 806,072</td>
<td>$ 804,588</td>
<td>$ 725,046</td>
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<td>Operating revenues</td>
<td>797,473</td>
<td>821,173</td>
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<td>Operating expenses</td>
<td>683,274</td>
<td>784,180</td>
<td>670,008</td>
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<td>Net interest expenses</td>
<td>57,974</td>
<td>59,467</td>
<td>59,475</td>
<td>66,426</td>
<td>243,342</td>
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<td>Net revenues (expenses)</td>
<td>$ 56,225</td>
<td>$(22,474)</td>
<td>$ 2,377</td>
<td>$(163,709)</td>
<td>$(127,581)</td>
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<table>
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<th>Mar 31</th>
<th>Jun 30</th>
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<td><strong>2009</strong></td>
<td></td>
<td></td>
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<tr>
<td>Revenues</td>
<td>$ 763,040</td>
<td>$ 787,348</td>
<td>$ 700,961</td>
<td>$ 653,612</td>
<td>$ 2,904,961</td>
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<td>(34,677)</td>
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<td>723,093</td>
<td>792,272</td>
<td>703,918</td>
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<td>Operating expenses</td>
<td>685,532</td>
<td>688,465</td>
<td>624,871</td>
<td>754,037</td>
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<td>Net interest expenses</td>
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<td>53,093</td>
<td>60,763</td>
<td>50,366</td>
<td>218,429</td>
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<td>Net revenues (expenses)</td>
<td>$(16,646)</td>
<td>$ 50,714</td>
<td>$ 18,284</td>
<td>$(153,402)</td>
<td>$(101,050)</td>
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<table>
<thead>
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<th>Jun 30</th>
<th>Sep 30</th>
<th>Totals</th>
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<td><strong>2008</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>$ 797,440</td>
<td>$ 847,936</td>
<td>$ 904,447</td>
<td>$ 517,359</td>
<td>$ 3,067,182</td>
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<td>Derivative instruments</td>
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<td>(48,313)</td>
<td>37,824</td>
<td>(3,955)</td>
<td>(30,564)</td>
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<td>Operating revenues</td>
<td>781,320</td>
<td>799,623</td>
<td>942,271</td>
<td>513,404</td>
<td>3,036,618</td>
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<td>Operating expenses</td>
<td>691,211</td>
<td>657,083</td>
<td>717,809</td>
<td>477,702</td>
<td>2,543,805</td>
</tr>
<tr>
<td>Net interest expenses</td>
<td>55,616</td>
<td>54,463</td>
<td>55,557</td>
<td>62,332</td>
<td>227,968</td>
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<tr>
<td>Net revenues (expenses)</td>
<td>$ 34,493</td>
<td>$ 88,077</td>
<td>$ 168,905</td>
<td>$(26,630)</td>
<td>$ 264,845</td>
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</table>
LIQUIDITY AND CAPITAL RESOURCES

During fiscal year 2010 management modified its method for presentation of nonfederal projects transactions in the Combined Statements of Cash Flows. The revised method eliminates the presentation of noncash nonfederal projects transactions and modifies the presentation of debt repayments that are included in Nonfederal projects expense. The Combined Statements of Cash Flows for fiscal years 2009 and 2008 have been revised to conform to the new methodology. The change in methodology and the revisions to fiscal years 2009 and 2008 had no impact on total cash flows.

The revised cash flow method impacted cash provided by and used for operating, investing and financing activities as described in the accompanying Notes to Financial Statements — Note 1, Summary of Significant Accounting Policies.

OPERATING ACTIVITIES

As a result of the factors previously discussed, the FCRPS incurred net expenses of $128 million for the fiscal year ended Sept. 30, 2010. By comparison, net expenses were $101 million for the fiscal year ended Sept. 30, 2009. Cash provided by operating activities of the FCRPS increased to $370 million for the fiscal year ended Sept. 30, 2010, from $268 million for fiscal year ended Sept. 30, 2009, as reported in the Combined Statements of Cash Flows. The change in operating cash flow primarily reflects differences in the timing of collecting receivables, payments of accounts payable and accrued liabilities.

In contrast to net expenses of $101 million for the fiscal year ended Sept. 30, 2009, the FCRPS earned net revenues of $265 million for the fiscal year ended Sept. 30, 2008. Cash provided by operating activities of the FCRPS decreased to $268 million for the fiscal year ended Sept. 30, 2009, from $829 million for fiscal year ended Sept. 30, 2008, as reported in the Combined Statements of Cash Flows. The net change attributable to settlement of the IOU residential exchange benefits was $138 million outflow.

INVESTING ACTIVITIES

Cash used for investing activities of the FCRPS decreased $63 million to $713 million for the fiscal year ended Sept. 30, 2010, when compared to the fiscal year ended Sept. 30, 2009. Utility plant investment increased $109 million, driven primarily by investments for additional transmission assets and at generating facilities. Under its banking arrangement with the U.S. Treasury, BPA has agreed to invest at least $100 million annually in U.S. Treasury securities for up to 10 years or until the BPA fund is fully invested. During the fiscal year, $45 million matured and was re-invested into 90-day securities now reflected in cash and cash equivalents. In fiscal year ended Sept. 30, 2010, the consolidated special purpose corporations deposited $5 million into their restricted trust funds and advanced $40 million to the BPA fund to support transmission construction activities on leased projects. When compared to the same activities for the fiscal year ended Sept. 30, 2009, the $127 million net change reflects a reduction in construction activity on leased projects as seen by decreases in both deposits to the restricted trust funds and advances to the BPA fund. The availability of American Recovery and Reinvestment Act funds decreased reliance on the Lease Financing Program.

Cash used for investing activities of the FCRPS increased $347 million to $775 million for the fiscal year ended Sept. 30, 2009, when compared to the fiscal year ended Sept. 30, 2008. Utility plant investment increased $163 million, driven primarily by investments for additional transmission assets and at generating facilities. During the fiscal year ended Sept. 30, 2009, the consolidated special purpose corporations deposited $200 million into their restricted trust funds and advanced $108 million to the BPA fund to support transmission construction activities on leased projects. When compared to the same activities for the fiscal year ended Sept. 30, 2008, the $83 million net change reflects an increase in construction activity on leased projects as seen by increases in both deposits to the restricted trust funds and advances to the BPA fund.

FINANCING ACTIVITIES

Cash provided by financing activities of the FCRPS was $64 million for the fiscal year ended Sept. 30, 2010, compared to $133 million for the fiscal year ended Sept. 30, 2009. Debt repayments may differ from those scheduled in prior years as a result of current year management actions. Federal appropriations decreased primarily due to $166 million higher repayment and $90 million lower funding for capital and operations and maintenance investments at the generating facilities. BPA borrowings from the U.S. Treasury increased $300 million during the fiscal year to $638 million while
repayment decreased $138 million to $255 million. Of the $638 million in new borrowings from the U.S. Treasury, $349 million was for transmission investments, $243 million for generation investments and $46 million for fish & wildlife investments. ARRA funds are being used to fund in part investments across these classes. New nonfederal debt decreased $195 million as a result of reduced Lease Financing Program special purpose corporations’ borrowings for transmission infrastructure. Increased nonfederal debt repayments were primarily due to an increase of $96 million for Energy Northwest’s Project 1 and Columbia Generating Station.

Cash provided by financing activities of the FCRPS was $133 million for the fiscal year ended Sept. 30, 2009, compared to $145 million used for financing activities for the comparable period a year earlier. Federal appropriations increased primarily due to funding for capital and operations and maintenance investments at the generating facilities. BPA borrowings from the U.S. Treasury decreased $12 million during the fiscal year to $338 million. Of the $338 million, $203 million was for transmission investments, $115 million for generation investments and $20 million for fish & wildlife investments. Nonfederal debt increased as a result of higher Lease Financing Program special purpose corporations’ borrowings for transmission infrastructure.

CASH AND CASH EQUIVALENTS BALANCE AND BPA RESERVES
At Sept. 30, 2010, the FCRPS ending cash and cash equivalents balance on the Combined Balance Sheet was $1.079 billion. BPA’s fiscal year-end cash and cash equivalents balance, excluding funds transferred from the Spectrum Relocation fund, was $851 million, and the Corps and Reclamation combined fiscal year-end cash balance was $228 million.

BPA’s year-end reserves for fiscal years 2010, 2009 and 2008 were $1.114 billion, $1.363 billion and $1.646 billion, respectively. For fiscal year 2010 financial reserves are comprised of BPA cash, investments in U.S. Treasury market-based special securities and deferred borrowing. The U.S. Treasury market-based special securities reflect the market value as if securities were liquidated at Sept. 30, 2010. Deferred borrowing represents amounts that BPA is authorized to borrow from the U.S. Treasury for expenditures that BPA has incurred but has not borrowed for as of Sept. 30, 2010. BPA’s year-end reserves balance has declined over the past two years as operating results were lower than forecast in rates, primarily due to reduced runoff and lower market prices previously discussed.

BPA STATUTORY BORROWING AUTHORITY
The aggregate principal amount of U.S. Treasury debt BPA is authorized to have outstanding at any one time is $7.70 billion. This amount was increased in February 2009 when the president approved the ARRA. The ARRA provided BPA with an additional increment of $3.25 billion in U.S. Treasury borrowing authority. The debt may be issued to finance BPA’s capital programs, which include Corps and Reclamation direct-funded capital investments. Additionally, $750 million of the $7.70 billion can be issued to finance Northwest Power Act-related expenses.

BPA uses its U.S. Treasury borrowing authority to fund its capital programs. The terms of the individual debt instruments can vary but are limited as follows for each of the capital programs: 45 years for Corps and Reclamation capital investments, 35 years for transmission facilities, 15 years for fish and wildlife and environment projects and five years for conservation projects. As of Sept. 30, 2010, BPA had $2.51 billion of U.S. Treasury debt outstanding. The terms of the outstanding U.S. Treasury borrowings vary from three to 34 years. U.S. Treasury debt can be issued with call options. At Sept. 30, 2010, BPA had 75 callable borrowings on its books totaling $1.85 billion. The interest on BPA’s outstanding borrowings from U.S. Treasury is set at fixed and variable rates comparable to the rates prevailing in the market for similar bonds issued by government corporations. As of Sept. 30, 2010, the interest rates on the outstanding U.S. Treasury borrowings ranged from 0.2 percent to 6.7 percent with a weighted-average interest rate of approximately 4.4 percent. The outstanding bonds with a variable rate of interest carried an interest rate of 0.2 percent at Sept. 30, 2010.

LEASE FINANCING PROGRAM
The Lease Financing Program enables BPA to continue to invest in infrastructure to support a safe and reliable system for the transmission of power with an alternative to the use of limited statutory borrowing authority with the U.S. Treasury.
Under this program, BPA has entered into lease arrangements with several special purpose corporations. These entities are collectively referred to as the Northwest Infrastructure Financing Corporations and are consolidated with BPA for financial statement reporting purposes.

From inception through fiscal year 2010, BPA has entered into lease arrangements for $450 million with the NIFCs for specific transmission assets. BPA has been retained as construction agent to construct and install the leased assets. The construction costs of the assets are being financed through bonds or bank lines of credit. Payment of the debt service is secured solely by BPA’s lease payments. The lease agreements expire between fiscal years 2014 and 2016 or in 2034, at which point BPA may acquire the assets, negotiate the extension of the leases for longer terms, or arrange for the transfer of the assets to a separate owner and lease the assets from the new owner.

**TREASURY PAYMENT**

BPA paid the U.S. Treasury $864 million for fiscal year 2010, making it the 27th consecutive year in which BPA has made its payments on time and in full. The fiscal year 2010 payments included $460 million in principal and $364 million in interest for U.S. Treasury debt and for the appropriated federal investment in the FCRPS. This fiscal year’s principal payment included $39 million to repay bonds issued to the U.S. Treasury in excess of the base payment calculated for FERC filings. BPA paid the U.S. Treasury $40 million in other obligations, including $31 million of additional funding for post-retirement benefit programs provided to employees associated with the operation of the FCRPS. Payments made in fiscal years 2009 and 2008 were $845 million and $963 million, including $234 million and $211 million, respectively, to repay federal appropriations and bonds issued to the U.S. Treasury in excess of the base payments calculated for FERC filings.

**CREDIT RATINGS**

Credit ratings on nonfederal debt backed by BPA at Sept. 30, 2010, were as follows:

- Moody’s at Aaa
- Standard & Poor’s at AA with a stable outlook
- Fitch at AA with a positive outlook

**CONTRACTUAL OBLIGATIONS AND FEDERAL PAYMENTS**

Amounts shown in the following table for federal appropriations, borrowings from U.S. Treasury and nonfederal debt include interest and therefore are higher than amounts reflected in the Combined Balance Sheets and described in the accompanying Notes to Financial Statements — Note 7, Federal Appropriations; Note 8, Borrowings from U.S. Treasury; and Note 9, Nonfederal Debt. Asset retirement obligations also include interest and are described in Note 2, Asset Retirement Obligations. Capital leases include interest and are described in Note 10, Deferred Payments and Financial Statement Reporting.

### CONTRACTUAL OBLIGATIONS AND FEDERAL PAYMENTS

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<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016+</th>
<th>Total</th>
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<tr>
<td>Federal appropriations</td>
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<td>$268,427</td>
<td>$260,292</td>
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<td>$307,762</td>
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<td>Nonfederal debt</td>
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<td>Asset retirement obligations</td>
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<td>11,829</td>
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<td>20,655</td>
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<td>Capital leases</td>
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<td>4,760</td>
<td>4,760</td>
<td>4,760</td>
<td>93,551</td>
<td>117,540</td>
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<tr>
<td>Purchase power commitments</td>
<td>43,360</td>
<td>51,805</td>
<td>66,441</td>
<td>35,234</td>
<td>—</td>
<td>—</td>
<td>196,840</td>
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<tr>
<td>Irrigation assistance</td>
<td>—</td>
<td>1,206</td>
<td>60,021</td>
<td>53,495</td>
<td>53,048</td>
<td>508,533</td>
<td>676,303</td>
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<td><strong>Total</strong></td>
<td>$1,380,002</td>
<td>$1,462,563</td>
<td>$1,450,403</td>
<td>$1,541,894</td>
<td>$1,588,552</td>
<td>$17,583,480</td>
<td>$25,006,894</td>
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</table>
Credits and Other. Purchase power commitments are a period expense. Irrigation assistance is treated as a distribution from accumulated net revenues when paid. These are described in Note 13, Commitments and Contingencies.

OFF-BALANCE SHEET ARRANGEMENTS
FCRPS is not engaged in any off-balance sheet arrangements through unconsolidated limited purpose entities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES
Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled in the future. Amounts recognized in the Combined Financial Statements from such estimates are based upon numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in the Combined Financial Statements will likely increase or decrease in the future as additional information becomes available.

REGULATORY ACCOUNTING POLICY
BPA’s rates are designed to recover its cost of service. In connection with the rate-setting process, certain current costs or credits may be included in rates for recovery over future periods. Under those circumstances regulatory assets or liabilities are recorded. Such costs or credits are amortized either during the periods they are scheduled in rates or as the nonfederal projects debt is repaid in accordance with authoritative guidance for Regulated Operations.

In order to defer incurred costs, a regulated entity must have the statutory authority to establish rates that recover all costs, and rates so established must be charged to and collected from customers. If BPA’s rates should become market-based, any deferred costs and revenues would be expensed and recognized, respectively, in the Combined Statement of Revenues and Expenses in that period. Since BPA’s rates are not structured to provide a rate of return on rate base assets, regulatory assets are recovered at cost without an additional rate of return. See Note 4, Effects of Regulation, for tables summarizing regulatory assets and liabilities as of Sept. 30, 2010, and 2009. Amortization of these assets and liabilities is reflected in the Combined Statements of Revenues and Expenses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK MANAGEMENT
Due to the operational risk posed by fluctuations in river flows and electric market prices, net revenues that result from underlying surplus or deficit energy positions are inherently uncertain. BPA’s Transacting Risk Management Committee has responsibility for the oversight of the market price, inventory and credit risks that arise from transacting in power markets. The TRMC establishes risk tolerances and limits that are represented in the transactional risk policy. This policy defines the control environment through which these risks are managed. Experienced business and risk analysts and managers conduct simulation and analysis of the hydro supply system and forward market prices to derive market price and credit risk positions. These results are measured against risk limits and reported to senior management. See Note 11, Risk Management and Derivative Instruments, for additional disclosure related to Commodity, Volumetric, Credit and Interest Rate risk.

NON-GAAP FINANCIAL INFORMATION

FISH AND WILDLIFE
The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife consistent with the Northwest Power Act and the Northwest Power and Conservation Council’s Columbia River Basin Fish and Wildlife Program. Additionally, certain Columbia River Basin fish species are listed under the Endangered Species Act as threatened or endangered. BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions prepared by the National Oceanic and Atmospheric Administration Fisheries Service and the U.S. Fish and Wildlife Service in furtherance of the ESA.

BPA’s fish and wildlife costs consist of direct costs and operational impacts. Direct costs include integrated program costs. Operational impacts include replacement power purchase costs and estimated foregone power revenues. The following table includes these costs and estimates.
MODIFIED NET REVENUES

Modified net revenues are net revenues after removing the effects of the unrealized loss or (gain) on derivative instruments and nonfederal debt management actions that differ from rate case assumptions. Management has determined that modified net revenues (expenses) are a better representation of the outcomes of normal operations during periods of debt management actions and fluctuations in derivative instruments’ market prices.

BPA manages the FCRPS debt portfolio to meet the objectives of maintaining sufficient financial flexibility to support operations while maximizing BPA’s access to its lowest cost capital sources to meet future capital needs at the lowest cost to ratepayers. BPA’s Debt Optimization Program was intended to provide BPA with cash flow flexibility to allow BPA to advance the repayment of BPA’s federal debt and thereby restore BPA’s limited borrowing authority.

Under the Debt Optimization Program, which was substantially completed in fiscal year 2009, approximately $2.6 billion in bonds issued by Energy Northwest have been refinanced with new bonds having final maturities mainly in calendar years 2013-2018, with some extended to 2024. These actions reduced the expense for nonfederal projects included in operating expenses and increased net revenues reported in the Combined Statements of Revenues and Expenses. This is because the related regulatory assets are not amortized until the principal on the outstanding nonfederal bonds is repaid. As a result of the actions taken under the Debt Optimization Program, BPA repaid federal appropriations and borrowings from U.S. Treasury in excess of the base payments calculated for FERC filings of $39 million, $234 million and $211 million in fiscal years 2010, 2009 and 2008, respectively. Since inception of the Debt Optimization Program, prepayments to the U.S. Treasury have increased accumulated net revenues by $2.447 billion, $2.408 billion and $2.175 billion at Sept. 30, 2010, 2009 and 2008, respectively.

Modified net expenses were improved by $23 million for the fiscal year ended Sept. 30, 2010, compared to the prior fiscal year, primarily due to the Debt Optimization Program winding down.

The table below demonstrates the calculation for modified net revenues.

<table>
<thead>
<tr>
<th>MODIFIED NET REVENUES</th>
<th>Federal Columbia River Power System</th>
<th>For the years ended Sept. 30 (thousands of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Net (expenses) revenues</td>
<td>$ (127,581)</td>
<td>$ (101,050)</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>(14,800)</td>
<td>34,677</td>
</tr>
<tr>
<td>Nonfederal debt management actions</td>
<td>(22,030)</td>
<td>(120,853)</td>
</tr>
<tr>
<td>Modified net (expenses) revenues</td>
<td>$ (164,411)</td>
<td>$ (187,226)</td>
</tr>
</tbody>
</table>
## COMBINED BALANCE SHEETS

Federal Columbia River Power System  
As of Sept. 30 (thousands of dollars)

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Utility plant</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completed plant</td>
<td>$14,362,387</td>
<td>$13,883,626</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(5,247,971)</td>
<td>(5,106,884)</td>
</tr>
<tr>
<td></td>
<td>9,114,416</td>
<td>8,776,742</td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>1,105,165</td>
<td>985,624</td>
</tr>
<tr>
<td><strong>Net utility plant</strong></td>
<td>10,219,581</td>
<td>9,762,366</td>
</tr>
<tr>
<td><strong>Nonfederal generation</strong></td>
<td>2,449,865</td>
<td>2,520,245</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,078,671</td>
<td>1,357,019</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>65,783</td>
<td>14,554</td>
</tr>
<tr>
<td>Accounts receivable, net of allowance</td>
<td>122,400</td>
<td>112,251</td>
</tr>
<tr>
<td>Accrued unbilled revenues</td>
<td>197,603</td>
<td>172,842</td>
</tr>
<tr>
<td>Materials and supplies, at average cost</td>
<td>85,797</td>
<td>77,612</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>25,832</td>
<td>24,652</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,576,086</td>
<td>1,758,930</td>
</tr>
<tr>
<td><strong>Investments and other assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory assets</td>
<td>4,983,142</td>
<td>5,112,346</td>
</tr>
<tr>
<td>Investments in U.S. Treasury securities</td>
<td>82,328</td>
<td>83,041</td>
</tr>
<tr>
<td>Nonfederal nuclear decommissioning trusts</td>
<td>188,850</td>
<td>167,232</td>
</tr>
<tr>
<td>Deferred charges and other</td>
<td>169,318</td>
<td>235,119</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>5,423,638</td>
<td>5,597,738</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$19,669,170</td>
<td>$19,639,279</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
## CAPITALIZATION AND LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalization and long-term liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated net revenues</td>
<td>$2,428,691</td>
<td>$2,556,272</td>
</tr>
<tr>
<td>Federal appropriations</td>
<td>4,238,167</td>
<td>4,392,405</td>
</tr>
<tr>
<td>Borrowings from U.S. Treasury</td>
<td>2,188,440</td>
<td>1,765,440</td>
</tr>
<tr>
<td>Nonfederal debt</td>
<td>6,015,585</td>
<td>6,244,954</td>
</tr>
<tr>
<td>Total capitalization and long-term liabilities</td>
<td>14,870,883</td>
<td>14,959,071</td>
</tr>
</tbody>
</table>

| Commitments and contingencies (Note 13)          |           |           |
| Current liabilities                              |           |           |
| Federal appropriations                           | 21,232    | 3,784     |
| Borrowings from U.S. Treasury                    | 325,000   | 365,000   |
| Nonfederal debt                                  | 306,175   | 319,980   |
| Accounts payable and other                       | 613,052   | 474,349   |
| Total current liabilities                        | 1,265,459 | 1,163,113 |

| Other liabilities                                |           |           |
| Regulatory liabilities                           | 2,494,019 | 2,567,271 |
| IOU exchange benefits                           | 85,017    | 83,655    |
| Asset retirement obligations                     | 170,334   | 162,943   |
| Deferred credits and other                       | 783,458   | 703,226   |
| Total other liabilities                          | 3,532,828 | 3,517,095 |

| Total capitalization and liabilities             | $19,669,170 | $19,639,279 |

The accompanying notes are an integral part of these statements.
## COMBINED STATEMENTS
OF REVENUES AND EXPENSES

Federal Columbia River Power System  
For the years ended Sept. 30 (thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$2,851,097</td>
<td>$2,742,770</td>
<td>$2,897,347</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>14,800</td>
<td>(34,677)</td>
<td>(30,564)</td>
</tr>
<tr>
<td>U.S. Treasury credits for fish</td>
<td>123,090</td>
<td>99,499</td>
<td>100,392</td>
</tr>
<tr>
<td>Miscellaneous revenues</td>
<td>66,144</td>
<td>62,692</td>
<td>69,443</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>$3,055,131</td>
<td>$2,870,284</td>
<td>$3,036,618</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>1,589,171</td>
<td>1,578,421</td>
<td>1,256,213</td>
</tr>
<tr>
<td>Purchased power</td>
<td>381,468</td>
<td>317,543</td>
<td>450,035</td>
</tr>
<tr>
<td>Nonfederal projects</td>
<td>600,360</td>
<td>501,367</td>
<td>479,493</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>368,371</td>
<td>355,574</td>
<td>358,064</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>2,939,370</td>
<td>2,752,905</td>
<td>2,543,805</td>
</tr>
<tr>
<td><strong>Net operating revenues</strong></td>
<td>115,761</td>
<td>117,379</td>
<td>492,813</td>
</tr>
<tr>
<td><strong>Interest expense and (income)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>331,255</td>
<td>326,494</td>
<td>340,658</td>
</tr>
<tr>
<td>Allowance for funds used during construction</td>
<td>(32,867)</td>
<td>(30,710)</td>
<td>(32,057)</td>
</tr>
<tr>
<td>Interest income</td>
<td>(55,046)</td>
<td>(77,355)</td>
<td>(80,633)</td>
</tr>
<tr>
<td><strong>Net interest expense</strong></td>
<td>243,342</td>
<td>218,429</td>
<td>227,968</td>
</tr>
<tr>
<td><strong>Net (expenses) revenues</strong></td>
<td>(127,581)</td>
<td>(101,050)</td>
<td>264,845</td>
</tr>
<tr>
<td>Accumulated net revenues at Oct. 1</td>
<td>2,556,272</td>
<td>2,664,460</td>
<td>2,402,565</td>
</tr>
<tr>
<td>Irrigation assistance</td>
<td>—</td>
<td>(7,138)</td>
<td>(2,950)</td>
</tr>
<tr>
<td><strong>Accumulated net revenues at Sept. 30</strong></td>
<td>$2,428,691</td>
<td>$2,556,272</td>
<td>$2,664,460</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
## COMBINED STATEMENTS OF CHANGES IN CAPITALIZATION AND LONG-TERM LIABILITIES

Federal Columbia River Power System  
Including current portions (thousands of dollars)

<table>
<thead>
<tr>
<th>Balance at Sept. 30</th>
<th>Accumulated Federal Borrowings Nonfederal Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Revenues</td>
</tr>
<tr>
<td>2008</td>
<td>$2,664,460</td>
</tr>
</tbody>
</table>

### Federal construction appropriations:
- Increase: — 176,887 — — 176,887
- Repayment: — (38,559) — — (38,559)

### Borrowings from U.S. Treasury:
- Increase: — — 338,000 — — 338,000
- Repayment: — — (393,460) — — (393,460)

### Nonfederal debt:
- Increase: — — — — 287,944 287,944
- Repayment: — — — — (189,882) (189,882)
- Net expenses: (101,050) — — — (101,050)
- Irrigation assistance: (7,138) — — — (7,138)

|                     | 2009 | $2,556,272 | $4,396,189 | $2,130,440 | $6,564,934 | $15,647,835 |

### Federal construction appropriations:
- Increase: — 68,039 — — 68,039
- Repayment: — (204,829) — — (204,829)

### Borrowings from U.S. Treasury:
- Increase: — — 638,000 — — 638,000
- Repayment: — — (255,000) — — (255,000)

### Nonfederal debt:
- Increase: — — — — 27,351 27,351
- Repayment: — — — — (270,525) (270,525)
- Net expenses: (127,581) — — — (127,581)

|                     | 2010 | $2,428,691 | $4,259,399 | $2,513,440 | $6,321,760 | $15,523,290 |

The accompanying notes are an integral part of these statements.
**COMBINED STATEMENTS OF CASH FLOWS**

Federal Columbia River Power System  
For the years ended Sept. 30 (thousands of dollars)

<table>
<thead>
<tr>
<th>Cash provided by and (used for) operating activities</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (expenses) revenues</td>
<td>$(127,581)</td>
<td>$(101,050)</td>
<td>$264,845</td>
</tr>
<tr>
<td>Non-cash items:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>368,371</td>
<td>355,574</td>
<td>358,064</td>
</tr>
<tr>
<td>Amortization of nonfederal projects</td>
<td>270,525</td>
<td>189,882</td>
<td>142,423</td>
</tr>
<tr>
<td>Unrealized (gain) loss on derivative instruments</td>
<td>(14,800)</td>
<td>34,706</td>
<td>30,535</td>
</tr>
<tr>
<td>Changes in:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables and unbilled revenues</td>
<td>(30,109)</td>
<td>32,561</td>
<td>6,721</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>(8,185)</td>
<td>(1,893)</td>
<td>(7,385)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(1,180)</td>
<td>(2,970)</td>
<td>(1,744)</td>
</tr>
<tr>
<td>Accounts payable and other</td>
<td>91,915</td>
<td>(138,548)</td>
<td>240,592</td>
</tr>
<tr>
<td>Regulatory assets and liabilities</td>
<td>(164,775)</td>
<td>35,897</td>
<td>849,541</td>
</tr>
<tr>
<td>Other assets and liabilities</td>
<td>(13,813)</td>
<td>(135,690)</td>
<td>(1,054,411)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>370,368</td>
<td>268,469</td>
<td>829,181</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash provided by and (used for) investing activities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utility plant (including AFUDC)</td>
<td>(683,680)</td>
<td>(575,083)</td>
<td>(412,055)</td>
</tr>
<tr>
<td>U.S. Treasury Securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>(100,000)</td>
<td>(110,000)</td>
<td>—</td>
</tr>
<tr>
<td>Maturities</td>
<td>44,683</td>
<td>9,891</td>
<td>—</td>
</tr>
<tr>
<td>Nonfederal nuclear decommissioning trusts</td>
<td>(8,753)</td>
<td>(8,211)</td>
<td>(7,300)</td>
</tr>
<tr>
<td>Special purpose corporations’ trust funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits to</td>
<td>(4,646)</td>
<td>(199,916)</td>
<td>(74,474)</td>
</tr>
<tr>
<td>Receipts from</td>
<td>39,780</td>
<td>108,081</td>
<td>65,779</td>
</tr>
<tr>
<td>Net cash used for investing activities</td>
<td>(712,616)</td>
<td>(775,238)</td>
<td>(428,050)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash provided by and (used for) financing activities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal construction appropriations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>86,470</td>
<td>176,887</td>
<td>70,929</td>
</tr>
<tr>
<td>Repayment</td>
<td>(204,829)</td>
<td>(38,559)</td>
<td>(150,669)</td>
</tr>
<tr>
<td>Borrowings from U.S. Treasury:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>638,000</td>
<td>338,000</td>
<td>350,000</td>
</tr>
<tr>
<td>Repayment</td>
<td>(255,000)</td>
<td>(393,460)</td>
<td>(404,600)</td>
</tr>
<tr>
<td>Nonfederal debt:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>4,646</td>
<td>199,916</td>
<td>74,474</td>
</tr>
<tr>
<td>Repayment</td>
<td>(270,525)</td>
<td>(189,882)</td>
<td>(142,423)</td>
</tr>
<tr>
<td>Customers:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advances for construction</td>
<td>92,786</td>
<td>63,492</td>
<td>70,356</td>
</tr>
<tr>
<td>Reimbursements to customers</td>
<td>(27,648)</td>
<td>(16,706)</td>
<td>(10,554)</td>
</tr>
<tr>
<td>Irrigation assistance</td>
<td>—</td>
<td>(7,138)</td>
<td>(2,950)</td>
</tr>
<tr>
<td>Net cash provided by and (used for) financing activities</td>
<td>63,900</td>
<td>132,550</td>
<td>(145,437)</td>
</tr>
</tbody>
</table>

| Net (decrease) and increase in cash and cash equivalents | (278,348) | (374,219) | 255,694 |
| Cash and cash equivalents at beginning of year         | 1,357,019 | 1,731,238 | 1,475,544 |
| Cash and cash equivalents at end of year                | $ 1,078,671 | $ 1,357,019 | $ 1,731,238 |

**Supplemental disclosures:**

| Cash paid for interest, net of amount capitalized      | $ 365,773 | $ 362,305 | $ 345,980 |

| Significant noncash investing and financing activities: |         |        |        |
| Accrued capital expenditures                          | $ 46,247 | $ 33,328 | $ 7,999  |
| Federal construction appropriations                   | (18,431) | —       | —       |
| Nonfederal debt                                       | $ 22,705 | $ 88,028 | (16,232) |

The accompanying notes are an integral part of these statements.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING PRINCIPLES

COMBINATION AND CONSOLIDATION OF ENTITIES
The Federal Columbia River Power System (FCRPS) financial statements combine the accounts of the Bonneville Power Administration (BPA), the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation) as well as the operation and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan facilities. Consolidated with BPA are “Special Purpose Corporations” known as Northwest Infrastructure Financing Corporations (NIFCs), from which BPA leases certain transmission facilities (see Note 9, Nonfederal Debt).

BPA is the power marketing administration that purchases, transmits and markets power for the FCRPS. Each of the combined entities is separately managed and financed, but the facilities are operated as an integrated power system with the financial results combined as the FCRPS. While the costs of Corps and Reclamation projects serve multiple purposes, only the power portion of total project costs are assigned to the FCRPS through a cost-allocation process. All intracompany and intercompany accounts and transactions have been eliminated from the combined financial statements.

FCRPS accounts are maintained in accordance with generally accepted accounting principles of the United States of America and the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). FCRPS accounting policies also reflect specific legislation and directives issued by U.S. government agencies. BPA is a component of the U.S. Department of Energy; Reclamation and U.S. Fish and Wildlife Service are part of the U.S. Department of the Interior; and the Corps is part of the U.S. Department of Defense. U.S. government properties and income are tax-exempt.

REVISIONS
During fiscal year 2010 management modified its method for presentation of nonfederal projects transactions in the Combined Statements of Cash Flows. The revised method eliminates the presentation of noncash nonfederal projects transactions and modifies the presentation of debt repayments that are included in Nonfederal projects expense. The Combined Statements of Cash Flows for fiscal years 2009 and 2008 have been revised to conform to the new methodology. The change in methodology and the revisions to fiscal years 2009 and 2008 had no impact on total cash flows.

The revised cash flow method impacted cash provided by or used for operating, investing and financing activities as follows:

<table>
<thead>
<tr>
<th>As of Sept. 30 (thousands of dollars)</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided by operating activities</td>
<td>$60,427</td>
<td>$(43,648)</td>
</tr>
<tr>
<td>Cash used for investing activities</td>
<td>27,600</td>
<td>27,415</td>
</tr>
<tr>
<td>Cash provided by (used for) financing activities</td>
<td>$(88,027)</td>
<td>16,233</td>
</tr>
<tr>
<td>Net impact to total cash flows</td>
<td>$ —</td>
<td>$ —</td>
</tr>
</tbody>
</table>

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles 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 could differ from those estimates.

RATES AND REGULATORY AUTHORITY
BPA establishes separate power and transmission rates in accordance with several statutory directives. Rates proposed by BPA are subjected to an extensive formal review process, after which they are proposed by BPA and reviewed by FERC. FERC’s review is limited to three standards set out in the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), 16 U.S.C. 839, and a standard set out by the Energy Policy Act of 1992, 16 U.S.C. 824. Statutory standards include a requirement that these rates be sufficient to assure repayment of the federal investment in the FCRPS over a reasonable number of years after first meeting BPA’s other costs.
After final FERC approval, BPA’s rates may be reviewed by the United States Court of Appeals for the Ninth Circuit (Ninth Circuit Court). Action seeking such review must be filed within 90 days of the final FERC decision. The Ninth Circuit Court may either confirm or reject a rate proposed by BPA.

In accordance with authoritative guidance for Regulated Operations (see Note 4, Effects of Regulation) certain costs or credits may be included in rates for recovery over a future period and are recorded as regulatory assets or liabilities. Regulatory assets or liabilities are amortized over the periods they are included in rates. Costs are recovered through rates during the periods when the costs are scheduled to be repaid. Amortization is computed using either the straight-line method or is based upon specific amounts included in rates each year. When the straight-line method is used, it is based upon either the estimated service lives or the periods the costs are included in rates. Since BPA’s rates are not structured to provide a rate of return on rate base assets, regulatory assets are recovered at cost without an additional rate of return.

In fiscal year 2010, BPA began applying Regulated Operations accounting treatment to the unrealized gains and losses related to certain power purchase and power sale contracts. This was the result of changes in BPA’s forward energy procurement process in 2010 whereby BPA began entering into forward electricity contracts to meet Tier 2 energy requirements under the new Long-Term Regional Dialogue Final Policy and Record of Decision in effect beginning on Oct. 1, 2011. Many of these contracts are considered derivatives and recorded at fair value. Concurrent with this operational change, BPA evaluated all contracts that are subject to mark-to-market accounting to determine if the related contract costs are included in BPA’s rate structures in effect for fiscal year 2010 and beyond. As a result of this reassessment and evaluation, management determined that all such contracts are included in BPA’s cost of service and are recoverable in future rates. Under this accounting treatment, future changes in the unrealized fair value of derivative assets and liabilities will have no impact on the net revenues of BPA.

**UTILITY PLANT**

Utility plant is stated at original cost and includes generation and transmission assets. Generation assets were $7.8 billion and $7.6 billion, and transmission assets were $6.6 billion and $6.3 billion at Sept. 30, 2010, and 2009, respectively. The costs of substantial additions, major replacements and substantial betterments are capitalized. Cost includes direct labor and materials; payments to contractors; indirect charges for engineering, supervision and similar overhead items and an allowance for funds used during construction. Maintenance, repairs and replacements of items determined to be less than major units of property are charged to maintenance and operating expense as incurred. The cost of retiring utility plant units less any salvage proceeds is charged to accumulated depreciation when removed from service.

**DEPRECIATION**

Depreciation of the original cost of generation plant is computed using straight-line methods based on estimated service lives of the various classes of property, which average 75 years. For transmission plant, depreciation of original cost and estimated net cost of removal is computed primarily on the straight-line group-life method based on estimated service lives of the various classes of property, which average 40 years. The net cost of removal is included in depreciation rates; however, in the event there is negative salvage, a reclassification of the negative salvage reserve not associated with asset retirement obligations is made from accumulated depreciation to a regulatory liability.

**ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION**

Allowance for funds used during construction (AFUDC) represents the estimated cost of interest on financing the construction of new assets. AFUDC is based on the construction work in progress balance and is charged to the capitalized cost of the utility plant asset. AFUDC is a noncash reduction of interest expense.

FCRPS capitalizes AFUDC at one rate for Corps and Reclamation construction funded by congressional appropriations and at another rate for construction funded substantially by BPA. The rates for appropriated funds are provided each year to BPA by the U.S. Treasury, whereas
the BPA rate is determined based on BPA’s weighted-average cost of borrowing. The respective rates were approximately 0.4 percent and 4.8 percent in fiscal year 2010, 2.0 percent and 5.2 percent in fiscal year 2009, and 4.3 percent and 5.4 percent in fiscal year 2008.

**NONFEDERAL GENERATION**

BPA has acquired all of the generating capability of Energy Northwest’s Columbia Generating Station (CGS) nuclear power plant. The contracts to acquire the generating capability of the project require BPA to pay all or part of the annual project budget, including operating expense and debt service. BPA also has acquired all of the output of the Lewis County PUD’s Cowlitz Falls Hydroelectric Project and pays all operating expense and debt service. BPA recognizes expenses for these projects based upon total project cash funding requirements. The nonfederal generation assets in the Combined Balance Sheets represent intangible assets equal to the related nonfederal debt associated with those generation assets. These intangible assets are amortized as the principal on the outstanding bonds is repaid (see Note 9, Nonfederal Debt).

**CASH AND CASH EQUIVALENTS**

For purposes of reporting cash flows, amounts include cash in the BPA fund with the U.S. Treasury and unexpended appropriations of the Corps and Reclamation. Cash equivalents represent short-term U.S. Treasury market-based special securities with maturities of 90 days or less at the date of investment. Although BPA began investing in market-based special securities in fiscal year 2009, fiscal year 2010 is the first year that BPA has held such securities with maturities of 90 days or less (see Note 3, Investments in U.S. Treasury Securities). The carrying value of cash and cash equivalents approximates fair value.

**CONCENTRATIONS OF CREDIT RISKS**

**General credit risk**

Financial instruments that potentially subject the FCRPS to concentrations of credit risk consist primarily of BPA accounts receivable. Credit risk represents the loss that would be recognized if counterparties fail to perform as contracted. BPA’s accounts receivable are spread across a diverse group of public utilities, investor-owned utilities (IOUs), power marketers, wind generators and others that are located throughout the western United States and Canada. The accounts receivable exposure results from BPA providing a variety of power products and transmission services. BPA’s counterparties are generally large and stable and do not represent a significant concentration of credit risk. During fiscal years 2010, 2009 and 2008, BPA experienced no significant losses as a result of any customer defaults or bankruptcy filings.

Credit risk is mitigated at BPA by reviewing counterparties for creditworthiness, establishing credit limits and monitoring credit exposure on a daily basis. In order to further manage credit risk, BPA obtains credit support, such as letters of credit, parental guarantees, cash in the form of prepayment and deposit or escrow from some counterparties. Counterparties are monitored closely for changes in financial condition and credit reviews are updated regularly.

**Allowance for doubtful accounts**

Management reviews accounts receivable on a monthly basis to determine if any receivable will potentially be uncollectible. The allowance for doubtful accounts includes amounts estimated through an evaluation of specific accounts, based upon the best available facts and circumstances of customers that may be unable to meet their financial obligations and a reserve for all other customers based on historical experience.

The largest risk relates to the California power markets that were in turmoil during 2000 to 2001 when they experienced historically high power prices and volatility, along with continued uncertainty related to deregulation. The California Independent System Operator and California Power Exchange were customers with whom BPA had contracts for power and transmission delivery during that period and they have been unable to fully pay BPA for their purchases. BPA has recorded an allowance for these accounts, which in management’s best estimate is sufficient to cover potential exposure. Net exposure after this allowance is not significant. BPA has continued to pursue collection of amounts due.
**POST-RETIREMENT BENEFITS**

Federal employees associated with the operation of the FCRPS are participants in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both federal employers and their employees contribute a percentage of eligible employee compensation toward funding these post-retirement benefit plans. Based on the statutory contribution rates, retirement benefit expense under CSRS is equivalent to 7 percent of eligible employee compensation and under FERS is equivalent to 11.2 percent of eligible employee compensation. For fiscal year 2010, the combined employee and employer contribution levels for CSRS and FERS do not fully cover the cost to the federal government to provide the plan benefits. Therefore, the programs are considered underfunded (see Note 13, Commitments and Contingencies). Employees also may participate in the Federal Employees Health Benefits Program and/or the Federal Employees’ Group Life Insurance Program, which are similarly underfunded. Retirement benefits under the federal retirement systems are payable by the U.S. Treasury.

**DERIVATIVE INSTRUMENTS**

BPA follows the Derivatives and Hedging accounting guidance that requires every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and also requires that a change in the derivative’s fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

It is BPA’s policy to document and apply as appropriate the normal purchases and normal sales exception under the Derivatives and Hedging accounting guidance. Purchases and sales of forward electricity contracts are generally considered normal purchases and normal sales if they require physical delivery, are expected to be used or sold by BPA in the normal course of business and meet the definition of capacity described in the Derivatives and Hedging accounting guidance. These transactions are not required to be recorded at fair value in the financial statements. Recognition of these contracts in Sales or Purchased power costs in the Combined Statements of Revenues and Expenses occurs when the contracts settle.

In fiscal year 2010, BPA began applying Regulated Operations accounting treatment to its derivative instruments that do not qualify for the normal purchases and normal sales exception and are recorded at market values. As such these unrealized gains or losses associated with derivative instruments are recorded on the Combined Balance Sheets under Regulatory assets or Regulatory liabilities.

**FAIR VALUE**

BPA’s carrying amounts of current assets and current liabilities approximates fair value based on the short-term nature of these instruments. In accordance with authoritative guidance for Fair Value Measurements and Disclosures, BPA uses fair value measurements to record adjustments to certain financial assets and liabilities and to determine fair value disclosures. When developing fair value measurements, it is BPA’s policy to use quoted market prices whenever available, or to maximize the use of observable inputs and minimize the use of unobservable inputs when quoted market prices are not available. Fair values are primarily developed using industry standard models that consider various inputs including: (a) quoted forward prices for commodities; (b) time value; (c) volatility factors; (d) current market and contractual prices for underlying instruments; (e) market interest rates and yield curves; and (f) credit spreads, as well as other relevant economic measures (see Note 11, Risk Management and Derivative Instruments and Note 12, Fair Value Measurements).

**REVENUES AND NET REVENUES**

Operating revenues are recorded when services are rendered and include estimated unbilled revenues. Because BPA is a federal government power marketing administration, net revenues over time are committed to repayment of the U.S. government investment in the FCRPS, the payment of certain irrigation costs (see Note 13, Commitments and Contingencies) and the payment of operational obligations, including debt for both operating and nonoperating nonfederal projects.

**INTEREST INCOME**

Interest income represents both interest earned on BPA’s fund balance with the U.S. Treasury in the form of interest credits and interest earned on investments in market-based special securities. BPA earns interest on cash balances in the fund at the weighted-average interest rate of its outstanding
U.S. Treasury borrowings and reduces its monthly debt interest payments by the interest earned. BPA began investing in market-based special securities in October 2008. Interest earnings on investments are dependent on the performance of the market-based special securities and interest earned is a cash receipt.

**U.S. TREASURY CREDITS FOR FISH**

The Pacific Northwest Electric Power Planning and Conservation Act of 1980 obligates the BPA administrator to make expenditures for fish and wildlife protection, mitigation and enhancement for both power and nonpower purposes on a reimbursement basis. The Northwest Power Act also specifies that consumers of electric power, through their rates for power services, “shall bear the costs of measures designed to deal with adverse impacts caused by the development and operation of electric power facilities and programs only.” Section 4(h)(10)(C) of the Northwest Power Act was designed to ensure that the costs of mitigating these impacts are properly accounted for among the various purposes of the hydroelectric projects. As such, BPA reduces its cash payments to the U.S. Treasury by an amount equal to the mitigation measures funded on behalf of the nonpower purposes.

**RESIDENTIAL EXCHANGE PROGRAM**

In order to provide qualifying regional utilities, primarily IOUs, access to benefits from the FCPRS, Congress established the Residential Exchange Program (REP) in Section 5(c) of the Northwest Power Act. Whenever a Pacific Northwest electric utility offers to sell power to BPA at the utility’s average system cost (ASC) of resources, BPA purchases such power and offers, in exchange, to sell an equivalent amount of power at BPA’s Priority Firm (PF) Exchange rate to the utility for resale to that utility’s residential and small farm consumers. REP costs are forecast for each year of the rate period and included in the revenue requirement for establishing rates. They are collected in rates with program costs recognized when incurred net of the purchase and sale of power under the REP.

In fiscal year 2008, BPA filed the 2007 Supplemental Wholesale Power Rate Case (WP-07 Supplemental Rate Case) to resolve outstanding claims and associated judicial rulings related to prior REP billings. In connection with that filing, Lookback Amounts due to and due from BPA customers were identified and recorded as regulatory amounts. Such Lookback Amounts are being collected from identified IOU customers and are being returned to the consumer-owned utilities (COUs) over time. In each succeeding rate case, the BPA administrator designates the amount to be recovered from the IOUs and returned to each qualifying COU. These amounts do not reduce rates, but are reflected as credits to qualifying COUs’ bills as designated in the corresponding Final Record of Decision (ROD). BPA recognizes a refund and reduces expense in the year it is applied, until the Lookback Amount is eliminated. These transactions are net operating revenue neutral as the same amount reduces both revenue and expense (see Note 5, Residential Exchange Program).

**RECENT ACCOUNTING PRONOUNCEMENTS**

**RECEIVABLES**

In July 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance requiring new disclosures about the credit quality of certain financing receivables, as well as the related allowances for credit losses. The required disclosures are intended to facilitate financial statement users’ evaluation of the nature of credit risk inherent in an entity’s portfolio of financing receivables, how that risk is assessed and analyzed in arriving at the allowance for credit losses and the reasons for those changes in the allowance for credit losses. The disclosures are required to be made on a disaggregated basis and include qualitative and quantitative information about financing receivables, the allowance for credit losses, impaired balances and credit quality indicators. This guidance will be effective for fiscal year 2012. BPA is determining the extent to which financing receivables guidance is, or will be, relevant to BPA and the potential related impact on BPA’s financial statements.

**FAIR VALUE MEASUREMENTS AND DISCLOSURES**

In February 2008, the FASB issued authoritative guidance which delayed fair value measurement disclosure requirements for non-financial assets and liabilities measured
at fair value on a non-recurring basis. BPA adopted the fair value measurement disclosure guidance for these non-financial assets and liabilities on Oct. 1, 2009. The implementation of this guidance did not materially impact FCRPS financial condition, results of operations or cash flows.

In August 2009, the FASB issued authoritative guidance clarifying how to measure the fair value of liabilities in situations in which a quoted price in an active market for an identical liability is not available. The guidance requires that one or more of the following valuation techniques be used in this situation: 1) the use of the quoted price for a similar liability; 2) the use of the quoted price for an identical or similar liability in an active asset market; and 3) another valuation technique such as matrix pricing or a present value model. The FASB clarified that the use of a quoted price for an identical liability (including when the liability is traded as an asset) represents a Level 1 measurement, so long as no adjustments to the quoted price are required. BPA adopted this guidance on Oct. 1, 2009 with no material impact on its financial condition, results of operations or cash flows.

In January 2010, the FASB issued authoritative guidance related to fair value disclosures. The guidance requires additional detailed disclosure for all levels of fair value measurements. The amounts of significant transfers in and out of Levels 1 and 2 are required to be disclosed, along with the reasons for those transfers. Purchase, issuance and settlement activity in Level 3 is required to be disclosed on a gross basis. Fair value measurement disclosures are required for each class of assets and liabilities. These classes are a matter of management judgment. The guidance further requires disclosures about inputs and valuation techniques used for both Level 2 and Level 3 fair value measurements. This guidance will be effective for fiscal year 2011 with the exception of the gross disclosure of purchase, issuance and settlement activity in Level 3, which will be effective in fiscal year 2012. BPA is evaluating the impact on BPA’s financial statements.

VARIABLE INTEREST ENTITY
In June 2009, the FASB issued authoritative guidance that amended consolidation accounting standards. This statement requires an analysis to determine whether BPA’s Variable Interest Entities (VIEs) provide BPA with a controlling financial interest in the VIEs. The statement defines the primary beneficiary of the VIE as the entity having power to control the activities that most significantly impact the performance. The primary beneficiary is also defined as having the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. This guidance will be effective for fiscal year 2011. The adoption of this guidance is not expected to have a material impact on FCRPS financial condition, results of operations or cash flows.

SUBSEQUENT EVENTS
FCRPS has performed an evaluation of events and transactions for potential recognition or disclosure through Oct. 28, 2010, which is the date the financial statements were issued.

2. ASSET RETIREMENT OBLIGATIONS

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Balance</strong></td>
<td>$162,943</td>
<td>$159,800</td>
</tr>
<tr>
<td><strong>Activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accretion</td>
<td>8,324</td>
<td>7,739</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(1,806)</td>
<td>(1,501)</td>
</tr>
<tr>
<td>Revisions</td>
<td>873</td>
<td>(3,095)</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$170,334</td>
<td>$162,943</td>
</tr>
</tbody>
</table>

BPA recognizes asset retirement obligations (ARO) according to the estimated fair value of the dismantlement and restoration costs associated with the retirement of certain tangible long-lived assets. The liability is adjusted for any revisions, expenditures and the passage of time. FCRPS also has tangible long-lived assets such as federal hydro projects without an associated ARO since no future obligation exists to remove these projects.

AROs include the following items as of Sept. 30, 2010:
- CGS decommissioning and site restoration of $126.7 million;
- Trojan decommissioning of $24.1 million;
Project Nos. 1 and 4 site restoration of $15.5 million;
- BPA owned transmission assets of $4.0 million.

NONFEDERAL NUCLEAR DECOMMISSIONING TRUSTS

BPA recognizes an asset that represents trust fund balances for decommissioning and site restoration costs. Decommissioning costs for CGS are charged to operations over the operating life of the project. External trust funds for decommissioning and site restoration costs are funded monthly for CGS. The trust funds are expected to provide for decommissioning at the end of the project’s safe storage period in accordance with the Nuclear Regulatory Commission (NRC) requirements. The NRC requires that this period be no longer than 60 years from the time the plant stops operating. The plant is licensed to operate until the current operating license termination year of 2024. Trust fund requirements for CGS are based on an NRC decommissioning cost estimate and the license termination date. The trustee is a non-U.S. Treasury bank that certifies the funds for use when needed to retire the asset. The trusts are funded by BPA ratepayers and are managed by BPA in accordance with the NRC requirements and site certification agreements.

The fair value of funds set aside in BPA’s decommissioning and sites restoration trust funds totaled $188.9 million and $167.2 million at Sept. 30, 2010, and 2009, respectively. The funds are invested in cash equivalents, equity and fixed income funds. BPA’s investment securities in the trusts are classified as available-for-sale in accordance with accounting guidance related to Investments, Debt and Equity Securities. Payments to the trusts for fiscal years 2010, 2009 and 2008 were approximately $8.8 million, $8.2 million and $7.3 million, respectively.

BPA directly funds Eugene Water and Electric Board’s 30 percent share of Trojan’s decommissioning costs through current rates. Decommissioning costs are included in Operations and maintenance expense in the accompanying Combined Statements of Revenues and Expenses.

3. INVESTMENTS IN U.S. TREASURY SECURITIES

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th></th>
<th>2009</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortized cost</td>
<td>Fair value</td>
<td>Amortized cost</td>
<td>Fair value</td>
</tr>
<tr>
<td>Short-term</td>
<td>$ 65,783</td>
<td>$ 66,090</td>
<td>$ 14,554</td>
<td>$ 14,678</td>
</tr>
<tr>
<td>Long-term</td>
<td>82,328</td>
<td>85,132</td>
<td>83,041</td>
<td>85,063</td>
</tr>
<tr>
<td>Total</td>
<td>$ 148,111</td>
<td>$ 151,222</td>
<td>$ 97,595</td>
<td>$ 99,741</td>
</tr>
</tbody>
</table>

In fiscal year 2009, BPA began participating in the U.S. Treasury’s Federal Investment Program. Through this program, the U.S. Treasury provides investment services to federal government entities that have funds on deposit with the U.S. Treasury and have legislative authority to invest those funds. Investments of the funds are generally restricted to special non-marketable securities, also called market-based specials. Under its banking arrangement with the U.S. Treasury, BPA has agreed to invest at least $100 million annually for up to 10 years or until the BPA fund is fully invested.

Market-based specials held during fiscal years 2010 and 2009 had a weighted-average yield of 1.3 percent and 2.1 percent, respectively, and maturities of up to five years. The amounts shown in the table above exclude U.S. Treasury securities with maturities of 90 days or less at the date of investment which are considered cash equivalents and are included in the Combined Balance Sheets as part of Cash and cash equivalents. For all other securities, BPA follows the authoritative guidance for Investments for Debt and Equity Securities. These investments are classified as held-to-maturity and reported at amortized cost. Investments with maturities that will be realized in cash within one year are classified as short-term investments. Long-term investments have stated maturities between 1 and 4 years from the balance sheet date.
## 4. EFFECTS OF REGULATION

<table>
<thead>
<tr>
<th>Regulatory Assets</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminated nuclear facilities</td>
<td>$ 3,377,550</td>
<td>$ 3,550,170</td>
</tr>
<tr>
<td>REP Lookback Amount from IOUs</td>
<td>568,542</td>
<td>624,496</td>
</tr>
<tr>
<td>Columbia River Fish Mitigation</td>
<td>436,912</td>
<td>413,304</td>
</tr>
<tr>
<td>Fish and wildlife measures</td>
<td>180,256</td>
<td>158,221</td>
</tr>
<tr>
<td>Conservation measures</td>
<td>171,233</td>
<td>165,485</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>51,563</td>
<td>—</td>
</tr>
<tr>
<td>Settlements</td>
<td>49,828</td>
<td>49,409</td>
</tr>
<tr>
<td>Spacer damper replacement program</td>
<td>35,995</td>
<td>30,436</td>
</tr>
<tr>
<td>Federal Employees’ Compensation Act</td>
<td>29,945</td>
<td>34,341</td>
</tr>
<tr>
<td>Trojan decommissioning and site restoration</td>
<td>24,152</td>
<td>23,546</td>
</tr>
<tr>
<td>Terminated hydro facilities</td>
<td>22,785</td>
<td>23,780</td>
</tr>
<tr>
<td>Sponsored conservation</td>
<td>21,865</td>
<td>25,690</td>
</tr>
<tr>
<td>Capital bond premiums</td>
<td>11,431</td>
<td>12,373</td>
</tr>
<tr>
<td>Other</td>
<td>1,085</td>
<td>1,095</td>
</tr>
<tr>
<td><strong>Total regulatory assets</strong></td>
<td><strong>$ 4,983,142</strong></td>
<td><strong>$ 5,112,346</strong></td>
</tr>
</tbody>
</table>

Regulatory assets include the following items:

- “Terminated nuclear facilities” include the nonfederal debt for Energy Northwest Nuclear Project Nos. 1 and 3. These assets are amortized as the principal on the outstanding bonds is repaid (see Note 9, Nonfederal Debt).
- “REP Lookback Amount from IOUs” is the amount recoverable from IOUs in future rate cases that reduces their benefit payments. These costs will be recovered and amortized through future rates over a period as established by the administrator until the Lookback Amount is eliminated (see Note 5, Residential Exchange Program).
- “Columbia River Fish Mitigation” is the cost of research and development for fish bypass facilities funded through appropriations since 1989 in accordance with the Energy and Water Development Appropriations Act of 1989, Public Law 100-371. These costs are recovered through rates and amortized as scheduled over 75 years.
- “Fish and wildlife measures” consist of capitalized fish and wildlife projects and are amortized over a period of 15 years.
- “Conservation measures” consist of the costs of capitalized conservation measures and are amortized over periods from five to 20 years.
- “Derivative instruments” reflects the unrealized losses from BPA’s derivative instruments that are marked-to-market in accordance with current authoritative derivative accounting guidance (see Note 11, Risk Management and Derivative Instruments). These amounts are deferred over the corresponding underlying contract delivery months.
- “Settlements” reflect costs related to settlement agreements resulting from litigation. These costs will be recovered and amortized through future rates over a period as established by the administrator.
“Spacer damper replacement program” consists of costs to replace deteriorated spacer dampers that have been deferred and are being recovered in rates under the Spacer Damper Replacement Program. These costs are being amortized over a period of 30 years.

“Federal Employees’ Compensation Act” reflects the actuarial estimated amount of future payments for current beneficiaries of BPA’s worker compensation benefits.

“Trojan decommissioning and site restoration” costs reflect the amount to be recovered in future rates for funding the Trojan ARO liability (see Note 2, Asset Retirement Obligations).

“Terminated hydro facilities” include the nonfederal debt for the terminated Northern Wasco hydro project. These assets are amortized as the principal on the outstanding bonds is repaid.

“Sponsored conservation” relates to the nonfederal debt for Conservation and Renewable Energy System and City of Tacoma Conservation bonds. These were issued to finance conservation programs sponsored by BPA. The assets are amortized as the principal on the outstanding bonds is repaid.

“Capital bond premiums” are losses related to refinanced debt and are amortized over the life of the new debt instruments.

### REGULATORY LIABILITIES

<table>
<thead>
<tr>
<th>As of Sept. 30 (thousands of dollars)</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalization adjustment</td>
<td>$ 1,666,701</td>
<td>$ 1,731,606</td>
</tr>
<tr>
<td>REP Lookback Amount to COUs</td>
<td>568,542</td>
<td>624,496</td>
</tr>
<tr>
<td>Accumulated plant removal costs</td>
<td>186,764</td>
<td>172,925</td>
</tr>
<tr>
<td>CGS decommissioning and sites restoration</td>
<td>48,530</td>
<td>33,644</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>17,701</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>5,781</td>
<td>4,600</td>
</tr>
<tr>
<td><strong>Total regulatory liabilities</strong></td>
<td><strong>$ 2,494,019</strong></td>
<td><strong>$ 2,567,271</strong></td>
</tr>
</tbody>
</table>

Regulatory liabilities include the following items:

- “Capitalization adjustment” is the difference between appropriated debt before and after refinancing per the BPA Refinancing Section of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Refinancing Act), 16 U.S.C. 838(l). The adjustment is being amortized over the remaining period of repayment so that total FCRPS net interest expense is equal to what it would have been in the absence of the Refinancing Act. Amortization of the capitalization adjustment was $64.9 million for fiscal years 2010, 2009 and 2008, respectively.

- “REP Lookback Amount to COUs” is the amount previously collected through rates that is owed qualifying consumer-owned utilities and will be credits on their future bills. These costs will be repaid and amortized through future rates over a period as established by the administrator until the Lookback Amount is eliminated (see Note 5, Residential Exchange Program).

- “Accumulated plant removal costs” is the amount previously collected through rates as part of depreciation. These costs will be relieved as actual removal costs are paid.
“CGS decommissioning and sites restoration” is the amount previously collected through rates in excess of the ARO balances for CGS decommissioning and site restoration as well as Project Nos. 1 and 4 sites.

“Derivative instruments” reflects the unrealized gains from BPA’s derivative instruments that are marked-to-market in accordance with current authoritative derivative accounting guidance (see Note 11, Risk Management and Derivative Instruments). These amounts are deferred over the corresponding underlying contract delivery months.

5. RESIDENTIAL EXCHANGE PROGRAM

BACKGROUND
As provided in the Northwest Power Act, beginning in 1981 BPA entered into 20-year Residential Purchase and Sale Agreements (RPSAs) with eligible regional utility customers. The RPSAs implemented the REP.

In 2000, BPA signed Residential Exchange Program Settlement Agreements (“REP settlements” or “settlement agreements”) with the region’s six IOUs under which BPA provided monetary and power benefits as a settlement of residential exchange disputes for the period July 1, 2001, through Sept. 30, 2011. BPA later signed additional agreements and amendments related to the settlement agreements with IOU customers. One such agreement provided for the elimination or deferral of certain IOU benefit payments, while later agreements and amendments provided for minimum and maximum amounts for the IOU monetary benefits for fiscal years 2007 through 2011, provided that BPA would have no obligation to provide power to the IOUs in this period. When future amounts were committed through these agreements, BPA recorded a REP settlement liability for the minimum committed amounts and a regulatory asset for amounts recoverable in future rates.

LOOKBACK AMOUNT
In May 2007, the Ninth Circuit Court ruled that the REP settlements were inconsistent with the Northwest Power Act and that BPA improperly allocated settlement costs to BPA’s preference rates. In response to that ruling, in fiscal year 2008 BPA reduced the REP settlement agreement liability and regulatory asset to zero and conducted the WP-07 Supplemental Rate Case.

On Sept. 22, 2008, the BPA administrator issued a Final ROD that revised power rates for fiscal year 2009 and determined the amount the COUs were overcharged in prior years. The prior overcharges, which amount to $746.2 million for fiscal years 2002 through 2006, are labeled the “Lookback Amount” in the Final ROD. This Lookback Amount represents amounts over collected from COUs in prior years’ rates, which also represents the amounts overpaid to the IOUs under the settlement agreements in prior years. As described in the WP-07 Supplemental Rate Case, the BPA administrator designated the amount to be recovered from the IOUs and returned to each qualifying COU. These amounts do not reduce rates, but are applied as credits to qualifying COUs as designated in the corresponding Final RODs. BPA recognizes the refund and reduces expense in the year it is applied. These transactions are net revenue neutral as the same amount reduces both revenue and expense. The Lookback Amount is recorded as both a regulatory asset, representing amounts to be collected from IOUs in the future in rates, and a regulatory liability, representing amounts to be credited to the COUs in future rates.

After recording the Lookback Amount applied for fiscal year 2009 of $83.3 million, the Lookback Amount ending balance including interest as of Sept. 30, 2009 was $624.5 million. In 2010, BPA adjusted both the regulatory liability and regulatory asset by $82.1 million to reflect the Lookback Amount applied in fiscal year 2010. In addition, interest of $26.1 million was applied to the outstanding balance for an account balance of $568.5 million as of Sept. 30, 2010.

In response to the Ninth Circuit Court ruling that the REP settlement agreements were inconsistent with the Northwest Power Act, BPA returned to a purchase and sale exchange similar to that in effect prior to the REP settlement agreements.
IOU EXCHANGE BENEFITS

In fiscal year 2008, Interim Agreements were executed to provide certain IOUs with temporary REP benefits for their residential and small farm consumers. These agreements included a provision to true-up the amounts advanced with the actual REP benefits for fiscal year 2008. The true-up amount for the IOUs was $69.6 million; however, provisions in the agreement provided that true-up payments can not be paid until any subsequent legal challenges to BPA’s final ROD, if any, are resolved (see Note 13, Commitments and Contingencies). In 2009, BPA reached a settlement with Avista over their disputed deemer balance which resulted in the amount due to them for their 2008 benefits changing from zero to $12.0 million and an increase in the IOU exchange benefits balance to $81.6 million. After applying interest for fiscal year 2010, this balance has increased to $85.0 million.

2009 DEEMER ADJUSTMENT

In June 2009, BPA reached a settlement regarding the long-standing dispute with Avista Corporation over the REP deemer account provisions. Deemers result when a REP exchanging utility’s ASC is below the BPA PF Exchange rate. Rather than resulting in a requirement of the exchanging utility to pay BPA for the exchange, the utility deems its ASC to be equal to the PF Exchange rate. The amount that otherwise would have been owed to BPA is accumulated and offset against future benefits until the deemer account is reduced to zero. Upon elimination of the deemer account balance, the exchanging utility is entitled to receive payment for exchange benefits. The settlement with Avista set the beginning fiscal year 2002 deemer balance to $55.0 million, rather than the disputed deemer account balance of $85.6 million.

The accumulated effect of the Avista settlement resulted in higher REP expense recorded in fiscal year 2009 of $20.5 million and lower revenues due to the effect of the Avista Lookback Amount applied of $12.5 million that was recorded as revenue subject to refund. The total effect was a reduction to Net revenue of $33.0 million for fiscal year 2009.

6. DEFERRED CHARGES AND OTHER

<table>
<thead>
<tr>
<th>As of Sept. 30 (thousands of dollars)</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special purpose corporations’ trust funds</td>
<td>$117,212</td>
<td>$157,295</td>
</tr>
<tr>
<td>Spectrum Relocation fund</td>
<td>23,603</td>
<td>30,595</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>20,682</td>
<td>32,206</td>
</tr>
<tr>
<td>Energy receivable</td>
<td>3,953</td>
<td>4,353</td>
</tr>
<tr>
<td>Other</td>
<td>3,868</td>
<td>10,670</td>
</tr>
<tr>
<td>Total</td>
<td>$169,318</td>
<td>$235,119</td>
</tr>
</tbody>
</table>

Deferred charges and other include the following items:

- “Special purpose corporations’ trust funds” are amounts held in separate trust accounts for the construction of transmission assets, debt service payments during the construction period and a fund mainly for future principal and interest debt service payments (see Note 9, Nonfederal Debt).

- The Commercial Spectrum Enhancement Act created the “Spectrum Relocation fund” to reimburse the costs of replacing radio communication equipment displaced as a result of radio band frequencies no longer available to federal agencies. Amounts received from the U.S. Treasury in connection with the Act are held in the BPA fund and are restricted for use in constructing replacement assets.

- “Derivative instruments” represent unrealized gains from the derivative portfolio which include physical power purchase and sale transactions, power exchange transactions, and power and heat rate option contracts.

- “Energy receivable” is the value of energy to be returned to BPA for prior transmission line losses and over delivery.

7. FEDERAL APPROPRIATIONS

Appropriations consist primarily of the power portion of Corps and Reclamation capital investments funded through congressional appropriations and the remaining unpaid capital investments in the BPA transmission system, which were made prior to implementation of the Federal Columbia River Transmission System Act of 1974, 16 U.S.C. 838(j).
The Refinancing Act required that the outstanding balance of the FCRPS federal appropriations be reset and assigned market rates of interest prevailing as of Oct. 1, 1996. This resulted in a determination that the principal amount of appropriations should be equal to the present value of the principal and interest that would have been paid to the U.S. Treasury in the absence of the Refinancing Act, plus $100 million. Appropriations in the amount of $6.6 billion were subsequently refinanced for $4.1 billion. This adjustment was recorded as a capitalization adjustment in regulatory liabilities and is being amortized over the remaining period of repayment.

Prior to the mid-1990s, construction and replacement of Corps and Reclamation generating facilities were financed through federal appropriations to the Corps and Reclamation. Annual appropriations were also made for operation and maintenance costs, to be repaid by BPA to the U.S. Treasury by the end of each fiscal year. As a result of the Energy Policy Act of 1992, in lieu of congressional appropriations, BPA directly funds most operation and maintenance expenses as well as capital efficiency and reliability improvements for Corps and Reclamation generating facilities.

Federal generation and transmission appropriations are repaid to the U.S. Treasury within the weighted-average service lives of the associated investments (maximum 50 years) from the time each facility is placed in service. Federal appropriations may be paid early without penalty.

The weighted-average interest rate was 6.4 percent and 6.5 percent on outstanding appropriations as of Sept. 30, 2010, and 2009, respectively.

### MATURING FEDERAL APPROPRIATIONS

<table>
<thead>
<tr>
<th>As of Sept. 30 (thousands of dollars)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 21,232</td>
</tr>
<tr>
<td>2012</td>
<td>24,622</td>
</tr>
<tr>
<td>2013</td>
<td>18,250</td>
</tr>
<tr>
<td>2014</td>
<td>19,198</td>
</tr>
<tr>
<td>2015</td>
<td>68,421</td>
</tr>
<tr>
<td>2016 and thereafter</td>
<td>4,107,676</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 4,259,399</strong></td>
</tr>
</tbody>
</table>

### 8. BORROWINGS FROM U.S. TREASURY

BPA is authorized by Congress to issue to the U.S. Treasury and have outstanding at any one time, up to $7.70 billion of interest-bearing debt with terms and conditions comparable to debt issued by U.S. government corporations. The debt may be issued to finance BPA’s capital programs, which include Corps and Reclamation direct-funded capital investments. Additionally, $750 million of the $7.70 billion can be issued to finance Northwest Power Act-related expenses. Of the $7.70 billion, $1.25 billion is reserved for conservation and renewable resources.

At Sept. 30, 2010, of the total $2.51 billion of outstanding bonds, $137.8 million were conservation and renewable resources investments. At Sept. 30, 2010, $45.0 million of outstanding bonds carried a variable rate of interest. There were no outstanding bonds with variable rates of interest at Sept. 30, 2009. The weighted-average interest rate of BPA’s borrowings from the U.S. Treasury exceeds current rates. As a result, the fair value of BPA’s U.S. Treasury borrowings exceeded the carrying value by approximately $323.7 million and $189.6 million, based on discounted future cash flows using agency rates offered by the U.S. Treasury as of Sept. 30, 2010, and 2009, respectively, for similar maturities.

The weighted-average interest rate on outstanding U.S. Treasury borrowings was 4.4 percent and 5.0 percent as of Sept. 30, 2010, and 2009 respectively. The outstanding bonds with a variable rate of interest carried an interest rate of 0.2 percent at Sept. 30, 2010.

### MATURING DEBT

<table>
<thead>
<tr>
<th>As of Sept. 30 (thousands of dollars)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 325,000</td>
</tr>
<tr>
<td>2012</td>
<td>265,000</td>
</tr>
<tr>
<td>2013</td>
<td>122,800</td>
</tr>
<tr>
<td>2014</td>
<td>103,000</td>
</tr>
<tr>
<td>2015</td>
<td>95,000</td>
</tr>
<tr>
<td>2016 through 2039</td>
<td>1,602,640</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,513,440</strong></td>
</tr>
</tbody>
</table>
Prior to commercial operations, BPA acquired 100 percent and 70 percent of the generating capability of Energy Northwest’s Nuclear Project No. 1 and Nuclear Project No. 3, respectively. The contracts require BPA to pay all or part of the projects’ annual budgets, including maintenance expense and debt service on bonds issued by nonfederal entities. Nuclear Project No. 1 and Nuclear Project No. 3 were terminated prior to completion.

BPA acquired all of the generating capability and agreed to pay the operating, maintenance and debt service costs of Energy Northwest’s CGS nuclear generating project (formerly Project No. 2) and of Lewis County PUD’s Cowlitz Falls Hydroelectric Project.

Related assets for operating projects are included in nonfederal generation. Nonoperating projects are included in regulatory assets.

The underlying debt for these Energy Northwest obligations (comprising terminated nuclear facilities and nonfederal generation) matures through 2024 with interest rates that are fixed between 2.0 percent and 7.1 percent.

The fair value of Energy Northwest debt exceeded recorded value by $714.6 million and $647.0 million as of Sept. 30, 2010, and 2009, respectively. The valuations are based on a market input evaluation pricing methodology using a combination of market observable data such as current market trade data, reported bid/ask spreads, and institutional
The weighted-average interest rate was 5.2 percent and 5.3 percent for the Energy Northwest CGS, Nuclear Project No. 1, and Nuclear Project No. 3 portion of outstanding nonfederal debt as of Sept. 30, 2010 and 2009 respectively.

Under the Lease Financing Program, BPA consolidates four special purpose corporations, collectively referred to as NIFCs, which issue debt to and receive advances from nonfederal sources. The combined NIFCs have issued $119.6 million in bonds and borrowed $330.1 million on lines of credit with various banks. The bonds bear interest at 5.4 percent per annum and mature in 2034. The lines of credit become due in full at various dates ranging between July 1, 2014, and Jan. 1, 2016. On the accompanying Combined Balance Sheets, the bonds and bank credit facilities are included in Nonfederal debt and the leased assets are primarily included in Utility plant and also in Deferred charges and other for unspent funds.

The fair value of the combined NIFC bonds and lines of credit exceeded the recorded value by $33.3 million as of Sept. 30, 2010, and $2.9 million as of Sept. 30, 2009. The valuations are based on the discounted future cash flows using interest rates for similar debt which could have been issued at Sept. 30, 2010, and 2009, respectively. The weighted-average interest rate was 4.6 percent on the NIFCs’ outstanding debt as of Sept. 30, 2010 and 2009 respectively.

BPA has agreed to fund debt service on Conservation and Renewable Energy System and City of Tacoma Conservation bonds issued to finance conservation programs sponsored by BPA.

The Northern Wasco Hydro Project agreement was terminated by the Settlement and Termination Agreement between BPA and the Northern Wasco PUD on April 25, 1995. The Settlement Agreement requires BPA to pay the trustee annual debt service as required by the Bond Resolution.

Nonfederal debt includes both operating and nonoperating projects. BPA recognizes expenses for these projects based upon total project cash funding requirements, which include debt service and operating and maintenance expenses. BPA recognized operating and maintenance expense for these projects of $262.6 million, $291.0 million and $241.0 million in fiscal years 2010, 2009 and 2008, respectively, which is included in Operations and maintenance in the accompanying Combined Statements of Revenues and Expenses.

BPA has agreed to fund debt service on Conservation and Renewable Energy System and City of Tacoma Conservation bonds issued to finance conservation programs sponsored by BPA.

1989 LETTER AGREEMENT

In 1989 BPA agreed with Energy Northwest that in the event any participant shall be unable, for any reason, or shall refuse to pay to Energy Northwest any amount due from such participant under its net-billing agreement (for which a net-billing credit or cash payment to such participant has been provided by BPA), BPA will be obligated to pay the unpaid amount in cash directly to Energy Northwest.
10. DEFERRED CREDITS AND OTHER

<table>
<thead>
<tr>
<th>As of Sept. 30 (thousands of dollars)</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation interconnection agreements</td>
<td>$ 251,206</td>
<td>$ 208,315</td>
</tr>
<tr>
<td>Customer reimbursable projects</td>
<td>233,045</td>
<td>218,351</td>
</tr>
<tr>
<td>Third AC Intertie capacity agreements</td>
<td>103,904</td>
<td>106,490</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>51,563</td>
<td>42,764</td>
</tr>
<tr>
<td>Capital leases</td>
<td>36,652</td>
<td>17,900</td>
</tr>
<tr>
<td>Fiber optic leasing fees</td>
<td>35,371</td>
<td>38,916</td>
</tr>
<tr>
<td>Federal Employees’ Compensation Act</td>
<td>29,945</td>
<td>34,341</td>
</tr>
<tr>
<td>Settlements</td>
<td>28,500</td>
<td>28,500</td>
</tr>
<tr>
<td>Other</td>
<td>13,272</td>
<td>7,649</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 783,458</strong></td>
<td><strong>$ 703,226</strong></td>
</tr>
</tbody>
</table>

Deferred credits and other include the following items:

- “Generation interconnection agreements” are generators’ advances held as security for requested new network upgrades and interconnection. These advances accrue interest and will be returned as credits against future transmission service on the new or upgraded lines.

- “Customer reimbursable projects” consist of advances received from customers where either the customer or BPA will own the resulting asset. If the customer will own the asset under construction, the revenue is recognized as the expenditures are incurred. If BPA will own the resulting asset, the revenue is recognized over the life of the asset once the corresponding asset is placed in service.

- “Third AC Intertie capacity agreements” reflect unearned revenue from customers related to the Third AC Intertie capacity project. Revenue is being recognized over an estimated 49-year life of the related assets.

- “Derivative instruments” reflect the unrealized fair value loss of the derivative portfolio which includes physical power purchase and sale transactions, interest rate swap transactions and heat rate option contracts.

- “Capital leases” represent BPA’s long-term portion of capital lease liabilities that are not part of the Lease Financing Program (see Note 9, Nonfederal Debt).

- “Fiber optic leasing fees” reflect unearned revenue related to the leasing of the fiber optic cable. Revenue is being recognized over the lease terms extending out to 2020.

- “Federal Employees’ Compensation Act” reflects the actuarial estimated amount of future payments for current recipients of BPA’s worker compensation benefits.

- “Settlements” reflect amounts accrued to settle outstanding litigation (see Note 13, Commitments and Contingencies).
11. RISK MANAGEMENT AND DERIVATIVE INSTRUMENTS

BPA is exposed to various forms of market risk including commodity price risk, commodity volumetric risk, interest rate risk, credit risk and event risk. Non-performance risk, which includes credit risk, is described in Note 12, Fair Value Measurements. BPA has formalized risk management processes in place to manage agency risks, including the use of derivative instruments. The following describes BPA’s exposure to and management of risks.

RISK MANAGEMENT

Due to the operational risk posed by fluctuations in river flows and electric market prices, net revenues that result from underlying surplus or deficit energy positions are inherently uncertain. BPA’s Transacting Risk Management Committee has responsibility for the oversight of market risk and determines the transactional risk policy and control environment at BPA. Through simulation and analysis of the hydro supply system, experienced business and risk managers install market price risk measures to capture additional market-related risks, including credit and event risk.

COMMODITY PRICE RISK AND VOLUMETRIC RISK

Primarily due to the variation in the available energy from its hydroelectric generation capacity, BPA enters into short- and long-term forward sales and purchase agreements in the wholesale markets to balance its energy supply and demand. Commodity price risk results from fluctuations in the electric market prices in the Pacific Northwest that affects the value of the energy inventory bought and sold as well as the value of prior purchase and sale contracts. In fiscal year 2010, there was a net surplus and sale of energy above that needed to serve the region’s firm load obligations.

BPA measures the market price risk in its portfolio on a daily, weekly and monthly basis employing both parametric calculations and non-parametric Monte Carlo simulations to derive net revenues at risk, mark-to-market, value at risk and additional risk metrics as appropriate. These methods provide a consistent measure of risk across the energy market in which BPA buys and sells. The use of these methods requires a number of key assumptions including hydro/price correlations, the selection of a confidence level for expected losses, the holding period for liquidation and the treatment of risks outside standard measures such as sensitivity and scenario testing to determine the impacts of a sudden change in market price, volatility, correlations or hydro inventory. These methods assume hypothetical movements in future market prices and in hydro inventory and provide an estimate of possible net revenues outcomes for BPA’s portfolios. In response to market price risk, futures, forwards, swaps and option instruments may be used to mitigate BPA’s exposure to price fluctuations.

BPA’s principal market activity is for the sale of surplus inventory and power purchases to manage its load/resource balance rather than the purchase and sale of electricity to earn trading revenues. The tests critical to trading organizations (i.e., amount of risk to carry over very short time frames) are considered less important than regular and rigorous analysis of the consequences of a range of hydro supply conditions and prolonged holding periods.

CREDIT RISK

Credit risk relates to the risk of loss that might occur as a result of non-performance by counterparties of their obligations to deliver or take delivery of electricity. BPA’s counterparties are generally large and stable and do not represent a significant concentration of credit risk. Credit risk is mitigated at BPA by reviewing counterparties for creditworthiness, establishing credit limits and monitoring credit exposure on a daily basis. To further manage credit risk, BPA obtains credit support such as letters of credit, parental guarantees, cash in the form of prepayment and deposit of escrow from some counterparties. Counterparties are monitored closely for changes in financial condition and credit reviews are updated regularly. BPA uses internally developed, commercially appropriate rating methodologies, credit scoring models, publicly available information and external ratings from major credit rating agencies to determine the public rating equivalent grade of counterparties.

During fiscal year 2010, BPA experienced no significant losses as a result of any customer defaults or bankruptcy.
filings. At Sept. 30, 2010, BPA had $25.0 million in credit exposure to purchase and sale contracts taking into account netting rights and BPA’s credit exposure, net of collateral, to sub-investment grade counterparties which was less than one percent of total outstanding credit exposures. BPA’s top five credit exposures were $22.4 million, or 89.8 percent, of the total credit exposure. The majority of this exposure is mark-to-market exposure arising from a term transaction with an "AA-" rated municipality with ratemaking authority.

INTEREST RATE RISK
As described in Note 8, Borrowings from U.S. Treasury, BPA has the ability to issue variable rate debt to the U.S. Treasury. As of Sept. 30, 2010, BPA had $45.0 million in outstanding variable rate U.S. Treasury debt at an average interest rate of 0.2 percent.

BPA can also be subject to interest rate risk associated with any variable rate Energy Northwest debt that is backed and considered conduit debt by BPA. However, as of Sept. 30, 2010, no variable Energy Northwest rate debt was outstanding.

DERIVATIVE INSTRUMENTS
BPA follows the Derivatives and Hedging accounting guidance that requires every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and also requires that a change in the derivative’s fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

COMMODITY CONTRACTS
It is BPA’s policy to document and apply as appropriate the normal purchases and normal sales exception allowed under Derivatives and Hedging accounting guidance. Purchases and sales of forward electricity contracts are generally considered normal purchases and normal sales if they require physical delivery, are expected to be used or sold by BPA in the normal course of business and meet the definition of capacity described in the Derivatives and Hedging accounting guidance. These transactions are not required to be recorded at fair value in the financial statements. Recognition of these contracts in Sales or Purchased power in the Combined Statements of Revenues and Expenses occurs when the contracts settle.

In fiscal year 2010, BPA began applying Regulated Operations accounting treatment to its derivative instruments that are recorded at market values and do not meet the purchase and normal sales exception. As a result, in fiscal year 2010 BPA recognized a loss of $16.4 million which is primarily comprised of the net derivative balance for commodity contracts at the beginning of the year.

Prior to this adoption, BPA recorded the changes in fair value under Derivative instruments in the current period in the Combined Statements of Revenues and Expenses. When available, quoted market prices or prices obtained through external sources are used to measure a contract’s fair value. For contracts without available quoted market prices, fair value is determined based on internally developed modeled prices (see Note 12, Fair Value Measurements).

At Sept. 30, 2010, the derivative commodity contracts recorded at fair value totaled 6.6 million MWh (gross basis). BPA records realized and unrealized gains and losses on commodity contract derivative transactions in the operating section as noncash adjustments in the Combined Statements of Cash Flows. BPA does not apply hedge accounting.

INTEREST RATE SWAP TRANSACTIONS
In 2003, BPA entered into two floating-to-fixed LIBOR interest rate swaps to help manage interest rate risk related to its long-term variable Energy Northwest debt portfolio. BPA terminated both swaps in February 2010 in conjunction with its debt management action to refinance the related variable rate debt into fixed rate debt. This resulted in the realization of a $29.4 million loss which is included in nonfederal projects expenses, and the corresponding removal of the $31.2 million unrealized loss from Derivative instruments under Operating revenues.

Prior to February 2010, the net effect of the two swap transactions essentially replaced variable rate debt with 3.3 percent fixed rate debt. Cash flows associated with these swap transactions are included in the operating activities section of the Combined Statements of Cash Flows.
The following table presents BPA’s derivative assets and liabilities measured at fair value.

### DERIVATIVE ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

**As of Sept. 30 (thousands of dollars)**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Derivative instruments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity contracts</td>
<td>$22,829</td>
<td>$33,549</td>
</tr>
<tr>
<td>Less: netting 2</td>
<td>(2,147)</td>
<td>(1,343)</td>
</tr>
<tr>
<td><strong>Total (Net)</strong></td>
<td><strong>$20,682</strong></td>
<td><strong>$32,206</strong></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Derivative instruments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity contracts</td>
<td>($53,710)</td>
<td>($12,861)</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>—</td>
<td>($31,246)</td>
</tr>
<tr>
<td>Less: netting 2</td>
<td>2,147</td>
<td>1,343</td>
</tr>
<tr>
<td><strong>Total (Net)</strong></td>
<td><strong>($51,563)</strong></td>
<td><strong>($42,764)</strong></td>
</tr>
</tbody>
</table>

1 Derivative instruments assets and liabilities are included in Deferred charges and other and Deferred credits and other in the Combined Balance Sheets with offsetting amounts for most of these transactions in Regulatory assets and Regulatory liabilities respectively (see Note 4, Effects of Regulation, Note 6, Deferred Charges and Other and Note 10, Deferred Credits and Other).

2 Netting represents a balance sheet adjustment for same counterparty master netting arrangements.

The following table presents the effect of derivative instruments on the Combined Statements of Revenues and Expenses.

### AMOUNT OF GAIN (LOSS) RECOGNIZED

**As of Sept. 30 (thousands of dollars)**

<table>
<thead>
<tr>
<th>Location of Gain (Loss) Recognized in Net Revenues (Expenses)</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity contracts Derivative instruments</td>
<td>($16,446)</td>
<td>($17,356)</td>
<td>($13,314)</td>
</tr>
<tr>
<td>Interest rate swaps Derivative instruments</td>
<td>31,246</td>
<td>(18,680)</td>
<td>(17,221)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>14,800</td>
<td>(36,036)</td>
<td>(30,535)</td>
</tr>
<tr>
<td>Interest rate swaps Nonfederal projects</td>
<td>(29,422)</td>
<td>(7,450)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>($14,622)</strong></td>
<td><strong>($43,486)</strong></td>
<td><strong>($30,535)</strong></td>
</tr>
</tbody>
</table>
12. FAIR VALUE MEASUREMENTS

BPA applies the Fair Value Measurements and Disclosures accounting guidance for all financial instruments (recurring and nonrecurring) and for all nonfinancial instruments subject to recurring fair value measurement. This accounting guidance defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. This accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. This accounting guidance clarifies that fair value should be based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. This includes not only the credit standing of counterparties involved and the impact of credit enhancements but also the impact of BPA’s own non-performance risk on its liabilities.

The Fair Value Measurements and Disclosures accounting guidance also requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). BPA applied fair value measurements to certain assets and liabilities including commodity and interest rate derivative instruments and nuclear decommissioning trust and other investments in accordance with the requirements described above.

In accordance with the Fair Value Measurements and Disclosures accounting guidance, BPA maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, BPA seeks price information from external sources, including broker quotes and industry publications. If pricing information from external sources is not available, BPA uses forward price curves derived from internal models based on perceived pricing relationships to major trading hubs.

The non-exchange-based option contracts are measured at fair value using models or other market accepted methodologies derived from observable market data and unobservable inputs. These models are primarily industry standard models that consider various inputs including: a) quoted forward prices for commodities, b) time value, c) volatility factors, d) current market and contractual prices for underlying instruments and e) market interest rates and yield curves as well as other relevant economic measures.

BPA also utilizes the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value, into three broad levels:

**Level 1** – Quoted prices (unadjusted) in active markets for identical assets and liabilities that BPA has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of financial instruments such as fixed income, equity mutual funds and money market funds.

**Level 2** – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include certain non-exchange traded derivatives, certain agency securities as part of the special purpose corporations’ trust funds investments and interest rate swaps.

**Level 3** – Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 include long-dated and modeled commodity contracts.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a
fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

In accordance with the Fair Value Measurements and Disclosures accounting guidance, BPA includes non-performance risk in calculating fair value measurements. This includes a credit risk adjustment based on the credit spreads of BPA’s counterparties when in an unrealized gain position, or on BPA’s own credit spread when in an unrealized loss position. BPA’s assessment of non-performance risk is generally derived from the credit default swap market and from bond market credit spreads. The impact of the credit risk adjustments for all outstanding derivatives was immaterial to the fair value calculation at Sept. 30, 2010 and Sept. 30, 2009.

The Fair Value Measurements and Disclosures accounting guidance requires fair value measurements to be separately disclosed by level within the fair value hierarchy and requires a separate reconciliation of fair value measurements categorized as Level 3.

The following table presents for each hierarchy level BPA’s assets and liabilities measured at fair value on a recurring basis, as of Sept. 30, 2010.

### ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Netting 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonfederal nuclear decommissioning trusts</td>
<td>$188,850</td>
<td>$ —</td>
<td>$ —</td>
<td>$ —</td>
<td>$188,850</td>
</tr>
<tr>
<td>Derivative instruments 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity contracts</td>
<td>—</td>
<td>2,329</td>
<td>20,500</td>
<td>(2,147)</td>
<td>20,682</td>
</tr>
<tr>
<td>Special purpose corporations’ trust funds</td>
<td>—</td>
<td>95,910</td>
<td>—</td>
<td>—</td>
<td>95,910</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$188,850</td>
<td>$98,239</td>
<td>$20,500</td>
<td>$(2,147)</td>
<td>$305,442</td>
</tr>
</tbody>
</table>

| **Liabilities**      |         |         |         |           |         |
| Derivative instruments 1 |         |         |         |           |         |
| Commodity contracts | $ —     | $ (50,865) | $ (2,845) | $2,147 | $(51,563) |
| **Total**             | $ —     | $ (50,865) | $ (2,845) | $2,147 | $(51,563) |

1 Derivative instruments assets and liabilities are included in Deferred charges and other and Deferred credits and other in the Combined Balance Sheets, respectively (see Note 6, Deferred Charges and Other and Note 10, Deferred Credits and Other). See Note 11, Risk Management and Derivative Instruments for more information related to BPA’s risk strategy and use of derivative instruments.

2 Netting represents a balance sheet adjustment for same counterparty master netting arrangements.
The following table presents for each hierarchy level BPA’s assets and liabilities measured at fair value on a recurring basis, as of Sept. 30, 2009.

### ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

As of Sept. 30 (thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Netting 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonfederal nuclear decommissioning trusts</td>
<td>$167,232</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>$167,232</td>
</tr>
<tr>
<td>Derivative instruments&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity contracts</td>
<td>—</td>
<td>$5,359</td>
<td>$28,190</td>
<td>(1,343)</td>
<td>$32,206</td>
</tr>
<tr>
<td>Special purpose corporations’ trust funds</td>
<td>$24,423</td>
<td>$103,500</td>
<td>—</td>
<td>—</td>
<td>$127,923</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$191,655</td>
<td>$108,859</td>
<td>$28,190</td>
<td>(1,343)</td>
<td>$327,361</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative instruments&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity contracts</td>
<td>$</td>
<td>—</td>
<td>$12,861</td>
<td>—</td>
<td>$1,343</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(31,246)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$</td>
<td>—</td>
<td>$(44,107)</td>
<td>—</td>
<td>$1,343</td>
</tr>
</tbody>
</table>

<sup>1</sup> Derivative instruments assets and liabilities are included in Deferred charges and other and Deferred credits and other in the Combined Balance Sheets, respectively (see Note 6, Deferred Charges and Other and Note 10, Deferred Credits and Other). See Note 11, Risk Management and Derivative Instruments for more information related to BPA’s risk strategy and use of derivative instruments.

<sup>2</sup> Netting represents a balance sheet adjustment for same counterparty master netting arrangements.
The following table presents the changes in the assets and liabilities measured at fair value on a recurring basis and included in the Level 3 fair value category.

**COMMODITY CONTRACTS**

<table>
<thead>
<tr>
<th>(Thousands of dollars)</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$28,190</td>
<td>$38,486</td>
</tr>
<tr>
<td>Total realized and unrealized gains (losses) included in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net revenues (expenses) 1</td>
<td>(25,209)</td>
<td>(10,296)</td>
</tr>
<tr>
<td>Regulatory assets and liabilities</td>
<td>14,674</td>
<td>—</td>
</tr>
<tr>
<td>Purchases, issuance and settlements</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Transfers in (out) of Level 3</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$17,655</td>
<td>$28,190</td>
</tr>
</tbody>
</table>

1 For those level 3 category amounts included in Net revenues, unrealized losses are included in Derivative instruments and realized losses are included in Purchased power in the Combined Statements of Revenues and Expenses for the fiscal year ended Sept. 30, 2010 and Sept. 30, 2009.

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**13. COMMITMENTS AND CONTINGENCIES**

**INTEGRATED FISH AND WILDLIFE PROGRAM**

The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife projects that are consistent with the Northwest Power Act and that are consistent with the Pacific Northwest Power and Conservation Council’s Columbia River Basin Fish and Wildlife Program. In addition, certain fish species are listed under the Endangered Species Act (ESA) as threatened or endangered. BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions (BiOp) prepared by the National Oceanic and Atmospheric Administration Fisheries Service (NOAA) and the U.S. Fish and Wildlife Service in furtherance of the ESA, including the 2008 NOAA BiOp regarding the effects of the federal hydropower system on listed salmon and steelhead.

In 2008, BPA, Corps and Reclamation signed 10-year agreements with five Northwest tribes, the Columbia River Inter-Tribal Fish Commission (CRITFC), the State of Idaho and the State of Montana. These agreements that are collectively referred to as the Columbia Basin Fish Accords (Fish Accords) provide for BPA to fund up to approximately $994 million over 10 years, enabling the tribes and states to contribute directly to actions described in the NOAA BiOp as well as to continue existing programs and to implement new priority fish projects. In 2009, BPA, Corps and Reclamation signed an agreement with the State of Washington to provide funds to improve the Columbia River estuary habitat expressly focused on implementation of the NOAA BiOp. This agreement adds $16.2 million to the $31.5 million that BPA had planned for BiOp implementation for a total commitment of $47.7 million for estuary habitat through 2018. The initial total commitment for the Fish Accords and the estuary habitat agreement was $1.04 billion through 2018 plus an annual inflation adjustment of 2.5 percent, compounded, to budgets. As of Sept. 30, 2010, BPA has recorded approximately $172 million in total commitments for these agreements.
In 2009, the U.S. District Court of Oregon requested the Obama administration to present a position on the 2008 NOAA BiOp. The administration concluded that with an Adaptive Management Implementation Plan (AMIP) the BiOp is biologically and legally sound. However, the Court found that it could not consider the AMIP unless it was incorporated into the BiOp. In May 2010 four federal agencies, including BPA, completed the voluntary remand of the 2008 BiOp allowed by the Court and a 2010 Supplemental BiOp was filed which included the AMIP and updated science. The Court will decide whether the plan meets the requirements of the ESA. The costs of implementing new contingency actions in the 2010 Supplemental BiOp if fish runs experience a severe decline have not been estimated.

In October 2010, BPA and the State of Oregon signed a settlement agreement to permanently resolve longstanding wildlife mitigation issues associated with the Willamette River dams for which BPA shares a mitigation responsibility. This agreement stipulates that BPA shall provide funding for new land acquisitions and operation and maintenance costs for fiscal years 2011 to 2025. BPA’s total commitment under this agreement is $144.1 million which includes the inflation adjustment. BPA may also provide continued funds for Oregon Department of Fish and Wildlife’s operation and maintenance for fiscal years 2026 to 2043. Although this funding has not yet been negotiated, the starting base amount is $1.7 million annually.

**IRRIGATION ASSISTANCE**

<table>
<thead>
<tr>
<th>Scheduled distributions</th>
<th>As of Sept. 30 (thousands of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ —</td>
</tr>
<tr>
<td>2012</td>
<td>1,206</td>
</tr>
<tr>
<td>2013</td>
<td>60,021</td>
</tr>
<tr>
<td>2014</td>
<td>53,495</td>
</tr>
<tr>
<td>2015</td>
<td>53,048</td>
</tr>
<tr>
<td>2016 and thereafter</td>
<td>508,533</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 676,303</strong></td>
</tr>
</tbody>
</table>

As directed by legislation, BPA is required to make cash distributions to the U.S. Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators’ ability to pay. These irrigation distributions do not specifically relate to power generation. In establishing power rates, particular statutory provisions guide the assumptions that BPA makes as to the amount and timing of such distributions. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from accumulated net revenues (expenses) when paid. Future irrigation assistance payments are scheduled to total $676.3 million over a maximum of 66 years since the time the irrigation facilities were completed and placed in service. BPA is required by the Grand Coulee Dam — Third Powerplant Act to demonstrate that reimbursable costs of the FCRPS will be returned to the U.S. Treasury from BPA within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects to the extent the costs have been determined to be beyond the irrigators’ ability to repay. These requirements are met by conducting power repayment studies including schedules of distributions at the proposed rates to demonstrate repayment of principal within the allowable repayment period. Irrigation assistance excludes $40.3 million for Teton Dam which failed prior to completion and for which BPA has no obligation to recover these costs.

**FIRM PURCHASE POWER COMMITMENTS**

<table>
<thead>
<tr>
<th>As of Sept. 30 (thousands of dollars)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$43,360</td>
</tr>
<tr>
<td>2012</td>
<td>51,805</td>
</tr>
<tr>
<td>2013</td>
<td>66,441</td>
</tr>
<tr>
<td>2014</td>
<td>35,234</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$196,840</strong></td>
</tr>
</tbody>
</table>

When BPA forecasts a resource shortage based on expected obligations and the historical water record for the Columbia River basin, BPA takes a variety of steps to cover the shortage. If appropriate, BPA will enter into long-term commitments to purchase power for future delivery. The above table includes firm purchase power agreements of known cost that are currently in place to assist in meeting expected future obligations under long-term power sales contracts. Included are six contracts for winter purchases through fiscal year 2014 and three purchases made specifically to meet BPA’s commitments to sell power at Tier 2 rates in fiscal years 2012 and 2013. The expense associated with the winter purchases...
during 2010 was $43.1 million. Tier 2 purchases do not commence until fiscal year 2012. There were no purchases made under any of the contracts prior to this year. BPA has several power purchase agreements with wind-powered and other generating facilities that are not included in the table above as payments are based on the variable amount of future energy generated and there are no minimum payments required.

**ADDITIONAL POST-RETIREMENT CONTRIBUTIONS**

<table>
<thead>
<tr>
<th>Future contributions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>As of Sept. 30 (thousands of dollars)</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>$31,157</td>
</tr>
<tr>
<td>2012</td>
<td>34,486</td>
</tr>
<tr>
<td>2013</td>
<td>35,641</td>
</tr>
<tr>
<td>2014</td>
<td>37,002</td>
</tr>
<tr>
<td>2015</td>
<td>37,638</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$175,924</strong></td>
</tr>
</tbody>
</table>

All fiscal year amounts are estimates and subject to change.

BPA makes additional annual contributions to the U.S. Treasury in order to ensure that all federal post-retirement benefit programs provided to federal employees associated with the operation of the FCRPS are fully funded and to ensure that such costs are both recovered through rates and properly expensed. The additional contributions are based on employee plan participation and the extent to which the particular plans are underfunded. BPA paid $30.9 million, $32.7 million and $18.0 million to the U.S. Treasury during fiscal years 2010, 2009 and 2008, respectively. BPA records these amounts as expenses during the year in which they are paid.

**NUCLEAR INSURANCE**

BPA is a member of the Nuclear Electric Insurance Limited (NEIL), a mutual insurance company established to provide insurance coverage for nuclear power plants. The types of insurance coverage purchased from NEIL by BPA include:

1. Primary Property and Decontamination Liability Insurance;
2. Decommissioning Liability and Excess Property Insurance;
3. Business Interruption and/or Extra Expense Insurance.

Under each insurance policy, BPA could be subject to an assessment in the event that a member-insured loss exceeds reinsurance and reserves held by NEIL. The maximum assessment for the Primary Property and Decontamination Insurance policy is $7.1 million. For the Decontamination Liability, Decommissioning Liability and Excess Property Insurance policy, the maximum assessment is $15.0 million. For the Business Interruption and/or Extra Expense Insurance policy, the maximum assessment is $4.5 million.

As a separate requirement, BPA is liable under the Nuclear Regulatory Commission’s indemnity for public liability coverage under the Price-Anderson Act. In the event of a nuclear accident resulting in public liability losses exceeding $375.0 million, BPA could be subject to a retrospective assessment of up to $111.9 million limited to an annual maximum of $17.5 million. Assessments would be included in BPA’s costs and recovered through rates.

**ENVIRONMENTAL MATTERS**

From time to time there are sites for which BPA, Corps or Reclamation may be identified as potential responsible parties. Costs associated with cleanup of sites are not expected to be material to the FCRPS’ financial statements. As such, no material liability has been recorded.

**LITIGATION**

**SOUTHERN CALIFORNIA EDISON**

Southern California Edison (SCE) filed two separate actions pending in the U.S. Court of Federal Claims against BPA related to a power sales and exchange agreement (Sale and Exchange Agreement) between BPA and SCE. The actions challenged: 1) BPA’s decision to convert the contract from a sale of power to an exchange of power as provided for under the terms of the contract (Conversion Claim); and 2) BPA’s termination of the Sales and Exchange Agreement due to SCE’s nonperformance (Termination Claim).

In 2006, BPA and SCE executed an agreement to settle the claims wherein BPA would make a payment of $28.5 million plus applicable interest to SCE if certain identified conditions were met, including a final resolution of BPA’s claims pending in the California refund proceedings and related litigation. BPA has recorded a liability in this amount on the basis that all conditions have been met except the final resolution in the California refund proceedings which management considers probable.
BPA established an offsetting regulatory asset for the liability as the costs will be collected in future rates.

**CALIFORNIA PARTIES’ REFUND CLAIMS**

BPA was a party to proceedings at FERC that sought refunds for sales into markets operated by the California Independent System Operator (ISO) and the California Power Exchange (PX) during the California energy crisis of 2000-2001. BPA along with a number of other governmental utilities challenged the Commission’s refund authority over governmental utilities. In BPA v. FERC, 422 F.3d 908 (9th Cir. 2005) the Court found that governmental utilities, like BPA, were not subject to FERC’s statutory refund authority. As a consequence of the Court’s decision, three California investor-owned utilities along with the State of California filed breach of contract claims in the United States Court of Federal Claims against BPA. The complaints, filed in March 2007, alleged that BPA was contractually obligated to pay refunds on transactions where BPA received amounts in excess of mitigated market clearing prices established by FERC. The plaintiffs’ contractual breach is premised upon a Commission finding that it retroactively reset the prices under the ISO and PX tariffs when it established these mitigated market clearing prices. BPA has separately appealed to the Ninth Circuit Court the Commission finding that it retroactively reset the tariff prices. The plaintiffs’ claims for relief exceed $300 million. Trial on the liability portion of plaintiffs’ contractual breach claim commenced in July 2010 and concluded August 2010. Post trial briefs are due to be filed during fall 2010 and closing argument is scheduled for January 2011. The damages phase of the case will be tried only after the Court rules on the liability portion. No date has been scheduled for the damages phase.

**RATES**

BPA’s rates are frequently the subject of litigation. Most of the litigation involves claims that BPA’s rates are inconsistent with statutory directives, are not supported by substantial evidence in the record, or are arbitrary and capricious. It is the opinion of BPA’s General Counsel that if any rate were to be rejected, the sole remedy accorded would be a remand to BPA to establish a new rate. BPA’s flexibility in establishing rates could be restricted by the rejection of a BPA rate, depending on the grounds for the rejection. BPA is unable to predict, however, what new rate it would establish if a rate were rejected. If BPA were to establish a rate that was lower than the rejected rate, a petitioner may be entitled to a refund in the amount overpaid; however, BPA is required by law to set rates to meet all of its costs. Thus, it is the opinion of BPA’s General Counsel that BPA may be required to increase its rates to seek to recover the amount of any such refunds, if needed.

Currently pending before the Ninth Circuit Court are numerous challenges to the decisions BPA reached in the WP-07 Supplemental Rate Case. The petitioners in these cases challenge, among other issues, BPA’s calculation of certain refunds (referred to as “Lookback Amounts”) associated with rates charged to BPA’s preference customers from FY 2002-2008. These refunds resulted from BPA’s implementation of a Residential Exchange Program (REP) settlement that was later found unlawful and payment of REP benefits to BPA’s investor-owned utility customers under that settlement. Over the last several months, representatives from most of the region’s consumer- and investor-owned utilities have been negotiating to settle disputes over REP benefits. These parties have reached an agreement in principle for how BPA should establish REP benefits and recover the costs of those benefits through rates for the fiscal year period 2007 through 2028. While it is possible that such challenges or the adoption of the negotiated settlement principles could result in changes to BPA’s calculation or recovery of the Lookback Amounts, BPA management believes any changes would be resolved through future rates.

**OTHER**

The FCRPS may be affected by various other legal claims, actions and complaints, including litigation under the Endangered Species Act, which may include BPA as a named party. Certain of these cases may involve material amounts. BPA is unable to predict whether the FCRPS will avoid adverse outcomes in these legal proceedings or, if not, what the impact might be. BPA currently believes that disposition of pending matters will not have a materially adverse effect on the FCRPS’ financial position or results of operations for fiscal year 2010.

Judgments and settlements are included in BPA’s costs and recovered through rates. Except with respect to the SCE matter described above, BPA management has not recorded a liability for the above legal matters.
Report of Independent Auditors

To the Administrator of the
Bonneville Power Administration,
United States Department of Energy

In our opinion, the accompanying combined balance sheets and the related combined statements of revenues and expenses, of changes in capitalization and long-term liabilities and of cash flows present fairly, in all material respects, the financial position of the Federal Columbia River Power System (FCRPS) at September 30, 2010 and 2009, and the results of its operations and its cash flows for each of the three years ended September 30, 2010, and the changes in its capitalization and long-term liabilities for each of the two years ended September 30, 2010, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of FCRPS' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Portland, Oregon
October 28, 2010
Federal Repayment

REVENUE REQUIREMENT STUDY
The submission of BPA’s annual report fulfills the reporting requirements of the Third Powerplant at Grand Coulee Dam Act, Public Law 89-448. The revenue requirement study demonstrates repayment of federal investment. It reflects revenues and costs consistent with BPA’s 2010 Final Wholesale Power and Transmission Rate Proposal in July 2009 for fiscal years 2010 and 2011 (see WP-10-FS-BPA-02 and TR-10-FS-BPA-01). The final proposals filed with FERC contain the official amortization schedule for the rate periods. FERC approved the WP-10 and TR-10 filings on Aug. 6, 2010.

REPAYMENT DEMONSTRATION
BPA is required by Public Law 89-448 to demonstrate that reimbursable costs of the FCRPS will be returned to the U.S. Treasury from BPA net revenues within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects that are beyond the ability of irrigation water users to repay. These requirements are met by conducting power repayment studies including schedules of payments at the proposed rates to demonstrate repayment of principal within the allowable repayment period.

Since 1985, BPA has prepared separate repayment demonstrations for generation and transmission in accordance with an order issued by FERC on Jan. 27, 1984 (26 FERC 61,096).

REPAYMENT POLICY
BPA’s repayment policy is reflected in its generation and transmission revenue requirements and respective rate levels. This policy requires that FCRPS revenues by function be sufficient to:

1. Pay the cost of operating and maintaining the power system.
2. Pay the cost of obtaining power through purchase and exchange agreements (nonfederal projects) that BPA is obtaining under capitalized lease-purchase agreements.
3. Pay interest on and repay outstanding U.S. Treasury borrowings to finance transmission system construction, conservation, environmental, direct-funded Corps and Reclamation improvements, and fish and wildlife projects.
4. Pay interest on the unrepaid investment in facilities financed with appropriated funds. (Federal hydroelectric projects and BPA transmission facilities constructed before 1978 were financed with appropriated funds.)
5. Pay, with interest, any outstanding deferral of interest expense.
6. Repay the power investment in each federal hydroelectric project with interest within 50 years after the project is placed in service (except for the Chandler project, which has a legislated repayment period of 66 years).
7. Repay each increment of the investment in the BPA transmission system financed with appropriated funds with interest within the average service life of the associated transmission plant (40 years).
8. Repay the appropriated investment in each replacement at a federal hydroelectric project within its service life.
9. Repay irrigation investment at federal reclamation projects assigned for payment from FCRPS power net revenues within the same period established for irrigation water users to repay their share of construction costs. These periods range from 40 to 66 years, with 50 years being applicable to most of the irrigation payment assistance. Investments bearing the highest interest rate will be repaid first, to the extent possible, while still completing repayment of each increment of investment within its prescribed repayment period.

REPAYMENT OBLIGATION
BPA’s rates must be designed to collect sufficient revenues to return separately the power and transmission costs of each FCRPS investment and each irrigation assistance obligation within the time prescribed by law.

If existing rates are not likely to meet this requirement, BPA must reduce costs, adjust its rates, or both. However, irrigation assistance payments from projects authorized subsequent to Public Law 89-448 are to be scheduled to not require an increase in the BPA power rate level. Comparing BPA’s repayment schedule for the unrepaid capital appropriations and bonds with a “term schedule” demonstrates that the federal investment will be repaid within the time allowed. A term schedule represents a repayment schedule whereby each capitalized appropriation or bond would be repaid in the year it is due.

Reporting requirements of Public Law 89-448 are met so long as the unrepaid FCRPS investment and irrigation assistance resulting from BPA’s repayment schedule are less than or equal to the allowable unrepaid investment in each year. While the comparison is illustrated here by graphs representing total
FCRPS generation and total FCRPS transmission investment, the actual comparison is performed on an investment-by-investment basis.

**REPAYMENT OF FCRPS INVESTMENT**

The graphs for Unrepaid Federal Generation and Transmission Investment illustrate that unrepaid investment resulting from BPA’s generation and transmission repayment schedules is less than the allowable unrepaid investment. This demonstrates that BPA’s rates are sufficient to recover all FCRPS investment costs on or before their due dates.

The term schedule lines in the graphs show how much of the obligation can remain unpaid in accordance with the repayment periods for the generation and transmission components of the FCRPS. The BPA repayment schedule lines show how much of the obligation remains to be repaid according to BPA’s repayment schedules. In each year, BPA’s repayment schedule is ahead of the term schedule. This occurs because BPA plans repayment both to comply with obligation due dates and to minimize costs over the entire repayment study horizon (35 years for transmission, 50 years for generation). Repaying highest interest-bearing investments first, to the extent possible, minimizes costs. Consequently, some investments are repaid before their due dates while assuring that all other obligations are repaid by their due dates. These graphs include forecasts of system replacements during the repayment study horizon that are necessary to maintain the existing FCRPS generation and transmission facilities. The Unrepaid Federal Investment graph displays the total planned unrepaid FCRPS obligations compared to allowable total unrepaid FCRPS investment, omitting future system replacements. This demonstrates that each FCRPS investment through 2010 is scheduled to be returned to the U.S. Treasury within its repayment period and ahead of due dates.

If, in any given year, revenues are not sufficient to cover all cash needs including interest, any deficiency becomes an unpaid annual expense. Interest is accrued on the unpaid annual expense until paid. This must be paid from subsequent years’ revenues before any repayment of federal appropriations can be made.
BPA Executives

**STEFEN J. WRIGHT**
Administrator and Chief Executive Officer

**DAVID J. ARMSTRONG (ACTING)**
Deputy Administrator

**ANITA J. DECKER**
Chief Operating Officer

**CLAUDIA R. ANDREWS (ACTING)**
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Executive Vice President for Internal Business Services

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Executive Vice President for General Counsel, and General Counsel

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Chief Public Affairs Officer

**TERRY V. OLIVER**
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Senior Vice President for Power Services

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Vice President for Northwest Requirements Marketing

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**HARDEV S. JIJ (ACTING)**
Vice President for Planning and Asset Management
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- 503-230-3000

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- 503-230-INFO [4636] = 1-800-622-4520

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### BEND CUSTOMER SERVICE CENTER
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- Bend, OR 97702
- 541-318-1680

### BURLEY CUSTOMER SERVICE CENTER
- 2700 Overland
- Burley, ID 83318
- 208-678-9481

### EASTERN AREA CUSTOMER SERVICE CENTER
- 707 W. Main Ave., Suite 500
- Spokane, WA 99201
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### MONTANA CUSTOMER SERVICE CENTER
- P.O. Box 140
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- 406-849-9034

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- 360-418-2000

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- Idaho Falls, ID 83402
- 208-612-3110

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- Kalispell, MT 59901
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- 2410 E. Hawthorne Rd.
- Mead, WA 99020
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- 509-542-5430

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- 360-570-4301

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