

*In the opinion of Special Counsel, interest on the Series 2020-1 Bonds is not excluded from gross income for U.S. federal income tax purposes pursuant to Section 103 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). See “TAX MATTERS – Certain U.S. Federal Income Tax Considerations” herein. In the further opinion of Special Counsel, interest on the Series 2020-1 Bonds is exempt from State of Oregon personal income taxes. See “TAX MATTERS – Certain State of Oregon Income Tax Considerations” herein.*

**\$377,635,000**

**PORT OF MORROW, OREGON**  
**Transmission Facilities Revenue Bonds**  
**(Bonneville Cooperation Project No. 7)**  
**Series 2020-1 (Federally Taxable)**  
**(CUSIP\* 73474TAT7)**

**2.543% Term Bond due September 1, 2040- Price 100%**

**Dated:** Date of Delivery

**The Series 2020-1 Bonds will be special obligations of the Port of Morrow, Oregon (the “Issuer”) payable solely from the trust estate pledged therefor which trust estate includes amounts derived from rental payments paid to the Issuer pursuant to a Lease-Purchase Agreement, dated June 25, 2020 (the “Lease-Purchase Agreement”), between the Issuer and the United States of America, Department of Energy, acting by and through the Administrator of the**

**BONNEVILLE POWER ADMINISTRATION**

**Bonneville’s payments under the Lease-Purchase Agreement will be made solely from the Bonneville Fund. The Lease-Purchase Agreement provides that Bonneville’s obligation to pay the rental payments and all amounts payable under the Lease-Purchase Agreement is absolute and unconditional, and is payable without any set-off or counterclaim, regardless of whether or not the Project financed with the proceeds of the Series 2020-1 Bonds is operating or operable. Bonneville’s payment obligations under the Lease-Purchase Agreement are not, nor shall they be construed to be, general obligations of the United States of America nor are such obligations intended to be or are they secured by the full faith and credit of the United States of America. See “THE ISSUER – Limited Obligation.”**

The Series 2020-1 Bonds are being issued for the principal purpose of refinancing indebtedness issued for the cost of acquiring, constructing, installing and equipping of certain transmission facilities owned by the Issuer and leased to Bonneville pursuant to the Lease-Purchase Agreement. See “PURPOSE OF ISSUANCE AND USE OF PROCEEDS.”

The Series 2020-1 Bonds will bear interest from the date of their issuance, payable on September 1, 2020 and semi-annually thereafter on March 1 and September 1 of each year. The Series 2020-1 Bonds will be issued in fully registered form and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2020-1 Bonds. Individual purchases in principal amounts of \$5,000 or multiples thereof will be made only through the book-entry-only system maintained by DTC through brokers and dealers who are, or act through, DTC Participants. The purchasers of the Series 2020-1 Bonds will not receive certificates representing their interest in the Series 2020-1 Bonds. Ownership interests in the Series 2020-1 Bonds will be shown on, and transfers of Series 2020-1 Bonds will be effected only through, records maintained by DTC and its participants. Payments of principal of, premium, if any, and interest on the Series 2020-1 Bonds will be made to owners by DTC through its participants.

The Trustee for the Series 2020-1 Bonds is U.S. Bank National Association.

**The Series 2020-1 Bonds are subject to redemption prior to maturity as described herein.**

*The Series 2020-1 Bonds are offered when, as, and if issued and received by the Underwriters, subject to the approval of the proceedings authorizing the Series 2020-1 Bonds by Orrick, Herrington & Sutcliffe LLP, and to certain other conditions. Certain legal matters will be passed upon for the Issuer by Monahan, Grove & Tucker, Milton-Freewater, Oregon, and for Bonneville by its General Counsel and by its Special Counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP, New York, New York. The Series 2020-1 Bonds are expected to be delivered through the facilities of DTC on or about June 25, 2020.*

**Citigroup**  
**BofA Securities**

**TD Securities**  
**Wells Fargo Securities**

June 11, 2020

\* The CUSIP number is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor’s. The CUSIP number is not intended to create a database and does not serve in any way as a substitute for CUSIP service. CUSIP numbers are provided for convenience and reference only, and are subject to change. Neither the Issuer nor the Underwriters take responsibility for the accuracy of the CUSIP number.

The information contained in this Official Statement has been obtained from the United States of America, Department of Energy, acting by and through the Administrator of the Bonneville Power Administration (“Bonneville”) and in certain limited instances from the Port of Morrow, Oregon (the “Issuer”) and other sources which are deemed to be reliable. This Official Statement is submitted in connection with the sale of the securities referred to herein, and may not be reproduced or be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that the information herein is correct as of any time subsequent to its date.

**No dealer, salesman or any other person has been authorized by the Issuer or Citigroup Global Markets Inc. and the other Underwriters (collectively the “Underwriters”) to give any information or to make any representations other than as contained in this Official Statement in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer of any securities, other than those described on the cover page, or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.**

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Issuer makes no representation as to the accuracy or completeness of any information in this Official Statement and takes no responsibility for its contents, other than the information relating to the Issuer under the headings “THE ISSUER,” “VALIDATION,” and “LEGAL MATTERS.”

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**CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE SERIES 2020-1 BONDS.**

This Official Statement 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 Bonneville’s business and financial results could cause actual results to differ materially from those stated in the forward-looking statements. Bonneville does not plan to issue updates or revisions to the forward-looking statements.

The Series 2020-1 Bonds will not be registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The Series 2020-1 Bonds have not been registered or qualified under the securities laws of any state. The Series 2020-1 Bonds have not been recommended by any federal, state or foreign securities commission or regulatory authority, and the foregoing authorities have neither reviewed nor confirmed the accuracy of this document.

No action has been taken by the Issuer that would permit a public offering of the Series 2020-1 Bonds or possession or distribution of the Official Statement or any other offering material in any foreign jurisdiction where action for that purpose is required. Accordingly, each of the Underwriters has agreed that any Bonds offered or sold outside of the United States of America by the Underwriters will be offered and sold in compliance with the applicable laws, rules and regulations of the jurisdiction in which they are offered and sold, and the Underwriters will obtain any consent, approval or permission required by it for the offer or sale by it of the Series 2020-1 Bonds under the laws and regulations in force in any foreign jurisdiction to which it is subject or in which it makes such offers or sales, and the Issuer shall have no responsibility therefor.

**INFORMATION CONCERNING OFFERING RESTRICTIONS  
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

**NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA (“EEA”)**

THIS OFFICIAL STATEMENT IS NOT A PROSPECTUS FOR THE PURPOSES OF EUROPEAN COMMISSION REGULATION 809/2004 OR EUROPEAN COMMISSION DIRECTIVE 2003/71/EC (AS AMENDED, INCLUDING BY EUROPEAN COMMISSION DIRECTIVE 2010/73/EU, AS APPLICABLE) (THE “PROSPECTUS DIRECTIVE”). IT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE SERIES 2020-1 BONDS WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3 OF THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN MEMBER STATES OF THE EEA, FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR SUCH OFFERS. THIS OFFICIAL STATEMENT IS ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EEA WHO ARE “QUALIFIED INVESTORS” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE AND ANY RELEVANT IMPLEMENTING MEASURE IN EACH MEMBER STATE OF THE EEA (“QUALIFIED INVESTORS”). THIS OFFICIAL STATEMENT MUST NOT BE ACTED ON OR RELIED ON IN ANY SUCH MEMBER STATE OF THE EEA BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO QUALIFIED INVESTORS IN ANY MEMBER STATE OF THE EEA AND WILL NOT BE ENGAGED IN WITH ANY OTHER PERSONS.

**NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS IN THE UNITED KINGDOM THAT ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE WHO ARE ALSO (I) INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”) OR (II) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS, INCLUDING IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA APPLIES TO THE ISSUER. THIS OFFICIAL STATEMENT AND ITS CONTENTS ARE CONFIDENTIAL AND SHOULD NOT BE DISTRIBUTED, PUBLISHED OR REPRODUCED (IN WHOLE OR IN PART) OR DISCLOSED BY RECIPIENTS TO ANY OTHER PERSONS IN THE UNITED KINGDOM. IN THE UNITED KINGDOM, ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

**NOTICE TO INVESTORS IN SWITZERLAND**

THE SERIES 2020-1 BONDS MAY NOT BE PUBLICLY OFFERED IN SWITZERLAND AND WILL NOT BE LISTED ON THE SIX SWISS EXCHANGE (“SIX”) OR ON ANY OTHER STOCK EXCHANGE OR REGULATED TRADING FACILITY IN SWITZERLAND. THIS OFFICIAL STATEMENT HAS BEEN PREPARED WITHOUT REGARD TO THE DISCLOSURE STANDARDS FOR ISSUANCE PROSPECTUSES UNDER ART. 652A OR ART. 1156 OF THE SWISS CODE OF OBLIGATIONS OR THE DISCLOSURE STANDARDS FOR LISTING PROSPECTUSES UNDER ART. 27 FF. OF THE SIX LISTING RULES OR THE LISTING RULES OF ANY OTHER STOCK EXCHANGE OR REGULATED TRADING FACILITY IN SWITZERLAND. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE SERIES 2020-1 BONDS OR THE OFFERING MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

NONE OF THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE OFFERING, THE ISSUER OR THE SERIES 2020-1 BONDS HAVE BEEN OR WILL BE FILED WITH OR APPROVED BY ANY SWISS REGULATORY AUTHORITY. IN PARTICULAR, THIS OFFICIAL STATEMENT WILL NOT BE FILED WITH, AND THE OFFER OF THE SERIES 2020-1 BONDS WILL NOT BE SUPERVISED BY, THE SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY (“FINMA”), AND THE OFFER OF BONDS HAS NOT BEEN AND WILL NOT BE AUTHORIZED UNDER THE SWISS FEDERAL ACT ON COLLECTIVE INVESTMENT SCHEMES (“CISA”). ACCORDINGLY, INVESTORS DO NOT HAVE THE BENEFIT OF THE SPECIFIC INVESTOR PROTECTION PROVIDED UNDER THE CISA.

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## OFFICIAL STATEMENT

**\$377,635,000**  
**Port of Morrow, Oregon**  
**Transmission Facilities Revenue Bonds**  
**(Bonneville Cooperation Project No. 7),**  
**Series 2020-1 (Federally Taxable)**

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### INTRODUCTORY STATEMENT

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This Official Statement provides information concerning the issuance by the Port of Morrow, Oregon (the “Issuer” or the “Port”) of \$377,635,000 principal amount of its Transmission Facilities Revenue Bonds, Series 2020-1 (the “Series 2020-1 Bonds”). The Series 2020-1 Bonds are being issued for the purpose of refinancing indebtedness issued for the cost of acquiring, constructing, installing and equipping of certain transmission facilities (the “Project”), as further described herein under “THE PROJECT,” owned by the Issuer and leased to the United States of America, Department of Energy, acting by and through the Administrator of the Bonneville Power Administration (“Bonneville”).

The Issuer will execute a Lease-Purchase Agreement with Bonneville dated June 25, 2020 (the “Lease-Purchase Agreement”) pursuant to which the Issuer will lease the Project to Bonneville. The Series 2020-1 Bonds will be issued under an Indenture of Trust dated as of June 1, 2020 (the “Indenture”) between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). Under the Indenture, the Issuer will assign to the Trustee certain rights under the Lease-Purchase Agreement, including the right to receive rental payments from Bonneville in amounts at least sufficient to pay when due the principal of, and interest on, the Series 2020-1 Bonds.

Brief descriptions and summaries of the Series 2020-1 Bonds, the Lease-Purchase Agreement and the Indenture follow in this Official Statement. These descriptions and summaries do not purport to be complete and are subject to and qualified by reference to the provisions of the complete documents, copies of which are available at the offices of the Trustee at Global Corporate Trust Services, 555 SW Oak Street, PD-OR-P7TD, Portland, Oregon 97204. Appendices A and B to this Official Statement have been furnished by Bonneville and contain information concerning the business of Bonneville. Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Indenture.

### THE ISSUER

#### General

The Issuer, a port district located in Morrow County, Oregon, was organized in 1957 under Oregon Revised Statutes, Section 777, as amended. The Issuer’s boundaries, approximately 2,049 square miles, are coterminous with Morrow County. To the north, the Issuer is bordered by the Columbia River and is transected by Interstate 84 and Union Pacific railroad mainline. Both the highway and the railroad pass through Boardman, the location of the Port’s administrative office and a portion of its industrial park.

Port districts in the State of Oregon are authorized to acquire, hold, use, enjoy and convey, lease or otherwise dispose of real and personal property, or any interest therein, necessary or convenient in carrying out its powers. Port powers include the right to acquire rights of way for the placing of transmission lines over which to carry electric energy, with the full power to lease and sell the same, together with the lands upon which they are situated, whether held by the port in its governmental capacity or not.

The Port’s major mission remains economic development and creation of jobs for the cities of Boardman, Lexington, Heppner, Ione and Irrigon. The Port’s area has approximately 11,300 residents. A five member Board of Commissioners governs the Port.

### Board of Commissioners

<u>Name</u>	<u>Title</u>	<u>Occupation</u>	<u>Current Term Began</u>	<u>Term Ends</u>
Rick Stokoe	President	Police Chief	07/01/17	06/30/21
Marvin Padberg	Vice President	Farmer	07/01/19	06/30/23
Joe Taylor	Secretary/Treasurer	Farmer	07/01/17	06/30/21
Jerry Healy	Commissioner	Retired	07/01/17	06/30/21
John Murray	Commissioner	Pharmacist	07/01/19	06/30/23

### Administration

The Port employs a manager, who is responsible for all management and administrative functions. The manager has a staff of 124 full-time equivalent employees to assist in administrative and facility maintenance activities.

### Limited Obligation

The Series 2020-1 Bonds shall not be payable out of any funds of the Issuer other than those pledged therefor but shall be payable by the Issuer solely from the Trust Estate. Nothing in the Series 2020-1 Bonds, in the Lease-Purchase Agreement or in the Indenture or any other agreement or binding document shall be considered as pledging any other funds or assets of the Issuer. All right, title, and interest of the Issuer in and to the Trust Estate shall be pledged to the Trustee for the benefit of Series 2020-1 Bondholders for the payment of the principal of, premium, if any, and interest on the Series 2020-1 Bonds in accordance with their terms and provisions of the Indenture. THE SERIES 2020-1 BONDS, TOGETHER WITH THE INTEREST THEREON, SHALL BE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED UNDER THE INDENTURE; AND THE SERIES 2020-1 BONDS SHALL NOT CONSTITUTE A DEBT OR PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE STATE, THE ISSUER OR ANY POLITICAL SUBDIVISION OF THE STATE OR A LOAN OF THE CREDIT OF ANY OF THE FOREGOING WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION AND SHALL NEVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE, THE ISSUER OR ANY POLITICAL SUBDIVISION OF THE STATE. NO OWNER OF ANY SERIES 2020-1 BONDS SHALL HAVE THE RIGHT TO COMPEL ANY EXERCISE OF TAXING POWER OF THE STATE, THE ISSUER OR ANY POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE ISSUER, TO PAY THE SERIES 2020-1 BONDS OR THE INTEREST THEREON. THE LEASE-PURCHASE AGREEMENT SHALL NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE STATE, THE ISSUER OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION.

### VALIDATION

On March 15, 2012, the Circuit Court of the State of Oregon of the County of Morrow, in a validation procedure brought by the Issuer, determined among other things, that the Issuer has the authority to issue revenue bonds in one or more series and to enter into financing agreements to finance or refinance the costs of acquisition, installation and/or construction of future or existing transmission facilities which are now or will be leased to Bonneville and that upon execution and delivery thereof, all bonds issued in connection with said transmission facilities, including the Series 2020-1 Bonds, and any leases or indentures executed in connection with such transmission facilities, including the Indenture and Lease-Purchase Agreement, will be valid, legal and binding obligations in accordance with their terms.

The judgment binds and permanently enjoins all persons from the institution of any action or proceeding challenging the validity of any bonds, indentures or leases in connection with such transmission facilities or any matters adjudicated in such validation actions or which could have adjudicated in such actions. The validation judgment became effective on April 15, 2012.

## **PURPOSE OF ISSUANCE AND USE OF PROCEEDS**

The proceeds from the sale of the Series 2020-1 Bonds will be used by the Issuer to refinance indebtedness issued for the cost of acquiring, constructing, installing and equipping of certain transmission facilities (as described below, the “Project”) owned by the Issuer and leased to Bonneville. The Issuer financed such acquisition, construction, installation and equipping of transmission facilities through credit agreements with Citibank, N.A. and TD Bank, N.A., and secured its obligations under such credit agreements with lease-purchase agreements by and between the Issuer, as lessor, and Bonneville, as lessee, and the payments from Bonneville thereunder.

The proceeds from the sale of the Series 2020-1 Bonds will also be used by the Issuer to pay the costs of issuance of the Series 2020-1 Bonds (including Underwriters’ discount) and certain administrative costs of the Issuer. The costs of issuance and such administrative costs are \$2,052,651.79.

## **THE PROJECT**

The Issuer holds title to the Project which is leased to the United States Department of Energy, acting by and through the Administrator of the Bonneville Power Administration. The Project consists solely of fixtures and/or equipment that are a part of electric transmission system facilities located in the Pacific Northwest region of the United States. The Project includes: (i) additions or replacements on nine Federal Columbia River Power System (the “Federal System”) transmission lines or fiber optic systems with airway lighting, aluminum bus, battery and battery charger systems, conductor, disconnect switches, fiber-optic cable, insulators, overhead ground wire, steel poles or towers, wood poles, and necessary hardware; (ii) additions or replacements at forty-six Federal System compensation stations or substations for aluminum bus, breaker control packages, cable, control cable boots, communications equipment, conduit, control house, current transformers, current limiting reactors, disconnect switches, engine generators, fencing, gates, insulators, metering systems, oil spill containment systems, power circuit breakers, power transformers, series capacitor banks, shunt reactors, surge arresters, switchyard surface crushed rock, steel poles or towers, transfer switches, transfer trip equipment, relays, security enhancements, sequential events recorder system, supervisory control and data acquisition system, station service cabinets and transformers, switchboard panels, voltage transformers, wood poles, and necessary hardware; and (iii) additions or replacements at one Federal System Radio Station for battery systems, battery charger system, engine generator, radio station building and necessary hardware. These additions, replacements, and improvements were acquired, constructed, installed or equipped for the purpose of maintaining system reliability and providing enhanced electric transmission service.

Bonneville’s leasehold interests in the Project and its rights and obligations in connection therewith are a part of the “Federal Transmission System” as described in Bonneville’s organic statutes. Bonneville has obtained and holds, in the name of the United States of America, all of the rights of way and other real property interests associated with the land on which the Project is sited. These real property interests are not subject to condemnation by any state or local authority.

Under the Lease-Purchase Agreement and the Indenture, the definition of the Project may be amended from time to time without the consent of the holders of the Series 2020-1 Bonds; provided, however, that a change in the definition of the Project shall not entitle Bonneville to any abatement or reduction in the rental payments under the Lease-Purchase Agreement. See “THE LEASE-PURCHASE AGREEMENT - Changing the Definition of the Project.”

The Series 2020-1 Bonds will not be secured by a mortgage or other lien on the Project and the interest of the Issuer in the Project is limited by the Lease-Purchase Agreement as described under “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020-1 BONDS – Trust Estate.” Therefore, the Bondholders should not look to the Project as providing any security for the payment of the Series 2020-1 Bonds. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020-1 BONDS.”

## SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020-1 BONDS

### Trust Estate

Under the terms of the Indenture, the Series 2020-1 Bonds are payable solely but equally and ratably from and are secured solely but equally and ratably by the Trust Estate which consists of (i) all right, title and interest of the Issuer in and to the Lease-Purchase Agreement, including all rental payments, revenues and receipts payable or receivable thereunder, excluding, however, the Issuer's Reserved Rights, which rights may be enforced by the Issuer and the Trustee jointly or severally; (ii) all right, title and interest of the Issuer in and to the Project, subject to the Lease-Purchase Agreement; (iii) all moneys and securities from time to time held by the Trustee under the terms of the Indenture including amounts set apart and transferred to the Project Fund, the Bond Fund or the Reserve Fund, and all investment earnings of any of the foregoing, subject to disbursements from the Project Fund, the Bond Fund, or the Reserve Fund in accordance with the provisions of the Lease-Purchase Agreement and the Indenture; (iv) any and all other property of every kind and nature from time to time which was heretofore or will be hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred, as and for additional security under the Indenture, by the Issuer or by any other person, firm or corporation with or without the consent of the Issuer, to the Trustee which is hereby authorized to receive any and all such property at any time and at all times to hold and apply the same subject to the terms of the Indenture.

Pursuant to the Lease-Purchase Agreement between Bonneville and the Issuer, Bonneville is required to make rental payments in the amounts set forth in schedules contained in the Lease-Purchase Agreement which schedules will provide for rental payments at times and in amounts more than sufficient to pay the principal of and interest and all other amounts due on the Series 2020-1 Bonds. See herein "THE LEASE-PURCHASE AGREEMENT" and "THE INDENTURE." Such rental payments are irrevocably pledged by the Issuer pursuant to the Indenture for the payment of principal or redemption premium, if any, of and interest on the Series 2020-1 Bonds. The Lease-Purchase Agreement provides that such rental payments will be made directly to the Trustee for deposit in the Bond Fund.

The Lease-Purchase Agreement provides that Bonneville's obligation to pay the rental payments and all other amounts payable under the Lease-Purchase Agreement is absolute and unconditional, and is payable without any set-off or counterclaim, regardless of whether or not the Project is operating or operable. Bonneville's obligation to make the rental payments will continue until September 1, 2040, unless sooner terminated or extended in accordance with the provisions of the Lease-Purchase Agreement, and is coterminous with the final maturity of the Series 2020-1 Bonds. **Bonneville's obligations under the Lease-Purchase Agreement are not, nor shall they be construed to be, general obligations of the United States of America nor are such obligations intended to be or are they secured by the full faith and credit of the United States of America.**

The Issuer, during the term of the Lease-Purchase Agreement, waives any and all rights as owner or as lessor of the Project to re-enter and take possession of the Project, to sublease the Project, to terminate the Lease-Purchase Agreement and to exclude Bonneville from possession of the Project upon the occurrence of an event of default under the Lease-Purchase Agreement. The Issuer and Bonneville will declare that the Lease-Purchase Agreement does not create a security interest in the Project in favor of the Issuer and the Issuer will waive any rights it may have as a secured party with respect to the Project. The Series 2020-1 Bonds will not be secured by a mortgage or other lien on the Project and the interest of the Issuer in the Project is limited by the Lease-Purchase Agreement as described above. Therefore, the Bondholders should not look to the Project as providing any security for the payment of the Series 2020-1 Bonds. See "THE PROJECT."

### Source of Bonneville's Payments: The Bonneville Fund

The Bonneville Fund is a continuing appropriation available exclusively to Bonneville for the purpose of making cash payments to cover Bonneville's expenses. All receipts, collections and recoveries of Bonneville in cash from all sources are deposited in the Bonneville Fund. For a more complete discussion of the Bonneville Fund, see

APPENDIX A – “BONNEVILLE POWER ADMINISTRATION—Bonneville Financial Operations—The Bonneville Fund.”

Bonneville may make expenditures from the Bonneville Fund, which shall have been included in Bonneville’s annual budget submitted to Congress without further appropriation and without fiscal year limitation but subject to such specific directives or limitations as may be included in appropriations acts, for any purpose necessary or appropriate to carry out the duties imposed upon Bonneville pursuant to law.

***Payments by Bonneville under the Lease-Purchase Agreement are not, nor shall they be construed to be, general obligations of the United States Government nor are such obligations or the Series 2020-1 Bonds intended to be or are they secured by the full faith and credit of the United States of America.***

Bonneville is required to make certain annual payments to the United States Treasury. These payments are to be made from net proceeds, which are gross cash receipts remaining in the Bonneville Fund after deducting all of the costs paid by Bonneville to operate and maintain the Federal System, other than those used to make payments to the United States Treasury for: (i) the repayment of the federal investment in certain transmission facilities and the power generating facilities at federally-owned hydroelectric projects in the Pacific Northwest; (ii) debt service on bonds issued by Bonneville and sold to the United States Treasury; (iii) repayments of appropriated amounts to the United States Corps of Engineers and the United States Bureau of Reclamation for certain costs allocated to electric power generation at federally-owned hydroelectric projects in the Pacific Northwest; and (iv) costs allocated to irrigation projects as are required by law to be recovered from power sales. Bonneville has made all payments to the United States Treasury in full and on time since 1984, including in Bonneville Fiscal Year 2019.

For various reasons, Bonneville’s revenues from the sale of electric power and other services may vary significantly from year to year. In order to accommodate such fluctuations in revenues and to assure that Bonneville has sufficient revenues to pay the costs necessary to maintain and operate the Federal System, all cash payment obligations of Bonneville for operating and maintenance expenses, including Bonneville’s payments under the Lease-Purchase Agreement, have priority over payments by Bonneville to the United States Treasury. In the opinion of Bonneville’s General Counsel, under federal statutes, Bonneville may make payments to the United States Treasury only from net proceeds; all other cash payments of Bonneville, including payments relating to the Lease-Purchase Agreement and other operating and maintenance expenses, have priority over payments by Bonneville to the United States Treasury for the costs described in (i) through (iv) in the preceding paragraph.

The requirement to pay the United States Treasury exclusively from net proceeds would result in a deferral of United States Treasury payments if net proceeds were not sufficient for Bonneville to make its scheduled payments in full to the United States Treasury. Such deferrals could occur in the event that Bonneville were to receive less revenue or if Bonneville’s costs were higher than expected. Such deferred amounts, plus interest, must be paid by Bonneville in future years. Bonneville has not deferred such payments since 1983.

Bonneville also has a substantial number of agreements with Preference Customers, as hereinafter described in Appendix A - “BONNEVILLE POWER ADMINISTRATION—GENERAL,” pursuant to which Bonneville has an obligation to provide credits against power and transmission purchases made from Bonneville by such customers. Under these “net billing” agreements, related Bonneville Preference Customers (“Participants”) have the obligation to make payments to two third-parties (Energy Northwest and the City of Eugene, Oregon, Water and Electric Board (“EWEB”)) to meet the costs of certain nuclear generating projects, one of which is currently operating. In return, Bonneville has an obligation to the Participants to provide payment credits (“net billing credits”) against the monthly power and transmission bills issued by Bonneville. The net billing credits reduce the amount of cash that Bonneville would otherwise have to pay its cash payment obligations. The occurrence of net billing credits is determined in part by the availability of funds to Energy Northwest and EWEB, apart from net billing, to cover the related projects’ costs. As described below, Bonneville has entered into certain direct payment agreements that result in direct payments from Bonneville to Energy Northwest and EWEB for all related project costs. These agreements have enabled Energy Northwest and EWEB to reduce net billing to zero. However, if Bonneville is unable or fails to make direct payments, or if certain other conditions occur, net billing would be re-established. For additional descriptions of Bonneville’s substantial net billing arrangements, see APPENDIX A - “BONNEVILLE POWER ADMINISTRATION—CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Regional Cooperation Debt and Related Actions,” “—POWER SERVICES—Description of the Generation Resources of the Federal System,” “—BONNEVILLE

FINANCIAL OPERATIONS—Bonneville’s Non-Federal Debt—Bonds for Energy Northwest’s Net Billed Projects,” and “—BONNEVILLE FINANCIAL OPERATIONS—Direct Pay Agreements.” Bonneville has other crediting commitments that are similar to net billing credits in that they reduce the amount of revenue in cash that Bonneville receives. See APPENDIX A - “BONNEVILLE POWER ADMINISTRATION—BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Non-Federal Debt—Electric Power Prepayments” and “TRANSMISSION SERVICES—Bonneville’s Federal Transmission System.”

Because Bonneville’s payments to the United States Treasury may be made only from net proceeds, payments of other Bonneville costs out of the Bonneville Fund have a priority over its payments to the United States Treasury. Thus, the order in which Bonneville’s costs are met is as follows: (1) net billed project costs to the extent covered by net billing credits, (2) cash payments out of the Bonneville Fund to cover all required payments incurred by Bonneville pursuant to law, including but not limited to lease rental payments by Bonneville under the Lease-Purchase Agreement and other operating and maintenance expenses, including net billing cash payments and payments under the direct payment agreements and the costs of electric power conservation or generating resource acquisitions, but excluding payments to the United States Treasury and (3) payments to the United States Treasury. For further information, see APPENDIX A - “BONNEVILLE POWER ADMINISTRATION—BONNEVILLE Financial Operations—Order in Which Bonneville’s Costs Are Met.”

**Bonneville has substantial outstanding repayment obligations to the United States Treasury (“Federal Debt”) and for debt issued by third parties (and similar obligations), the repayment of which is secured by Bonneville financial commitments (“Non-Federal Debt”). Non-Federal Debt includes lease-purchase agreements, net billing agreements, and other obligations. As of September 30, 2019, aggregate debt outstanding was approximately \$14.5 billion, just over half of which relates to outstanding Non-Federal Debt. For further information on Non-Federal Debt, see APPENDIX A—“BONNEVILLE POWER ADMINISTRATION—BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Non-Federal Debt.”**

## THE SERIES 2020-1 BONDS

### General

The Series 2020-1 Bonds will be issued originally as a single global certificate for each maturity registered to DTC, or its nominee, Cede & Co., to be held in DTC’s book-entry-only system. So long as the Series 2020-1 Bonds are held in the book-entry-only system, DTC (or a successor securities depository) or its nominee will be the registered owner of the Series 2020-1 Bonds for all purposes of the Indenture, the Series 2020-1 Bonds and this Official Statement. Interest on the Series 2020-1 Bonds will be payable only through participants or indirect participants in DTC so long as the Series 2020-1 Bonds are held in the book-entry-only system. The Series 2020-1 Bonds are available to the ultimate purchasers in book-entry form only, in denominations of \$5,000 and integral multiples thereof. See “Book-Entry-Only System” below.

The Series 2020-1 Bonds are dated the date of their delivery, and mature on September 1 in the years and in the principal amounts shown on the inside cover page of this Official Statement. The Series 2020-1 Bonds will bear interest, computed on the basis of a 360-day year of twelve 30-day months, at the rates shown on the inside cover page of this Official Statement. The Series 2020-1 Bonds are subject to redemption prior to maturity as set forth below. Additional Bonds may be issued under the Indenture. Such Bonds, together with the Series 2020-1 Bonds, are referred to as the “Bonds.”

Interest on the Series 2020-1 Bonds will be payable on March 1 and September 1 of each year, commencing September 1, 2020, to the persons in whose name the Series 2020-1 Bonds are registered on the fifteenth day of the month preceding the interest payment date; provided that overdue interest shall be paid to the persons in whose name such Series 2020-1 Bonds are registered by close of business on the fifth Business Day next preceding the date of payment of the defaulted interest. So long as the Series 2020-1 Bonds are held in the book-entry-only system, all payments of principal of and premium, if any, and interest are required to be made by the Trustee to DTC in immediately available funds for further distribution to beneficial owners of the Series 2020-1 Bonds.

## **Book-Entry-Only System**

DTC will act as securities depository for the Series 2020-1 Bonds. The Series 2020-1 Bonds will be issued as fully-registered Series 2020-1 Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2020-1 Bond will be issued for the Series 2020-1 Bonds for each maturity, in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX E — "DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURE." Beneficial interests in the Series 2020-1 Bonds may be held through DTC, Clearstream Banking, S.A. ("Clearstream Banking") or Euroclear Bank S.A./N.V. ("Euroclear") as operator of the Euroclear System, directly as a participant or indirectly through organizations that are participants in such system. For information on minimum unit sales for purchasers outside the United States, see "INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES."

## **Optional Redemption**

The Series 2020-1 Bonds are subject to redemption prior to their respective maturities at the option of the Issuer (with the approval of Bonneville), in whole or in part, on any Business Day, at the Make-Whole Redemption Price (as defined herein) determined by the Designated Investment Banker (as defined herein).

The "Make-Whole Redemption Price" is the greater of (i) the issue price of the Series 2020-1 Bonds as shown on the cover page of this Official Statement (but not less than 100% of the principal amount of the Series 2020-1 Bonds to be redeemed), or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2020-1 Bonds to be redeemed at the maturity date, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2020-1 Bonds are to be redeemed, discounted to the date on which such Series 2020-1 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the "Treasury Rate" (defined below) plus 15 basis points, plus accrued and unpaid interest on the Series 2020-1 Bonds to be redeemed on the redemption date.

"Business Day" means a day (a) other than a day on which banks located in The City of New York, New York or the cities in which the principal corporate trust offices of the Trustee, the Paying Agent, the Lessee or the Issuer are located are required or authorized by law or executive order to close and (b) on which the New York Stock Exchange is not closed.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2020-1 Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

"Comparable Treasury Issue" means, with respect to any Valuation Date for a redemption date for a particular Series 2020-1 Bond, the U.S. Treasury security or securities selected by the Designated Investment Banker that has an actual or interpolated maturity comparable to the remaining average life of the Series 2020-1 Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Series 2020-1 Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any Valuation Date for a redemption date for a particular Series 2020-1 Bond, (i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or (ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of five Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than five Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Issuer (with the approval of Bonneville).

“Reference Treasury Dealer” means each of five firms, specified by the Issuer (with the approval of Bonneville) from time to time, that are primary U.S. Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Issuer will substitute another Primary Treasury Dealer (with the approval of Bonneville).

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2020-1 Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer, the Trustee and Bonneville by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the Valuation Date.

“Valuation Date” means a date that is no earlier than four days prior to the date the redemption notice is to be mailed and no later than the date the redemption notice is to be mailed.

### **Mandatory Redemption**

The Series 2020-1 Bonds shall be redeemed prior to maturity (or paid at maturity), not later than September 1 in the sinking fund installments set forth below, without premium, together with the interest accrued to the date fixed for redemption.

#### 2040 Term Bonds

Due September 1	Principal Amount
2037	\$94,410,000.00
2038	94,410,000.00
2039	94,410,000.00
2040*	94,405,000.00

\* Maturity.

Upon the purchase or redemption of Series 2020-1 Bonds for which mandatory sinking fund installments have been established, other than by reason of the mandatory sinking fund installment redemption described above, an amount equal to the principal amount of the Series 2020-1 Bonds so purchased or redeemed shall be credited toward each of the mandatory sinking fund installments with respect to such Series 2020-1 Bonds in such order as may be designated by the Issuer with the approval of Bonneville.

### **Partial Redemption**

If less than all of the Series 2020-1 Bonds are to be redeemed, the Issuer may select the maturity or maturities to be redeemed. The Indenture provides that the portion of any Series 2020-1 Bonds of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof and that in selecting portions of such Series 2020-1 Bonds for redemption, the Trustee will treat each such Series 2020-1 Bonds as representing that number of such Series 2020-1 Bonds of \$5,000 denomination that is obtained by dividing the principal amount of such Series 2020-1 Bonds to be redeemed in part by \$5,000.

The particular Series 2020-1 Bonds to be redeemed shall be determined by the Trustee, using such method as it shall deem fair and appropriate. If the Series 2020-1 Bonds are registered in book-entry-only form, and so long as DTC or a successor securities depository is the sole registered owner of the Series 2020-1 Bonds, if less than all of a maturity of the Series 2020-1 Bonds of a maturity are called for redemption, the particular Series 2020-1 Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, or such other method as is in accordance with the operational arrangements of DTC then in effect. It is the Issuer’s intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Issuer and the Beneficial Owners be made in accordance with the pro rata

pass-through distribution of principal basis described below. However, the Issuer can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among registered owners on such basis. If the DTC operational arrangements do not allow for the redemption of the Series 2020-1 Bonds on a pro rata pass-through distribution of principal basis as discussed above, then the Series 2020-1 Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

If the Series 2020-1 Bonds are not registered in book-entry-only form, any redemption of less than all of a maturity of the Series 2020-1 Bonds shall be allocated among the registered owners of such Series 2020-1 Bonds as nearly as practicable in proportion to the principal amounts of the Series 2020-1 Bonds owned by each registered owner, subject to the authorized denominations applicable to the Series 2020-1 Bonds. This will be calculated based on the following formula:

$$\frac{(\text{principal amount to be redeemed}) \times (\text{principal amount owned by registered owner})}{(\text{principal amount outstanding})}$$

### **Notice of Redemption**

Notice of redemption of any Series 2020-1 Bonds is to be given by the Trustee by first-class mail not less than 30 days nor more than 60 days before the redemption date to the registered owners of the Series 2020-1 Bonds which are to be redeemed at their last addresses shown on the registration books for the Series 2020-1 Bonds. Such notice shall be deemed conclusively to be received by the registered owners of the Series 2020-1 Bonds which are to be redeemed, whether or not such notice is actually received. Failure to mail any such notice or any defect therein shall not affect the validity of the redemption proceedings for the Series 2020-1 Bonds being redeemed. Notice of redemption having been given as described above, unless cancelled as described below, the Series 2020-1 Bonds called for redemption shall become due and payable on the redemption date specified in such notice and interest thereon shall cease to accrue from and after the redemption date, if money sufficient for the redemption of the Series 2020-1 Bonds to be redeemed, together with interest thereon to the redemption date, is held by the Trustee for such Series 2020-1 Bonds on the redemption date and the Series 2020-1 Bonds (or such portions thereof) shall cease to be entitled to any benefit or security under the applicable resolutions. The Issuer may cancel notice of an optional redemption prior to the designated redemption date by giving written notice of such cancellation, prior to the date scheduled for such redemption, to all parties who were given notice of redemption in the same manner as such notice was given.

For so long as a book-entry-only system is in effect with respect to the Series 2020-1 Bonds, the Trustee will mail notices of redemption to DTC or its nominee or its successor, and, if less than all of the Series 2020-1 Bonds of a maturity are to be redeemed, DTC or its successor and Participants and Indirect Participants (as such terms are defined herein under the heading “THE SERIES 2020-1 BONDS – Book-Entry-Only System”) will determine the particular ownership interests of Series 2020-1 Bonds to be redeemed. Any failure of DTC or its successor or a Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a Series 2020-1 Bond of any redemption, will not affect the sufficiency or the validity or the redemption of Series 2020-1 Bonds.

Neither the Issuer, the Trustee, nor the Underwriters can give any assurance that DTC, the Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the Series 2020-1 Bonds, or that they will do so on a timely basis.

## **THE LEASE-PURCHASE AGREEMENT**

The following is a summary of certain provisions of the Lease-Purchase Agreement, to which reference is made for the detailed provisions thereof.

### **Rental Payments**

Bonneville agrees under the Lease-Purchase Agreement to pay to the Trustee rental payments for deposit in the Bond Fund created under the Indenture in the amounts set forth in schedules to the Lease-Purchase Agreement, which schedules provide for rental payments more than sufficient for the payment of the principal of, and interest on, the Bonds. The obligation of Bonneville to make all payments provided in the Lease-Purchase Agreement is stated

to be absolute and unconditional, without any set-off or counterclaim. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020-1 BONDS” herein.

Bonneville has also agreed to pay, as additional rent under the Lease-Purchase Agreement, all Impositions, which are defined as all taxes and assessments, general and specific, if any, levied and assessed upon or against the Project, the Lease-Purchase Agreement, any estate or interest of the Issuer or Bonneville in the Project or transfer of such estate or interest, or the rental payments under the Lease-Purchase Agreement during the term of the Lease-Purchase Agreement, and all assessments and other governmental charges and impositions whatsoever, foreseen or unforeseen, ordinary or extraordinary, under any present or future law, and charges for public or private utilities or other charges incurred in the occupancy, use, operation, maintenance or upkeep of the Project.

### **Indemnity**

Bonneville agrees to pay all reasonable costs and expenses of the Issuer incurred in connection with the Lease-Purchase Agreement and to protect and indemnify the Issuer against and hold the Issuer harmless from (i) all costs and expenses arising from or relating to compliance with environmental laws and regulations and orders of governmental agencies applicable to the Project or arising from or relating to mitigation, remediation, or abatement of environmental impacts, (ii) any and all claims (whether in tort, contract or otherwise), demands, expenses (including reasonable attorneys’ fees) and liabilities for any loss, damage, injury and liability of every kind and nature and however caused, including any liability arising from failure to comply with applicable environmental laws, regulations or orders applicable to the Project, and (iii) taxes of any kind and by whomsoever imposed on the Issuer in respect of the Project or the Bonds, in each case arising from or relating to the Project or resulting from, arising out of, or in any way connected with the financing of the costs of the Project and marketing, issuance or sale of the Bonds for such purpose (including amounts payable by the Issuer pursuant to its indemnification of the Trustee, the Bond Registrar and the Paying Agents); provided, however, that, Bonneville has no indemnification obligation for any such costs, expenses claims, demands, taxes or liabilities arising from the intentional misrepresentation or willful misconduct of the Issuer. Such indemnification set forth above shall be binding upon Bonneville for any and all claims, demands, expenses, liabilities and taxes set forth above and shall survive the expiration or termination of the Lease-Purchase Agreement. Any such payments shall be in addition to the above described rental payments under the Lease-Purchase Agreement.

### **Operation of the Project**

The Issuer has no control over, and no obligation with respect to, the Project, including the operation, maintenance, repair, replacement or use of the Project. Bonneville will pay all costs of operating the Project and will make all decisions regarding the operation or use of the Project. Bonneville may, in its discretion, transfer operational control to a regional transmission organization or other entity; provided that Bonneville is required to remain liable under the Lease-Purchase Agreement. Bonneville may suspend, delay, or terminate operation of, take out of service, or dismantle the Project, or any portion thereof, in its discretion, provided that the Lease-Purchase Agreement shall remain valid, binding and enforceable against Bonneville and there shall be no abatement, postponement or reduction in the rental payments or other amounts payable by Bonneville under the Lease-Purchase Agreement. Bonneville will hold, in the name of the United States, all easements, rights of way, and any other interests in land under the Project and the Issuer shall have no rights therein.

### **Covenants**

In the Lease-Purchase Agreement, Bonneville agrees, among other things, to pay all costs of maintaining the Project in the same manner in which Bonneville maintains similar facilities that it owns; to keep the Project free of liens, except as provided in the Lease-Purchase Agreement; to pay charges and assessments against the Project; to comply with law; to indemnify the Issuer and pay its fees and expenses as well as those of the Trustee; to furnish to the Trustee, any requesting holder of more than \$1,000,000 of Series 2020-1 Bonds, and the Issuer, a copy of its financial statements, and to notify the Issuer and the Trustee of the occurrence of any Event of Default under the Lease-Purchase Agreement. See also “Continuing Disclosure” herein.

## **Damage, Destruction and Condemnation**

If the Project is damaged, destroyed or condemned, there will be no reduction in the rental payments or other amounts payable under the Lease-Purchase Agreement. The Issuer shall have no obligation to rebuild, replace, repair or restore the Project. Bonneville will not be obligated to rebuild, replace, repair or restore the Project or any portion thereof or purchase the Project or any portion thereof following a loss event so long as the Lease-Purchase Agreement shall remain valid, binding and enforceable on Bonneville following such loss event. If Bonneville elects to rebuild, replace, repair or restore the Project or any portion thereof, it shall do so with its own or others' funds. Any proceeds of insurance or condemnation awards or recoveries of claims against contractors (or an amount equal to such proceeds, awards or recoveries) received by the Issuer or Bonneville shall be, as directed by Bonneville, deposited into the Project Fund or the Bond Fund for use to pay or reimburse the costs of repair or replacement of the related portions of the Project, for the prepayment of rental payments thereafter coming due, or as may otherwise be permitted in the Indenture; provided, however, that, if the foregoing proceeds (or amounts equal thereto) are received by Bonneville in respect of facilities that were a part of the Project when the damage or the basis for the claim originally arose but which facilities were subsequently removed from the definition of the Project, any proceeds (or amounts equal to such proceeds) received by Bonneville shall be retained by Bonneville as its own funds.

## **Termination of the Lease-Purchase Agreement**

Upon the redemption or defeasance in whole of all outstanding Bonds in accordance with the Indenture, Bonneville may terminate the Lease-Purchase Agreement.

## **Defaults**

The Lease-Purchase Agreement provides that any one or more of the following events will constitute an "Event of Default":

- (a) Failure by Bonneville to pay when due any rental payment that has become due and payable under the Lease-Purchase Agreement; and
- (b) Failure of Bonneville to pay any amount due under the Lease-Purchase Agreement (other than under paragraph (a) above) and continuance of such failure for thirty (30) days, after notice of such failure is given to Bonneville or the Issuer or the Trustee.

## **Remedies**

Upon the occurrence and continuance of an Event of Default under the Lease-Purchase Agreement, the Issuer (with respect to its reserved rights) or the Trustee where so provided, but subject to the statutory limitations on remedies against Bonneville, may take whatever action at law or in equity permitted by law to be taken against Bonneville as may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Lease-Purchase Agreement.

Any amounts collected pursuant to action taken under this paragraph will be paid to the Trustee for deposit into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) to Bonneville.

The Issuer, during the term of the Lease-Purchase Agreement, waives any and all rights as owner or as lessor of the Project to re-enter and take possession of the Project, to sublease the Project, to terminate the Lease-Purchase Agreement and to exclude Bonneville from possession of the Project upon the occurrence of an event of default under the Lease-Purchase Agreement. The Issuer and Bonneville declare that the Lease-Purchase Agreement does not create a security interest in the Project in favor of the Issuer and the Issuer waives any rights it may have as a secured party with respect to the Project.

## **Statutory Limitation on Legal Remedies against Bonneville**

The Issuer acknowledges in the Lease-Purchase Agreement that its remedies against Bonneville are limited to those provided under federal law, which provides that the exclusive remedy for breach of contract by Bonneville is a judgment for money damages. The Issuer and Bonneville have agreed that such damages shall be measured by the amounts required to be paid by Bonneville under the Lease-Purchase Agreement and not by the market value of the Project or a leasehold interest in the Project.

## **Options**

Under the Lease-Purchase Agreement, Bonneville has the option, at any time and from time to time, to make advance rental payments which, at the direction of Bonneville, will be deposited into the Bond Fund and held to make the next maturing scheduled payments of principal and interest on the Bonds or applied to redeem all or a portion of the Bonds, all in accordance with the terms of the Indenture. Bonneville has the option, at any time and from time to time, to purchase all or any portion of the Project by making a purchase option payment equal to the amount necessary to redeem all or the applicable portion of the Bonds on the next redemption date. Such purchase option may be assigned by Bonneville without the consent of the Issuer. The Project is divided into components as provided in the Lease-Purchase Agreement and Bonneville may exercise its purchase option with respect to any component or portion thereof by making a purchase option payment equal to the redemption price of the percentage of Bonds of the applicable maturity of the Bonds allocable to such component or portion. Bonneville or its assignee will exercise its option to make such advance rental payments or such purchase option by delivering a written notice of an authorized representative of Bonneville to the Trustee in accordance with the Indenture, with a copy to the Issuer, setting forth (i) the amount of the advance rental payment or purchase option payment, (ii) the principal amount of Bonds Outstanding requested to be redeemed with such advance rental payment (if any) or purchase option payment (which principal amount shall be in such minimum amount or integral multiple of such amount as shall be permitted in the Indenture), and (iii) the date on which such principal amount of Bonds are to be redeemed. Such advance rental payment to be applied to redeem Bonds or to make any such purchase option payment will be paid to the Trustee in legal tender on or before the redemption date and will be an amount which, when added to the amount on deposit in the Bond Fund and available therefor, will be sufficient to pay the Redemption Price of the Bonds to be redeemed, together with interest to accrue on the Bonds to be redeemed to the date fixed for redemption and all expenses of the Issuer, the Bond Registrar, the Trustee and the Paying Agents (including reasonable fees and expenses of counsel to the Issuer, the Bond Registrar, the Trustee and the Paying Agents) in connection with such redemption. After any purchase of a portion of the Project, the rental payment payable pursuant to the Lease-Purchase Agreement will be reduced by the percentage equal to the percentage that the portion of the Project purchased is to the entire Project (as shown in a schedule to the Lease-Purchase Agreement) or by such other amount agreed to by the Issuer and Bonneville with the consent of the Trustee; provided that, in either case, such amount may not be less than an amount sufficient to pay debt service on the Outstanding Bonds when due.

Bonneville may assign to another entity the options described in the preceding paragraph provided that all other provisions relating to the exercise of the options, including the provisions describe above, shall be complied with upon exercise of the options. It is possible that Bonneville could enter into a new lease-purchase agreement with the assignee of the option(s), and the assignee could exercise the option(s) to purchase or pre-pay all or a portion of the properties constituting the Project. In this circumstance, the assignee of the option(s) could pledge rental payments from Bonneville under the new lease to secure the issuance of debt the proceeds of which would be used to fund the pre-payment or purchase occasioned by the exercise of the option(s).

## **Force Majeure**

The obligations of the parties under the Lease-Purchase Agreement, except the obligation of Bonneville to make payments required to be made under the Lease-Purchase Agreement and to indemnify the Issuer, are subject to suspension during periods of force majeure.

## **Assignment or Sublease**

Bonneville may assign, partially assign (for instance, Bonneville may assign the Lease with respect to certain identified portions of the Project) or transfer the Lease-Purchase Agreement or sublet the whole or any part of the

Project so long as Bonneville will remain liable to the Issuer for the payment of all rental payments and other payments under the Lease-Purchase Agreement and for the full performance of all of the terms, covenants and conditions of the Lease. Bonneville will furnish or cause to be furnished to the Issuer a copy of any such assignment, transfer or sublease in substantially final form within ten (10) days prior to the date of execution thereof. Bonneville may also enter into contracts relating to the use of the Project as provided in the Lease-Purchase Agreement. Funds received by or on account of Bonneville in connection with a sublease, assignment, partial assignment or transfer in accordance with this paragraph shall be Bonneville's funds.

### **Amendment**

The Lease-Purchase Agreement may not be amended except by an instrument in writing signed by Bonneville and the Issuer and consented to by the Trustee in accordance with the Indenture. See "THE INDENTURE - Amendment of the Lease-Purchase Agreement." A change in the definition of the Project pursuant to the Lease-Purchase Agreement will not constitute an amendment to the Lease-Purchase Agreement. See "THE LEASE-PURCHASE AGREEMENT – Changing the Definition of the Project."

### **Changing the Definition of the Project**

Under the Lease-Purchase Agreement and the Indenture, the definition of the Project may be amended from time to time, without the consent of the holders of the Bonds, including to exclude components or portions thereof or to add other facilities; provided, however, that, Bonneville's rental payments shall remain unaffected by such a change in definition. By means of changing the definition of the Project, it is possible that, among other things, facilities that were once portions of the Project may be excluded from the definition and transferred to Bonneville's ownership, or transferred to another entity's ownership, but in any such instance the Lease-Purchase Agreement shall remain valid, binding and enforceable against Bonneville and there shall be no abatement, postponement or reduction in the rental payments or other amounts payable by Bonneville under the Lease-Purchase Agreement.

More particularly, the Issuer will commit to agree that, at the request of Bonneville, it will amend the definition of a Project (i) to change the location of the Project or any component or portion thereof, (ii) to remove any part of the Project, or (iii) to replace all or any part of such Project with facilities having a comparable value. The Project definition may be otherwise amended as may be agreed to by the Issuer and Bonneville. The amendment of the Project definition shall not entitle Bonneville to any abatement or reduction in the rentals and other amounts payable by Bonneville under the Lease-Purchase Agreement. In the event of a re-definition of the Project, there is no obligation or special right to call any of the Bonds prior to their final maturity. The right of Issuer and Bonneville to change the definition of the Project is separate and apart from the amendment of the Lease-Purchase Agreement. See "THE LEASE-PURCHASE AGREEMENT – Amendment," and "THE INDENTURE – Amendment of the Lease-Purchase Agreement."

If a portion of the Project becomes obsolete, worn-out, or otherwise is taken out of service or retired prior to the final maturity of the Bonds, the Project may be re-defined to remove such portions of the Project through an amendment to the definition of the Project. See "Sale, Assignment, or Other Dispositions of Portions of the Project" below. If such portion of the Project is replaced, the facilities so replacing the portion may be owned by Bonneville or another project owner or replaced with funds obtained by the Issuer under a lease with Bonneville separate and apart from the Lease-Purchase Agreement. See "THE PROJECT."

### **Sale, Assignment, or Other Dispositions of Portions of the Project**

As described above, the definition of the Project may be amended from time to time to remove of any part of the Project. See "Changing the Definition of the Project" above. Bonneville may remove from the Project and sell, assign or otherwise dispose of any portion of the Project which is obsolete, worn-out or no longer usable for the purpose for which such portion had originally been acquired and Bonneville shall not be required to deposit in the Bond Fund or otherwise pay to the Issuer any amounts received by Bonneville from such sale, assignment or disposition. When removing any part of the Project which is obsolete, worn-out or no longer usable for the purpose for which such portion had originally been acquired, Bonneville may notify the Issuer that such portion no longer constitutes part of the Project and effective upon such notice the definition of the Project will be deemed so amended (the removal may also be effected through an amendment). Bonneville may remove from the Project and sell, assign

or otherwise dispose of any portion of the Project which is not obsolete, worn-out or no longer usable for the purpose for which such portion had originally been acquired and the funds received from such sale, assignment or disposition shall be paid over to the Bond Fund to be applied to the payment of principal of, and interest and premiums, if any, on, the Bonds, and to the extent the amounts are so applied, they will constitute a contribution to rental payments otherwise payable by Bonneville.

## **THE INDENTURE**

The following is a summary of certain provisions of the Indenture, to which reference is made for the detailed provisions thereof.

### **Trust Estate**

Pursuant to the Indenture, (i) all of the Issuer's right, title and interest in and to the Lease-Purchase Agreement, including all amounts (excluding payments for indemnification and certain other payments thereunder) to be received by the Issuer pursuant to the Lease-Purchase Agreement, (ii) all of the right, title and interest of the Issuer in and to the Project, (iii) all moneys and securities held by the Trustee under the Indenture including amounts held by the Trustee in the Project Fund, the Bond Fund and the Reserve Fund established under the Indenture, and (iv) any and all other property that may be conveyed to the Trustee as security for the Bonds, are assigned and pledged to the Trustee to secure the payment of the principal of, premium, if any, and interest on the Bonds.

### **Project Fund**

The proceeds of the sale of the Series 2020-1 Bonds will be deposited in the Project Fund to be held by the Trustee. Moneys in the Project Fund will be applied to pay a loan that was used to finance the costs of acquisition and construction of the Project, and to pay expenses incurred in connection with the issuance and sale of the Series 2020-1 Bonds, and for other costs of the Project upon requisitions signed by an authorized representative of Bonneville or, with respect to certain costs of issuance, an authorized representative of the Issuer.

### **Bond Fund**

The Indenture establishes with the Trustee a Bond Fund into which will be deposited accrued interest, lease rental payments paid by Bonneville and other receipts to be paid into the Bond Fund. The Bond Fund will be used (except as otherwise provided in the Indenture) for the payment of principal of, premium, if any, and interest on the Bonds.

### **Reserve Fund**

The Indenture establishes with the Trustee a Reserve Fund into which will be deposited any amounts remaining on deposit in the Bond Fund on the Business Day following each interest payment date on the Bonds. The Reserve Fund will be used for the payment of amounts payable by or to the Issuer upon requisitions signed by an authorized representative of the Issuer. There is no requirement in the Indenture that withdrawals from the Reserve Fund be replenished or that the Reserve Fund be maintained at a particular amount.

### **Investments**

Amounts in any fund or account established under the Indenture may be invested or reinvested by the Trustee upon the written direction of an authorized representative of the Issuer at the direction of Bonneville in obligations or securities specified in the Indenture.

### **Additional Bonds**

So long as the Lease-Purchase Agreement is in effect, Additional Bonds may be issued under the Indenture from time to time in the discretion of the Issuer for the purpose of (i) providing funds to repair, relocate, replace, rebuild or restore the Project in the event of damage, destruction or taking by eminent domain, (ii) providing

extensions, additions or improvements to the Project, or (iii) refunding outstanding Bonds. It is a condition to the issuance of Additional Bonds that the amounts payable by Bonneville under the Lease-Purchase Agreement will be adjusted to provide for the payment of principal of, premium, if any, and interest on the Additional Bonds. Additional Bonds shall be equally and ratably secured under the Indenture with the Series 2020-1 Bonds.

### Events of Default and Remedies

Each of the following is an “Event of Default” under the Indenture:

- (a) failure in the payment of interest on any Bond when due;
- (b) failure in the payment of the principal or redemption premium, if any, of, or sinking fund installment for, any Bond when due, whether at the stated maturity thereof, upon any proceedings for redemption thereof or otherwise;
- (c) failure by the Issuer to perform or observe any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds (except as set forth in (a) or (b) above), and the continuance thereof for a period of thirty days after written notice to the Issuer and Bonneville from the Trustee or the holders of more than 25% of the aggregate principal amount of Bonds then outstanding; provided that, if the default can be remedied but not within the applicable period, the Issuer or Bonneville proceeds with diligence to cure the default, it shall not be an Event of Default; or
- (d) an Event of Default under the Lease-Purchase Agreement.

Pursuant to the Lease-Purchase Agreement, the Issuer has granted to Bonneville full authority for the account of the Issuer to perform any covenant or obligation the non-performance of which is alleged in any notice received by Bonneville to constitute a default under the Indenture, in the name and stead of the Issuer with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts with power of substitution. The Trustee agrees to accept such performance by Bonneville as performance by the Issuer.

Upon the occurrence and continuance of an Event of Default, the Trustee may, and at the direction of the holders of over 25% of the outstanding Bonds shall, take actions at law or equity to protect and enforce its rights and the rights of the Bondholders. If requested by the holders of over 25% of the outstanding Bonds, the Trustee shall maintain actions to prevent impairment of the security of the Indenture whether or not there has occurred an Event of Default. **The Indenture does not provide for the remedy of acceleration of payment of the Bonds.**

The holders of a majority in aggregate principal amount of Bonds then outstanding have the right, at any time, by an instrument or instruments in writing delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceeding under the Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and the Indenture.

No holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or any remedy under the Indenture, unless the Trustee has been notified of the default, and the holders of over 25% of aggregate principal amount of Bonds then outstanding have made a written request to the Trustee and have offered reasonable opportunity either to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, and unless they also have offered to the Trustee adequate security and indemnity and the Trustee refuses to comply within 60 days. Nothing in the Indenture shall, however, affect or impair the right of any Bondholder to payment of the principal or redemption price, if applicable, of, sinking fund installments for, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal or redemption price, if applicable, of, sinking fund installments for, and interest on the Bonds to the respective holders thereof at the time, place, from the source and in the manner expressed in the Bonds and the Indenture.

## **Waivers of Events of Default**

The Trustee shall waive any Event of Default under the Indenture and its consequences only upon the written request of the holders of a majority in aggregate principal amount of the Bonds then outstanding; provided, however, that there shall not be waived without the consent of the holders of all of the Bonds then outstanding (i) any default in the payment of the principal of any outstanding Bond when due or (ii) any default in the payment when due of the interest on any outstanding Bond, unless, prior to such waiver, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of interest, and all arrears of payments of principal, when due, as the case may be, and all expenses of the Trustee in connection with such default, shall have been paid or provided for, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then, and in every such case the Issuer, the Trustee, Bonneville and the Bondholders shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission shall extend to any subsequent or other Event of Default, or impair any right consequent thereon.

## **Application of Moneys after Default**

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture shall, after payment of any amounts due under the Lease-Purchase Agreement and after the payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund. Such amounts will be applied first to the payment of interest and then to the payment of principal or redemption price, if any, which shall have become due.

## **Amendments of the Indenture**

The Issuer and the Trustee may, without the consent of, or notice to, the Bondholders, enter into indentures supplemental to the Indenture (a) to cure any ambiguity or formal defect or omission in the Indenture; (b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may be lawfully granted; (c) to add additional covenants of the Issuer; (d) to add limitations and restrictions to be observed by the Issuer; which are not contrary to or inconsistent with the Indenture as theretofore in effect; (e) to confirm, as further assurance, any pledge under the Indenture, or to subject to the lien or pledge of the Indenture additional revenues, properties or collateral; (f) to effect any other change in the Indenture which is not to the material prejudice of the Trustee or the Bondholders; (g) to authorize the issuance of a Series of Additional Bonds; or (h) to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute then in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America and, if they so determine, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute.

With the consent of Bonneville and the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding, the Issuer and the Trustee may enter into such other supplemental indentures as the Issuer shall deem necessary and desirable, provided there shall be no (i) change in the times, amounts or currency of payment of the principal of, sinking fund installments for, redemption premium, if any, or interest on any outstanding Bonds, a change in the terms of redemption or maturity of the principal of or the interest on any outstanding Bonds, or a reduction in the principal amount of or the redemption price of any outstanding Bond or the rate of interest thereon, or any extension of the time of payment thereof, without the consent of the holder of such Bond, (ii) the creation of a lien upon or pledge of the Trust Estate other than the liens or pledge created by the Indenture except as provided in the Indenture with respect to Additional Bonds, (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (iv) a reduction in the aggregate principal amount of Bonds required for consent to such supplemental indenture, or (v) a modification, amendment or deletion with respect to any of the terms set forth above, without, in the case of items (ii) through (v) above, the written consent of 100% of the holders of the outstanding Bonds.

## **Amendment of the Lease-Purchase Agreement**

The Issuer and the Trustee may, without the consent of or notice to the Bondholders, consent to any amendment, change or modification of the Lease-Purchase Agreement (a) for the purpose of curing any ambiguity, formal defect or omission therein, (b) which, by the terms of the Lease-Purchase Agreement, may be made without the consent of the Bondholders, or (c) which is not materially to the prejudice of the Trustee or the Holders of the Bonds. The Trustee shall not consent to any other amendment, change or modification of the Lease-Purchase Agreement without the consent of the holders of at least a majority in principal amount of the Bonds then outstanding, provided, however, that without the written approval of the holders of 100% of the Bonds, there shall be no amendment, change or modification to the obligation of Bonneville to make rental payments under the Lease-Purchase Agreement with respect to the Bonds. Separate and apart from the amendment of the Lease-Purchase Agreement, the Issuer and Bonneville will reserve the right to amend the definition of the Project. See THE LEASE-PURCHASE AGREEMENT – Changing the Definition of the Project.”

## **Discharge of the Indenture**

If the principal or redemption price of, sinking fund installments for, and interest on, the Bonds then outstanding shall have been paid in full or shall be deemed to have been paid in full, and all other amounts required to be paid to the Trustee under the Indenture shall be paid in full, then the pledge of any lease rentals, revenues or receipts from or in connection with the Project under the Indenture shall cease, terminate and be void and the Trustee shall cancel and discharge the lien and security interest of the Indenture and execute and deliver to the Issuer and Bonneville such instruments as shall be required to cancel and discharge the Indenture and pay over and deliver to the Issuer all money or securities held by it not required for payment of the Bonds.

Bonds or portions thereof for the payment (either by redemption or at maturity) of which sufficient moneys shall have been irrevocably deposited with the Trustee, shall be deemed to be paid within the meaning of the Indenture if (A) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or obligations of the United States government or obligations the principal of and interest on which are guaranteed by the United States government, the principal of and the interest on which when due without reinvestment will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal, Sinking Fund Installment or Redemption Price, if applicable, and interest due and to become due on said Bonds or portion of all Outstanding Bonds on and prior to the redemption date or maturity date thereof, as the case may be; (B) no Event of Default shall exist on the date of such deposit or shall occur as a result of such deposit; and (C) the Issuer has delivered to the Trustee and any Paying Agent a certificate signed by an Authorized Representative and an opinion of counsel, each stating that the conditions set forth in subsections (A) and (B) above have been complied with.

## **CONTINUING DISCLOSURE**

Bonneville, as an “obligated person” within the meaning of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12) (the “Rule”), has undertaken in the Continuing Disclosure Certificate to provide certain information. A copy of the form of Continuing Disclosure Certificate is contained in Appendix D herein.

Bonneville has not failed to comply with all previous undertakings with respect to the Rule in any material respect in the preceding five years. The information to be provided in the Annual Information and the notices of such material events are set forth in Appendix D “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The Issuer has not undertaken any continuing disclosure obligation with respect to the Bonds.

## **ERISA CONSIDERATIONS**

The Employees Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan,

are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. All fiduciaries of Plans should consult their own tax advisors with respect to the consequences of any investment in the Series 2020-1 Bonds.

## **RATINGS**

Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch”) have assigned the Series 2020-1 Bonds the ratings of “Aa2” (stable outlook) and “AA” (negative outlook), respectively. Ratings were applied for by Bonneville and certain information was supplied by Bonneville to such rating agencies to be considered in evaluating the Series 2020-1 Bonds. In addition, Fitch has assigned Bonneville an “issuer default rating” of “AA-” (negative outlook). Such ratings reflect only the respective views of such rating agencies, and an explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. There is no assurance that any or all of such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2020-1 Bonds.

## **UNDERWRITING**

Citigroup Global Markets Inc. (“Citigroup”) and the other Underwriters (the “Underwriters”) of the Series 2020-1 Bonds have jointly and severally agreed, subject to certain conditions, to purchase the Series 2020-1 Bonds from the Issuer at an underwriters’ discount of \$1,380,251.99 and to reoffer the Series 2020-1 Bonds at the initial public offering price set forth on the cover page hereof. The Underwriters have agreed to purchase all of the Series 2020-1 Bonds if any are purchased.

The Series 2020-1 Bonds may be offered and sold to certain dealers (including dealers depositing Series 2020-1 Bonds into investment accounts) and to others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Series 2020-1 Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters. Bonneville has agreed to pay certain out-of-pocket expenses of the Underwriters, which are included in the discount set forth above.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers for the distribution of the Series 2020-1 Bonds at the initial public offering prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

The Underwriters have provided the following information for inclusion in this Official Statement. The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. See herein “CERTAIN RELATIONSHIPS.” The Underwriters and their affiliates have, from time to time, performed, and may in the future perform, various investment banking services for Bonneville for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments secured by payments from Bonneville.

## **CERTAIN RELATIONSHIPS**

Citigroup, an Underwriter of the Series 2020-1 Bonds, is an affiliate of Citigroup, N.A., which has extended credit in other transactions supported by obligations of Bonneville under related agreements. Citigroup, N.A. will receive a portion of the proceeds of the Series 2020-1 Bonds from the refinancing of its credit agreement, in connection with the issuance of the Series 2020-1 Bonds. Citigroup Energy, Inc., an affiliate of Citigroup, Inc., has entered into a power sales contract with Bonneville.

TD Securities (USA) LLC, an Underwriter of the Series 2020-1 Bonds, is an affiliate of TD Bank, N.A., which has extended credit in other transactions supported by obligations of Bonneville under related agreements. TD Bank, N.A. will receive a portion of the proceeds of the Series 2020-1 Bonds from the refinancing of its credit agreement, in connection with the issuance of the Series 2020-1 Bonds. TD Securities (USA) LLC and TD Bank, N.A., are both wholly-owned subsidiaries of The Toronto-Dominion Bank and part of TD Bank Group. TD Securities (USA) LLC is not a bank and is a distinct legal entity from TD Bank, N.A.

WFBNA, an Underwriter of the Series 2020-1 Bonds, has extended credit in other transactions supported by obligations of Bonneville under related agreements.

BofA Securities, Inc., an Underwriter of the Series 2020-1 Bonds, is an affiliate of Bank of America, N.A., which has extended credit in other transactions supported by obligations of Bonneville under related agreements.

## **TAX MATTERS**

### **Certain U.S. Federal Income Tax Considerations**

At the closing, Special Tax Counsel is expected to deliver its opinion, based upon an analysis of existing laws, regulations, rulings and court decisions, that, interest on the Series 2020-1 Bonds is not excluded from gross income for U.S. federal income tax purposes pursuant to Section 103 of the Code. Special Tax Counsel is expected to express no opinion regarding any other federal tax consequences related to the ownership or disposition of, or the accrual, receipt, or amount of interest on, the Series 2020-1 Bonds.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2020-1 Bonds that acquire their Series 2020-1 Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2020-1 Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Series 2020-1 Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. federal income tax considerations applicable to investors that acquire their Series 2020-1 Bonds pursuant to this offering for the issue price that is applicable to such Series 2020-1 Bonds (i.e., the price at which a substantial amount of the Series 2020-1 Bonds are sold to the public) and who will hold their Series 2020-1 Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Series 2020-1 Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Series 2020-1 Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2020-1 Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2020-1 Bonds, and partners in such partnerships, should consult their own

tax advisors regarding the tax consequences of an investment in the Series 2020-1 Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Series 2020-1 Bonds in light of their particular circumstances.

### **U.S. Holders**

**Interest.** Interest on the Series 2020-1 Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Series 2020-1 Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Series 2020-1 Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series 2020-1 Bond.

**Sale or Other Taxable Disposition of the Series 2020-1 Bonds.** Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the Issuer) or other disposition of a Series 2020-1 Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2020-1 Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2020-1 Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Series 2020-1 Bond (generally, the purchase price paid by the U.S. Holder for the Series 2020-1 Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Series 2020-1 Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series 2020-1 Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

**Defeasance of the Series 2020-1 Bonds.** If the Issuer defeases any Series 2020-1 Bond, the Series 2020-1 Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted U.S. federal income tax basis in the Series 2020-1 Bond. See "THE INDENTURE – Discharge of the Indenture."

**Information Reporting and Backup Withholding.** Payments on the Series 2020-1 Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Series 2020-1 Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Series 2020-1 Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2020-1 Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

## **Non-U.S. Holders**

Interest. Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “Foreign Account Tax Compliance Act,” payments of principal of, and interest on, any Series 2020-1 Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the [Issuer] through stock ownership and (2) a bank which acquires such Series 2020-1 Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Series 2020-1 Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the Series 2020-1 Bonds. Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “FATCA,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Issuer or a deemed retirement due to defeasance of the Series 2020-1 Bond) or other disposition of a Series 2020-1 Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Issuer) or other disposition and certain other conditions are met.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading “FATCA,” under current U.S. Treasury Regulations, payments of principal and interest on any Series 2020-1 Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2020-1 Bond or a financial institution holding the Series 2020-1 Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

## **Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders**

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Series 2020-1 Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Series 2020-1 Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

### **Certain State of Oregon Income Tax Considerations**

In the opinion of Special Counsel, interest on the Series 2020-1 Bonds is exempt from State of Oregon personal income taxes.

### **LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the Series 2020-1 Bonds are subject to the unqualified approving opinion of Orrick, Herrington & Sutcliffe LLP. Certain legal matters will be passed upon for the Issuer by Monahan, Grove & Tucker, Milton-Freewater, Oregon, and for Bonneville by its General Counsel and by its Special Counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP, New York, New York.

**APPENDIX A**

**BONNEVILLE POWER ADMINISTRATION**

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## APPENDIX A

### BONNEVILLE POWER ADMINISTRATION

The information in this Appendix A has been furnished to the Port of Morrow, Oregon (the “Issuer” or the “Port of Morrow”) by Bonneville for use in the Official Statement, dated June 11, 2020, furnished by the Issuer (the “Official Statement”) with respect to its Transmission Facilities Revenue Bonds, (Bonneville Cooperation Project No. 7), Series 2020-1 (Federally Taxable) (the “Series 2020-1 Bonds”). (The Project is described in the Official Statement as “THE PROJECT.” Such information in this Appendix A is not to be construed as a representation by or on behalf of the Issuer or the Underwriters. The Issuer has not independently verified such information and is relying on Bonneville’s representation that such information is accurate and complete. At or prior to the time of delivery of the Series 2020-1 Bonds, Bonneville will certify to the Issuer that the information in this Appendix A, as well as information pertaining to Bonneville contained elsewhere in the Official Statement does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements in this Appendix A and in the Official Statement pertaining to Bonneville, in light of the circumstances under which they were made, not misleading.

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

#### GENERAL

Bonneville was created by an act of Congress in 1937 to market electric power from the Bonneville Dam, which is located on the Columbia River, and to construct facilities necessary to transmit such power. Congress has since designated Bonneville to be the marketing agent for power from all of the federally-owned hydroelectric projects in the Pacific Northwest. Bonneville, whose headquarters are located in Portland, Oregon, is one of four regional federal power marketing agencies within the United States of America, Department of Energy (“DOE”). Many of Bonneville’s statutory authorities are vested in the Secretary of Energy, who appoints, and acts by and through, the Bonneville Power Administrator. Some other authorities are vested directly in the Bonneville Power Administrator.

Bonneville’s primary enabling legislation includes the following federal statutes: the Bonneville Project Act of 1937 (the “Project Act”); the Flood Control Act of 1944 (the “Flood Control Act”); Public Law 88-552 (the “Regional Preference Act”); the Federal Columbia River Transmission System Act of 1974 (the “Transmission System Act”); and the Northwest Electric Power Planning and Conservation Act of 1980 (the “Northwest Power Act”). Bonneville now markets electric power from 31 federal hydroelectric projects, most of which are located in the Columbia River basin and all of which are owned and operated either by the United States Army Corps of Engineers (“Corps”) or the United States Bureau of Reclamation (“Reclamation”). Bonneville also has acquired on a long-term basis and markets power from several non-federally-owned and -operated projects, including an operating nuclear generating station (the “Columbia Generating Station”) owned by Energy Northwest (a joint operating agency of Washington State) and having a rated capacity of approximately 1,207 megawatts. (Although the rated capacity of Columbia Generating Station is 1,207 megawatts, Bonneville assumes 1,169 megawatts for long-range planning purposes.) In addition, firm energy from transfers, exchanges, and purchases comprise the remaining portion of Bonneville’s electric power resources. Not taking into account estimated power lost through the transmission of electricity from generation sites to load sites (“transmission line losses”), Bonneville estimates that the foregoing projects and contracts have an expected aggregate energy output in Operating Year 2021 of approximately 10,030 annual average megawatts (defined below) under median water conditions and approximately 7,636 annual average megawatts, under low water conditions. (Bonneville’s “Operating Year” runs from August 1 through July 31. By contrast, its “Fiscal Year” runs from October 1 through September 30.) (Annual average megawatts are the number of megawatt-hours of electric energy used, transmitted, or produced over the course of one year and each annual average megawatt is equal to 8,760 megawatt-hours.)

Bonneville sells, purchases, and exchanges firm power, seasonal surplus energy (which is also referred to as “secondary” or “non-firm” energy), peaking capacity, and related power services. Bonneville also constructed, owns

and/or possesses, operates, and maintains a high voltage transmission system (the “Federal Transmission System”) comprising approximately three-fourths of the bulk transmission capacity in the Pacific Northwest. Bonneville uses this transmission capacity to deliver power to its power customers and makes transmission capacity available to other utilities, owners of generation projects, and power marketers. Bonneville’s primary customer service area is the Pacific Northwest region of the United States, encompassing the states of Idaho, Oregon, and Washington, parts of western Montana, and small parts of western Wyoming, northern Nevada, northern Utah, and northern California (the “Pacific Northwest” or “Region”). Bonneville estimates that the population of the approximately 300,000 square-mile service area is approximately 14 million people. Electric power sold by Bonneville accounts for approximately 27 percent of the electric power consumed within the Region.

Bonneville markets a large portion of this power to over 125 publicly-owned and cooperatively-owned utilities (“Preference Customers”) at wholesale, meaning for resale by the utilities to end-use consumers in the Region. Bonneville also has contracts to sell power for direct consumption to several federal agencies and a company (“Direct Service Industrial Customer” or “DSI”) located in the Region. Bonneville is also required by law to exchange power with qualifying utilities to meet their residential and small farm electric power loads within the Region. The operation of this program, referred to as the “Residential Exchange Program,” has resulted and is expected to continue to result in substantial payments by Bonneville to the exchanging utilities. The primary participants in the Residential Exchange Program have been and are investor-owned utilities in the Region (the “Regional IOUs”), of which there are six. See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Residential Exchange Program.”

Proportionately, Preference Customers are the largest customer group to which Bonneville sells power. For example, Bonneville estimated in Fiscal Year 2019 that, on a planning basis in Operating Year 2021, it will meet 7,530 annual average megawatts of loads, of which approximately 88 percent is forecast to be Preference Customer loads, approximately two percent is forecast to be Reclamation loads for irrigation pumping stations, approximately two percent is forecast to be non-Reclamation federal agency loads, less than one percent is forecast to be DSI loads, and approximately seven percent is forecast to be contract deliveries inside and outside the Region. (Actual energy amounts may differ from planned amounts because of energy usage variations due to the weather, end-user behavior, economic activity and other factors.) See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Bonneville’s Obligation to Meet Certain Firm Power Requirements in the Region—Federal System Load/Resource Balance.”

The Transmission System Act placed Bonneville on a self-financing basis, meaning that Bonneville pays its costs from revenues it receives from the sale of power and the provision of transmission and other services, which Bonneville provides at rates that seek to produce revenues that recover Bonneville’s costs, including certain payments to the United States of America, Department of Treasury (the “United States Treasury”). Bonneville’s rates for the foregoing services are subject to approval by the Federal Energy Regulatory Commission (“FERC”) on the basis that, among other things, they recover Bonneville’s costs. See “MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Bonneville Ratemaking and Rates.” Bonneville may also issue and sell bonds to the United States Treasury and use the proceeds thereof to fund certain activities established under federal law.

In conformity with certain national regulatory initiatives to promote competition in wholesale power markets, Bonneville has separated its power marketing function from its transmission system operation and electric system reliability functions. While Bonneville is a single legal entity, it conducts its business as two business units: “Power Services” and “Transmission Services.” See “TRANSMISSION SERVICES—FERC and Non-discriminatory Transmission Access and the Separation of Power Services and Transmission Services.”

Bonneville’s cash receipts from all sources, including from both Transmission Services operations and Power Services operations, must be deposited in the Bonneville Power Administration Fund (the “Bonneville Fund”), which is a separate fund within the United States Treasury and which is available to pay Bonneville’s costs. In accordance with the Transmission System Act, Bonneville must make expenditures from the Bonneville Fund as “shall have been included in annual budgets submitted to Congress, without further appropriation and without fiscal year limitation, but within such specific directives or limitations as may be included in appropriation acts, for any purpose necessary or appropriate to carry out the duties imposed upon [Bonneville] pursuant to law.”

Bonneville makes certain payments to the United States Treasury. These payments are subject to the availability of net proceeds, which are gross cash receipts remaining in the Bonneville Fund after deducting all of the costs paid by Bonneville to operate and maintain the facilities of the Federal Columbia River Power System (“Federal System”) other than payments to the United States Treasury for: (i) the repayment of the federal investment in certain transmission facilities and the power generating facilities at federally-owned hydroelectric projects in the Pacific Northwest (the “Federal System Hydroelectric Projects”), (ii) debt service on bonds issued by Bonneville and sold to the United States Treasury, (iii) repayments of appropriated amounts to the Corps and Reclamation for certain costs allocated to power generation at Federal System Hydroelectric Projects, and (iv) costs allocated to irrigation projects as are required by law to be recovered from power sales. Bonneville met its scheduled payment responsibility to the United States Treasury of \$837 million in full and on time for Bonneville’s fiscal year ended September 30, 2019 (“Fiscal Year 2019”). Bonneville also prepaid an additional \$227 million principal amount of its Federal Appropriations Repayment Obligations (as hereinafter defined). Bonneville has made all payments to the United States Treasury in full and on time since 1984.

For various reasons, Bonneville’s revenues from the sale of electric power and other services and its expenses may vary significantly from year to year. In order to accommodate such fluctuations in revenues and expenses and to assure that Bonneville has sufficient revenues to pay the costs necessary to maintain and operate the Federal System, all cash payment obligations of Bonneville including but not limited to lease rental payments for the Project under the Lease-Purchase Agreement, and other operating and maintenance expenses, including net billing cash payments and payments under the direct payment agreements and the costs of electric power conservation or generating resource acquisitions, have priority over payments by Bonneville to the United States Treasury. For a description of the Lease-Purchase Agreement, see the Official Statement under the heading “THE LEASE-PURCHASE AGREEMENT.” In the opinion of Bonneville’s General Counsel, under federal statutes, Bonneville may make payments to the United States Treasury only from net proceeds; all other cash payments of Bonneville, including lease rental payments for the Project under the Lease-Purchase Agreement, and other operating and maintenance expenses, have priority over payments by Bonneville to the United States Treasury for the costs described in (i) through (iv) in the preceding paragraph. See the Official Statement under the heading “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020-1 BONDS” and “BONNEVILLE FINANCIAL OPERATIONS—Order in Which Bonneville’s Costs Are Met.”

The requirement to pay the United States Treasury exclusively from net proceeds would result in a deferral of United States Treasury payments if net proceeds were not sufficient for Bonneville to make its payments in full to the United States Treasury. Such deferrals could occur in the event that Bonneville were to receive less revenue or if Bonneville’s costs were higher than expected. In the event of such a deferral, Bonneville is required to take action, for example by increasing rates or reducing costs, to assure that it has sufficient funds to repay the deferred amounts, with interest, in future years.

### **Regional Power Sales and Rates**

Bonneville’s current power sales agreements with Preference Customers are in effect through Fiscal Year 2028 (“Long-Term Preference Contracts”). Virtually all such agreements were executed in 2008 and relate to power sales from Fiscal Year 2012 through Fiscal Year 2028. Under these contracts, Bonneville provides various electric power products primarily to meet the related Preference Customers’ own “net requirements” in the Region. Net requirements are the customers’ native loads (retail loads within their respective service territories) net of non-Federal System generating resources, if any, designated by a related customer as being used to serve its native loads. See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Bonneville’s Obligation to Meet Certain Firm Power Requirements in the Region—Long-Term Preference Contracts, Federal Agency Sales, and Related Power Products.”

Bonneville sells electric power for Regional load requirements at rates that are established to recover Bonneville’s cost of providing such service. Bonneville sells power to Preference Customers and federal agencies, in each case for their requirements, at periodically established “Priority Firm Power Rates” (referred to herein as “PF Preference Rates”) that are proposed in advance of the delivery of the power. The PF Preference Rate class is Bonneville’s lowest-cost, statutorily-designated, power rate class. PF Preference Rates include separate rate schedules for specific types of service provided to Preference Customers and federal agencies, and the related rate levels vary depending on the costs of providing such services. Beginning in Fiscal Year 2012, PF Preference Rates have been established, and at least

through the term of the Long-Term Preference Contracts will be established, on the basis of “Tiered Rates,” as discussed below. “Tier 1 PF Rates” apply to a very large portion of the power sales Bonneville makes to Preference Customers, and “Tier 2 PF Rates” apply to a small portion of the power sales Bonneville makes to Preference Customers, essentially for incremental loads above power sold at Tier 1 PF Rates. For a discussion of Tiered Rates, see “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Bonneville’s Obligation to Meet Certain Firm Power Requirements in the Region.” For a discussion of Bonneville’s currently applicable power rates, see “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Bonneville Power and Transmission Rates Developments” and “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Power Rates for Fiscal Years 2020-2021.” The rate for most of the power Bonneville has historically sold to DSIs is the Industrial Firm Power Rate (“IP Rate”), which is based on the PF Preference Rate and certain adjustments required by federal law.

In anticipation of the expiration at the end of Fiscal Year 2028 of the Long-Term Preference Contracts and other agreements, Bonneville will engage its customers through a public process to determine the character of Bonneville’s long-term power sales commitments in the Region and Bonneville’s long-term role in meeting Regional power needs beginning in Fiscal Year 2029. Bonneville expects to hold workshops in Fiscal Year 2021 to discuss proposals regarding key issues, release a policy and related record of decision in Fiscal Year 2023, and execute new long-term power sales contracts and other agreements in Fiscal Year 2026.

## **CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE**

### **Fiscal Year 2019 Financial Results**

In Fiscal Year 2019, Bonneville made its scheduled United States Treasury payments on time and in full for the 36<sup>th</sup> consecutive year. Bonneville recorded net revenues in Fiscal Year 2019 of \$248 million, a decrease of approximately 47 percent from the prior fiscal year. For additional details related to Fiscal Year 2019 financial results, see “BONNEVILLE FINANCIAL OPERATIONS—Management’s Discussion of Operating Results—Fiscal Year 2019.” Bonneville finished Fiscal Year 2019 with Total Financial Reserves (as hereinafter defined) of \$773 million, which is a decrease of approximately eight percent from the prior fiscal year. Total Financial Reserves is a financial metric that is not in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and is unaudited. Bonneville management believes that the use and reporting of Total Financial Reserves assists in reflecting the financial reserves Bonneville has on hand to meet current expenses. Bonneville relies on a financial metric it refers to as Reserves Available for Risk (“RAR”) as a measure of accumulated cash flow derived from operations. Bonneville divides RAR into “Transmission Services’ RAR” and “Power Services’ RAR,” each of which measures the share of RAR derived from the respective business line’s operations. While the RAR metric is not a measure in accordance with GAAP and is unaudited, Bonneville management nonetheless believes that the RAR metric provides a sound measure of Bonneville’s reserves derived (and retained) from operations. For a discussion of the non-GAAP financial metrics used by Bonneville, see “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Use of Non-GAAP Financial Metrics.”

Bonneville finished Fiscal Year 2019 with RAR of approximately \$484 million (Power Services’ RAR of \$203 million and Transmission Services’ RAR of \$281 million), a decline of approximately 12 percent from the prior year. The Power Services’ RAR and Transmission Services’ RAR amounts reflect a one-time, permanent reallocation of \$182.3 million of RAR from Transmission Services to Power Services related to errors that Bonneville discovered in its cash model that allocates cash to Power Services and Transmission Services dating back to 2003. Bonneville held several public workshops in Fiscal Year 2019 to discuss the errors and accepted public comments regarding the proposed reallocation. On October 22, 2019, Bonneville issued a record of decision regarding the reallocation of \$182.3 million of RAR from Transmission Services’ to Power Services’ cash balance.

### **COVID-19 Pandemic and Effects on Bonneville**

In response to the outbreak of coronavirus disease that has spread throughout the world (“COVID-19”), Bonneville has activated its agency incident command and incident management team and plan. Bonneville’s highest priority is the safety and well-being of its workforce. In order to protect its critical infrastructure and mission essential functions, Bonneville is taking prudent steps to continue to protect its workforce through implementation of social distancing protocols, enabling remote working arrangements, and performing pre-shift health checks for essential staff entering

Bonneville facilities. On March 13, 2020, Bonneville implemented maximum telework operations for non-essential employees and contract personnel and closed its Portland, Vancouver, and Spokane facilities to non-essential staff until further notice.

Currently, there are no significant operational impacts to Bonneville as a result of COVID-19. Bonneville continues to fulfill its mission to reliably deliver power throughout the Region. Bonneville facilities are closed to non-essential mission functions and over 3,000 members, on average, of the workforce are working remotely (with a very low absentee rate overall). Bonneville continues to monitor absentee rates of mission essential functions and evaluate potential shelter-in-place alternatives to protect and isolate mission essential functions and ensure that Bonneville can continue to meet its mission. Bonneville has identified certain workgroups that are deemed mission essential for the delivery of power and grid operations, including power schedulers, power marketers, network operators, system operators, hydro forecasting, transmission substation operators, electricians, control center operations and dispatch operators. These functions continue to physically report for duty. If the absentee rate for these workgroups were to increase to a certain level, Bonneville would take additional steps to isolate the mission essential function workforce to ensure Bonneville can continue to deliver its mission essential functions.

Consistent with stay-at-home orders in effect in states throughout the Region and concerns for the safety of its Transmission Services field crews, Bonneville has suspended non-essential transmission construction projects and is focusing its efforts on essential projects that ensure continued reliability of the transmission grid. Due to the delayed transmission construction efforts, Bonneville estimates that total direct transmission capital spending in Fiscal Year 2020 could decline by approximately \$100 million when compared to the start of year forecast in the event that stay-at-home orders and suspension of non-essential transmission construction continue through the end of Fiscal Year 2020. For details related to planned capital spending, see “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Capital Program—Bonneville’s Capital Investment Expectations and Capital Prioritization Process.” In addition, several of the delayed transmission construction projects involve contracted construction services, and due to the work stoppage, additional costs are expected to be incurred related to demobilization and re-mobilization, and other related costs. Such amounts could be up to \$10 million.

Bonneville’s incident management team has established a transition team that is developing the criteria, processes and procedures for safely bringing the Bonneville workforce back into its facilities in stages without negatively impacting mission essential functions. In establishing the criteria, Bonneville is relying on guidance issued by the federal, state, and local governments.

Electric power loads served by Bonneville remain stable and comparable to Fiscal Year 2019 levels. While commercial and industrial electric power loads have declined due to the shutdown of businesses during the period that the stay-at-home orders have been in effect, residential use has increased. Unemployment trends could result in the additional closure of commercial or industrial operations, which could impact electric power loads going forward. Currently, customers are continuing to pay their power and transmission services bills on a timely basis; however, in the event that conditions change and deteriorate, Bonneville is modeling various scenarios for planning purposes and is looking at a variety of potential solutions for addressing delinquent payments while continuing to maintain liquidity and ensure sufficient financial reserves would be available when needed. Bonneville is also exploring a variety of measures to address the potential financial hardship of its customers in the Region as a result of the shutdown, with possible options ranging from offering workable payment plans and flexible bill shaping to considering revisiting financial policies and rate level adjustment mechanisms, amongst other things. Bonneville has initiated an expedited rate proceeding that, if approved, would suspend the Financial Reserves Policy Surcharge (as hereinafter defined) for the remainder of the Fiscal Year 2020-2021 Rate Period (as hereinafter defined). See “—Fiscal Year 2020 Expectations and Related Information.” Bonneville cannot predict with certainty potential impacts of COVID-19, if any, on Bonneville’s future operations or its electric power and transmission sales or revenues; however, Bonneville continues to actively monitor and take actions in response to this pandemic under its continuity of operations plans in order to continue to reliably deliver power throughout the Region. For details related to Bonneville’s forecasts for Fiscal Year 2020 year-end revenues and RAR, see “—Fiscal Year 2020 Expectations and Related Information.”

### **Fiscal Year 2020 Expectations and Related Information**

As of May 8, 2020, Bonneville forecast that it would finish Fiscal Year 2020 with RAR of \$521 million (Power Services’ RAR of \$271 million and Transmission Services’ RAR of \$250 million), or approximately \$37 million more

than the approximately \$484 million RAR as measured as of the end of Fiscal Year 2019. The primary reason for the increase in RAR is the forecast \$98 million increase in net revenues. A key component of the forecast increase in net revenues and RAR is the planned \$30 million increase in Power revenues as a result of the Power Financial Reserves Policy Surcharge being implemented for Fiscal Year 2020 power rates. See “—Bonneville Power and Transmission Rates Developments.” In addition, total agency operating expenses have decreased by \$78 million when compared to amounts that Bonneville forecast when establishing rates for the current rate period. A Power CRAC did not trigger for application to Fiscal Year 2020 power rates; however, a Power Financial Reserves Policy Surcharge has triggered for application to certain Fiscal Year 2020 power and related rate levels in order for Bonneville to collect an additional \$30 million from December 2019 through September 2020 to raise Power Services’ RAR level. See “—Bonneville Power and Transmission Rates Developments.” A Transmission CRAC or Transmission Financial Reserves Policy Surcharge did not trigger for application to Fiscal Year 2020 transmission rates.

As of May 8, 2020, Bonneville forecast that Fiscal Year 2020 net revenues will be \$110 million, or approximately \$98 million more than Bonneville forecast when establishing rates for the current rate period. The forecast increase in Fiscal Year 2020 net revenues is primarily attributable to: (i) the planned \$30 million increase in Power revenues as a result of the Power Financial Reserves Policy Surcharge being implemented for Fiscal Year 2020 power rates and (ii) a reduction in operating expenses including lower amortization and depreciation expense and lower transmission acquisition costs for third-party wheeling costs for delivering energy to transfer service customers, than forecast when establishing rates for the current period.

Analyses as of May 11, 2020, prepared by an entity apart from Bonneville but relied on by Bonneville for planning purposes, indicate that the Fiscal Year 2020 water supply for the Columbia River basin will be approximately 100 percent of the 30-year historical average, as measured in terms of millions of acre feet of water (or “MAF”) runoff at The Dalles Dam. Runoff amounts are determined to a great degree by late fall, winter, and early spring precipitation.

Based on Total Financial Reserve levels, forecasts of revenues and expenses and other internal updates as of the end of the first quarter of Fiscal Year 2020, Bonneville believes that it will meet its Fiscal Year 2020 United States Treasury payment responsibility on time and in full.

Bonneville periodically reviews the probability that a CRAC or Financial Reserves Policy Surcharge will trigger and Bonneville’s most recent review, released on May 8, 2020, projected that neither a Power CRAC nor Transmission CRAC is expected to trigger for application to certain Fiscal Year 2021 power and related rate levels or Fiscal Year 2021 transmission and related rate levels. Another rate level adjustment provision, the “Financial Reserves Policy Surcharge” (as discussed below), is available to increase power or transmission rates when financial reserves levels fall below an established threshold. Bonneville’s most recent review, released in May 2020, projected that a \$30 million Power Financial Reserves Policy Surcharge will trigger for application to certain Fiscal Year 2021 power and related rate levels and that a Transmission Financial Reserves Policy Surcharge is not expected to trigger for application to Fiscal Year 2021 transmission and related rate levels.

Due to recent interactions with its customers and regional stakeholders regarding response to the COVID-19 pandemic, Bonneville has initiated an expedited rate proceeding that, if approved, would suspend the Financial Reserves Policy Surcharge for the remainder of the Fiscal Year 2020-2021 Rate Period (as defined below). Bonneville held a public workshop on June 5, 2020 to describe its proposal, solicit initial customer feedback, and reach preliminary agreement on the expedited schedule. If the proceeding progresses as proposed and the one rate-period suspension is implemented, Bonneville would suspend collection of the Power Financial Reserves Policy Surcharge currently being applied to certain Fiscal Year 2020 power and related rate levels and would suspend the Power Financial Reserves Policy Surcharge for application to certain Fiscal Year 2021 power and related rate levels regardless of whether the Power Services’ RAR balance on September 30, 2020 is below its 60 days cash on hand minimum level of \$301 million. Bonneville would only cease monthly collection of the Power Financial Reserves Policy Surcharge for Fiscal Year 2020 power and related rate levels if and when the rate changes are approved by FERC, which is dependent upon whether the rate proposal is contested and when FERC is able to complete its review. Based on the expedited rate proceeding schedule, it is possible that the suspension could go into effect as early as July 2020, which could result in suspending collection of approximately \$9 million of the Power Financial Reserves Policy Surcharge currently being applied to certain Fiscal Year 2020 power and related rate levels. A Transmission Financial Reserves Policy Surcharge is not in effect for Fiscal Year 2020 and is not expected to trigger for application to Fiscal

Year 2021 transmission and related rate levels. Nonetheless, the Transmission Financial Reserve Policy Surcharge would also be suspended in accordance with the foregoing discussion.

Forecasts of fiscal year-end results, and whether the Power Financial Reserves Policy Surcharge (as described below) would trigger to increase revenues in Fiscal Year 2021 and the amount of additional revenues, if any, the rate level adjustment mechanisms would be set to recover, are based on numerous uncertain variables, including but not limited to hydroelectric and water conditions, the level and volatility of market prices for electric power, impacts resulting from COVID-19 events, and if and when the expedited rate proceeding to suspend the Financial Reserves Policy Surcharge for the remainder of the Fiscal Year 2020-2021 Rate Period (as defined below) is approved by FERC, and are subject to change. See “—COVID-19 Pandemic and Effects on Bonneville.”

### **Bonneville Power and Transmission Rates Developments**

On July 31, 2019, after concluding formal administrative ratemaking processes, Bonneville submitted to FERC a final rate proposal for the 2020-2021 Rate Period (the “2020-2021 Final Rate Proposal”) and a record of decision for electric power and transmission rates of general applicability for Fiscal Years 2020 and 2021 (the “2020-2021 Rate Period”) in accordance with the Northwest Power Act and other laws. In September 2019, FERC granted interim approval of such rates and such rates became effective on an interim basis, pending FERC final review, on October 1, 2019.

Consistent with longstanding policy, the 2020-2021 Final Rate Proposal was prepared to assure payment of all costs and provide at least a 95 percent probability over the two-year rate period that Bonneville will make its scheduled payments to the United States Treasury on time and in full. (Bonneville refers to this probability as “Treasury Payment Probability” or “TPP.”) In determining TPP, Bonneville relies on numerous factors including estimates and forecasts of costs, risks and revenues, the ability to increase rate levels on short notice under the cost recovery adjustment clauses (“CRAC”) or Financial Reserves Policy Surcharge (hereinafter described), the availability of short-term financial liquidity tools, and RAR. See “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Use of Non-GAAP Financial Metrics.” Bonneville’s United States Treasury payments are payable after Bonneville’s non-federal payment obligations such as the lease rental payments for the Project under the Lease-Purchase Agreement. See “BONNEVILLE FINANCIAL OPERATIONS—Order in Which Bonneville’s Costs Are Met.”

The 2020-2021 Final Rate Proposal reflects no increase in power base rates on average and an increase in transmission rates over rates in the immediately preceding two-year rate period (the “2018-2019 Rate Period”). Average Tier 1 PF Rates remain the same as the prior rate period, at \$35.62 per megawatt hour; average Tier 2 PF Rates decreased by 23 percent, to \$31.76 per megawatt hour when compared to rates in effect in the prior rate period (For more details regarding the average Tier 2 PF Rate decrease, see “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Bonneville’s Obligation to Meet Certain Firm Power Requirements in the Region—Comparison of Tier 1 PF Rates and Tier 2 PF Rates.”); and average transmission rates increased by 3.6 percent, in each case when compared to rates in effect in the prior rate period. See “TRANSMISSION SERVICES—General—Bonneville’s Transmission and Ancillary and Control Area Services Rates.” These rates are exclusive of other surcharges discussed below.

The primary factor leading to the increase in transmission rates for the 2020-2021 Rate Period was increased debt service associated with past and anticipated capital spending for replacement of Federal System infrastructure and for new infrastructure associated with increased transmission usage and demands, increased system reliability and security requirements, and the integration of renewable resources. In the 2020-2021 Final Rate Proposal, the zero increase in Power Services’ base rates was made possible due to forecasted reductions in capital-related costs and an increase in forecasted revenues that Bonneville expects to receive for the sale of seasonal surplus energy.

In support of the financial health objectives in Bonneville’s Strategic and Financial Plans, Bonneville has issued (i) a policy to reduce Bonneville’s total debt compared to assets (the “Leverage Policy”) and (ii) a refinement to Bonneville’s existing Financial Reserves Policy to establish possible rate actions when financial reserve levels fall below a certain threshold. The Leverage Policy and Financial Reserves Policy are implemented through Bonneville’s rate development process. Prior to each rate period, Bonneville will evaluate current leverage ratios and forecast leverage ratios for the next rate period using the best available information. The Administrator may choose to maintain or reduce the leverage of either of its business lines through various actions, including taking rate action.

### *Power Cost Recovery Adjustment Clause and Related Power Rate Level Adjustment*

With regard to power rates, the 2020-2021 Final Rate Proposal includes a rate level adjustment mechanism (referred to herein as the “Power Cost Recovery Adjustment Clause” or “Power CRAC”), under which, if certain financial indicators are met, Bonneville would be able to increase certain power and related rate levels over base rates to obtain up to \$300 million in additional revenue in each of the two fiscal years of the rate period, without a time consuming rate proceeding if Power Services’ RAR were below zero at the beginning of either fiscal year in the rate period. The Power Services’ beginning RAR balance is determined using the financial results of the Federal System for the prior fiscal year that become available each November. Since Power Services’ RAR balance was \$203 million at September 30, 2019, the Power CRAC did not trigger for application to Fiscal Year 2020 rate levels. If Power Services’ RAR were below zero at September 30, 2020, then Bonneville would (subject to a *de minimis* exception described below) increase power and related rate levels in December 2020 through September 2021 to obtain additional revenues in Fiscal Year 2021.

The amount of additional revenue to be obtained under the Power CRAC in a fiscal year would be established, in general, to be the amount of the difference between zero and the Power Services’ RAR at the beginning of the fiscal year in which Power CRAC is evaluated for implementation (this differential is referred to herein as the “Power CRAC Underrun”). More particularly, the Power CRAC would be used to obtain in a fiscal year: (i) all of the first \$100 million of the Power CRAC Underrun, if any, for such fiscal year, and (ii) one half of any remaining Power CRAC Underrun for such fiscal year, up to a maximum of \$200 million. The Power CRAC terms include a *de minimis* provision under which Bonneville would not trigger the Power CRAC for implementation for a fiscal year unless the Power CRAC Underrun (as described above) were to exceed \$5 million. For more detail on the Power CRAC and other risk mitigation tools for power rates, see “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Power Rates for Fiscal Years 2020-2021.”

In addition to the proposed Power CRAC mechanism, the 2020-2021 Final Rate Proposal continues the use of certain provisions that would enable Bonneville to institute another full rate proceeding and increase rates or rate levels in the rate period, which Bonneville has estimated would take up to six months.

### *Transmission Cost Recovery Adjustment Clause*

The 2020-2021 Final Rate Proposal includes a rate level adjustment mechanism for transmission and related rates (the “Transmission Cost Recovery Adjustment Clause” or “Transmission CRAC”). An increase in transmission and related rate levels under the Transmission CRAC would occur if certain financial information resulted in Transmission Services’ expenses that were higher and/or revenues that were lower than anticipated. The Transmission CRAC would enable Bonneville to increase certain transmission and related rate levels over base rates to obtain up to \$100 million of additional revenue in each of the two fiscal years of the rate period, without a time consuming rate proceeding, if Transmission Services’ RAR are below zero at the beginning of each fiscal year of the rate period. The Transmission Services’ beginning RAR balance is determined using the financial results of the Federal System that become available each November. Transmission Services’ RAR balance was \$281 million at September 30, 2019; therefore a Transmission CRAC did not trigger for application to Fiscal Year 2020 rate levels. If Transmission Services’ RAR were below zero at September 30, 2020, then Bonneville would increase transmission and related rate levels in December 2020 through September 2021 to obtain additional revenues in Fiscal Year 2021.

### *Financial Reserves Policy Surcharge*

Coincident with the process for developing rates for the 2018-2019 Rate period, Bonneville adopted a Financial Reserves Policy that seeks to maintain and strengthen Bonneville’s financial health. The Financial Reserves Policy provides for possible rate mechanisms that would increase and maintain RAR over time. The Financial Reserves Policy was implemented beginning with the 2018-2019 Rate Period. The refinements to the Financial Reserves Policy that were implemented in September 2018 were applied as part of the 2020-2021 Final Rate Proposal and are expected to be applied in future rate periods.

The 2020-2021 Final Rate Proposal includes a surcharge (the “Financial Reserves Policy Surcharge” or “FRP Surcharge”) to implement Bonneville’s Financial Reserves Policy and rate actions to raise RAR levels when they fall below a specified level for each business line. An increase in Power Services or Transmission Services rate levels

under the Financial Reserves Policy Surcharge would occur if Power Services' or Transmission Services' RAR fall below certain thresholds as of September 30. The thresholds for each business line are equivalent to the amount of cash needed to meet operating expenses for 60 days (referred to herein as "Days Cash on Hand"). Bonneville measures Days Cash on Hand using the following equation: (i) RAR divided by (ii) Operating Expenses (as reported in the "Federal System Statement of Revenues and Expenses") divided by 360. For Power Services, the forecast amount of cash expected to be needed to meet its operating expenses for 60 days is \$301 million. For Transmission Services, the amount of forecast cash expected to be needed to meet its operating expenses for 60 days is \$97 million. Under the 2020-2021 Final Rate Proposal, the Financial Reserves Policy Surcharge would allow Bonneville to increase certain power and related rates over base rates to obtain up to \$30 million of additional revenue in each of the two fiscal years of the rate period if Power Services' RAR were below \$301 million at September 30, 2019 or September 30, 2020. Bonneville has initiated an expedited rate proceeding that, if approved, would suspend the Financial Reserves Policy Surcharge for the remainder of the Fiscal Year 2020-2021 Rate Period. See "—COVID-19 Pandemic and Effects on Bonneville" and "—Fiscal Year 2020 Expectations and Related Information." In future rate periods (beginning in Fiscal Year 2022), the Financial Reserves Policy Surcharge would allow Bonneville to increase certain power and related rates over base rates to obtain up to \$40 million of additional revenue in each of the two fiscal years of the rate period if Power Services' RAR were below \$301 million at September 30. In addition, the Financial Reserves Policy Surcharge would allow Bonneville to increase certain transmission and related rate levels over base rates to obtain up to \$15 million of additional revenue in each of the two fiscal years of the rate period if Transmission Services' RAR were to fall below \$97 million at September 30, 2019 or September 30, 2020. Power Services ended Fiscal Year 2019 with \$203 million of RAR (under the \$301 million threshold); therefore, a Power Financial Reserves Policy Surcharge has triggered for application to Fiscal Year 2020 power rate levels. On November 20, 2019, Bonneville notified customers of proposed implementation of a Power Financial Reserves Policy Surcharge and its plan to increase power rate levels to obtain an additional \$30 million of revenues from December 2019 through September 2020.

For other details related to the 2020-2021 Final Proposed Rates, see "POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Power Rates for Fiscal Years 2020-2021" and "TRANSMISSION SERVICES—General—Bonneville's Transmission and Ancillary and Control Area Services Rates."

#### *Fiscal Year 2022-2023 Rates Process*

Bonneville has begun conducting workshops related to developing rates for power and transmission and related services for Fiscal Year 2022 and 2023 (the "2022-2023 Rate Period"). Bonneville plans to begin the formal rate proceeding in November 2020 and to submit the final rate proposal to FERC by the end of July 2021.

#### **Regional Cooperation Debt and Related Actions**

Bonneville manages its overall debt portfolio, which includes both debt that is issued by non-federal entities and secured by Bonneville's financial commitments ("Non-Federal Debt"), and Bonneville's repayment obligations to the United States Treasury, to meet the objectives of: (i) minimizing the cost to Bonneville's ratepayers, (ii) maximizing Bonneville's access to its lowest cost capital sources to meet future capital needs, and (iii) maintaining sufficient financial flexibility to meet Bonneville's financial requirements. See "BONNEVILLE FINANCIAL OPERATIONS."

Energy Northwest, a joint operating agency of the State of Washington, and Bonneville have worked together to refinance certain maturities of outstanding Energy Northwest bonds that are supported by Bonneville under certain Net Billing Agreements (as hereinafter defined) among Bonneville, Energy Northwest, and over 100 individual Participants. The bonds were issued by Energy Northwest in respect of three nuclear generating projects (the "Energy Northwest Net Billed Projects"), one of which is operating and two of which were terminated in the 1990's prior to the completion of construction. See "BONNEVILLE FINANCIAL OPERATIONS—Bonneville's Non-Federal Debt—Bonds for Energy Northwest's Net Billed Projects". Bonds and other debt instruments issued by Energy Northwest and secured by Net Billing Agreements are referred to herein as "Net Billed Bonds." Since 2001, certain Net Billed Bond refinancings have increased the weighted average maturities of outstanding Net Billed Bonds to match more closely the originally expected useful lives of the related Net Billed Project facilities. The most recent efforts have included and expect to include the issuance of Net Billed Bonds to refund outstanding Net Billed Bonds in Fiscal Year 2014 through Fiscal Year 2020. These refinancings are currently known as "Regional Cooperation

Debt.” A similar program is expected to continue after Fiscal Year 2020. See “—Regional Cooperation Debt Beyond Fiscal Year 2020.”

#### *Additional Prepayment of Federal Appropriations Repayment Obligations*

The Regional Cooperation Debt refinancings also had and have the effect of freeing up amounts in the Bonneville Fund which otherwise would have been used to fund the repayment of the principal of the refunded Net Billed Bonds. The freed up funds have enabled and will enable Bonneville to repay, earlier than would otherwise occur, statutory repayment obligations that Bonneville has for amounts appropriated by Congress for federally-owned hydroelectric and transmission facilities of the Federal System (“Federal Appropriations Repayment Obligations”).

Through the initial phase of the Regional Cooperation Debt initiative from Fiscal Year 2014 through Fiscal Year 2020 (including an expected issuance of approximately \$247 million of Net Billed Bonds in June 2020), Energy Northwest will have issued approximately \$2.3 billion of Net Billed Bonds under the Regional Cooperation Debt approach which, combined with other coordinated cash management actions described below, enabled and will enable Bonneville to prepay an additional \$2.7 billion in the aggregate of comparatively high interest Federal Appropriations Repayment Obligations (including an expected prepayment of approximately \$20 million that Bonneville expects to make at the end of Fiscal Year 2020) over the amounts that Bonneville was or is scheduled to repay in such fiscal years. The amounts prepaid (or expected to be prepaid) bore interest (or are expected to bear interest) at a rate higher than the rates of interest on the refinancing Net Billed Bonds issued or to be issued by Energy Northwest in Fiscal Year 2014 through Fiscal Year 2020 and such prepayments will result in total debt service savings of approximately \$2.6 billion.

#### *Short-Term Regional Cooperation Debt and Cash Management Actions*

Energy Northwest, with Bonneville’s support, has undertaken additional debt management actions affecting Fiscal Years 2016-2020. Energy Northwest has entered into short-term borrowing arrangements (in February 2016, October 2016, December 2017, January 2019 and May 2019) to manage cash flows between Bonneville and Energy Northwest, which have enabled Bonneville to increase the prepayment of certain Federal Appropriations Repayment Obligations at the end of Fiscal Year 2016 through Fiscal Year 2019 over the amounts that would otherwise have occurred, by approximately \$1.1 billion in the aggregate. The short-term borrowing arrangements are expected to enable Bonneville to save up to \$44 million in interest expense in Fiscal Year 2017 through Fiscal Year 2020, primarily reflecting the difference between Energy Northwest’s cost of funds for the amounts borrowed under the short-term borrowing arrangements and the avoided interest expense to Bonneville resulting from prepaying the higher cost Federal Repayment Obligations one year earlier than otherwise expected. The Energy Northwest short-term borrowing arrangements now in effect have funded in Fiscal Year 2019, a portion of interest on Net Billed Bonds and operations and maintenance expense for the Columbia Generating Station. The amounts borrowed under these short-term borrowing arrangements will be repaid by Energy Northwest with amounts received from Bonneville under existing contract commitments.

On May 1, 2020, Energy Northwest entered into lines of credit with two financial institutions to provide (i) up to \$10 million to pay debt service on certain Project 1 Net Billed Bonds (ii) up to \$11 million to pay debt service on certain Project 3 Net Billed Bonds, and (iii) up to \$278 million for the Columbia Generating Station to pay debt service on certain Columbia Generating Station Net Billed Bonds and pay operations and maintenance expenses and capital expenditures for Columbia Generating Station.

For more details on Regional Cooperation Debt and related actions, see “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Non-Federal Debt—Bonds for Energy Northwest’s Net Billed Projects.

#### *Regional Cooperation Debt Beyond Fiscal Year 2020*

Bonneville’s Strategic and Financial Plans, published in 2018, identified continued access to low-cost capital and preservation of Bonneville’s United States Treasury Borrowing Authority capacity as key to Bonneville’s long-term financial health. See “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Capital Program—Bonneville’s Capital Financing Strategy.” To address this need, Energy Northwest and Bonneville worked together to restructure Regional Cooperation Debt beyond Fiscal Year 2020 in a way that provides flexibility to shape and stabilize capital

related costs over time. In September 2018, the Energy Northwest Board adopted a motion supporting the extension of the Regional Cooperation Debt initiative through Fiscal Year 2030; the issuance of additional Net Billed Bonds will require approval of the Energy Northwest Board. Bonneville estimates that the aggregate potential principal amount of refinancing Net Billed Bonds that could be issued in Fiscal Year 2021 through Fiscal Year 2030 could approach \$3.5 billion. In Fiscal Year 2021, Bonneville estimates that the aggregate principal amount of refinancing Net Billed Bonds that could be issued is \$321 million. The Energy Northwest Board has not taken any action to approve such issuance. These Regional Cooperation Debt refinancings would have the effect of freeing up amounts in the Bonneville Fund which otherwise would have been used to fund the repayment of the principal of the refunded Net Billed Bonds. The freed up funds would enable Bonneville (i) to make payments to reduce the outstanding principal amount of bonds issued by Bonneville to the United States Treasury to help restore or preserve Bonneville's available capacity of its United States Treasury Borrowing Authority or (ii) to directly fund Bonneville capital investments.

### **Developments Relating to the Endangered Species Act**

The operation of the Federal System Hydroelectric Projects by the Corps, Reclamation and Bonneville (also referred to as the "Action Agencies") is subject to the Endangered Species Act ("ESA"). The listing under the ESA of certain anadromous fish species that inhabit the Columbia River and its tributaries has led to the preparation of a series of biological opinions for operation and maintenance of Federal System Hydroelectric Projects on the Columbia and Snake Rivers. Beginning in the early 1990's, the National Oceanic and Atmospheric Administration's National Marine Fisheries Service ("NOAA Fisheries") has issued a succession of biological opinions relating to listed anadromous salmonid species of the Columbia and Snake Rivers. Each of the biological opinions from 1993 on has been the subject of litigation. See "POWER SERVICES—Certain Statutes and other Matters Affecting Bonneville's Power Services—Fish and Wildlife—The Endangered Species Act" and "BONNEVILLE LITIGATION—Columbia River ESA Litigation."

A biological opinion evaluates the effects of a federal agency action on species and habitat protected under the ESA and, if necessary, recommends a "Reasonable and Prudent Alternative" (as defined in the ESA) to the proposed action, consisting of measures and actions that, if implemented, will ensure the federal agency action is not likely to jeopardize the continued existence of listed species or result in the destruction or adverse modification of designated critical habitat. See "POWER SERVICES—Certain Statutes and other Matters Affecting Bonneville's Power Services—Fish and Wildlife—The Endangered Species Act."

On May 4, 2016, the Oregon Federal District Court issued an order to the effect that NOAA Fisheries' most recent biological opinion evaluating the operation of the Federal System Hydroelectric Projects of the Columbia and Snake Rivers (referred to herein as the "2014 Columbia River System Supplemental Biological Opinion") did not meet the requirements of the ESA. The Oregon Federal District Court remanded the 2014 Columbia River System Supplemental Biological Opinion to NOAA Fisheries and ordered it to complete a final biological opinion by March 26, 2021. In addition to its findings under the ESA, the Oregon Federal District Court found the Corps and Reclamation did not comply with the National Environmental Policy Act ("NEPA") when they adopted the 2014 Columbia River System Supplemental Biological Opinion. The Oregon Federal District Court has directed that a new environmental impact statement under NEPA (referred to herein as the "Columbia River System Operations Environmental Impact Statement") be prepared by March 26, 2021 and that the Action Agencies' respective related Records of Decision be issued on or before September 24, 2021. The Oregon Federal District Court further ordered that the Corps and Reclamation continue to implement the 2014 Columbia River System Supplemental Biological Opinion until a new biological opinion is prepared and filed. See "BONNEVILLE LITIGATION—Columbia River ESA Litigation." The expected timeline for completing the Columbia River System Operations Environmental Impact Statement and biological opinion was shortened by approximately one year by the *Presidential Memorandum on Promoting the Reliable Supply and Delivery of Water in the West*, issued on October 18, 2018. See "BONNEVILLE LITIGATION—Columbia River ESA Litigation."

On January 8, 2018, after plaintiffs filed requests for injunctive relief with the Oregon Federal District Court seeking increased spring spill at eight Snake and Columbia River Federal System dams, the Oregon Federal District Court issued a final order, later upheld on appeal to the Ninth Circuit Court, directing increased spill for the spring 2018 fish passage season (approximately April-June 2018) at all eight Snake River and Columbia River Federal System dams identified in the injunction motions. On December 14, 2018, the Action Agencies, defendant intervenor State of

Washington, plaintiffs the State of Oregon and the Nez Perce Tribe entered into an agreement in which the Action Agencies agreed to specified spring spill operations in 2019 and 2020, and a cap on the related costs of the agreed spring spill operations borne by Bonneville, in exchange for a pause in litigation on the biological opinion. Because the agreement changed the proposed action, NOAA Fisheries issued a new biological opinion evaluating the operation of the Federal System Hydroelectric Projects of the Columbia and Snake Rivers (referred to herein as the “2019 Columbia River System Biological Opinion”) incorporating the agreed to spring spill operations, effective April 1, 2019 until a new action is adopted through records of decision related to the ongoing Columbia River System Operations Environmental Impact Statement. In Fiscal Year 2019, Bonneville identified internal cost savings sufficient to entirely offset the estimated cost of additional 2019 spring spill operations (\$34.9 million) and no Fiscal Year 2019 Spill Surcharge (as hereinafter defined) was implemented. In establishing the 2020-2021 Final Rate Proposal, certain assumptions were made regarding additional costs related to the court-ordered increased spring spill level. See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Power Rates for Fiscal Years 2020-2021,” and “BONNEVILLE LITIGATION—Columbia River ESA Litigation.”

As part of the Columbia River System Operations Environmental Impact Statement, the Action Agencies considered six alternative courses of action that studied the environmental, economic and social impacts of such alternatives. The range of alternatives considered include a “no action alternative” and an alternative that includes breaching the four lower Snake River dams. Dam breaching is not part of the preferred alternative being proposed under the draft Columbia River System Operations Environmental Impact Statement and it is the opinion of the General Counsel to Bonneville that breaching or other similar major structural changes eliminating one or more of the congressionally authorized purposes of any of the federal dams of the Federal System would require Congressional enactment authorizing such action.

On February 28, 2020, a draft Columbia River System Operations Environmental Impact Statement describing the Action Agencies’ preferred alternative was released for public comment. Bonneville estimates that the preferred alternative would result in a reduction of 160 annual average megawatts of hydropower generation from the Columbia River System projects over the “no action alternative” referred to in the draft Columbia River System Operations Environmental Impact Statement (the “no action alternative” is based on 2016 system operation rules); however, an equivalent level of reduction in hydropower generation is currently being implemented in Fiscal Year 2020 under the 2019-2021 spill operation agreement that provided a pause in litigation related to the biological opinion and has already been embedded in current power rates. The Federal Columbia River Power System overall would lose approximately 300 annual average megawatts of firm power available for long-term, firm power sales to preference customers under critical water conditions also compared to the “no action alternative;” however, due to the seasonal shape of generation changes (less generation in spring, slightly more in winter and late August) the regional power system reliability would be roughly the same as under current operations and no replacement resources are expected to be needed for reliability. As a result of actions to implement the preferred alternative, Bonneville estimates that impacts on power costs could cause upward rate pressure of up to 2.7 percent over PF Preference Rates now in effect; however, since Fiscal Year 2020 spill operations are similar to the preferred alternative and a large portion of such costs are already embedded in current power rates, any power rate increase would likely be significantly less than 2.7 percent. In addition to impacts on hydropower generation, the preferred alternative could also involve certain structural modifications to Federal System hydroelectric dams. Amounts needed for construction of the structural modifications would be provided to the Corps and Reclamation either through direct funding or appropriated by Congress to the Corps or Reclamation and capitalized and recovered in Bonneville’s rates over a period up to 75 years.

A 45-day public comment period ended on April 13, 2020 and the Action Agencies are in the process of reviewing comments and continuing to evaluate any changes to the preferred alternative and related actions. A final Columbia River System Operations Environmental Impact Statement is expected to be released in summer of 2020 followed by related Records of Decision by the Action Agencies in September of 2020. The contents of the final Columbia River System Operations Environmental Impact Statement, including but not limited to the Action Agencies’ preferred alternative, any estimated cost impacts to Bonneville, or Bonneville’s expectations of future power rate levels could differ from those included in the draft Columbia River System Operations Environmental Impact Statement.

Regarding capital investment at Federal System dams on the lower Snake River, the Oregon Federal District Court’s ruling also states, “The Court will not enjoin any spending that is necessary for the safe operation of any dam,” however, the court may enjoin any other spending and the ruling further states, “the Court will require the Federal Defendants to disclose sufficient information to Plaintiffs regarding the planned projects at each dam during the NEPA

remand period, at appropriate and regular intervals.” See “BONNEVILLE LITIGATION—Columbia River ESA Litigation.”

Bonneville could also incur additional costs associated with contract termination or delays if the court were to enjoin certain capital projects at the lower Snake River dams. Consistent with the Oregon Federal District Court’s order, Bonneville, with the other federal defendants, has disclosed at regular intervals planned projects at each of the Federal System dams on the lower Snake River. As of May 12, 2020, plaintiffs have not sought to enjoin any investment in these projects.

Bonneville is unable to predict the long-term implications of the ESA and NEPA litigation described herein, including the types of proposals and measures that NOAA Fisheries will include in the final biological opinion. Bonneville is also unable to predict whether and the extent to which the final biological opinion or any future litigation in connection with the on-going ESA or NEPA processes, will lead to increased costs to Bonneville or to the alteration of Federal System hydro-operations.

## **POWER SERVICES**

Bonneville’s Power Services is responsible for marketing the electric power of the Federal System, providing oversight to electric power resources of the Federal System, and purchasing and exchanging Federal System power. Power Services was responsible for approximately \$2.8 billion (excluding “bookouts” from settlements other than by the physical delivery of power) in revenues, or 74 percent, of Bonneville’s total revenues from external customers (and excluding revenues otherwise arising from inter-functional transactions between Bonneville’s Transmission Services and Power Services) in Fiscal Year 2019.

### **Description of the Generation Resources of the Federal System**

#### *Generation*

Bonneville has statutory obligations to meet certain electric power loads placed on it by certain Regional customers. See “—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Bonneville’s Obligation to Meet Certain Firm Power Requirements in the Region.” To meet these loads, Bonneville relies on an array of power resources and power purchases, which, together with the Federal Transmission System and certain other features, constitute the Federal System. The Federal System includes those portions of the federal investment in the Federal System Hydroelectric Projects that have been allocated by federal law or policy to power generation for repayment. The Federal System also includes power from non-federally-owned generating resources, including but not limited to the Columbia Generating Station, and contract purchases from and other arrangements with power suppliers.

Bonneville defines “firm power” as electric power that is continuously available from the Federal System during adverse water conditions to meet Federal System firm loads. The amount of firm power that can be produced by the Federal System and marketed by Bonneville is based on assumptions related to a low water period on record (which occurred in 1936-1937) for the Columbia River basin referred to herein as “Low Water Flows” (and is frequently referred to by Bonneville as “Critical Water”). Firm power can be relied on to be available when needed. Firm power has two components: peaking capacity (measured in megawatts) and firm energy (measured in annual average megawatts). Peaking capacity refers to the generating capability to serve particular loads at the time such power is demanded. This is distinguishable from firm energy, which refers to an amount of electric energy that is reliably generated over a period of time. Bonneville has estimated that in Operating Year 2021 (August 1, 2020 through July 31, 2021), the total Federal System would be capable of producing approximately 7,636 annual average megawatts of firm energy under Low Water Flows/Critical Water and not accounting for transmission line losses. This generation includes approximately 6,295 annual average megawatts from Reclamation and Corps hydro projects, approximately 1,078 annual average megawatts from Columbia Generating Station and other non-federally-owned resources (including hydropower and renewable generation projects), and approximately 263 annual average megawatts of firm energy from power purchases, exchanges, and other non-federal transactions. See the table entitled “Operating Federal System Projects for Operating Year 2021.”

### *Federal Hydro-Generation*

The share of hydropower from the Federal System Hydroelectric Projects and a small amount of power Bonneville has acquired from non-federally-owned hydroelectric projects for Operating Year 2021 is estimated to be approximately 83 percent of Bonneville's total firm power supply under Low Water Flows/Critical Water. See the table entitled "Operating Federal System Projects for Operating Year 2021." Bonneville's large resource base of hydropower results in operating and planning characteristics that differ from those of major utilities that lack a substantial hydropower base.

The Federal System as primarily a hydropower system, with access to substantial reservoir storage, has peaking capacity that exceeds the Federal System peaking loads and power reserve requirements, in most months, and in most water years. Bonneville estimates that, in most months of an operating year and under most water and load conditions, its peaking capacity for long-term planning purposes will meet or exceed its requirements for the next ten years. Bonneville expects this excess of peaking capacity to persist, because, as Bonneville acquires new resources or augments the Federal System with energy purchases (or similar actions) in order to balance annual and seasonal firm energy needs, these additions contribute more peaking capacity.

At this time, Bonneville's resource planning focuses primarily on the need to acquire sufficient firm energy resources to meet firm energy loads. In contrast, most utilities with coal, gas, oil, and nuclear based generating systems must also focus their resource planning and acquisition on having enough peaking capacity to meet peak loads. As additional non-power requirements are placed on the Federal System hydroelectric operations and as Bonneville's peak load obligations grow, it may become necessary for Bonneville to plan for additional peaking capacity from resources or purchases to meet peak load obligations. See "—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Bonneville's Obligation to Meet Certain Firm Power Requirements in the Region—Bonneville's Resource Program and Bonneville's Resource Strategies."

In general, for long-term planning purposes Bonneville estimates the amount of electric power it will need in order to meet loads above the expected Federal System firm power generated under Low Water Flows/Critical Water. Firm energy from hydro reflects generation under assumptions of low streamflow derived from Regional streamflow records. Thus, the fuel supply (streamflow) and generating capability for firm energy from hydro have a high probability of occurring from year to year.

For ratemaking and financial planning purposes, however, Bonneville takes into account the amount of electric power it expects to have available to market based on water conditions that reflect average circumstances. The amount of seasonal surplus (secondary) energy generated by the Federal System depends primarily on precipitation and reservoir storage levels, thermal plant performance (the Columbia Generating Station), and other factors. For Operating Year 2021, the Federal System is forecast to generate seasonal surplus (secondary) energy of 1,702 annual average megawatts, assuming average water conditions (median water flows). In years with high water conditions (high water flows) the amount of seasonal surplus (secondary) energy could be as much as 3,200 annual average megawatts. In years with Low Water Flows/Critical Water, the amount of seasonal surplus (secondary) energy generated by the Federal System could be quite small or not available at all.

Notwithstanding that the amount and timing of seasonal surplus (secondary) energy is subject to variability, Bonneville markets almost all seasonal surplus (secondary) energy on a contractual basis under which the commitment to provide energy is firm.

The Corps and Reclamation operate the Federal System Hydroelectric Projects to serve multiple statutory purposes. These purposes include flood control, irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection, as well as power generation. Non-power purposes have placed requirements on operation of the reservoirs and have thereby limited hydropower production. Bonneville takes into account the non-power requirements and other factors in assessing the marketable power from these projects.

These requirements change the shape, availability, and timeliness of federal hydropower to meet load. The information in the following table estimates the operation of the Federal System under the Pacific Northwest Coordination Agreement ("PNCA"). The PNCA defines the planning and operation of Bonneville, Pacific Northwest utilities, and other parties with generating facilities within the Region's hydroelectric system. The hydro-regulation study

incorporated measures, including but not limited to those: (i) in furtherance of the ESA as set forth by the NOAA Fisheries in biological opinions relating to the operation of the Federal System dams on the Columbia River and Snake River and tributaries and under related court-ordered operations, (ii) in furtherance of the ESA as set forth by the United States of America, Department of Interior, Fish and Wildlife Service (“Fish and Wildlife Service”) in biological opinions relating to operation of certain Federal System dams on the Snake River, Columbia River, and tributaries, and (iii) operations described in the Northwest Power and Conservation Council’s Fish and Wildlife Program (“Council’s Fish and Wildlife Program”). These measures include flow augmentation for juvenile fish migration in the Snake and Columbia Rivers in the spring and summer, mandatory spill requirements at the lower Snake and Columbia River dams to provide for non-turbine passage routes for juvenile fish migrants, and additional flows for Kootenai River white sturgeon in the spring. As new biological opinions and similar non-power requirements are introduced to the hydropower system, those changes will be reflected, as and when appropriate, in estimates of the availability of federal hydropower under all water conditions. See “—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—The Endangered Species Act.”

#### *Other Power Resources and Contract Purchases*

The balance of the Federal System electric power resources, apart from the hydropower generating resources, includes power from the Columbia Generating Station, which has the largest capacity for energy production of the non-federal resources included in the Federal System. See Footnote 11 in the following table “Operating Federal System Projects for Operating Year 2021.” In addition, Bonneville has a number of power purchase and related contracts under which Bonneville receives electric power and which are not tied to specific generating resources (“Other Federal Contracts”). Bonneville projects that it will continue to have long-term contracts for power purchases, power or energy exchanges, power purchased or assigned under the Columbia River Treaty, transmission loss returns under the “Slice” contracts (as described below, under Slice service, Bonneville commits to provide a Slice product under which the purchaser receives a proportionate share of the actual output of the Federal System as generated) and similar non-federal transactions. In aggregate these arrangements will provide approximately 294 annual average megawatts of firm energy in Operating Year 2021. See Footnote 13 in the following table “Operating Federal System Projects for Operating Year 2021.”

#### *Operating Federal System Projects for Operating Year 2021*

In all years, the energy generating capability of the Federal System Hydroelectric Projects depends upon the amount of water flowing through such facilities, the physical capacity of the facilities, streamflow requirements pursuant to biological opinions, and other operating limitations. Bonneville utilizes an 80-year record of river flows based on the period from 1929-2008 for planning purposes. During this period, Low Water Flows occurred in 1936-1937, median water conditions (“Median Water Flows”) occurred in 1957-1958, and high water conditions (“High Water Flows”) occurred in 1973-1974. Bonneville estimates the energy generating capability of Federal System Hydroelectric Projects in a given operating year by assuming that these historical water conditions occur in that operating year and making adjustments in the expected generating capability to reflect the current physical capacity operating limitations and current streamflow requirements. Energy generation estimates are further refined to reflect factors unique to the subject operating year such as initial storage reservoir conditions.

The following table shows, for Operating Year 2021, the Federal System January 120-Hour peaking capacity (“Peak Megawatts” or “Peak MW”) and energy capability using (i) Low Water Flows (referred to as “Firm Energy”), (ii) Median Water Flows (referred to as “Median Energy”), and (iii) High Water Flows (referred to as “Maximum Energy”). The same forecasting procedures are also used for non-federally-owned hydroelectric projects. Thermal projects, the output of which does not vary with river flow conditions, are estimated using current generating capacity, plant capacity factors, and maintenance schedules. The numbers in the following table do not include any planned operational impacts related to ongoing Columbia River ESA Litigation. See “POWER SERVICES—Certain Statutes and other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—The Endangered Species Act” and “BONNEVILLE LITIGATION—Columbia River ESA Litigation.”

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**Operating Federal System Projects for Operating Year 2021<sup>(1)</sup>**

<b>Project</b>	<b>Initial Service Year</b>	<b>Number of Units</b>	<b>January Capacity (120-Hour Peak MW)<sup>(2)</sup></b>	<b>Maximum Energy (aMW)<sup>(3)</sup></b>	<b>Median Energy (aMW)<sup>(4)</sup></b>	<b>Firm Energy (aMW)<sup>(5)</sup></b>
<b><u>United States Bureau of Reclamation (Reclamation) Hydro Projects</u></b>						
Grand Coulee including Pump Turbine	1941	33	4,040	2,836	2,410	1,947
Hungry Horse	1952	4	242	117	89	74
Other Reclamation Projects <sup>(6)</sup>		<u>19</u>	<u>36</u>	<u>170</u>	<u>150</u>	<u>120</u>
<b>1. Total Reclamation Projects</b>		<b>56</b>	<b>4,318</b>	<b>3,123</b>	<b>2,649</b>	<b>2,141</b>
<b><u>United States Army Corps of Engineers (Corps) Hydro Projects</u></b>						
Chief Joseph	1955	27	2,248	1,604	1,379	1,112
John Day	1968	16	2,268	1,364	1,016	688
The Dalles w/o Fishway <sup>(7)</sup>	1957	22	1,880	977	802	540
Bonneville	1938	18	897	599	550	376
McNary	1953	14	1,045	649	547	409
Lower Granite	1975	6	796	372	245	109
Lower Monumental	1969	6	878	417	289	140
Little Goose	1970	6	873	393	269	129
Ice Harbor	1961	6	596	325	228	109
Libby	1975	5	502	251	222	177
Dworshak	1974	3	384	276	215	139
Other Corps Projects <sup>(8)</sup>		<u>20</u>	<u>173</u>	<u>289</u>	<u>266</u>	<u>226</u>
<b>2. Total Corps Projects</b>		<b>149</b>	<b>12,540</b>	<b>7,516</b>	<b>6,028</b>	<b>4,154</b>
<b>3. Idle Federal Capacity<sup>(9)</sup></b>			<b>(6,763)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>4. Total Reclamation and Corps Projects (line 1 + line 2 + line 3)</b>		<b>205</b>	<b>10,095</b>	<b>10,639</b>	<b>8,677</b>	<b>6,295</b>
<b><u>Non-Federally-Owned Projects</u></b>						
Other Non-Federal Hydro Projects <sup>(10)</sup>		4	15	43	31	29
Columbia Generating Station <sup>(11)</sup>	1984	1	1,169	994	994	994
Other Non-Federal Projects <sup>(12)</sup>		<u>7</u>	<u>0</u>	<u>55</u>	<u>55</u>	<u>55</u>
<b>5. Total Non-Federally-Owned Projects</b>		<b>12</b>	<b>1,184</b>	<b>1,092</b>	<b>1,080</b>	<b>1,078</b>
<b><u>Federal Contract Purchases</u></b>						
<b>6. Total Bonneville Contract Purchases<sup>(13)</sup></b>		<b>n/a</b>	<b>414</b>	<b>281</b>	<b>273</b>	<b>263</b>
<b><u>Total Federal System Resources</u></b>						
<b>7. Total Federal System Resources (line 4 + line 5 + line 6)</b>		<b>217</b>	<b>11,693</b>	<b>12,012</b>	<b>10,030</b>	<b>7,636</b>

Source: 2018 Pacific Northwest Loads and Resources Study, Bonneville, April 2019.

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- (1) Operating Year 2021 is August 1, 2020 through July 31, 2021. Any discrepancies in totals for figures portrayed in this table and the 2018 Pacific Northwest Loads and Resources Study are due to rounding.
  - (2) January Capacity is megawatts of capacity (“MW”) and is measured by Bonneville as “January 120-Hour Peak MW Capacity,” which is the maximum generation to be produced under Low Water Flows in 20 six-hour periods (six hours a day, five days a week, for four weeks) assuming a base case of high loads as experienced historically in the month of January. January is a benchmark month for the Federal System peaking capacity because of the potential for high peak loads during January due to cold winter weather. These January estimates are further reduced by Bonneville for estimated hydro maintenance and estimates of idle Federal System hydro capacity. See footnotes (3) and (9), below.
  - (3) Maximum energy capability is the estimated amount of hydroelectric energy to be produced using High Water Flows for energy in annual average megawatts (“aMW”). Bonneville’s hydro-regulation study incorporates spill assumptions to include similar operations to those implemented under court-ordered injunctions in Fiscal Year 2018 relating to the biological opinion for the Snake River and Columbia River dams. If and to the extent the effects of new biological opinions, operation settlements, court orders or other measures to protect fish and wildlife are different than those assumed in the 2018 Pacific Northwest Loads and Resources Study, such changes will be reflected in future hydro-regulation studies. See “—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—The Endangered Species Act.”
  - (4) Median energy capability is the estimated amount of hydro energy to be produced using Median Water Flows for energy, in aMW.
  - (5) Firm energy capability is the estimated amount of hydro energy to be produced using Low Water Flows/Critical Water for energy, in aMW.
  - (6) Other Reclamation Projects include: Anderson Ranch (1950), Black Canyon (1925), Boise Diversion (1908), Chandler (1956), Green Springs (1960), Minidoka (1909), Palisades (1957), and Roza (1958).
  - (7) The Dalles Dam complex also includes two units that generate energy in connection with a fishway at the dam. They produce approximately five megawatts of both peak capacity and energy. Bonneville does not receive the output of the fishway project and it is not included in this table.
  - (8) Other Corps Projects include: Albeni Falls (1955), Big Cliff (1954), Cougar (1964), Detroit (1953), Dexter (1955), Foster (1968), Green Peter (1967), Hills Creek (1962), Lookout Point (1954), and Lost Creek (1975). Some of these projects have less January capacity than annual energy due to the fact that they do not operate in January.
  - (9) The Federal System Hydroelectric Projects have more machine capacity from the generating units than fuel (river flows) available to operate all units on a continuous basis. “Idle Federal Capacity” is used for capacity only and estimates the amount by which the machine capacity exceeds the estimated capacity that would be available given the fuel availability (river flows) in a typical January.
  - (10) Other Non-Federal Hydro Projects include project capability from the following hydroelectric projects estimated by water conditions: Lewis County PUD’s Cowlitz Falls Project (1994), the State of Idaho Department of Water Resources’ Clearwater Hydro (1998), Dworshak Small Hydro (2000), and Rocky Brook Hydro (1999). Bonneville has acquired the output from the Cowlitz Falls Project through June 30, 2032. If Bonneville’s contracts to purchase power from any of these projects change or are renewed, those changes will be reflected in future studies.
  - (11) Columbia Generating Station operates under a biennial maintenance and refueling schedule. Bonneville assumes that the Columbia Generating Station is expected to provide approximately 994 aMW in most refueling years and 1,116 aMW in non-refueling years. Columbia Generating Station is scheduled for refueling in Operating Year 2021 and, therefore, is expected to provide approximately 994 aMW in such operating year. This amount does not take into account any reductions in generation requested by Bonneville related to oversupply events. See “MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Renewable Generation Development and Integration into the Federal Transmission System.”
  - (12) Other Non-Federal Projects include project output from the following projects: shares of Foote Creek, LLC’s Foote Creek I (1999), and Foote Creek IV (2000) wind projects, a share of PacifiCorp Power Marketing/Florida Light and Power’s Stateline wind project, Condon Wind Project, LLC’s Condon wind

project, NWW Wind Power's Klondike Phase I (2001) wind project, a share from NWW Wind Power's Klondike Phase III (2007), the output from the White Bluffs solar project (2002), and a share of the City of Ashland's solar project (Since release of the 2018 White Book, the contract for Foote Creek I was terminated and the 3.6 aMW from Foote Creek I are no longer provided as a resource).

- (13) Federal Contract Purchases include contracts for power purchases, exchanges, and other non-federal transactions with entities (including from non-federal hydro projects) from both inside and outside the Region and from Canada. This also includes amounts of power returned from Slice customers for transmission line losses.

### **Bonneville's Power Trading Floor Activities**

Much of Bonneville's generation resource base is provided by hydroelectric facilities, the output of which is affected by weather conditions, streamflow, operating constraints, and other factors. In most years, Bonneville sells substantial amounts of seasonal surplus (secondary) energy in market-based transactions. In addition, other generation conditions and operational requirements may affect generation output. Thus, actual surplus generation will vary hourly, daily, monthly, or seasonally. In addition, power loads fluctuate based on consumer usage, demands to maintain transmission system stability, and other factors. Loads and the availability of generation from Bonneville's own resources can vary substantially and actual power from Bonneville's own generating resources may not match its loads. When Bonneville's loads exceed its generation capabilities, Bonneville buys energy in market-based transactions. In the near-term (prior to and during a fiscal year), Bonneville routinely produces probabilistic and discrete energy inventory studies estimating potential surplus or deficits for specific future time periods. Based on these studies and specific marketing guidelines, Bonneville actively manages short-term surpluses and deficits through hourly, within-month, and forward transactions of physical power, futures, and power put and call options.

Bonneville believes that its revenues and expenses from market transactions are, and will be, subject to several key risks: (i) the availability of electric power supplies generally (including, among other sources, electricity supplied by natural-gas fired generators, wind generators, and other non-Federal System hydroelectric generators), (ii) the level and volatility of market prices for electric power in western North America, which affect the revenues Bonneville receives from discretionary sales of energy and the cost of necessary power purchases Bonneville may have to make to meet contracted loads and hydraulic objectives, (iii) the level of Bonneville's load serving obligation, (iv) water conditions in the Columbia River basin, which determine the amount of hydroelectric power Bonneville has to sell and its economic value and the amount of power it has to purchase in order to meet its commitments, (v) changes in fish protection requirements, which could be the source of substantial additional expense to Bonneville and could further affect the amount and value of hydroelectric power from the Federal System, (vi) continued availability of existing Federal System generating resources, and (vii) operating costs, generally.

Bonneville has put in place risk management procedures, standards, and policies that it believes adequately mitigate risk from these activities. Nonetheless, Bonneville's exposure to operational variability means that Bonneville may in certain conditions have to incur substantial purchased power expense. See "BONNEVILLE FINANCIAL OPERATIONS—Position Management and Derivative Instrument Activities and Policies."

### **Regional Customers and Other Power Contract Parties of Bonneville's Power Services**

Bonneville's primary transacting counterparties are composed of several principal groups: Preference Customers, DSIs, Federal Agencies, Regional IOUs, and parties ("Market Counterparties") with which Bonneville has commercial power-related arrangements that are not derived or originally derived from Bonneville's statutory obligations. See "—Market Counterparties and Exports of Surplus Power to the Pacific Southwest." Under the Northwest Power Act, Bonneville has a statutory obligation to meet electric power loads in the Region that are placed on Bonneville by electric power utilities. See "—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Bonneville's Obligation to Meet Certain Firm Power Requirements in the Region."

#### *Preference Customers*

Bonneville's primary customer base is composed of Preference Customers, which make long-term power purchases from Bonneville at cost-based rates to meet their native loads in the Region. Preference Customers are qualifying

publicly-owned utilities and consumer-owned electric cooperatives within the Region, and they are entitled by law to a preference and priority (“Public Preference”) in the purchase of available Federal System power for their load requirements in the Region. Such customers are eligible to purchase firm power at Bonneville’s lowest cost rate, the PF Preference Rate, for most of their loads. Under Public Preference, Bonneville must first meet a Preference Customer’s request for available Federal System power over a competing request from a non-Preference Customer. In the opinion of Bonneville’s General Counsel, Public Preference does not compel Bonneville to lower the offered price of uncommitted surplus Bonneville power to Preference Customers before meeting a competing request at a higher price for such uncommitted power from a non-Preference Customer. Bonneville sells power to certain large Preference Customers under market-type contracts other than for their own load requirements.

For Operating Year 2021, Bonneville forecasts that it will meet approximately 6,589 annual average megawatts of Preference Customer loads.

#### *Direct Service Industrial Customers*

Bonneville may sell, but is not required by federal law to sell, power to a limited number of DSIs within the Region for their direct consumption. Almost all of Bonneville’s service to DSIs has been to aluminum smelting or processing facilities. Most of the aluminum industry in the Pacific Northwest has ceased to operate. Currently, Bonneville has one long-term contract to sell power at the IP Rate directly to one DSI—Port Townsend Paper—in an aggregate amount of up to 16 annual average megawatts.

#### *Reclamation and Other Federal Agency Customers*

Bonneville is required by federal law to provide firm power to Reclamation for certain irrigation pumping stations. For Operating Year 2021, Bonneville forecasts that it will meet approximately 179 annual average megawatts of Reclamation loads. Bonneville is not required by federal law to meet the loads of other federal agencies but has long-term contracts to do so. For Operating Year 2021, Bonneville forecasts that it will meet approximately 130 annual average megawatts of the loads of federal agencies other than Reclamation. While Reclamation and the other federal agency customers do not qualify as Preference Customers, they are entitled to buy power from Bonneville at PF Preference Rates.

#### *Regional Investor-Owned Utilities*

As required by the Northwest Power Act, Bonneville has offered, and four of the six Regional IOUs have agreed to, contracts under which Bonneville could serve Regional IOUs with electric power for their net requirements (meaning a Regional IOU’s load in the Region that is not met by the Regional IOU with its own designated power supplies) beginning in Fiscal Year 2020 if such service was requested not later than the end of Fiscal Year 2016. Although none of the Regional IOUs made an election to purchase requirements power for Fiscal Years 2020 through 2028, thereby providing Bonneville with advance notice that there is no need to add resources or take other steps to meet these loads, Bonneville could still be required to serve any Regional IOU with electric power for their net requirements for Fiscal Years 2020 through 2028 if a Regional IOU were to request that Bonneville waive its contractual notice requirement. Any requirements power provided by Bonneville under these contracts would be priced at the “New Resources Rate.” This rate would in effect reflect the marginal cost to Bonneville of acquiring power to meet the loads plus certain other costs.

Bonneville believes that it is unlikely, unless circumstances change, that Regional IOUs will place substantial loads, if any, on Bonneville under the Regional IOU long-term requirements contracts because (i) there is no reason to expect that Bonneville’s cost to meet such loads, as reflected in the New Resources Rate, would be significantly lower than the Regional IOUs’ cost to meet such loads, (ii) the Regional IOUs are financially motivated to make investments in new generating facilities in order to obtain shareholder returns, (iii) most of the Regional IOUs have state-mandated renewable resource purchase obligations and would have to be assured that such obligations are addressed in any power purchases from Bonneville, (iv) the Regional IOUs would not be able to control directly the terms and costs of the new resources Bonneville would obtain to meet the loads, and (v) the New Resources Rate bears additional costs of statutory rate protection afforded to Preference Customers, thereby likely making the rate less economic compared to market alternatives.

Bonneville provides power to the Regional IOUs under contracts other than long-term firm requirements contracts. Bonneville also sells substantial amounts of peaking capacity to Regional IOUs. Power sales to Regional IOUs are distinct from Bonneville's contracts implementing the Residential Exchange Program, as provided by statute. The Residential Exchange Program obligations, described herein, result in payments by Bonneville to participating utilities. See “—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Residential Exchange Program.”

#### *Market Counterparties and Exports of Surplus Power to the Pacific Southwest*

Bonneville has a large number of parties with which it has commercial power-related arrangements that are not based on Bonneville's statutory obligations (as in the case of statutory load-meeting obligations to Preference Customers and Regional IOUs, and payment obligations under the Residential Exchange Program) or on long-term relationships that are based on prior statutory obligations (as in the case of DSIs). These counterparties include utilities located outside the Region, power marketers, and independent power producers. Transactions with these counterparties include, but are not limited to, arrangements for the purchase, sale and/or exchange of power, transmission, and related services. Of the foregoing contracts, those that involve long-term commitments are referred to by Bonneville in its loads and resources forecasts as “Other Contract Deliveries.” The commitments include power deliveries to entities outside the Region (“Exports”) and to entities within the Region (“Intra-Regional Transfers (Out)”). The terms of these deliveries are specified by individual provisions and have various delivery arrangements and rate structures and Bonneville assumes in its load forecasts that such loads will be served by Federal System firm resources regardless of weather, water, or economic conditions. For Operating Year 2021, Bonneville forecasts that Other Contract Deliveries will be approximately 620 annual average megawatts.

Bonneville sells and exchanges power via the Pacific Northwest-Pacific Southwest Intertie (the “Southern Intertie”) transmission lines to Pacific Southwest utilities, power marketers, the California Independent System Operator (“Cal-ISO”), and other entities, which use most of such power to serve California loads. These sales and exchanges are composed of firm power and seasonal surplus (secondary) energy that are surplus to Bonneville's Regional requirements. Exports of Bonneville power for use outside the Pacific Northwest are subject to a statutory requirement that Bonneville offer such power for sale to Regional utilities to meet Regional loads before offering such power to a customer outside the Region. However, in the opinion of Bonneville's General Counsel, Bonneville is not required to reduce the rate of proposed export sales to meet a Regional customer's request if the proposed export sale is at a higher, FERC-approved rate than the Regional customer is willing to pay.

In addition, Bonneville's contracts for firm energy and peaking capacity sales outside the Region include, as required by the Regional Preference Act, recall provisions that enable Bonneville to terminate such sales, upon advance notice, if needed to meet Bonneville customers' power requirements in the Region. With certain limited exceptions, Bonneville's sales of Federal System power out of the Region are subject to termination on 60 days' notice in the case of energy and on 60 months' notice in the case of peaking capacity. These rights help Bonneville assure that the power needs of its Regional customers are met. Power exchange contracts are not required to contain the Regional recall provisions.

Pacific Southwest utilities typically account for a large share of purchases of seasonal surplus (secondary) energy from Bonneville and these transactions account for a large share of revenues from Bonneville's Regional exports. The amount of seasonal surplus (secondary) energy that Bonneville has available to sell depends on precipitation and other power supply factors in the Northwest, the available transmission capacity of the Southern Intertie, the attributes of power markets across the Western Electricity Coordination Council (“WECC”), and other factors that may constrain exports notwithstanding the availability of power.

While Bonneville designs its power rates to recover its costs, it does so with an expectation that some revenue will be the result of surplus power sales at competitive pricing terms in the wholesale electricity marketplace. Revenues that Bonneville obtains from these surplus sales depend on market conditions and the resulting prices. These revenues are affected by the weather and other factors that affect demand in the Pacific Northwest and Southwest, and the cost and availability of alternatives to Bonneville's power. The value of such surplus power sales is frequently dependent on other electric energy suppliers' resource costs such as the cost of hydro-, coal-, oil- and natural gas-fired generation. Bonneville believes that if its power sales in the Region were to decline, any resulting surplus of power could be

exported outside the Pacific Northwest. Such sales may be limited, however, by transmission capacity and other factors.

### *Credit Risk*

Credit risk may be concentrated to the extent that one or more groups of counterparties, including purchasers and sellers, in power transactions with Bonneville have similar economic, industry, or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. Credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to the circumstances that relate to other market participants that have a direct or indirect relationship with such a counterparty. Bonneville seeks to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. Despite mitigation efforts, however, defaults by counterparties occur from time to time. To date, no such default has had a material adverse effect on Bonneville. Bonneville continues to actively monitor the creditworthiness of counterparties with whom it executes wholesale energy transactions and uses a variety of risk mitigation techniques to limit its exposure where it believes appropriate.

### **Power Services' Largest Customers**

The following table lists Power Services' top ten largest customers (nine of which are Preference Customers) in terms of their percentage contribution to Power Services' overall sales revenue in Fiscal Year 2019.

#### **Bonneville Power Services' Ten Largest Customers By Sales<sup>(1)</sup> (Percentage of Aggregate Power Services' Sales Revenue in Fiscal Year 2019)**

<u>Customer Name</u>	<u>Approximate % of Sales</u>
Snohomish County PUD No. 1	9%
Pacific Northwest Generating Cooperative	7%
City of Seattle, City Light Dep't.	6%
Cowlitz County PUD No. 1	6%
Tacoma Power	5%
Clark Public Utilities	4%
Eugene Water & Electric Board	3%
Benton County PUD No. 1	2%
Flathead Electric Cooperative, Inc.	2%
TransAlta Energy Marketing (U.S.) Inc. (Power Marketer)	2%

<sup>(1)</sup> Excludes inter-business line transactions between Power Services and Transmission Services. In support of its power marketing activities, Power Services obtains large amounts of transmission and related service from Transmission Services.

### **Certain Statutes and Other Matters Affecting Bonneville's Power Services**

#### *Bonneville's Obligation to Meet Certain Firm Power Requirements in the Region*

The Northwest Power Act requires Bonneville to meet certain firm loads in the Region placed on Bonneville by contract by various Preference Customers and Regional IOUs. Bonneville believes it does not have a statutory obligation to meet all firm loads within the Region.

Under the Northwest Power Act, when requested, Bonneville must offer to sell to each eligible utility, which includes Preference Customers and Regional IOUs, sufficient power to meet that portion of the utility's Regional firm power loads that it requests Bonneville to meet. Bonneville refers to these loads as "net requirements." The extent of Bonneville's obligation to meet the firm loads of a requesting utility is determined by the amount by which the utility's

firm power loads exceed (i) the capability of the utility's firm peaking capacity and energy resources used in Operating Year 1979 to serve its own loads, and (ii) such other resources as the utility determines, pursuant to its power sales contract with Bonneville, will be used to serve the utility's firm loads in the Region. If Bonneville has or expects to have inadequate power to meet all of its contractual obligations to its customers, certain statutory and contractual provisions allow for the allocation of available power.

As required by law, Bonneville's power sales contracts with Regional utilities contain provisions that require prior notice by the utility before it may use, or discontinue using, a generating resource to serve such utility's own firm loads in the Region. The amount of notice required depends on whether Bonneville has a firm power surplus and whether the Regional utility's generating resource is being added to serve or withdrawn from serving the utility's own firm load. These provisions are designed to give Bonneville advance notice of the need to obtain additional resources or take other steps to meet such load.

Some of Bonneville's Preference Customers have generating resources, which they may use to meet their firm loads in the Region. Each of such customers has to identify the amount of its loads it would meet with its own resources, thereby providing Bonneville with advance notice of the need to add resources or take other steps to meet these loads. These provisions are included in the Long-Term Preference Contracts. The Long-Term Preference Contracts include provisions that enable Preference Customers to put additional net requirements load ("Tier 2 Loads") on Bonneville above a baseline level of loads ("Tier 1 Loads") reflective of loads placed on Bonneville prior to the commencement of power sales under Long-Term Preference Contracts.

Bonneville is also directed by federal law to provide electric power from the Federal System to Reclamation to operate 13 separate water pumping projects. See "—Regional Customers and Other Power Contract Parties of Bonneville's Power Services—Reclamation and Other Federal Agency Customers."

Long-Term Preference Contracts, Federal Agency Sales, and Related Power Products. Bonneville currently provides three primary types of power service under the Long-Term Preference Contracts and its sales agreements with federal agencies: (i) Load Following service, (ii) Block service, and (iii) Slice/Block service, which is an integrated power product combining Slice of the System (or "Slice") and Block power. Under Load Following service, Bonneville provides the actual power requirements of the related customer (this is also known as "Full Requirements" product). Under Block service, Bonneville provides a "Block" product under which the customer receives fixed amounts of power at designated times. Under Slice/Block service, Bonneville commits to provide a Slice product under which the purchaser receives a proportionate share of the actual output of the Federal System as generated, and a "Block" product under which the customer receives fixed amounts of power at designated times.

Over 100 Preference Customers and all of Bonneville's nine federal agency customers purchase Load Following service and for Operating Year 2021 Bonneville forecasts that these loads will be approximately 3,445 annual average megawatts. By contrast, 14 separate Preference Customers purchase on a Slice/Block basis. For Operating Year 2021, Bonneville forecasts that its Slice/Block loads will be approximately 2,866 annual average megawatts in total, approximately half of which is expected to be for the Block portion and approximately half of which is expected to be for the Slice portion.

For reference, the Slice portion of Slice/Block service currently represents approximately 22.4 percent of a contractually-established measure of the output of the Federal System Hydroelectric Projects, the Columbia Generating Station, certain other non-federally-owned generation projects, and the electric power available to Bonneville after netting receipts and deliveries of power under certain long-term power transactions. The foregoing load forecasts reflect an attempt to predict actual loads that will be met under the specified type of service, which loads vary with weather, economic and other conditions.

Bonneville provides all of the foregoing power products at PF Preference Rates, although the particular rate features, levels and determinants vary depending on the power product. All of the Long-Term Preference Contracts and the federal agency power sales subject the customers to a payment commitment under which they are required to pay for power that is tendered by Bonneville in conformity with the applicable power sales contract. For Slice, the customers pay a fixed percentage of the costs of the Federal System generation without regard to the amount of power actually generated. In either case, if a customer's net requirements decline, the customer's purchase obligation from Bonneville

is reduced commensurately. For Slice/Block, the customers' obligations and rights to purchase power are similarly capped by their net requirements. If their net requirements decline, the Block portion is reduced first.

Tiered Rates for Long-Term Preference Contracts. Prior to Fiscal Year 2012, when Bonneville augmented Federal System resources with long-term power purchases or other generating resources, the costs of these typically more expensive purchases were, in general, melded with the Federal System's low, embedded-cost power, creating integrated power rates that masked both the real value of then-existing Federal System power and the incremental costs of meeting load growth. This cost-melding effect created incentives for Preference Customers to place incremental load growth on Bonneville and exposed Bonneville to certain associated risks relating to obtaining electric power to meet the incremental loads. Under the Long-Term Preference Contracts, Bonneville sells at PF Preference Rates that are "tiered" so that power that Bonneville sells to meet the incremental Preference Customer loads above a baseline level of loads is provided at rates that directly and exclusively recover the associated costs that Bonneville incurs in meeting such incremental loads. The Long-Term Preference Contracts involve two tiers of power rates, which Bonneville expects to establish biennially in all but the final three years of Long-Term Preference Contracts: "Tier 1 PF Rates" and "Tier 2 PF Rates."

Tier 1 PF Loads and Tier 1 PF Rates. Preference Customers (and federal agencies) purchase a limited amount of power at Tier 1 PF Rates, which rates in general reflect the historically embedded costs of power from the Federal System. A customer's right to purchase power at Tier 1 PF Rates is capped in general at an amount equal to the net requirement loads it placed on Bonneville in Operating Year 2010 (with certain possible adjustments) ("Tier 1 Loads"), thus, the aggregate amount of power that can be purchased at Tier 1 PF Rates in general reflects the generating output of the Federal System in Fiscal Year 2010 (updated with each rate period to reflect changed Federal System generation expectations). The aggregate amount of power loads to be served at Tier 1 PF Rates has been estimated at 6,812 annual average megawatts for Fiscal Year 2020 and 6,854 annual average megawatts for Fiscal Year 2021.

If and to the extent that the existing Federal System resources (including the Columbia Generating Station) whose costs are allocated for recovery in Tier 1 PF Rates were to decline in capability, Tier 1 PF Rates would nonetheless continue to recover the costs of the related resources. The amount of power that Bonneville would be obligated to sell at Tier 1 PF Rates would also decline commensurate with the reduction in resource capability, although the reduction in obligation to sell at Tier 1 PF Rates would not occur until the rate period following the rate period in which the resource capability reduction occurred.

The aggregate amount of power available to be purchased at Tier 1 PF Rates may also be expanded in certain limited circumstances: (i) up to 70 annual average megawatts to serve an increase in DOE load, and (ii) up to 250 annual average megawatts in aggregate, if necessary, for new Preference Customers and load growth of certain Indian tribe customers. From time to time, Bonneville receives inquiries from interested parties about becoming new Preference Customers. Bonneville is unable to predict whether additional new Preference Customers will form or the amount of power, if any, they will purchase from Bonneville at Tier 1 PF Rates.

Bonneville uses a "Tiered Rates Methodology" in each rate proceeding to allocate costs to the respective Tier 1 PF Rates and Tier 2 PF Rates. Costs that are and will be allocated to Tier 1 PF Rates, include but are not limited to: the costs assigned to power rates for the Net Billed Projects (some Net Billed Project debt service costs are assigned to be recovered in Transmission Services rates), Federal System fish and wildlife costs, electric power conservation programs, power benefits (if any) to be provided to DSIs, and Residential Exchange Program benefits. Under the Tiered Rates Methodology, most of the benefits of seasonal surplus (secondary) energy from the Federal System are provided to Preference Customers in Tier 1 PF Rates. In the case of Slice, those customers receive a proportionate share of Federal System seasonal surplus (secondary) to use for native loads (or to market in the case of a small portion of Slice which is a non-requirements product). The revenue benefits that Bonneville receives from its own marketing of seasonal surplus (secondary) are allocated to non-Slice Tier 1 PF Rates (primarily, to rates for Block and Load Following power products).

Tier 2 PF Rates and Tier 2 Loads. In contrast to Tier 1 Loads, "Tier 2 Loads" are loads that a customer places on Bonneville that are incremental to the customer's right to purchase at Tier 1 PF Rates. Under the Tiered Rates Methodology, Tier 2 PF Rates recover only the cost to Bonneville of meeting Tier 2 Loads for Preference Customers that elect to purchase power from Bonneville to meet Tier 2 Loads. Such purchases are integrated with purchases of

power for Tier 1 Loads into a single power purchase, although the purchase of power from Bonneville for Tier 2 Loads is made on a take-or-pay basis for the specified amount of power.

Bonneville provides several approaches for Preference Customers to define the extent, if any, to which Bonneville will meet their Tier 2 Loads. Bonneville provides the customers the ability to rely entirely on Bonneville to meet all such loads throughout the entire term of the contracts. Bonneville also allows the customers to rely on Bonneville, with specified notice to Bonneville, to meet all or a portion of their Tier 2 Loads for defined multi-year periods through the term of the agreements. Under this approach, a participating Preference Customer may require Bonneville to meet none, all, or designated portions of the customer's Tier 2 Loads. In addition, Bonneville allows customers to make all or portions of their Tier 2 purchases from specified resources or resource pools obtained by Bonneville. This is expected to assist such customers in meeting renewable resource or other requirements or goals.

Bonneville is obligated to meet approximately 54 annual average megawatts of Tier 2 Loads in Fiscal Year 2020 and approximately 63 annual average megawatts in Fiscal Year 2021. Tier 2 Loads were 112 annual average megawatts in Fiscal Year 2018 and 130 annual average megawatts in Fiscal Year 2019. As required under the Long-Term Preference Contracts, those customers requesting that Bonneville meet their Tier 2 Loads through Fiscal Year 2024 have made their elections. However, the aggregate amount of Tier 2 Loads that Bonneville will be obligated to meet in Fiscal Years 2022 through 2024 will not be finally determined until each rate case within that period. Similar Tier 2 Load elections and advance notice to Bonneville are required in the four fiscal years beginning with Fiscal Year 2025.

Comparison of Tier 1 PF Rates and Tier 2 PF Rates. When developing the Tiered Rate Methodology, Bonneville expected that Tier 1 PF Rates would typically be lower than Tier 2 PF Rates because the embedded cost structure for power from the existing Federal System (in general, as of the time of the commencement of power sales under the Long-Term Preference Contracts, which costs are and will be allocated for recovery in Tier 1 PF Rates) would likely be lower than the cost of new resources obtained to meet Tier 2 Loads and allocated for recovery in Tier 2 PF Rates. However, given low market prices for electric power and potential Tier 2 Load growth, Bonneville expected that it would be possible that Tier 2 PF Rates could be lower than Tier 1 PF Rates starting in Fiscal Year 2020. During the 2016-2017 Rate Period, average Tier 2 PF Rates were approximately \$43.09 per megawatt hour and average Tier 1 PF Rates were approximately \$33.75 per megawatt hour. During the 2018-2019 Rate Period, average Tier 2 PF Rates were approximately \$41.41 per megawatt hour and average Tier 1 PF Rates were approximately \$35.62 per megawatt hour (including the Spill Surcharge). As proposed in the Fiscal Year 2020-2021 Final Rate Proposal, average Tier 2 PF Rates are approximately \$31.76 per megawatt hour and average Tier 1 PF Rates are approximately \$35.62 per megawatt hour (excluding the Financial Reserves Policy Surcharge). The lower Tier 2 PF Rate does not reflect a long-term commitment, but an election by customers to request that Bonneville serve its Tier 2 Load on a rate period by rate period basis. In previous rate periods, Bonneville made longer advance purchases to serve its anticipated Tier 2 Loads, but Bonneville currently makes purchases to serve its Tier 2 Loads closer in time to when Tier 2 elections are made and Tier 2 Load commitments are known (just before the start of each rate period) or, if available, uses its surplus power valued at forward market prices to meet Tier 2 Loads. Tier 2 Rates have declined due to the change in timing of advance purchases, the use of surplus power to serve Tier 2 Loads, and lower market prices for electricity. See "CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Bonneville Power and Transmission Rates Developments."

Federal System Load/Resource Balance. In order to determine whether Bonneville will have to obtain additional electric power resources on a planning basis, and to determine the amount of firm power that Bonneville may have to market apart from committed loads, Bonneville periodically estimates the amount of load that it will be required to meet under its contracts and compares that to expected generating resources and other supply arrangements.

With the adoption of Bonneville's 2018 Loads and Resources Study, Bonneville projected that it would have an energy deficit of approximately 123 annual average megawatts in Operating Year 2021 and an energy deficit of approximately 256 annual average megawatts in Operating Year 2022, assuming Low Water Flows/Critical Water and transmission line losses. Between Operating Years 2021 and 2029, Bonneville forecasts annual planning deficits that vary between 123 annual average megawatts (in Operating Year 2021) and 438 annual average megawatts (in Operating Year 2025). In Bonneville's opinion, the foregoing deficits do not present significant planning deficits given the size of the Federal System and the availability of various measures to meet such a planning deficit. Bonneville expects that it would be able to meet such a planning deficit with seasonal surplus (secondary) energy from the Federal System, market

purchases, and/or other actions. The foregoing load/resource balance forecast takes into account, among other items (i) forecasts of Federal System generation together with power from purchases, exchanges and other agreements, (ii) forecasts of savings from electric power conservation measures, and (iii) forecasts of the loads of Preference Customers, DSIs, Reclamation, federal agencies other than Reclamation, and contract commitments arising under Other Contract Deliveries.

Bonneville's loads and resources are subject to a number of uncertainties over the coming years. Among these uncertainties are (i) the level of loads and types of loads placed on Bonneville under the provisions of the Northwest Power Act, (ii) the amount of power purchases, resource acquisitions, and other arrangements that Bonneville will have to make to meet contracted supply obligations, (iii) future non-power operating requirements from future biological opinions or amendments to biological opinions, (iv) the availability of existing generation resources, (v) the availability of new generation resources or contract purchases available in the Pacific Northwest to meet future Regional load obligations, (vi) changes in the regulation of power markets at the wholesale and retail level, (vii) the overall load growth from population changes and economic activity within the Region, and (viii) evolving transmission system needs to provide ancillary services.

Bonneville's Authority to Acquire Resources. In order to meet load obligations, Bonneville may have to obtain electric power from sources in addition to the existing Federal System Hydroelectric Projects and existing non-federally-owned generating projects, the output of which Bonneville has acquired by contract. By law, Bonneville may not own or construct generating facilities. However, the Northwest Power Act authorizes Bonneville to enter into contracts for the acquisition of "resources" to serve firm loads pursuant to certain procedures and standards set forth in the Northwest Power Act. "Resources" are defined in the Northwest Power Act to mean: (i) electric power, including the actual or planned electric power capability of generating facilities; or (ii) the actual or planned load reduction resulting from direct application of a renewable resource by a consumer, or from conservation measures. "Conservation" is defined in the Northwest Power Act to mean measures to reduce electric power consumption as a result of increased efficiency of energy use, production, or distribution.

Bonneville's statutory responsibility to meet its firm power contractual obligations has led and is expected to lead Bonneville to acquire conservation resources and has led and may in the future lead Bonneville to acquire the output of generation resources. The extent to which Bonneville does so will depend on the effects of electric power markets, power sales contract terms, load growth, and other factors.

The acquisition of resources under the standards and procedures of the Northwest Power Act, however, is not the sole method by which Bonneville may meet its power requirements. Other methods are available. These include, but are not limited to: (i) exchange of surplus Bonneville peaking capacity for firm energy; (ii) receipt of additional power from improvements at federally- and non-federally-owned generating facilities; and (iii) purchase of power under the Transmission System Act for periods of less than five years.

Bonneville's resource acquisitions under the Northwest Power Act are guided by a Regional conservation and electric power plan (the "Power Plan") prepared by the Northwest Power and Conservation Council (the "Council"). The governors of the states of Washington, Oregon, Montana, and Idaho each appoint two members to the Council, which is charged under the Northwest Power Act with developing and periodically amending a long range power plan to help guide energy and conservation development in the Region. The Power Plan sets forth guidance for Bonneville regarding conservation and developing generating resources to meet Bonneville's Regional load obligations. It addresses risks and uncertainties for the Region's electricity future and seeks a resource strategy that minimizes the expected cost of the Regional power system over the ensuing 20 years. The Power Plan is revised by the Council approximately every five years. The Council also develops and periodically amends the Council's Fish and Wildlife Program for the Region. See "—Fish and Wildlife—Council's Fish and Wildlife Program."

The Council released its Seventh Northwest Conservation and Electric Power Plan (the "Seventh Power Plan") in early calendar year 2016. The Seventh Power Plan looks forward over a 20-year horizon and includes a six-year action plan for utilities and other parties in the Region, including Bonneville. The Council, Bonneville and other parties around the Region continue to implement provisions of the action plan. In February 2019, the Council published its mid-term assessment, assessing progress towards achievement of the regional goals. The Seventh Power Plan continues to rely on energy efficiency to meet future energy needs and the Council's analysis shows that energy efficiency can meet the Region's expected load growth and calls for the installation of 1,400 average megawatts of

energy efficiency by 2021. The Seventh Power Plan's second priority is to develop the capability to deploy demand response resources or rely on increased market imports to meet future system capacity needs under critical water and weather conditions. After energy efficiency and demand response, the Seventh Power Plan identifies new natural gas-fired generation as the most cost-effective resource option for the Region in the near-term. The Seventh Power Plan does not foresee renewable resource development as necessary beyond the approximately 100 to 150 annual average megawatts of energy expected to be achieved through existing state renewable portfolio standards. In February 2019, the Council kicked off the development of its next power plan, which is expected to be finalized in 2021 and include an action plan for the six-year period beginning in 2022.

Bonneville's updated 2016-2021 Energy Efficiency Action Plan forecasts that Bonneville will achieve a range of 560-600 average megawatts of conservation in partnership with its Preference Customers and others through 2021. Bonneville is on track to meet this conservation goal. Consistent with the Council's analysis, achieving the Council's energy efficiency goal helps Bonneville and other utilities in the Region manage future Regional load growth and minimize reliance on development of other carbon-emitting resources to meet future demand, and will help address future Regional peaking capacity needs. See "Bonneville's Resource Program and Bonneville's Resource Strategies."

Bonneville's Resource Program and Bonneville's Resource Strategies. Bonneville's long-range resource planning involves the evaluation of whether Bonneville may need to acquire resources to meet its power supply obligations and the best means by which to meet those needs. Bonneville periodically analyzes its needs for annual energy as well as monthly/seasonal heavy load hour energy, capacity in extreme weather events, and hourly balancing reserves which inform Bonneville's Resource Program.

Bonneville's most recent Resource Program, which was published in Fiscal Year 2018 (the "2018 Resource Program"), concluded that Bonneville can satisfy much of its expected supply obligations with electric power conservation and short-term power purchases from wholesale power markets. In Fiscal Year 2021, Bonneville expects to begin developing the next Resource Program for release in Fiscal Year 2022.

*Short-Term Power Purchases.* Under the Long-Term Preference Contracts, customers may meet their own incremental loads or turn to Bonneville to meet such loads. To meet potential new loads, and consistent with the Resource Program, Bonneville believes that, in general, new sources of power should have fixed costs that can be recovered over a shorter period, should provide power in the times of the year when power is required, should be capable of being displaced when hydroelectric power is available, and should have costs that can be offset when hydroelectric power is available. Short-term purchases are the one type of resource that meets incremental load obligations without incurring long-term fixed costs.

One risk associated with a short-term purchase strategy is the potential for high spot market prices. In general, spot market prices are high when energy demand is strong and coal and natural gas prices are high, although such prices can also rise in low water years when there is comparatively little hydroelectric power available. Since Bonneville's resources are predominantly hydro-based while most other West Coast producers are coal- or natural gas-based, Bonneville in general is at a competitive advantage when coal and gas prices are high.

A short-term purchase strategy can lead to fluctuating revenues and/or revenue requirements. In low water years, Bonneville's revenue requirements could increase as it could be forced to spend a significant amount of money for short-term purchases to meet loads, to the extent that Bonneville had not previously purchased power. In high water years, purchase requirements can be significantly reduced as Bonneville would be able to meet more of its loads with seasonal surplus (secondary) hydroelectric power.

In contrast to a reliance on long-term generating resource acquisitions, a short-term purchase strategy should reduce the possibility that Bonneville would over-commit to long-term purchases and be forced to sell consequent surpluses at low prices in the market. Nonetheless, it is still possible, even with a short-term purchase strategy, that Bonneville could purchase more energy than needed and have to sell consequent surpluses at low prices. Dependence on short-term purchases also may make access to transmission a more important issue than reliability of generation. Bonneville uses a short-term energy purchase approach in meeting Tier 2 Loads.

*Electric Power Conservation.* Bonneville has electric power conservation programs intended to encourage the development of electric power conservation measures in the Region. Electric power conservation can reduce the demand for Bonneville to meet electric power loads.

*Renewable Energy.* Bonneville presently purchases a total of approximately 51 annual average megawatts from various wind energy projects in Wyoming, Oregon, and Washington and small amounts of power from a solar photovoltaic project. Bonneville also has contracted to purchase 49.9 megawatts from a geothermal project. This project has not been built. It was originally scheduled to become operational in December 2005, but it is not clear whether the site is a viable geothermal resource; the project site has been the subject of on-going environmental litigation. In September 2019, the Ninth Circuit Court invalidated the project's unproven leases (unproven means that the Bureau of Land Management has not determined that these sites are capable of producing geothermal steam in commercial quantities). Bonneville's expectation is that this project is unlikely to ever achieve commercial operation and certainly not prior to 2023.

#### *Residential Exchange Program*

The Northwest Power Act created the Residential Exchange Program to extend the benefits of low-cost federal power to certain residential and farm power users in the Region that are served by utilities that have high average system costs. In effect, the program results in cash payments by Bonneville to exchanging utilities, which are required to pass the benefit of the cash payments through, in their entirety, to eligible residential and farm customers.

Under the Residential Exchange Program, Bonneville is to "purchase" power offered by an exchanging utility at its "average system cost," which is determined by Bonneville through the application of a methodology defining the costs that may be included in an exchanging utility's average system cost as the production, transmission, and general costs that an exchanging utility incurs for power. Bonneville is then to offer an identical amount of power for "sale" to the utility for the purpose of "resale" to the exchanging utility's residential users. In reality, no power changes hands. Rather, Bonneville makes cash payments to each exchanging utility in an amount determined by multiplying the utility's eligible residential load by the difference between the utility's average system cost and Bonneville's applicable Priority Firm Exchange Rate (which is a version of the PF Preference Rate adjusted for the costs of statutory rate protection afforded to Preference Customers), if such rate is lower.

Bonneville's Preference Customers and all six Regional IOUs currently operate under the "2012 Residential Exchange Program Settlement." The settlement fixes the amount of aggregate program benefits and actual aggregate cash payments for the Regional IOUs (plus two Preference Customers) from Fiscal Year 2012 through Fiscal Year 2028. Residential Exchange Program benefits are the nominal financial benefits to be received from Bonneville by an exchanging utility. Actual aggregate cash payments are the actual payments to be paid by Bonneville to an exchanging utility. As part of the settlement, the schedule of aggregate program benefits for the Regional IOUs ranges from \$259 million to \$309 million per fiscal year, while the schedule of actual aggregate cash payments to the Regional IOUs range from \$182 million to \$286 million (the actual aggregate cash payments are calculated by subtracting Refund Amounts, as described below, from the schedule of aggregate program benefits for each fiscal year).

The settlement also provides remuneration to Preference Customers for past adverse power rate effects caused by the past overpayments of Residential Exchange benefits to the Regional IOUs. Bonneville recoups the value of the past overpayments from the Regional IOUs by deducting from their calculated Residential Exchange Program benefits approximately \$77 million in aggregate per fiscal year. These offsetting reductions (in effect since Fiscal Year 2012 and continued through Fiscal Year 2019) are referred to by Bonneville as "Refund Amounts." Under the settlement, actual aggregate cash payments to the Regional IOUs were set at approximately \$232 million in aggregate for Fiscal Year 2019 (aggregate program benefits of approximately \$309 million less deductions for annual Refund Amounts of approximately \$77 million). Bonneville provides the value of the annual Refund Amounts directly to Preference Customers in the form of cash payments or credits on their power bills from Bonneville. As of the end of Fiscal Year 2019, the aggregate overpayment of Residential Exchange Program benefits have been fully recouped by Bonneville (and conveyed to Preference Customers).

## *Fish and Wildlife*

General. The Northwest Power Act directs Bonneville to protect, mitigate, and enhance fish and wildlife resources to the extent they are affected by the Federal System Hydroelectric Projects which are located on the Columbia River and its tributaries. Bonneville makes expenditures and incurs other costs for fish and wildlife in a manner consistent with the Northwest Power Act and the Council's Fish and Wildlife Program. See "—Council's Fish and Wildlife Program." In addition, in the wake of certain listings of fish species under the ESA as threatened or endangered, Bonneville is financially responsible for expenditures and other costs arising from compliance with the ESA and certain biological opinions prepared by NOAA Fisheries and the Fish and Wildlife Service in furtherance of the ESA.

Bonneville typically funds fish and wildlife mitigation through several mechanisms. Since the creation of the Federal System, Bonneville has repaid the United States Treasury the share of the costs of mitigation by the Corps and Reclamation that is allocated by law or pursuant to policies, promulgated by FERC's predecessor, to the Federal System projects' power purpose (as opposed to other project purposes such as irrigation, navigation, and flood risk management).

Bonneville also funds and implements fish and wildlife mitigation measures that are consistent with the Council's Fish and Wildlife Program and the other purposes of the Northwest Power Act. The Council's Fish and Wildlife Program calls for a variety of mitigation measures from habitat protection to main-stem Columbia River and Snake River operations for fish. When such measures require Bonneville to purchase power to fulfill contractual demands or to spill water and thereby forgo generation of electricity, for instance, those financial losses are counted as a cost of the measures borne by Bonneville. While many of the measures in the Council's Fish and Wildlife Program are integrated with and form a substantial portion of the measures undertaken by Bonneville in connection with the ESA, the Council's Fish and Wildlife Program measures, especially those designed to benefit species not listed under the ESA, are in addition to ESA-directed measures. See "—Council's Fish and Wildlife Program."

Bonneville's fish and wildlife costs fall into two main categories, "Direct Costs" and "Operational Impacts." Direct Costs include: (i) "Integrated Program Costs," which are the costs to Bonneville of implementing projects in support of the Council's Fish and Wildlife Program, and which include expenses for ESA-related and some non-ESA-related measures that are located at sites away from the Federal System Hydroelectric Projects, (ii) "Expenses for Recovery of Capital," which include depreciation, amortization and interest expenses for fish and wildlife capital investments by the Corps (Columbia River Fish Mitigation), Reclamation, and Bonneville, and (iii) "Other Entities' O&M," which include fish and wildlife O&M costs of the Fish and Wildlife Service for certain fish hatcheries and of the Corps and Reclamation for Federal System projects. Columbia River Fish Mitigation is described in "—The Endangered Species Act."

"Operational Impacts" include "Replacement Power Purchase Costs" and "Foregone Power Revenues." Replacement Power Purchase Costs are the costs of certain power purchases made by Bonneville that are attributable to river operations in aid of fish and wildlife. To determine these costs in a given year, Bonneville compares the actual hydroelectric generation in such year against the hydroelectric generation that would have been produced had the Federal System Hydroelectric Projects been operated without any operating constraints due to fish and wildlife protection. To the extent that this comparison indicates that Bonneville made a power purchase to meet load, which purchase Bonneville would not have had to make had the river been operated without the constraints identified for fish, Bonneville accounts for such value as a fish and wildlife cost. Conversely, if the comparison indicates that Bonneville made fewer power purchases than would have been made had the river been operated without the constraints identified for fish, Bonneville accounts for such value as a negative fish and wildlife cost. "Foregone Power Revenues" are revenues that would have been earned absent changes in hydroelectric system operations attributable to fish and wildlife measures. The following table shows Bonneville's Fish and Wildlife costs by category for Fiscal Years 2017 through 2019.

**Fish and Wildlife Financial Impacts by Type  
(Fiscal Years 2017-2019, dollars in millions)**

	2019	2018	2017
<b>Direct Costs</b>	\$ 436	\$ 454	\$ 461
<b>Estimated Operational Impacts<sup>(1)</sup>:</b>			
<b>Replacement Power purchases</b>	178	24	(21)
<b>Foregone Power Revenues</b>	174	3	10
<b>Total Fish and Wildlife</b>	<b>\$ 788</b>	<b>\$ 481</b>	<b>\$ 450</b>

<sup>(1)</sup> Unaudited metric that is not in accordance with GAAP.

The variations in Direct Costs from year to year are the result of changes in reimbursable/direct-funded projects and fixed expenses. The variations in Replacement Power and Foregone Power Revenues are the result of changes in prices due to energy market conditions, differences in monthly hydro generation shape, and changes in hydroelectric system operations resulting from biological opinions and related actions under the ESA (as described immediately below).

The Endangered Species Act. Operation of the Federal System Hydroelectric Projects by the Action Agencies is subject to the ESA. To a great extent, compliance with the ESA determines how the Federal System Hydroelectric Projects are operated to benefit fish and drives much of the fish planning and activities. The ESA listings and resulting biological opinions have resulted in major changes in the operation of the Federal System Hydroelectric Projects, including a substantial loss of flexibility to operate the Federal System for power generation. Apart from changes in Federal System Hydroelectric Project operations that affect power generation, compliance with the ESA has also resulted in additional costs borne by Bonneville in the form of non-operational measures funded from Bonneville revenues.

Among other things, the ESA requires that federal agencies such as the Action Agencies ensure their actions are not likely to jeopardize the continued existence of listed species or result in the destruction or adverse modification of designated critical habitat. Since 1991, over a dozen anadromous and other marine species (including multiple stocks of salmon and steelhead, southern resident killer whales, North American green sturgeon, and eulachon) and two species of resident fish (bull trout and Kootenai River white sturgeon) that are affected by operation of the Federal System Hydroelectric Projects have been listed as threatened or endangered under the ESA. It is possible that other species may be listed or proposed for listing in the future. In general, the effect of the listing of the fish species under the ESA, and certain other operating requirements resulting from Bonneville’s fish and wildlife obligations under the Northwest Power Act, is that, except in emergencies, the Federal System Hydroelectric Projects on the Columbia and Snake Rivers are now operated for power production only after meeting needs for flood risk management and the protection of ESA-listed fish.

In connection with the listing of these species, NOAA Fisheries has prepared certain “biological opinions” addressing Federal System Hydroelectric Project operations with respect to the listed anadromous salmonid species, and the Fish and Wildlife Service has developed biological opinions with respect to the listed resident fish species. These biological opinions provide information that the Action Agencies use to ensure that their actions with respect to the operation of the Federal System Hydroelectric Projects comply with the ESA. By operating the Federal System Hydroelectric Projects consistently with the biological opinions, the Action Agencies demonstrate that operation of the Federal System Hydroelectric Projects is not likely to jeopardize listed species or destroy or adversely modify designated critical habitat.

As described herein, the Action Agencies’ compliance with the ESA in operating the Federal System Hydroelectric Projects has been the subject of litigation and judicial review and has resulted in court orders remanding biological opinions, including NOAA Fisheries’ most recent biological opinion for the Columbia and Snake Rivers, the 2014 Columbia River System Supplemental Biological Opinion. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Developments Relating to the Endangered Species Act.”

Operation of the Federal System Hydroelectric Projects consistent with the ESA has resulted in two principal changes in power generation. First, depending on water conditions, water that would otherwise run through dam turbines to generate electricity may be spilled to aid in downstream fish migration. Second, less water may be stored in the upstream reservoirs for fall and winter electric generation because more water is committed to use in the spring and summer to increase flows to aid downstream fish migration. Consequently, there is relatively less water available for hydroelectric generation in the fall and winter and more water available in the spring and summer. Because of these limitations, under certain water conditions, Bonneville has purchased and will purchase additional energy for the fall and winter to meet load commitments that would otherwise have been met with electric power from the Federal System Hydroelectric Projects. In addition, the flow changes have reduced the surplus energy Bonneville has available to market in the spring and summer. Bonneville estimates that the impact of operating the Federal System Hydroelectric Projects in conformance with the biological opinions and the Council's Fish and Wildlife Program, as in effect as of the beginning of Fiscal Year 2000, decreased Federal System hydroelectric generation capability by approximately 1,000 annual average megawatts, assuming average water conditions, from levels immediately preceding the issuance of the NOAA Fisheries biological opinion in 1995. The consequences of this and similar ESA-related decrements in generation are reflected in the Replacement Power Purchase Costs and Foregone Power Revenues. See “—General” immediately above.

These ESA listings and related actions to protect listed species and their habitat have resulted in substantial cost increases to Bonneville. Prior to the initial ESA listings, Bonneville's annual fish and wildlife mitigation costs increased from approximately \$20 million in Fiscal Year 1981 to \$150 million in Fiscal Year 1991. After the issuance of the first biological opinion affecting operations of the Federal System Hydroelectric Projects, Bonneville's fish and wildlife costs, inclusive of Direct Costs and Operational Impacts, rose to \$399 million in Fiscal Year 1995. Annual fish and wildlife costs borne by Bonneville in recent fiscal years are described immediately above in “—General.” Actions under the ESA affect other costs that Bonneville bears, including mitigation activities such as hatchery programs, which costs are included in the Council's Fish and Wildlife Program, are discussed below. Bonneville is also continuing to provide funding under agreements with certain tribes and the states of Idaho, Montana, and Washington, including through updates and extensions to the Columbia Basin Fish Accords. See “—The Columbia Basin Fish Accords,” below.

*Description of the 2014 Columbia River System Supplemental Biological Opinion.* As noted herein, litigation challenging the 2014 Columbia River System Supplemental Biological Opinion has resulted in a determination, by the Oregon Federal District Court, that it does not meet the requirements of the ESA. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Developments Relating to the Endangered Species Act.” The Oregon Federal District Court has directed that the Corps and Reclamation continue to implement the 2014 Columbia River System Supplemental Biological Opinion until a new biological opinion is issued.

Since the 2014 Columbia River System Supplemental Biological Opinion expired of its own terms and the agreed to spring spill operations modified the federal agency action in a way not considered in the 2014 Columbia River System Supplemental Biological Opinion, the Action Agencies reinitiated consultation with NOAA Fisheries in 2018. The Action Agencies' proposed action was largely a continuation of the actions from the 2008-2018 time period, including tributary habitat improvement actions, estuary habitat measures, hatchery mitigation measures, predation management, and research and monitoring actions. NOAA Fisheries issued a new biological opinion effective April 1, 2019 to cover operations and maintenance of the Columbia River System until a new action is adopted through records of decision in the ongoing Columbia River System Operations NEPA process. The 2019 Columbia River System Biological Opinion found that the proposed action was not likely to jeopardize the continued existence of the ESA-listed species or destroy or adversely modify their designated critical habitat.

*The National Environmental Policy Act and the Endangered Species Act.* NEPA requires that federal agencies evaluate the environmental impacts of their proposed actions and make this analysis available to the public. NEPA is procedural in the sense that it does not require a particular outcome for a decision, but it does mandate a process for taking a “hard look” at environmental consequences of, and alternatives to, an agency's proposal. Depending on the circumstances, NEPA may require that the federal government prepare an environmental impact statement prior to making a decision to undertake an action. Preparation of an environmental impact statement can be time consuming and the associated analysis can be extensive, depending on the complexity of the proposed actions and the potential effects on the environment.

Among the issues raised by the plaintiffs in the litigation challenging the 2014 Columbia River System Supplemental Biological Opinion was whether in adopting and implementing the biological opinion and related mitigation actions the Action Agencies should have completed a new environmental impact statement rather than relying on existing NEPA documents. In its opinion dated May 4, 2016 remanding the 2014 Columbia River System Supplemental Biological Opinion, the Oregon Federal District Court also ruled that the Corps and Reclamation violated NEPA. In response to the court's observations and comments received during the public comment period, the Action Agencies analyzed an alternative that includes the breaching of the four lower Snake River dams. However, it is the opinion of General Counsel to Bonneville that breaching or other similar major structural changes eliminating one or more of the congressionally authorized purposes of any of the federal dams of the Federal System would require Congressional enactment authorizing such action. Bonneville is unable to predict whether the current or future ESA litigation or the new biological opinion will change the prospects that such legislation will be proposed in Congress or enacted into law.

The draft Columbia River System Operations Environmental Impact Statement was issued on February 28, 2020 and the final Columbia River System Operations Environmental Impact Statement is expected to be issued in summer of 2020. The issuance of the related records of decision by the Action Agencies regarding implementing the final Columbia River System Operations Environmental Impact Statement and biological opinion is expected in September 2020. See CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Developments Relating to the Endangered Species Act,” and “BONNEVILLE LITIGATION—Columbia River ESA Litigation.”

*Impacts on Bonneville's Rates.* The costs to Bonneville in preparing the Columbia River System Operations Environmental Impact Statement will also be included for recovery in Bonneville's rates. Bonneville's estimate of the costs it will bear from the preparation of the Columbia River System Operations Environmental Impact Statement, including Bonneville's own direct expense and amounts to be provided to the Corps and Reclamation through operations and maintenance direct funding, is approximately \$40 million in aggregate in Fiscal Year 2017 through Fiscal Year 2020. Bonneville expects that the net increase in costs for the Columbia River System Operations Environmental Impact Statement efforts will be reduced substantially by the reprioritization of other work during the study period. In addition, a portion of the costs of the Columbia River System Operations Environmental Impact Statement is expected to be appropriated by Congress to the Corps (primarily related to the Columbia River Fish Mitigation program, as described below) and capitalized and recovered in Bonneville's rates over a period up to 75 years.

*The Columbia River Fish Mitigation Program.* As noted above, Action Agencies are currently implementing actions consistent with the 2019 Columbia River System Biological Opinion. The 2019 Columbia River System Biological Opinion carries forward from prior biological opinions plans for completion of structural modifications to Federal System hydroelectric dams. These modifications have been and are expected to be funded by specific federal appropriations, primarily to the Corps under the “Columbia River Fish Mitigation” program. Bonneville expects that it will be responsible for recovering in its power rates as a repayment to the United States Treasury approximately 80 percent of the costs of the federally appropriated modifications to the Federal System Hydroelectric Projects on the Columbia River and Snake River, which is the estimated portion of such costs assigned by law or administrative practice to be recovered in Bonneville's power rates. Bonneville does not expect that the modifications will be financed with Bonneville's statutory borrowing authority with the United States Treasury. As with other appropriated investments in the Federal System, Bonneville depreciates the portion of the costs to be recovered in power rates, for 75 years in most cases, from the dates the related capital facilities are placed in service or the regulatory asset is completed. These studies and modifications have been funded over many years; thus, their costs have been and will be gradually added to Bonneville's rates and Federal Appropriations Repayment Obligations as they are completed and placed in service.

As of the end of Fiscal Year 2019, Bonneville was responsible for approximately \$1.2 billion of Columbia River Fish Mitigation costs, as allocated to the power purpose of the Corps' Federal System Hydroelectric Projects. Under the Corps' current plan covering five years, the Columbia River Fish Mitigation program would obtain additional appropriations for continued funding of modifications and increase the amount expected to eventually be assumed by Bonneville as repayable appropriations obligations by approximately \$161 million through Fiscal Year 2024. This would bring the total amount of Bonneville's Federal Appropriations Repayment Obligations for Columbia River Fish Mitigation to approximately \$1.3 billion by the end of Fiscal Year 2024. The amounts ultimately appropriated under the Columbia River Fish Mitigation program (through Fiscal Year 2024 and in future years) may be greater depending

on possible changes to the Corps' current five year plan, the Corps' plans for years beyond Fiscal Year 2024, requests for appropriations by the Corps and congressional enactments of appropriations. The expected costs associated with such additional Federal Appropriations Repayment Obligations for Columbia River Fish Mitigation will begin to be recovered in Bonneville's power rates when the related investments are placed in service, which depends on the timing and amounts of appropriations and the time required by the Corps to bring multi-year projects to completion. Other federally appropriated amounts may be added to Bonneville's Federal Appropriations Repayment Obligations from time to time depending on specific project appropriations received by the Corps and Reclamation for Federal System investments. See "BONNEVILLE FINANCIAL OPERATIONS—The Federal System Investment."

Bonneville is unable to predict the effects, if any, that the new biological opinion will have on the types and timing of Federal System investments (including but not limited to investments under the Columbia River Fish Mitigation program) for which Congressional appropriations will be requested and enacted, the amounts appropriated therefor, and the amounts that would be included for recovery in Bonneville's rates for power. See "BONNEVILLE FINANCIAL OPERATIONS—The Federal System Investment."

*The Columbia Basin Fish Accords and Related Agreements.* Bonneville, the Corps, and Reclamation, and a number of Regional interests including six tribes, an inter-tribal association, and the states of Washington, Montana and Idaho signed seven separate agreements to assure long-term mitigation funding to address Federal System Hydroelectric Projects' responsibilities for effects to fish and wildlife. The foregoing agreements, collectively known as the Columbia Basin Fish Accords, have helped the Action Agencies protect, mitigate, and enhance fish populations and fish habitat in the Columbia River basin and address the Action Agencies responsibilities for ESA-listed fish.

Bonneville estimates that most of its funding commitments under the Columbia Basin Fish Accords have been and will be for work necessary to implement biological opinions affecting the Federal System Hydroelectric Projects and for work otherwise agreed to in furtherance of federal statutory fish and wildlife responsibilities such as those under the Northwest Power Act. The Columbia Basin Fish Accords were intended to provide a high level of assured long-term funding for actions related to implementation of ESA and other mitigation actions.

Under the original Columbia Basin Fish Accords, Bonneville committed to make available approximately \$995 million through Fiscal Year 2018. The original Columbia Basin Fish Accords expired in 2018, except for the Kalispel Tribe's Accord, which will expire on September 30, 2022. To preserve the benefits of those agreements and to assure ongoing funding and implementation of mitigation, the Action Agencies executed extensions of the Columbia Basin Fish Accords with five tribes, an inter-tribal association, and the states of Montana and Idaho for an additional commitment of \$449 million over four years to continue the existing portfolios of state and tribal mitigation projects. In addition, the unobligated commitment under the original Columbia Basin Fish Accords of approximately \$97 million remains available for commitment during the extension period subject to certain limitations negotiated as part of the extensions.

The average annual commitment during the extension period is less than the Fiscal Year 2018 funding levels for similar projects, so there was no increase in annual costs over Fiscal Year 2018 spending levels as a result of the extensions. The extended Columbia Basin Fish Accords now expire the earlier of September 30, 2022, or upon the issuance of Records of Decision by the Action Agencies to implement the final Columbia River System Operation Environmental Impact Statement and related biological opinion. See "CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Developments Relating to the Endangered Species Act." Bonneville's agreement with the State of Washington, which focused on Columbia River estuary habitat improvement, has not been extended although negotiations could continue. (The Columbia Basin Fish Accords do not include long-term funding arrangements relating to wildlife mitigation in the Willamette basin and northern and southern Idaho).

Under certain of the Columbia Basin Fish Accords, the participating tribes and states agree that the federal government's responsibilities under the ESA, the Federal Water Pollution Control Act, and the Northwest Power Act are satisfied as to the effects of the Hydroelectric Projects in the Snake River and Columbia River drainages.

Bonneville is unable to provide any certainty regarding the costs it may incur, including from possible future changes in Federal System dams or dam operations, under the ESA or other environmental laws.

*Willamette River Basin Flood Control Project Biological Opinion.* The Corps owns and operates 13 dams in the Willamette River Basin (the “Willamette Project”) for the primary purpose of flood risk reduction, and also for power, recreation, and water supply purposes. The Willamette Project is included in the Federal System and Bonneville markets the power from the Willamette Project and funds the Corps for the power purpose share of both capital and operations and maintenance costs at the facilities of the Willamette Project. Bonneville estimates that approximately 180 megawatts of power are produced by the Willamette Project under average water conditions.

NOAA Fisheries issued its Willamette River Basin Flood Control Project Biological Opinion (the “Willamette BiOp”) in 2008. The Willamette BiOp evaluated the impact of ongoing operations of the Willamette Project on fish species that are listed under the ESA as threatened or endangered, and concluded that certain species were in jeopardy and their critical habitat was likely to be adversely modified or destroyed. The Willamette BiOp was also adopted in a separate biological opinion by the Fish and Wildlife Service.

To fulfill the requirements of the Willamette BiOp related to downstream passage and water temperature control, the Corps first instituted a variety of operational changes and, after securing funding, modified or constructed a host of facilities. The Corps also carried out a multi-year, multi-level study process, known as the Configuration and Operation Plan or “COP” to evaluate a range of potentially beneficial actions for listed fish species at Willamette dams and reservoirs, including for long-term downstream passage and temperature control. The results of the COP provided a plan of action for potential downstream fish passage facilities at Cougar and Detroit dams (and temperature control at Detroit dam), but those potential measures are currently undergoing environmental review under NEPA.

On March 13, 2018, three environmental protection organizations filed an action against the Corps and NOAA Fisheries in the Oregon Federal District Court with respect to operation and maintenance of the Willamette Project related to decision making, hatcheries, downstream passage, and water quality. Specifically, the plaintiffs sought reinitiation of consultation under Section 7 of the ESA which could result in changes to or replacement of action items that could further increase costs to Bonneville. On April 9, 2018, the Corps reinitiated ESA Section 7 consultation for operation and maintenance of the Willamette Project with NOAA Fisheries. Discussions among the Corps, NOAA Fisheries, and Bonneville are ongoing regarding the feasibility and implementation of particular measures under the existing Willamette BiOp and COP, the ongoing NEPA processes and the ESA Section 7 consultation process. On November 30, 2018, the plaintiffs filed a motion for preliminary injunction against the Corps and NOAA Fisheries, seeking a court order that would require the Corps to conduct certain operational measures for downstream fish passage and temperature control. Federal defendants and defendant-intervenors (City of Salem and Marion County) filed oppositions to the motion on February 25, 2019. After a hearing on the motion for preliminary injunction on April 4, 2019, the Court denied the motion and agreed to a stipulated schedule for proceedings on the merits. The Oregon Federal District Court notified the parties that it will not hear oral arguments on the merits before ruling on the motions for summary judgment. The parties await a decision from the Oregon Federal District Court.

Under Bonneville’s existing appropriations repayment criteria, after any proposed structural modifications are placed in service, it is expected that a portion of the amounts appropriated for such purposes will be included in Bonneville’s Federal Appropriations Repayment Obligation for recovery in Bonneville’s rates. The proportion of the overall Willamette Project’s fish mitigation costs that are assigned to be recovered in Bonneville’s power rates is approximately 42 percent. Under the applicable repayment criteria, the costs, which include study, design, and construction costs, would be recovered in Bonneville’s rates over a period of up to 75 years from the dates that related modifications are placed in service.

Bonneville expects there to be an increase in the all-in costs of the Willamette Project power (which include but are not limited to fish mitigation measures such as streamflow enhancements and fish habitat/hatchery improvements under the current Willamette BiOp and any possible future changes that may arise as a result of the reinitiated ESA Section 7 consultation or otherwise). The new ESA Section 7 consultation could result in additional proposed structural modifications, operational changes, or other measures. Although Bonneville can make no prediction of the total costs or consequences to it with respect to the Willamette Project arising under the ESA, Bonneville intends to mitigate any upward rate pressure, to the extent possible, through offsetting cost reductions in other Bonneville programs. See “BONNEVILLE FINANCIAL OPERATIONS—Internal Guidance Affecting Bonneville Financial Operations.”

Bonneville and the State of Oregon have signed an agreement that, upon successful completion, permanently fulfills Bonneville's longstanding wildlife mitigation obligations under the Northwest Power Act associated with the Willamette River dams. Bonneville's total commitment under the agreement is \$144 million (including inflation) through Fiscal Year 2025. In addition, Bonneville will provide some level of additional funding for the Oregon Department of Fish and Wildlife's operations and maintenance costs with respect to the Willamette Project for Fiscal Year 2026 through Fiscal Year 2043. Bonneville will negotiate its funding obligations based on historical funding levels and contemporaneous needs and conditions.

Federal Repayment Offsets For Certain Fish and Wildlife Costs Borne by Bonneville. In 1995, the United States Treasury, the OMB, DOE, and other agencies agreed to provide for certain federal repayment credits to offset some of Bonneville's fish and wildlife costs. The foregoing agencies agreed that Bonneville would implement a previously unused provision of the Northwest Power Act, section 4(h)(10)(C). This provision authorizes Bonneville to exercise its Northwest Power Act authority to implement fish and wildlife mitigation on behalf of all of a Federal System Hydroelectric Project's authorized purposes under federal law; not just those relating to the delivery of generation and transmission services to customers, but also non-power purposes such as irrigation, navigation, and flood control. At the end of the fiscal year, Bonneville is required to recoup (i.e., take a credit for) the portion allocated to non-power purposes. Included in this credit are Direct Costs and estimated Replacement Power Purchase Costs. The amount of such recoupments (also referred to as "4(h)(10)(C) credits") was approximately \$54 million, \$70 million, and \$98 million in Fiscal Years 2017, 2018, and 2019, respectively. Forecasts of these 4(h)(10)(C) credits are treated as revenues in Bonneville's ratemaking process. At the close of each fiscal year, they are applied against Bonneville's payments to the United States Treasury. The 4(h)(10)(C) credits are initially taken based on estimates and are subsequently modified to reflect actual data. An important cost that may be recouped under section 4(h)(10)(C) is that of Replacement Power Purchases necessitated by the loss of generation arising from certain changes to hydroelectric system operations for the benefit of fish and wildlife. These costs occur annually and are highest in low water years when, historically, the hydroelectric output of the Federal System is lower and market prices for power may be comparatively high. In such years, 4(h)(10)(C) credits are correspondingly higher.

Council's Fish and Wildlife Program. In 2015, the Council amended the Columbia River Basin Fish and Wildlife Program (the "Council's Fish and Wildlife Program-2015") to recommend actions to mitigate the impacts of the operation of the hydroelectric dams of the Federal System on fish and wildlife in the Region, as provided under the Northwest Power Act. In general, Bonneville is charged with protecting, mitigating, and enhancing fish and wildlife affected by the Federal System in a manner consistent with the Council's Fish and Wildlife Program, the Council's power plan, and the other purposes of the Northwest Power Act. The Council's Northwest Power Act mitigation recommendations include the actions in the Columbia Basin Fish Accords and biological opinions as well as other measures to protect fish and wildlife. The Council is currently updating its fish and wildlife program and expects to complete this process by the summer of 2020.

In view of the increasing number of actions under the ESA in connection with listed fish populations affected by the Federal System, and in view of the potential for overlap or conflict of ESA-related actions with recommendations under the Council's Fish and Wildlife Program, beginning in the late 1990's, the Council began integrating ESA and Clean Water Act compliance actions into the Council's Fish and Wildlife Program. The costs of this "Integrated Program" are included in the Direct Costs to Bonneville of its fish and wildlife obligations. See "—General." In Fiscal Year 2019, Integrated Program expense was \$267 million, and Federal System capital investment was \$22 million. Bonneville forecasts that Fiscal Year 2020 Integrated Program expense and Federal System capital investments will be \$292 million and \$42 million, respectively.

Bonneville believes its current levels of funding fulfill all of its statutory responsibilities related to fish and wildlife; however, Bonneville cannot provide assurance as to the scope or cost of future measures to protect fish and wildlife affected by the Federal System Hydroelectric Projects (and other components of the Federal System), including measures resulting from current and future listings under the ESA, current and future biological opinions or amendments thereto, future Council programs or amendments thereto, or litigation relating to the foregoing.

#### *Power Rates for Fiscal Years 2020-2021*

As described elsewhere in this Appendix A, Bonneville prepared and filed with FERC Bonneville's 2020-2021 Final Rate Proposal for power and transmission rates of general applicability and FERC has granted interim approval

thereof. The final Tier 1 rates for the 2020-2021 Rate Period for power sold to Preference Customers for their requirements vary depending on the particular power product provided by Bonneville. Average base PF Preference Rates (inclusive of the Slice, Block and Full Requirements products) remain the same level as the prior average rates at \$35.62 per megawatt hour. Under the 2020-2021 Final Rate Proposal, average Tier 2 PF Rates are 23 percent lower than in the prior rate period, decreasing to \$31.76 per megawatt hour. Tier 2 PF Rates apply to certain incremental loads that Preference Customers require Bonneville to meet. In Fiscal Year 2020, Bonneville expects to sell about 54 annual average megawatts of power at Tier 2 PF Rates. For a discussion of Tier 1 PF Rates and Tier 2 PF Rates, see “—Bonneville’s Obligation to Meet Certain Firm Power Requirements in the Region—Long-Term Preference Contracts, Federal Agency Sales, and Related Power Products.”

The 2020-2021 Final Rate Proposal continues the use of certain features (in some cases slightly modified) from prior final power rates. For instance, the power rates have continued the use of (i) “base rates” for Regional power sales that are set at levels Bonneville believes to be sufficient to yield a reasonably high probability of sufficient net revenue, and (ii) a Power CRAC to increase certain power (and certain ancillary services) rate levels during the 2020-2021 Rate Period. It was designed to trigger if certain measures reflective of Power Services’ financial performance decline to a Power CRAC Threshold level. The Power CRAC did not trigger for application to Fiscal Year 2020 rates, it remains available, if necessary, to increase Power Services’ revenues, primarily from the sale of Block and Load Following power products, by up to \$300 million per fiscal year without a formal rate proceeding.

The 2020-2021 Final Rate Proposal includes for the first time a “Financial Reserves Policy Surcharge” to manage adequate RAR levels by business line. For additional details related to RAR, see “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Use of Non-GAAP Financial Metrics.” The Financial Reserves Policy Surcharge is designed to ensure that Bonneville is able to recover amounts needed to raise power or transmission RAR levels in Fiscal Years 2020 and 2021. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Bonneville Power and Transmission Rates Developments.” A \$30 million Financial Reserves Policy Surcharge has triggered for application to Fiscal Year 2020 power and related rate levels since the beginning Power Services’ RAR balance was \$203 million (which is less than its 60 Days Cash on Hand minimum level of \$301 million). A Financial Reserves Policy Surcharge did not trigger for application to transmission and related rate levels in Fiscal Year 2020. A Financial Reserves Policy Surcharge would be implemented, if needed, in Fiscal Year 2021 based on beginning Power Services’ or Transmission Services’ RAR levels. Bonneville has initiated an expedited rate proceeding that, if approved, would suspend the Financial Reserves Policy Surcharge for the remainder of the Fiscal Year 2020-2021 Rate Period. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Bonneville Power and Transmission Rates Developments,” “—COVID-19 Pandemic and Effects on Bonneville,” and “—Fiscal Year 2020 Expectations and Related Information.”

Historically, Bonneville has included the use of certain provisions that would enable Bonneville to increase certain power and related rate levels on relatively short notice during the rate period, without a formal rate proceeding, in the event of certain possible developments related to fish and wildlife costs and operations. The National Marine Fisheries Service Federal Columbia River Power System Biological Opinion Adjustment (“NFB Adjustment”) and Emergency National Marine Fisheries Service Federal Columbia River Power System Biological Opinion Surcharge (“Emergency NFB Surcharge”) were rate adjustment features that would address unexpected costs or decreases in revenue (“NFB Financial Effects”) in a fiscal year arising from the ESA litigation relating to the Federal System (“NFB Trigger Event”). These mechanisms are not being continued in the 2020-2021 Final Rate Proposal; however, the Power CRAC and Financial Reserves Policy Surcharge (discussed below) remain available to help mitigate the risk of possible developments related to fish and wildlife costs and operations. See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—The Endangered Species Act.”

Another power and related rate level adjustment mechanism referred to as the “Spill Surcharge” was in effect for the 2018-2019 Rate Period to address financial effects arising from certain matters relating to ongoing litigation of the 2014 Columbia River System Supplemental Biological Opinion (as supplemented in 2019). See “—Developments Relating to the Endangered Species Act” and “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—The Endangered Species Act” and “BONNEVILLE LITIGATION—Columbia River ESA Litigation.” The Spill Surcharge was designed to ensure that Bonneville was able to recover foregone revenue and costs to Power Services that resulted from potential increases in planned spill levels in Fiscal Years 2018 and 2019 since this information was unknown during rate case development for the 2018-2019 Rate Period. In establishing the 2020-2021 Final Rate Proposal, certain assumptions were made regarding

additional costs related to the court-ordered increased spill level, eliminating the need for a Spill Surcharge in the 2020-2021 Rate Period.

In addition to the foregoing cost recovery adjustments, under the 2020-2021 Final Rate Proposal, Bonneville also reserved the ability to institute another full rate proceeding and increase rates or rate levels in the rate period, which Bonneville has estimated would take several months.

The risk mitigation tools underlying the power rates also include relying on certain RAR derived from Power Services operations and relying on the availability of funds, if needed during the rate period, under Bonneville's \$750 million short-term credit facility with the United States Treasury, to cover certain operating expenses. See "BONNEVILLE FINANCIAL OPERATIONS—Management's Discussion of Operating Results—Fiscal Year 2018," "—Bonneville's Use of Non-GAAP Financial Metrics," and "—Banking Relationship between the United States Treasury and Bonneville."

The 2020-2021 Final Rate Proposal continues the availability of a feature parallel to, but the reverse of, the Power CRAC or Transmission CRAC, referred to as the "Reserves Distribution Clause" or "RDC." Similar to the prior rate mechanism referred to as the "Dividend Distribution Clause," a Reserves Distribution Clause could decrease certain power or transmission rates in either year of the rate period, also based on RAR level thresholds by business line at September 30. In order to trigger a distribution under the Reserves Distribution Clause, Power Services' RAR or Transmission's RAR must exceed its 120 Days Cash on Hand target (\$601 million for Power Services or \$194 million for Transmission Services). In addition, from an agency perspective, the total agency RAR must be at least \$597 million, in the aggregate, which is the forecast amount of cash expected to be needed to meet the agency's operating expenses for at least 90 days. The Administrator has discretion whether to decrease rates or to retain the RAR for additional payment of debt or to fund capital expenditures.

#### **Historical PF Preference Rate Levels**

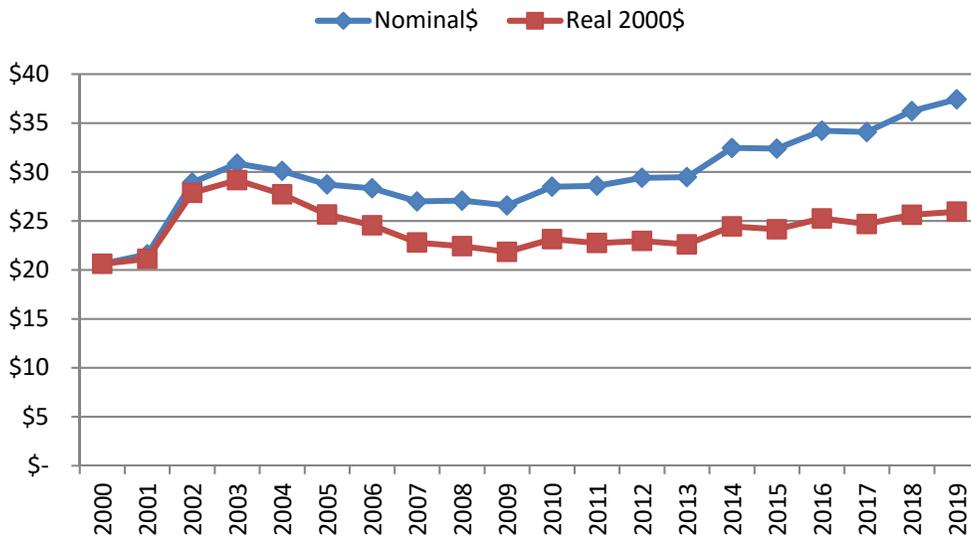
As shown in the following table, Bonneville's average PF Preference Rates have remained between \$20 per megawatt hour and \$37 per megawatt hour in nominal (actual) dollars, and between \$20 per megawatt hour and \$30 per megawatt hour in inflation-adjusted (real) dollars (2000), from Fiscal Year 2000 to Fiscal Year 2019. These estimates include average PF Preference Rates expressed on a dollar-per-megawatt-hour basis, exclusive of Slice rates. While most PF Preference Rates are established on a dollar-per-megawatt hour basis, Slice rates are set on the basis of dollars-per-percentage-point of Slice. The data also exclude PF Exchange Rates which are used in determining Residential Exchange benefits, and Tier 2 PF Rates, which Bonneville instituted in Fiscal Year 2012 to recover the cost of meeting certain incremental loads.

Bonneville's average PF Preference Rates increased substantially in Fiscal Year 2002 to recover from the effects of the West Coast energy crisis in 1999-2001. Since then, such rates have been stable, especially when viewed from an inflation-adjusted perspective, as shown in the following chart.

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### Historical Average PF Preference Rates

Nominal (Actual) and Real (Inflation-Adjusted) Average PF Preference Rate Levels, Per Megawatt Hour, Fiscal Years 2000—2019



#### *Recovery of Stranded Power Function Costs*

As a consequence of regulatory and economic changes in electric power markets, many utilities see potential for certain of their costs, in particular power system costs, to become unrecoverable or “stranded.” Stranded costs may arise where power customers are able, pursuant to open transmission access rules, to reach new sources of supply, leaving behind unamortized power system costs incurred on their behalf. Bonneville could also face this concern. While Bonneville has separate statutory authority requiring it to assure that its revenues are sufficient to recover all of its costs, additional authority may be required to assure that such costs, including Bonneville’s payments to the United States Treasury, are made on time and in full. Depending on the exact nature of wholesale and retail transmission access, it is possible that Bonneville’s power marketing function may not be able to recover all of its costs in the event that Bonneville’s cost of power exceeds market prices. Nonetheless, Bonneville cannot predict with certainty its cost of power or market prices.

FERC’s 1996 order, “Order 888,” to promote competition in wholesale power markets, established standards that a public utility under the Federal Power Act (“FPA”) must satisfy to recover stranded wholesale power costs. The standards contain limitations and restrictions, which, if applied to Bonneville, could affect Bonneville’s ability to recover stranded costs in certain circumstances. However, Bonneville’s General Counsel interprets FERC Order 888 as not addressing stranded cost recovery by Bonneville under either the Northwest Power Act or sections 211 and 212 of the FPA. For a discussion of Order 888 and sections 211 and 212 of the FPA, as amended by Energy Policy Act of 1992 (“EPA-1992”), see “TRANSMISSION SERVICES—FERC and Non-discriminatory Transmission Access and the Separation of Power Services and Transmission Services.”

Bonneville’s rates for any FERC-ordered transmission service pursuant to sections 211 and 212 of the FPA are governed only by Bonneville’s applicable law, except that no such rate shall be unjust, unreasonable, or unduly discriminatory or preferential, as determined by FERC. In the opinion of Bonneville’s General Counsel, provisions of the Northwest Power Act directing Bonneville to recover its total cost would be applicable to any stranded cost to be recovered by Bonneville were Bonneville ordered by FERC to provide transmission under FPA sections 211 and 212.

Shortly after the issuance of Order 888-A, Bonneville requested clarification of the application of FERC’s stranded cost rule to Bonneville in the context of an order for transmission service under sections 211 and 212. In FERC Order 888-A, modifying original FERC Order 888, FERC addressed Bonneville’s request by stating: “We clarify that our

review of stranded cost recovery by [Bonneville] would take into account the statutory requirements of the Northwest Power Act and the other authorities under which we regulate [Bonneville] . . . and/or section 212(i), as appropriate.” Therefore, it remains unclear how FERC would intend to balance Bonneville’s Northwest Power Act cost recovery standards with the stranded cost rule as enunciated in FERC Order 888 in the context of FERC ordered transmission service pursuant to sections 211 and 212. Contrary to the opinion of Bonneville’s General Counsel, several of Bonneville’s transmission customers have taken the position that transmission rates may not be set to recover stranded power costs as Bonneville envisions under the Northwest Power Act.

Under the Energy Policy Act of 2005 (“EPA-2005”), FERC was granted authority to require that the rates for transmission service that Bonneville provides to itself be comparable to the rates it charges others. The foregoing provisions in EPA-2005 do not amend Bonneville’s existing statutory provisions under the Northwest Power Act but must be balanced with them. In the opinion of Bonneville’s General Counsel, provisions of the Northwest Power Act directing Bonneville to recover its total cost would be applicable to any stranded cost to be recovered by Bonneville, notwithstanding the enactment of EPA-2005. See “MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Energy Policy Act of 2005.”

## **TRANSMISSION SERVICES**

Bonneville provides a number of different types of transmission services to Preference Customers, Regional IOUs, DSIs, other privately and publicly owned utilities, power marketers, power generators, and others. Transmission Services earned approximately \$942 million in revenues from the sale of transmission and related services, or approximately 26 percent of Bonneville’s total revenues from external customers (and excluding revenues otherwise arising from inter-functional transactions between Bonneville’s Transmission Services and Power Services) in Fiscal Year 2019.

Bonneville’s Transmission Services provides transmission service under its Open Access Transmission Tariff (“Tariff”). Two transmission services are offered under the Tariff: Point-to-Point and Network Integration. These services are available to all customers regardless of whether they are transmitting federal power (in effect, power from the Federal System) or non-federal power. Network Integration service is used by many Preference Customers, (as well as others), for delivery of federal and non-federal power to their loads. Point-to-Point service is typically taken by power marketers, independent power producers, and certain large utility customers. Finally, Bonneville, as a partial owner of the northern portions of the Southern Intertie and southern portion of certain transmission lines connecting areas of western Canada with the Region, provides Point-to-Point service to power marketers, including Bonneville’s Power Services, which use Bonneville transmission service to support power sales and related transactions inside and outside the Region. Bonneville’s Transmission Services also provides reservation-based service under “legacy contracts”; that is, those that were in effect when Bonneville adopted open access in the mid-1990s. As these contracts expire, the service converts to Tariff services.

It is difficult to generalize as to a Preference Customer’s cost of Network Integration service needed to effect various power transactions because the charge is based on actual usage and thus can vary from month to month and customer to customer. Nonetheless, a useful point of reference for the proportion that power rates bear to transmission and ancillary services rates may be the cost borne by certain Preference Customers that purchase Full Requirements power from Bonneville. For example, in the current rate period (Fiscal Years 2020-2021), a large Preference Customer that purchases very little transmission for its own generating resources pays Bonneville approximately \$4.41 per megawatt hour for transmission service and approximately \$35.62 per megawatt hour for electric power.

### **Bonneville’s Federal Transmission System**

The Federal System includes the Federal Transmission System, which is operated and maintained by Bonneville and owned or leased by Bonneville, as well as the Federal System Hydroelectric Projects, and certain non-federal power resources. The Federal Transmission System is composed of approximately 15,000 circuit miles of high voltage transmission lines, and approximately 261 substations and other transmission facilities that are located in Washington, Oregon, Idaho, and portions of Montana, Wyoming, and northern California. The Federal Transmission System includes a main-grid network for service within the Pacific Northwest, and approximately 80 percent of the northern portion (north of California and Nevada) of the combined Southern Intertie, the primary bulk transmission link between the Pacific Northwest and the Pacific Southwest. The Southern Intertie consists of three high voltage

Alternating Current (“AC”) transmission lines and one Direct Current (“DC”) transmission line and associated facilities that interconnect the electric systems of the two regions. The rated transfer capability of the Southern Intertie AC in the north to south direction is 4,800 megawatts of capacity, and in the south to north direction is 3,675 megawatts of capacity. The rated transfer capability of the DC line in the south to north direction is 3,100 megawatts, and in the north to south direction is 3,220 megawatts.

The Federal Transmission System is used to deliver federal and non-federal power between resources and loads within the network, and to import and export power from and to adjacent regions. Bonneville’s Transmission Services provides transmission services and transmission reliability (ancillary) services to many customers. These customers include Bonneville’s Power Services; entities that buy and sell non-federal power in the Region such as Regional IOUs, Preference Customers, extra Regional IOUs, independent power producers, aggregators, and power marketers; in-Region purchasers of Federal System power such as Preference Customers and DSIs; generators, power marketers, and utilities that seek to transmit power into, out of, or through the Region.

Bonneville constructed the Federal Transmission System and is responsible for its operation, maintenance, and expansion to maintain electrical stability and reliability. As a matter of policy, Bonneville’s transmission planning and operation decisions are guided by internal, Regional, and national reliability practices. See “MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Energy Policy Act of 2005” for a discussion of statutory provisions relating to reliability. Bonneville continually monitors the system and evaluates cost-effective reinforcements needed to maintain electrical stability and reliability of the system on a long-term planning basis. A number of conditions, actions, and events could affect the operating transfer capability and diminish the capacity of the system. For example, operating conditions such as weather, system outages, and changes in generation and load patterns may reduce the reliability transfer capability of the transmission system in some locations and limit the capacity of the system to meet the needs of the system’s users, including Bonneville’s Power Services. To assure that the system is adequate to meet transmission needs, Transmission Services evaluates system performance to determine whether or not to make transmission infrastructure investments.

Bonneville focuses its transmission infrastructure efforts on transmission projects, such as the Project, needed to maintain reliability and new transmission projects that will provide additional, long-term firm transmission service for entities seeking new transmission service in the Region. In recent years, many of the requests for new transmission service have been submitted by customers developing new power generation projects, primarily wind generation, both inside and outside the Region. As reflected in the 2020-2021 Final Rate Proposal, Bonneville expects to make transmission system investments in Fiscal Years 2020 through 2029 averaging approximately \$479 million annually. See “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Capital Program” and “—Bonneville’s Non-Federal Debt.”

If a customer requests to interconnect a new power generation project to the Federal Transmission System and Bonneville determines that additional facilities need to be constructed to accommodate the request, Bonneville may seek advance funding of its transmission costs for the necessary investments from the customer seeking the interconnection. If the necessary facilities are integrated into Bonneville’s network, Bonneville returns to the customer the amounts it advanced for construction of the new facilities (plus interest earned on outstanding balances) in the form of (i) credits against the customer’s monthly bills for firm transmission service, or (ii) in some cases, cash payments to the generator or its assigns. The transmission service credit offsets for amounts advanced to Bonneville for new transmission integration investments were \$15 million in Fiscal Year 2019. Bonneville estimates that the transmission service credit offsets for amounts advanced to Bonneville for new transmission integration investments will be \$17 million in Fiscal Year 2020 and approximately \$18 million in Fiscal Year 2021.

Where applicable and in a manner consistent with Bonneville’s Tariff, Bonneville may apply the “or” test to recover new transmission facility costs. Under the “or” test, Bonneville compares the “incremental cost” rate for transmission service to Bonneville’s embedded cost rate, and charges the requesting customer the higher of the two rates. The application of the “or” test generally protects all other customers from costs they would otherwise bear due to the integration costs of the new facilities.

Bonneville studies and upgrades the Federal Transmission System to meet the Region’s emerging commercial needs for expanded transmission service under its Tariff. For Network Integration service requests, Bonneville generally employs a cluster approach wherein it aggregates pending requests for transmission service in order to study and

otherwise evaluate the new transmission facilities that it would have to construct to provide that service. Bonneville employs this process to help ensure that it would accurately identify plans of service for serving new requests, recover the costs of any new transmission facilities that are constructed, and avoid stranded transmission investments. Bonneville is reviewing its expansion process and may implement changes to enhance the process in the future.

Bonneville's transmission system investment plan is subject to change. Bonneville is unable to predict the cost of new investments for the integration of new generation or to meet customers' new transmission service requests, the amount of transmission that customers will actually commit to, or the extent to which Bonneville will fund such investments through customer advances of funds, borrowing from the United States Treasury, or Non-Federal Debt, such as lease-purchases. For a discussion of the applicability of FERC's cost allocation methodology under Order 1000 (as hereinafter defined), see “—Bonneville's Participation in Regional Transmission Planning.”

### **Federal Transmission System Management for Fire Hazard**

Operating the Federal Transmission System poses various risks, including the risk of fire hazard that could result in widespread electric power outages, property damage, personal injury, or death. Bonneville has implemented and employs an integrated vegetation management program that is compliant with the North American Electric Reliability Corporation Standard FAC-003 to help ensure that its transmission lines remain free and clear of brush and trees and that trees and vegetation are a safe clearance distance so that vegetation will not come into contact with Bonneville's transmission lines under any operating conditions. Bonneville performs regularly scheduled maintenance to help ensure the proper height and clearance condition through the use of helicopter patrols with light detection and ranging (“LIDAR”) technology to measure the distance between transmission lines and vegetation and through foot patrol by transmission line maintenance crews. Bonneville's vegetation management program and related controls are reviewed by WECC every three years to ensure compliance with North American Electric Reliability Corporation Standard FAC-003. The most recent audit of Bonneville's vegetation management program by WECC that was completed in July 2019 found no violations of the standard. Bonneville is recognized as a right-of-way steward utility by the Right-of-Way Stewardship Council, which is an accreditation program that establishes standards for responsible right-of-way vegetation management and promotes best practices for maintaining power system reliability and addressing ecological concerns. See “MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Limitations on Suits against Bonneville.”

### **FERC and Non-discriminatory Transmission Access and the Separation of Power Services and Transmission Services**

In general, the thrust of regulatory changes in the 1990s, both by Congress and FERC, has been to require transmission owners to provide open transmission access to their transmission systems on terms that do not discriminate in favor of the transmission owner's own power marketing function. EPA-1992 amended sections 211 and 212 of the FPA to authorize FERC to order a “transmitting utility” to provide access to its transmission system at rates and upon terms and conditions that are just and reasonable, and not unduly discriminatory or preferential.

While Bonneville is not generally subject to the FPA, Bonneville is a “transmitting utility” under EPA-1992. Therefore, FERC may order Bonneville to provide others with transmission access over the Federal Transmission System facilities and set the terms and conditions for such FERC-ordered transmission service. However, the transmission rates for FERC-ordered transmission under EPA-1992 are governed only by Bonneville's other applicable laws, except that no such rate shall be unjust, unreasonable, or unduly discriminatory or preferential, as determined by FERC. Based on the legislative history of the provisions of EPA-1992 applicable to Bonneville, Bonneville's General Counsel is of the opinion that Bonneville's rates for FERC-ordered transmission services under sections 211 and 212 are to be established by Bonneville, rather than by FERC, and are reviewed by FERC through the same process and using the same statutory requirements of the Northwest Power Act as are otherwise applicable to Bonneville's transmission rates. In addition, with respect to Bonneville's ability to recover its transmission costs through its transmission rates, it is the opinion of Bonneville's General Counsel that the EPA-2005 provisions relating to Bonneville's transmission rates would not adversely affect Bonneville's authority and obligation to recover in full the costs of providing transmission service through its transmission rates. See “MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Energy Policy Act of 2005.”

In 1996, FERC issued Order 888 to promote competition in wholesale power markets. Among other things, Order 888 established a *pro forma* tariff providing the terms and conditions for non-discriminatory open access transmission service, and required all public utilities (the utilities subject to FERC regulation, which does not include government entities such as Bonneville) to adopt the tariff. Order 888 also included a reciprocity provision under which jurisdictional utilities must grant open access transmission services to non-jurisdictional (i.e., unregulated) utilities if the non-jurisdictional utility offers open access in return, either through bilateral contracts or by (i) submitting to FERC for its approval an open access transmission tariff that substantially conforms or is superior to the *pro forma* tariff, and (ii) adopting transmission rates for third parties that are comparable to the rates the non-jurisdictional utility applies to itself. FERC issued “Order 890” in February 2007, which further supported Order 888’s aims, emphasizing increased transmission access and transparency and promotion of transmission utilization. Bonneville is a non-jurisdictional utility.

EPA-2005 authorizes FERC to require an “unregulated transmitting utility” (a term that includes Bonneville), to provide transmission services to others (i) at rates that are comparable to those that the utility charges itself, and (ii) on terms and conditions that are comparable to those the utility offers itself and that are not unduly discriminatory or preferential. See “MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Energy Policy Act of 2005.”

Because Bonneville is a non-jurisdictional utility, FERC Orders 888 and 890 have limited applicability to it. However, since 1996, Bonneville has maintained terms and conditions for a non-discriminatory open access transmission tariff that is modeled after FERC’s *pro forma* tariff. Bonneville voluntarily filed its tariff with FERC to obtain reciprocity status, however, in 2008, FERC declined to grant such status. In 2018, Bonneville and its long-term transmission customers reached a comprehensive settlement agreement regarding the open access transmission tariff. Pursuant to the settlement, Bonneville proposed that the Administrator adopt the agreed upon tariff terms and conditions (which are still modeled after FERC’s *pro forma* tariff) during a proceeding initiated pursuant to the procedures in Section 212(i)(2)(A) of the Federal Power Act. In addition, Bonneville agreed to make changes to the tariff in the future pursuant to these procedures. Section 212(i)(2)(A), added to the Federal Power Act by EPA-1992, provides the Administrator with the option to initiate a regional hearing that largely follows Bonneville’s rate case procedures (e.g., opportunities to present oral and written views on the record) to adopt transmission terms and conditions of general applicability (the Administrator may also use these procedures for FERC ordered transmission services under EPA-1992). The Section 212(i)(2)(A) procedures provide the Administrator the flexibility to establish an open access tariff without having to rely on FERC approval. On March 1, 2019, Bonneville issued a final record of decision regarding adoption of the settlement agreement. All new and existing transmission contracts are now covered under the new tariff as of October 1, 2019. Bonneville’s tariff includes certain features that seek to address Oversupply Management in times of high renewable energy generation and low energy loads. See “MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Renewable Generation Development and Integration into the Federal Transmission System.”

FERC issued “Order 889” in 1996 and “Order 717” in 2008. Each sets forth “standards of conduct” for jurisdictional transmission providers that have a power marketing affiliate or function. In general, these standards of conduct are intended to assure that wholesale power marketers that are affiliated with a transmission provider do not obtain unfair market advantage by having preferential access to information regarding the transmission provider’s transmission operations. Although Bonneville is a non-jurisdictional utility and is not subject to Orders 889 and 717, Bonneville voluntarily adheres to them. In the 1990s, Bonneville separated its transmission and power functions into separate business units. Bonneville continues to voluntarily adapt its operations to comply with FERC’s standards of conduct provisions. It currently operates in accordance with the standards of conduct set forth in Order 717.

### **General - Bonneville’s Transmission and Ancillary and Control Area Services Rates**

Under the Northwest Power Act, Bonneville’s transmission rates are set in accordance with sound business principles to recover the costs associated with the transmission of electric power over the Federal System transmission facilities, including amortization of the federal investment in the Federal Transmission System over a reasonable number of years, and other costs and expenses during the rate period. FERC approves and confirms Bonneville’s transmission rates after a finding that such rates recover Bonneville’s costs during the rate period, and are sufficient to make full and timely payments to the United States Treasury, and, as to transmission rates, equitably allocate the costs of the Federal Transmission System between federal and non-federal power utilizing the system.

Bonneville’s transmission rate schedules also include rates for a number of ancillary and control area services. Power Services provides generation inputs, a portion of the available capacity and energy from the Federal Columbia River Power System to enable Transmission Services to provide ancillary and control area services. Transmission Services, which purchases generation inputs from Power Services, sets ancillary and control area service rates that recover the generation inputs costs.

The 2020-2021 Final Rate Proposal for transmission rates reflects an average increase of approximately 3.6 percent over the prior rate levels. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Bonneville Power and Transmission Rates Developments.”

**Transmission Services’ Largest Customers**

The following table lists Transmission Services’ ten largest customers in terms of their percentage contribution to Transmission Services’ overall sales revenue in Fiscal Year 2019. The table also notes the type of entity for each customer.

**Transmission Services’ Ten Largest Customers By Sales<sup>(1)</sup>  
(Percentage of Transmission Services’ Sales Revenue in Fiscal Year 2019)**

<u>Customer Name (Class)</u>	<u>Approximate % of Sales</u>
Puget Sound Energy Inc. (IOU)	13%
PacifiCorp (IOU)	11%
Portland General Electric Company (IOU)	10%
Powerex Corp. (Power Marketer)	8%
Snohomish County PUD No. 1 (Preference)	5%
City of Seattle, City Light Dep’t. (Preference)	5%
Avangrid Renewables LLC (Wind Developer)	4%
Pacific Northwest Generating Cooperative (Preference)	3%
Clark Public Utilities (Preference)	2%
Cowlitz County PUD No. 1 (Preference)	2%

<sup>(1)</sup> Excludes inter-business line transactions between Power Services and Transmission Services. Transmission Services obtains electric power from Power Services to enable Transmission Services to provide transmission related products, particularly ancillary services.

**Bonneville’s Participation in Regional Transmission Planning**

Bonneville is currently a member of “ColumbiaGrid,” a regional transmission planning organization of eight Pacific Northwest utilities. ColumbiaGrid facilitates participation by its members in coordinated regional transmission planning but is not a Regional Transmission Organization (“RTO”) under FERC policies. As discussed below, Bonneville is transitioning its membership in ColumbiaGrid to “NorthernGrid,” which is a new regional transmission planning organization of thirteen Northwest utilities but is not an RTO under FERC policies.

Adding to its “Order 890” reforms, FERC provided transmission planning and cost allocation direction in its “Order 1000,” dated July 21, 2011, and subsequent orders. Order 1000 requires jurisdictional utilities to participate in certain regional transmission planning processes and in regional and interregional cost allocation methodologies for transmission projects. Cost allocation involves the mandatory (non-voluntary) contribution by utilities to the cost of the related transmission projects. Although Order 1000 does not apply to non-jurisdictional utilities such as Bonneville, FERC encourages non-jurisdictional utilities to comply by requiring compliance in order to obtain reciprocity and by indicating that it might exercise its authority under Federal Power Act section 211A to require such utilities to comply if they do not do so voluntarily.

Bonneville has supported Regional transmission planning and increased interregional coordination as demonstrated by its participation in ColumbiaGrid. Bonneville believes, however, that certain provisions of Order 1000, mainly its

mandatory cost allocation provisions, may conflict with Bonneville’s statutory obligations and authority with respect to the Federal Transmission System.

In response to certain filings by ColumbiaGrid members for compliance related to the Order 1000 requirements, FERC ruled that Bonneville and other Regional non-jurisdictional utilities (i) can participate in Regional planning with other Northwest utilities, (ii) in participating in Regional planning, can choose not to be subject to mandatory cost allocation provisions and could either accept or reject a cost allocation for other utilities’ proposed projects, and (iii) in participating in Regional planning on the basis of not being subject to mandatory cost allocation, would not be able to impose mandatory cost allocation of their proposed projects on other participating utilities. On May 12, 2016, FERC issued a final order regarding specifics related to implementation of Order 1000 for the ColumbiaGrid Region.

For more than ten years, Bonneville has participated in coordinated regional transmission planning through its membership in ColumbiaGrid and has evaluated its expected level of participation in ColumbiaGrid’s Order 1000 process as well as future involvement in the possible development of other regional planning organizations. Bonneville will not participate in ColumbiaGrid’s Order 1000 process, but will remain a member of ColumbiaGrid and fulfill its contractual planning and funding responsibilities through calendar year 2020.

Bonneville has worked successfully with other entities in the Northwest regarding the formation of “NorthernGrid,” a single organization to facilitate coordinated regional transmission planning. As with ColumbiaGrid, NorthernGrid is not an RTO under FERC policies. Bonneville recently became a member of NorthernGrid. As a member of NorthernGrid, Bonneville’s participation with respect to the Order 1000 requirements will be similar in nature to what exists today through its participation in ColumbiaGrid. That is, Bonneville will participate in coordinated regional planning without being subject to mandatory cost allocation, and it will not be able to impose mandatory cost allocation of its proposed projects on other participating utilities. Bonneville plans to propose amendments to its open access transmission tariff to reflect its participation in NorthernGrid as part of the next Terms and Conditions Tariff Proceeding, which is set to begin in Fall 2020.

## **MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES**

### **Bonneville Ratemaking and Rates**

#### *Bonneville Ratemaking Standards*

Bonneville is required to periodically review and, as needed, to revise rates for power sold and transmission services provided in order to produce revenues that recover Bonneville’s costs, including its payments to the United States Treasury. The Northwest Power Act contains numerous ratemaking directives and incorporates the provisions of other Bonneville organic statutes, including the Transmission System Act and the Flood Control Act of 1944. The Transmission System Act requires, among other things, that Bonneville establish its rates “with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,” while having regard to recovery of costs and repayment to the United States Treasury. Substantially the same requirements are set forth in the Flood Control Act.

#### *Bonneville Ratemaking Procedures*

The Northwest Power Act contains specific ratemaking procedures used to develop a full and complete record supporting a proposal for revised rates. The procedures include publication of the proposed rate(s), together with a statement of justification and reasons in support of such rate(s), in the Federal Register and a hearing before a hearing officer. The hearing provides an opportunity for parties to present material and to refute or rebut material submitted by Bonneville or other parties and also provides a reasonable opportunity for cross-examination, as permitted by the hearing officer. Upon the conclusion of the hearing, the hearing officer certifies a formal hearing record (including hearing transcripts, exhibits, and such other materials and information as have been submitted during the hearing) to the Bonneville Administrator. This record provides the basis for the Administrator’s final decision, which must include a full and complete justification in support of the proposed rate(s).

### *Federal Energy Regulatory Commission Review of Rates Established by Bonneville*

Rates established by Bonneville under the Northwest Power Act may become effective only upon confirmation and approval by FERC, although FERC may grant interim approval of Bonneville's proposed rates pending FERC's final confirmation and approval.

Under the Northwest Power Act, FERC's review of Bonneville's power and transmission rates involves three standards. These standards require FERC to confirm and approve the rates based on findings that such rates: (i) are sufficient to assure repayment of the federal investment in the Federal System over a reasonable number of years after first meeting Bonneville's other costs; (ii) are based on Bonneville's total system costs; and (iii) insofar as transmission rates are concerned, equitably allocate the costs of the Federal Transmission System between federal and non-federal power utilizing such system. FERC does not, however, review Bonneville's rate design or cost allocation for purposes other than equitable allocation of transmission costs.

FERC may either confirm or reject a rate proposed by Bonneville. FERC lacks the authority to establish a rate in lieu of a proposed rate that FERC finds does not meet the applicable standards. In the opinion of Bonneville's General Counsel, if FERC were to reject a proposed Bonneville rate, FERC would be limited to remanding the proposed rate to Bonneville for further proceedings as Bonneville deems appropriate. On remand, Bonneville would reformulate the proposed rate to comply with the FERC order. If FERC has previously given the rate interim approval, Bonneville may be required to refund the difference between the interim rate charged and any final FERC-approved rate. However, Bonneville is required by law to set rates to meet all its costs; thus, it is the opinion of Bonneville's General Counsel that Bonneville may be required to increase its rates to seek to recover the amount of any such refunds, if needed.

For a discussion of FERC's rate review and regulation related to transmission access and rates, see "TRANSMISSION SERVICES—FERC and Non-discriminatory Transmission Access and the Separation of Power Services and Transmission Services," and "—Energy Policy Act of 2005."

### *Judicial Review of Federal Energy Regulatory Commission Final Decisions*

FERC's final approval of a proposed Bonneville rate under the Northwest Power Act is a final action subject to direct, exclusive review by the Ninth Circuit Court, if challenged. Suits challenging final actions must be filed within 90 days of the time such action is deemed final. The record upon review by the court is limited to the administrative record compiled in accordance with the Northwest Power Act.

Unlike FERC, the court reviews all of Bonneville's ratemaking for conformance with all Northwest Power Act standards, including those ratemaking standards incorporated by reference in the Northwest Power Act. In the opinion of Bonneville's General Counsel, the court lacks the authority to establish a Bonneville rate. Upon review, the court may either affirm or remand a rate to FERC or Bonneville, as appropriate. On remand, Bonneville would reformulate the remanded rate. Bonneville's flexibility in establishing rates could be restricted by the rejection of a Bonneville rate, depending on the grounds for the rejection. Bonneville may be subject to refund obligations if the reformulated rate were lower than the remanded rate. However, Bonneville is required by law to set rates to meet all its costs; thus, it is the opinion of Bonneville's General Counsel that Bonneville may be required to increase its rates to seek to recover the amount of any such refunds, if needed.

### *Power Customer Classes*

The Northwest Power Act, as well as other Bonneville organic statutes, provides for the sale of power: (i) to Preference Customers, regional federal agencies, and investor owned utilities; (ii) to DSIs; and (iii) for those portions of loads which qualify as "residential," to investor-owned and public utilities participating in the Residential Exchange Program. See "POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Residential Exchange Program." The rates for firm power sold to these respective customer classes are based on allocation of the costs of the various resources available to Bonneville, consistent with the various statutory directives contained in Bonneville's organic statutes.

## *Surplus Energy*

Bonneville is authorized to sell power that is surplus to meeting Bonneville's regional firm power sales obligation and seasonal surplus power both within and outside the Pacific Northwest. Many of these sales are to purchasers outside the region, primarily to California under short-term power sales that allow for flexible prices, or under long-term contract rates.

### **Limitations on Suits against Bonneville**

Suits challenging Bonneville's actions or inaction may only be brought pursuant to certain federal statutes that waive sovereign immunity. These statutes limit the types of actions, remedies available, procedures to be followed, and the proper forum. In the opinion of Bonneville's General Counsel, the exclusive remedy available for a breach of contract by Bonneville is a judgment for money damages. See "BONNEVILLE LITIGATION" for information regarding pending litigation seeking to compel or restrain action by Bonneville.

### **Laws Relating to Environmental Protection**

The United States Environmental Protection Agency ("EPA") will periodically identify Bonneville as one of multiple potentially responsible parties for costs associated with the investigation and remediation of "Superfund" sites pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). In addition, state environmental agencies within Bonneville's service territory may also identify Bonneville as liable for contamination on its own or other third-party sites.

Currently, there are two Superfund sites and two federal facilities where Bonneville has been or may be identified as a Potentially Responsible Party for some of the contamination. There are also three other sites where Bonneville has been identified as a responsible party for some of the contamination. Bonneville's liability and costs are uncertain and speculative because of ongoing investigations into the extent of the contamination and subsequent apportionment of liability among multiple potentially responsible parties. However, based upon Bonneville's experience with other remediation actions, the total cost associated with these seven sites is expected to be less than \$10 million.

### **Energy Policy Act of 2005**

EPA-2005 was enacted by Congress in July 2005. Among other things, EPA-2005 amended the FPA by including new provisions applicable to unregulated utilities' power and transmission marketing. Provisions in EPA-2005 that could have the greatest impact on Bonneville's operations include the following:

(i) EPA-2005 amends the FPA to authorize FERC to require an unregulated transmitting utility (a term that includes Bonneville) to provide transmission services at rates comparable to those the utility charges itself, and on terms and conditions that are comparable to those the utility offers itself and that are not unduly discriminatory or preferential. See "—Renewable Generation Development and Integration into the Federal Transmission System" for discussion of FERC exercising its authority under this provision in response to a complaint filed by certain customers against Bonneville.

(ii) EPA-2005 authorizes the Secretary of Energy or, upon designation by the Secretary, the administrator of a power marketing administration ("PMA") including Bonneville, to transfer control and use of the PMA's transmission system to certain defined entities, including an RTO, independent system operator, or any other transmission organization approved by FERC for operation of transmission facilities. The section further provides that the contract, agreement, or arrangement by which control and use is transferred must include provisions that ensure recovery of all of the costs and expenses of the PMA related to the transmission facilities subject to the transfer, consistency with existing contracts and third-party financing arrangements, and consistency with the statutory authorities, obligations, and limitations of the PMA. See "TRANSMISSION SERVICES—Bonneville's Participation in Regional Transmission Planning."

(iii) EPA-2005 grants FERC limited authority to order refunds in the case of certain energy sales by non-jurisdictional utilities such as Bonneville. The refund authority is limited to sales of 31 days or less made through an

organized market in which the rates for the sale are established by a FERC-approved tariff. The refund authority applies to Bonneville only if the rate for the sale by Bonneville is unjust and unreasonable and is higher than the highest just and reasonable rate charged by any other entity for a sale in the same geographic market for the same or most nearly comparable time period.

(iv) EPA-2005 authorizes FERC to certify and oversee an Electric Reliability Organization (“ERO”) that will be authorized to issue mandatory reliability standards that cover all users, owners, and operators of the bulk power system. The mandatory reliability standards apply to Bonneville, but EPA-2005 expressly states that neither the ERO nor FERC is authorized to order the construction of additional generation or transmission capacity or to set and enforce compliance with standards for adequacy or safety of electric facilities or services. Monetary penalties for violation of the standards may be assessed by the ERO and approved by FERC, or assessed by FERC itself. However, the United States Court of Appeals for the District of Columbia has ruled that neither the ERO nor FERC has jurisdiction to assess a monetary penalty against the United States, including Bonneville. Bonneville has received notices of alleged violations of certain mandatory reliability standards from WECC. WECC acts for the North American Electric Reliability Corporation (“NERC”), which is the ERO established by FERC. Bonneville is currently discussing the processing of these alleged violations with WECC.

### **Other Applicable Laws**

Many statutes, regulations, and policies are or may become applicable to Bonneville, several of which could affect Bonneville’s operations and finances. Bonneville cannot predict with certainty the ultimate effect such statutes, regulations or policies could have on its finances.

### **Columbia River Treaty**

Bonneville and the Corps have been designated by executive order to act as the “United States Entity,” which, in conjunction with a Canadian counterpart, the “Canadian Entity,” formulates and carries out operating arrangements necessary to implement the 1964 Columbia River Treaty (the “Treaty”). The United States and Canada entered into the Treaty to increase reservoir capacity in the Canadian reaches of the Columbia River basin for the purposes of power generation and flood control. Pursuant to the Treaty, Canada constructed the Mica, Arrow and Duncan hydroelectric projects in Canada to provide 15.5 MAF of storage that allows for regulation of streamflow, which in turn increases power production and provides flood risk management for both the United States and Canada.

For power production, regulation of streamflow by the Canadian reservoirs enables certain hydroelectric projects, some of which are part of the Federal System, that are located in the United States on or near the Columbia River to produce more usable energy than otherwise would occur in the absence of Canadian storage. This increase in usable energy is termed the “downstream power benefits.” The Treaty specifies that the downstream power benefits be shared equally between the two countries. Canada’s portion of the downstream power benefits is known as the “Canadian Entitlement.”

The Treaty specifies that the Canadian Entitlement be delivered to Canada at a point along the United States-Canada border near Oliver, British Columbia unless the United States Entity and the Canadian Entity agree to other arrangements. In the late 1990s, the United States Entity and Canadian Entity reached such an agreement through 2024, and as a result the United States Entity does not have to build a transmission line to assure delivery to the point referred to in the Treaty during the term of the agreement.

The United States Entity and Canadian Entity have previously consulted on terms for possible disposal of portions of the Canadian Entitlement in the United States. Direct disposal of the Canadian Entitlement in the United States was authorized through 2024 by the executive branches of the United States and Canadian governments through an exchange of diplomatic notes, which occurred in 1999.

Under the Treaty, Canadian Storage operates to meet planned Regional firm loads during low water conditions providing additional water downstream for hydro-generation to help meet the loads of Bonneville and certain other Regional utilities. This Treaty operation is incorporated into Bonneville’s estimate of the firm power of the Federal

System under Low Water Flows/Critical Water. See “POWER SERVICES—Description of the Generation Resources of the Federal System.”

For flood risk management, the storage in Canada is generally drafted through the fall and winter to create storage space and refilled during the spring/summer runoff to manage floods. The Treaty provides for assured flood risk management operations in Canadian reservoirs until September 2024 to reduce flood impacts to communities in both Canada and the United States. In September 2024, the Treaty shifts to certain modified procedures for flood risk management operations. The Entities and their governments will be discussing how to coordinate and implement this change.

The Treaty has no expiration date and thus could continue indefinitely. The Treaty does, however, allow either the United States or Canada to elect to terminate the Treaty (except for primarily its flood risk management provisions) at any time after September 2024, but only if at least ten years’ written notice has been provided. No such notice has been issued by either country.

On December 13, 2013, the United States Entity sent a final Regional Recommendation concerning the post-2024 future of the Treaty to the United States Department of State. In general, the Regional Recommendation proposes to modernize the Treaty to more fairly reflect the distribution of operational benefits between the United States and Canada; to ensure that flood risk management, an economical and reliable power supply, and other key river uses are preserved; and to address key ecosystem functions in a way that complements the significant investments made to protect fish and wildlife over the past three decades. The final recommendation submits that the Pacific Northwest Region and the United States would benefit from modernization of the Treaty post-2024.

In 2015, the United States government concluded a federal interagency review on the question of the post-2024 future of the Treaty. This review was conducted under the general direction of the National Security Council on behalf of the President of the United States and was coordinated and overseen by the Department of State. The United States Department of State then named a lead negotiator and began working with the United States Entity and other federal agencies toward completing the official authorization which would allow the United States government to negotiate with Canada. In late 2016, the United States Department of State approved this negotiation authorization. The United States and Canada began negotiations to modernize the Columbia River Treaty regime in May 2018. The ninth round of negotiations was held in March 2020.

### **Proposals for Legislation and Administrative Action Relating to Bonneville**

Congress from time to time considers legislative changes that could affect electric power markets generally and Bonneville specifically. For example, several bills have proposed, among other things, granting buyers and sellers of power access to Bonneville’s transmission under a form of regulatory oversight comparable to that currently applicable to privately-owned transmission and subjecting Bonneville’s transmission operations and assets to FERC regulation. Under this type of regulation, in general, a transmission owner may not use its transmission system to recover costs of its power function. This type of regulation would be at odds with Bonneville’s General Counsel’s legal opinion of Bonneville’s current transmission rate authority under which Bonneville would, if necessary, be required to use transmission rates to recover its power function costs. Other proposals advanced in or submitted to Congress have included privatizing all or part of the federal power marketing agencies, including Bonneville, privatizing new and replacement capital facilities at federal hydroelectric projects, studying the removal of certain federally-owned dams of the Federal System, placing caps on Bonneville’s authority to incur certain types of capitalized costs, requiring that Bonneville sell its power at auctioned market prices rather than under cost-based rates, and limiting Bonneville’s ability to incur new Non-Federal Debt.

President Trump’s Fiscal Year 2021 Budget Request, submitted to Congress on February 10, 2020, included proposals to “sell the transmission assets owned and operated by the Power Marketing Administrations (PMAs), including those of the Southwestern Power Administration, Western Area Power Administration, and Bonneville Power Administration” and “to authorize the PMAs to charge rates comparable to those charged by for-profit, investor-owned utilities, rather than being limited to cost-based rates, for electricity.” Bonneville is unable to predict whether similar proposals or any other proposal with respect to Bonneville will be included in future President’s Budget Requests to Congress or the effects any such proposal would have on Bonneville or its Non-Federal Debt if enacted into law.

## **Federal Debt Ceiling**

In order to fund its general operations, the United States relies on current receipts and the proceeds of debt obligations issued by the United States Treasury. In the past, the United States has narrowly avoided a situation where it would be unable to fund all of its operations because it reached the Congressionally-established debt ceiling. A future failure to raise the United States Treasury debt ceiling could result in default by the United States and have adverse implications on all funds held by the United States Treasury, including the Bonneville Fund. It is possible that actions taken or not taken by the United States Treasury or others at such times could materially affect Bonneville's operations and financial condition, including, among other things, restricting Bonneville's ability to borrow either short- or long-term from the United States Treasury and Bonneville's access to the Bonneville Fund to meet its cash payment obligations, including lease rental payments under the Lease-Purchase Agreement. The "Bipartisan Budget Act of 2019," enacted August 2, 2019, suspended the United States Treasury debt ceiling through July 31, 2021.

## **Government Shutdown and Effects on Bonneville**

From time to time, including during Fiscal Year 2019, Congress has failed to timely enact federal budget legislation which has resulted in the shutdown of many of the Federal government's operations. Bonneville's funding and the operation of the Federal System are not affected by the lack of enactment of federal budget legislation.

## **Direction or Guidance from other Federal Agencies**

Bonneville is part of the federal government. It is subject to direction or guidance in a number of respects from the OMB, DOE, FERC, the United States Treasury and other federal agencies. Bonneville is frequently the subject of, or would otherwise be affected by, various executive and administrative proposals. Bonneville is unable to predict the content of future proposals; however, it is possible that such proposals could materially affect Bonneville's operations and financial condition.

## **Climate Change**

Federal, regional, state, and international initiatives have been proposed or adopted to address global climate change by controlling or monitoring greenhouse gas emissions, by encouraging renewable energy development, and by implementing other measures. Bonneville cannot predict whether or when new laws and regulations or proposed initiatives would take effect in a manner that would affect Bonneville, and, if so, how they would affect Bonneville.

On June 19, 2019, the EPA established a rule (the "Affordable Clean Energy" or "ACE" rule) that would work to reduce carbon emissions by: (i) defining the "best system of emission reduction" for existing power plants as on-site, heat rate-rate efficiency improvements, (ii) providing states with a list of "candidate technologies" that can be used to establish standards of performance and be incorporated into state plans, (iii) incentivizing efficiency improvements at existing power plants, and (iv) giving states time and flexibility to develop their state plans. The ACE rule (and EPA's repeal of the prior Clean Power Plan rule established under section 111(d) of the Federal Clean Air Act) is being challenged in the United States Court of Appeals for the District of Columbia Circuit. Petitioners include a coalition of 31 states and municipalities, public health and environmental groups, and a group of nine large electric utilities. These petitions have been consolidated and the court is reviewing a briefing schedule.

In addition to the Affordable Clean Energy rule, certain states have initiated regulatory actions designed to regulate greenhouse gas emissions in the electricity industry. For instance, the State of California initiated a cap and trade platform that became active in 2013. Bonneville sells substantial amounts of surplus electric power to parties within the State of California. The State of Washington passed the Clean Energy Transformation Act ("CETA") in 2019. CETA requires retail utilities in the State of Washington to eliminate the cost of coal plants from their rates by 2025, to become carbon neutral by 2030, and to become carbon free by 2045.

Bonneville believes that direct effects on Bonneville of initiatives to reduce carbon emissions will or would be limited because the Federal System's generating projects are not carbon-emitting generators: the Federal System's resources are either hydro- or nuclear-based generation, with a small amount of wind-based purchases. Given the predominance of non-carbon-emitting generation in the Federal System, to the extent that global climate change initiatives impose

controls or costs on carbon-emitting generation, it is unlikely that they will or would directly affect the cost of the output of the Federal System. In addition, Bonneville believes that it is likely that carbon-limiting actions will or would have the effect of increasing prices for electric power generally so the aggregate relative economic value of Bonneville's electric power probably would not decline as a result of such actions, all else being equal. Finally, there may also be pressure to retire certain high carbon intensity resources early, particularly coal-fired generation. Given the resource profile of the Federal System, it is unlikely that the resources that produce power marketed by Bonneville will be closed early as a result of climate change policy.

In addition, Bonneville believes that carbon limiting proposals could result in more renewable resource development, with accompanying generation integration issues similar to those that Bonneville has seen in the integration of wind generation. To the extent that new regulations and incentives for non-carbon based generation increase the development of new generation facilities, Bonneville could face increased costs for integrating such facilities into the Federal Transmission System. However, Bonneville would be required by law to recover the costs in transmission and related rates. See “—Renewable Generation Development and Integration into the Federal Transmission System.”

The physical effects of climate change could affect the generation capability of the Federal System to meet loads. Given the Federal System's reliance on precipitation and snow pack, climate change could affect the amount, timing, and availability of hydroelectric generation. In addition, climate change could affect load patterns if space-heating and -cooling demands change, and if heat waves become more frequent and severe. Climate change may also affect the timing and type of seasonal precipitation, which may affect how the Federal System is operated. Finally, changes in climate could adversely affect fish and wildlife populations affected by the Federal System, possibly resulting in additional costs. See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Fish and Wildlife—The Endangered Species Act.”

### **Preparedness and Cyber Security**

Two areas of increased attention in the electric power industry are managing risks to assure operational continuity and to assure cyber security. In addition to normal storm and wildfire response procedures to maintain the integrity of the Federal Transmission System, Bonneville has a Continuity of Operations program that has coordinated the development of plans, systems and facilities to continue to operate through, or quickly recover from, a major disruption such as a Regional earthquake. In October 2014, Bonneville completed modifications to a redundant system control center (to incorporate an adjoining emergency scheduling center) that is geographically separated from the existing control center, one east and one west of the Cascade Mountains, in areas not subject to the same vulnerabilities. In a major disruptive event, either control center will be capable of managing transmission capacity and power sales as well as coordinating power generation operations.

New technical cyber vulnerabilities are discovered in the United States daily. In addition, cyber attacks have become more sophisticated and increasingly are capable of impacting industrial control systems and components. To face these and other challenges of cyber security, Bonneville has taken several key steps and has expanded its cyber security capabilities. Bonneville has added permanent, full-time staff to its Office of Cyber Security with certified and trained professionals organized into cyber security teams to perform offensive cyber security research and penetration testing, to gather and analyze intelligence threat information to stay abreast of new vulnerabilities, and to assess exposure and respond accordingly to mitigate threats and share information. Bonneville has also developed alliances within the federal government to deploy intelligent devices to monitor external threats from the Internet, and implemented a Cyber Security Operations and Analysis Center to improve Bonneville's capability and situational awareness.

Bonneville continues to enhance its operational security through the implementation and monitoring of a prioritization of real time cyber security controls in pursuit of anomalous activity and offensive cyber security research on operational technology. Bonneville believes that these changes will help it face the challenge of increasing use of digital devices and increasing threats.

### **Renewable Generation Development and Integration into the Federal Transmission System**

Bonneville is responsible for integrating most of the new generation projects that are located in the Region, and for transmitting electric power into or through the Region. Integrating new resources has required and may continue to require transmission facility investments, such as new transmission lines and substations or improvements to existing

facilities, in order to transmit the additional electric power. Much of the recent power generation development in the Region has been from wind projects. Bonneville estimates that 5,288 megawatts of wind generation facilities are now interconnected to the Federal Transmission System and approximately 2,764 megawatts are currently in Bonneville's balancing authority area.

From a power marketing perspective, the development of large amounts of wind generation in the Pacific Northwest has also affected power market prices and the revenue Bonneville obtains for its surplus power sales, in particular sale of seasonal surplus (secondary) energy. It has also resulted in Power Services providing significant generation capacity and energy needed to provide ancillary services needed for wind energy integration, namely generation imbalance services. Wind energy is intermittent and variable, and does not always generate energy as expected. In order to ensure the expected energy is available, other generating resources must stand ready to increase and decrease generation in short order to ensure expected energy amounts are delivered to load.

Integrating renewable resources, particularly wind resources, can pose other operational challenges for the Federal System. For instance, in spring and summer months high river flows can lead to situations in which turbines at certain Federal System dams must generate electric power to protect fish populations from the harmful effects of excessive gas levels in the river. Running water through the dams' turbines rather than over the dams' spillways reduces gas formation but it unavoidably generates electric power that must be used (taken to load). This can create an oversupply of generation, which, if uncorrected would lead to power system instability. Oversupply can be resolved operationally by the substitution ("displacement") of non-federal generation (including wind generation) with Federal System hydropower.

A central feature of Bonneville's management of oversupply to protect fish is to displace wind generation at times when (i) aggregate electric generation exceeds electric system demand, (ii) increased hydroelectric generation is necessary to keep dissolved gas concentrations within acceptable limits, and (iii) displacement of non-federal generation with low-cost or free Federal System hydroelectric power is inadequate to mitigate excess gas levels. Bonneville has also established special tariff provisions, which have been approved by FERC, to compensate non-federal generators (primarily wind generators) for being displaced in oversupply events when free or low cost Federal power displacement is inadequate to induce sufficient displacement. Bonneville recovers the costs of oversupply compensation in its rates in accordance with power rate provisions that have also been approved by FERC.

Almost all of the new renewable generation in the Region in the last ten years has been in the form of wind generation. Bonneville now expects to see increasing solar power development. As with wind generation, solar power is subject to variability of generation so it presents transmission system integration challenges. However, solar output is easier to predict than wind generation; thus, Bonneville believes that integrating solar will be substantially less challenging. Bonneville expects that it will integrate into the Federal Transmission System approximately 100 annual average megawatts of solar resources in aggregate by the end of Fiscal Year 2021.

### **Western Energy Imbalance Market**

In July 2018, Bonneville initiated a public process to determine how and under what conditions it could join the Cal-ISO's Western Energy Imbalance Market ("EIM"). The EIM is a real-time bulk power trading market system that automatically finds the lowest-cost energy to serve real-time customer demand (resolving imbalances while maintaining reliability) across a wide geographic area. Utilities maintain control over their assets and remain responsible for balancing requirements while sharing in the costs and benefits that the market produces for participants. In September 2019, Bonneville issued a record of decision describing Bonneville's intent to join the EIM, subject to certain principles. Bonneville entered into an implementation agreement with the Cal-ISO and expects to sign subsequent agreements as Bonneville moves toward implementation in March 2022. In the next step of the stakeholder process, Bonneville will address a set of policy decisions that need to be made about how Bonneville plans to implement the EIM in its operations, transmission tariff and rates.

If Bonneville joins the EIM, its current estimate of start-up costs is approximately \$30 million to \$35 million. In addition, once operational, Bonneville's current estimate of annual costs to Power Services and Transmission Services to support the EIM effort is approximately \$7 million. The estimated net dispatch benefits to Bonneville of joining the EIM is approximately \$29 million to \$34 million per year.

## **BONNEVILLE FINANCIAL OPERATIONS**

### **The Bonneville Fund**

Prior to 1974, Congress annually appropriated funds for the payment of Bonneville's obligations, including working capital expenditures. Under the Transmission System Act, Congress created the Bonneville Fund, a continuing appropriation available to meet all of Bonneville's cash obligations.

All receipts, collections, and recoveries of Bonneville in cash from all sources are now deposited in the Bonneville Fund. These include revenues from the sale of power and other services, trust funds, proceeds from the sale of bonds by Bonneville to the United States Treasury, any appropriations by Congress for the Bonneville Fund, and any other Bonneville cash receipts.

Bonneville is authorized to make expenditures from the Bonneville Fund without further appropriation and without fiscal year limitation if such expenditures have been included in Bonneville's annual budget to Congress. However, Bonneville's expenditures from the Bonneville Fund are subject to such directives or limitations as may be included in an appropriations act. Bonneville's annual budgets are reviewed and may be changed by the DOE and subsequently by the United States Office of Management and Budget. The Office of Management and Budget, after providing opportunity for Bonneville to respond to proposed changes, includes Bonneville's budget in the President's budget submitted to Congress.

The existence of the Bonneville Fund also enables Bonneville to enter into contractual obligations requiring cash payments that exceed, at the time the obligation is created, the sum of the amount of cash in the Bonneville Fund and available borrowing authority. Pursuant to the Project Act and other law, Bonneville has broad authority to enter into contracts and make expenditures to accomplish its objectives.

No prior budget submittal, appropriation, or any prior Congressional action is required to create such obligations except in certain specified instances. These include construction of transmission facilities outside the Region, construction of major transmission facilities within the Region, construction of certain fish and wildlife facilities, condemnation of operating transmission facilities, and acquisition of certain major generating or conservation resources.

### **The Federal System Investment**

The total cost of the multipurpose Federal System Hydroelectric Projects that are part of the Federal System is allocated among the purposes served by the projects, which may include flood control, navigation, irrigation, municipal and industrial water supply, recreation, the protection, mitigation, and enhancement of fish and wildlife, and the generation of power. The costs allocated to power generation from the Corps and Reclamation projects as well as the cost of the transmission system prior to 1974 have been funded through appropriations. The capital costs of the transmission system since 1974 and certain capital conservation and fish and wildlife costs since 1980 have been funded in great part through the use of Bonneville's borrowing authority with the United States Treasury.

Bonneville is required by statute to establish rates that are sufficient to repay its Federal Appropriations Repayment Obligations within a reasonable period of years. The statutes, however, are not specific with regard to directives for the repayment of the Federal System investment, including what constitutes a reasonable period of years. Consequently, the details of the repayment policy have been established through administrative interpretation of the basic statutory requirements. The current administrative interpretation is embodied in the United States Secretary of Energy's directive RA 6120.2. The directive provides that Bonneville must establish rates that are sufficient to repay the federal investments within the average expected service life of the facility or 50 years, whichever is less. Bonneville develops a repayment schedule both to comply with investment due dates and to minimize costs over the repayment period. Costs are minimized, in accordance with the United States Secretary of Energy's directive RA 6120.2, by repaying the highest interest bearing investments first, to the extent possible. This method of determining the repayment schedule would result in some investments being repaid before their due dates, while assuring that all investments will be repaid by their due dates. As of September 30, 2019, Bonneville had repaid \$15.7 billion of principal of the Federal System investment and had approximately \$1.60 billion principal amount outstanding with

regard to such appropriated investments and \$5.28 billion principal amount outstanding in bonds issued by Bonneville to the United States Treasury. Congress has continued to, and is expected to continue to, appropriate amounts for certain fish and wildlife investments in the Federal System. See the discussion of the Columbia River Fish Mitigation in “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—The Endangered Species Act.”

Bonneville’s repayment obligations include the payment of “irrigation assistance,” which relates to appropriations provided to Reclamation to construct irrigation facilities associated with its Federal System projects. Bonneville’s irrigation assistance obligation is limited to an amount of appropriations that is deemed under Reclamation policy to be beyond the ability of irrigators to pay. Examples of appropriated irrigation investments include water pumps, reservoir facilities and canals within the authorizations for the Federal System Hydroelectric Projects owned by Reclamation. These repayment obligations do not incur interest. In keeping with the principle (as embodied in DOE Order RA 6120.2) of scheduling repayments on the basis of highest interest repayment obligations first, payments for irrigation assistance are typically scheduled for recovery in Bonneville power rates in the year in which the expected life of the related facility (as determined near the time of construction) is reached. Bonneville expects that these payments will range between \$4 million and \$24 million per year over the next ten years.

### **Internal Guidance Affecting Bonneville Financial Operations**

In January 2018, Bonneville published its updated Strategic Plan that identifies the prioritized set of actions Bonneville expects to take to improve Bonneville’s commercial performance and position it to adapt to a rapidly transforming energy industry. The Strategic Plan sets forth the following four strategic goals that Bonneville expects will be its central reference point over the next five years: (i) strengthen financial health; (ii) modernize assets and system operations; (iii) provide competitive power products and services; and (iv) meet transmission customer needs efficiently and responsively.

The supporting Financial Plan, published in February 2018, outlines the three financial health objectives that will guide Bonneville’s other strategies. The financial health objectives focus on (i) cost management discipline, (ii) financial resiliency, and (iii) independent financial health assessment and are designed to support Bonneville’s ability to deliver on its mission and meet its multiple statutory obligations under various conditions.

Since release of the plans, Bonneville has made progress towards each of its financial health objectives. At the end of Fiscal Year 2019, Bonneville’s Days Cash on Hand was 76 days, meeting the minimum threshold outlined in the Financial Plan. In Fiscal Years 2020 and 2021, Bonneville plans to exceed its strategic cost management goals. Bonneville’s internal costs included in the 2020-2021 Final Rate Proposal are \$143 million per year below the established financial health objective (aimed at holding the sum of program costs at or below the rate of inflation) and \$66 million per year below the prior rate period. Bonneville also refined its Financial Reserves Policy to include the Financial Reserves Policy Surcharge in addition to maintaining certain of the legacy Cost Recovery Adjustment Clause rate collection mechanisms. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Bonneville Power and Transmission Rates Developments.”

### **Bonneville’s Treasury Borrowing Authority**

Bonneville is authorized to issue and sell to the United States Treasury, and to have outstanding at any one time, up to \$7.7 billion aggregate principal amount of bonds. Of the \$7.7 billion in borrowing authority that Bonneville has with the United States Treasury, bonds in the principal amount of \$5.28 billion were outstanding as of the end of Fiscal Year 2019. To reduce overall interest expense, Bonneville delays borrowing from the United States Treasury until necessary from a cash flow perspective which increases the Deferred Borrowing (as hereinafter defined) balance. For more details related to Deferred Borrowing, see “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Use of Non-GAAP Financial Metrics.” If the full amount of Deferred Borrowing reported as part of Bonneville’s Total Financial Reserves had been borrowed at the end of Fiscal Year 2019, the total amount of bonds outstanding as of the end of Fiscal Year 2019 would have been \$5.86 billion. Under current law, none of this borrowing authority may be used to acquire electric power from a generating facility having a planned capability of more than 50 annual average megawatts. Of the \$7.7 billion in United States Treasury borrowing authority, \$1.25 billion is available for electric power conservation and renewable resources, including capital investment at the Federal System hydroelectric

facilities owned by the Corps and Reclamation, and \$6.45 billion is available for Bonneville's transmission capital program and to implement Bonneville's authorities under the Northwest Power Act.

The interest on Bonneville's outstanding bonds is set at rates comparable to rates on debt issued by other comparable federal government institutions at the time of issuance. As of the end of Fiscal Year 2019, the interest rates on the outstanding bonds ranged from 1.5 percent to 5.9 percent with a weighted average interest rate of approximately 3.2 percent. The original terms of the outstanding bonds vary from one to 30 years. As of the end of Fiscal Year 2019, Bonneville's outstanding bonds issued to the United States Treasury included \$1.68 billion in variable rate bonds at an average interest rate of 2.17 percent at such time. The term of the bonds is limited by the average expected service life or the maximum repayment period, whichever is shorter, of the associated investment: 35 years for transmission facilities, 50 years for Corps and Reclamation capital investments, up to 20 years for conservation investments, and 15 years for fish and wildlife projects. Bonds can be issued with call options.

### **Banking Relationship between the United States Treasury and Bonneville**

Effective April 30, 2008, Bonneville entered into an Obligation Purchase Memorandum of Understanding ("Obligation Purchase MOU") governing the terms by which Bonneville borrows from the United States Treasury. The banking arrangement enables Bonneville to borrow for long- and short-term capital needs and to borrow for operating expenses, an ability that Bonneville had lacked previously. Under the short-term expense borrowing arrangement, Bonneville may borrow and have outstanding at any one time up to \$750 million in aggregate. The short-term operating advances can be made available on as short as one day's notice and have a maximum repayment period of one year, although Bonneville may extend the maturities an additional year by exercising certain rights that would re-establish applicable interest rates. Nothing in the banking arrangement increases the statutory limit on the \$7.7 billion aggregate principal amount of debt that Bonneville may issue to the United States Treasury and have outstanding at any one time. In recent years, Bonneville has made draws on the short-term expense note but has repaid such draws prior to the end of the fiscal year in which the draws were made.

Coincident with the entry into the Obligation Purchase MOU, Bonneville and the United States Treasury entered into an Investment Memorandum of Understanding ("Investment MOU") that governs investments in the Bonneville Fund. Under the Investment MOU, Bonneville invests the applicable cash reserves in the Bonneville Fund in certain interest bearing securities ("market-based special securities") issued by the United States Treasury. In general, the market-based special securities bear interest by reference to the published yield curve for United States Treasury debt at the time of the investment.

The United States Treasury's ability to meet requests by Bonneville may be affected by a failure to raise the United States Treasury debt borrowing ceiling. See "MATTERS RELATING TO POWER SERVICES AND TRANSMISSION SERVICES—Federal Debt Ceiling."

### **Bonneville's Non-Federal Debt**

To meet its capital program, Bonneville has relied on the Congressionally-enacted authority to borrow from the United States Treasury; however, Bonneville has also entered into various arrangements to meet its capital program which involve debt issued by third parties, the repayment of which is secured by Bonneville financial commitments. Bonneville has also employed electric power prepayments as a funding source. Bonneville refers to these commitments as "Non-Federal Debt." As of September 30, 2019, aggregate Non-Federal Debt outstanding was approximately \$7.6 billion. By way of comparison, as of September 30, 2019, the principal amount of unrepaid appropriations for Federal System investments was approximately \$1.6 billion, and the outstanding principal amount of bonds issued by Bonneville to the United States Treasury was \$5.28 billion. Described below are the currently outstanding forms of Non-Federal Debt. For a description of possible Non-Federal Debt transactions in the near future, see "*Bonneville's Capital Program—Possible Non-Federal Debt Activities in the Near Future.*"

#### *Bonds for Energy Northwest's Net Billed Projects*

Bonds issued by Energy Northwest for its Net Billed Projects ("Net Billed Bonds") represent the largest single component of Non-Federal Debt: \$5.1 billion out of a total of \$7.6 billion aggregate Non-Federal Debt, as of

September 30, 2019. Bonneville works with Energy Northwest on debt management actions relating to Net Billed Bonds. See “CERTAIN DEVELOPMENTS AFFECTING BONNEVILLE—Regional Cooperation Debt and Related Actions.” As described in this section, under certain Net Billing Agreements, Bonneville has acquired indirectly from Energy Northwest the electric power capability of three large nuclear generating projects (“Energy Northwest Net Billed Projects”). Two of the projects (“Project 1” and “Project 3”) were partially constructed before being terminated in the 1990s. The third project, the Columbia Generating Station, was completed and is operating. In May 2012, the Nuclear Regulatory Commission granted an operating license extension for Columbia Generating Station through calendar year 2043.

Energy Northwest sold the entire capability of Project 1 to 104 publicly-owned utilities and rural electric cooperatives (the “Project 1 Participants”) under net billing agreements (as amended, the “Project 1 Net Billing Agreements”). Energy Northwest sold the entire capability of the Columbia Generating Station to 94 publicly-owned utilities and rural electric cooperatives (the “Columbia Participants”) under net billing agreements (as amended, the “Columbia Net Billing Agreements”). Energy Northwest sold the entire capability of its ownership share of Project 3 to 103 publicly-owned utilities and rural electric cooperatives (the “Project 3 Participants,” and collectively with the Project 1 Participants and the Columbia Participants, the “Participants”) under net billing agreements (as amended, the “Project 3 Net Billing Agreements,” which, together with the Project 1 Net Billing Agreements and the Columbia Net Billing Agreements, are collectively referred to as the “Net Billing Agreements”). Under the Net Billing Agreements, each Participant assigned its share of the capability of the related Net Billed Project to Bonneville. Each of the Participants is a customer of Bonneville. Many of the Participants are Participants in more than one Net Billed Project.

Under the Net Billing Agreements, in payment for the share of the capability of each Energy Northwest Net Billed Project purchased by each Participant, such Participant is obligated to pay Energy Northwest an amount equal to its share of Energy Northwest’s costs for such Energy Northwest Net Billed Project, less amounts payable from sources other than the related Net Billing Agreements, all as shown on the Participant’s billing statement. Bonneville is obligated to pay this amount to such Participant by providing net billing credits against the amounts such Participant owes Bonneville under the Participant’s power sales and other contracts with Bonneville and by making the cash payments described below. Each Participant is obligated to pay Energy Northwest an amount equal to the amount of such credits and cash payments as payment on account of its obligations to pay for its share of the Net Billed Project capability.

The Net Billing Agreements provide for cash payments and the provision of credits by Bonneville and payments by Participants whether or not the related Energy Northwest Net Billed Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Energy Northwest Net Billed Project output or termination of the related Energy Northwest Net Billed Project, and such payments or credits are not subject to any reduction, whether by offset or otherwise, and are not conditioned upon the performance or nonperformance by Energy Northwest, Bonneville or any Participant under the Net Billing Agreements or any other agreement or instrument.

The Net Billing Agreements require each Participant to pay Energy Northwest the amount set forth in its billing statement. Each Participant is required to make payments to Energy Northwest only from revenues derived by the Participant from the ownership and operation of its electric utility properties and from payments made by Bonneville under the Net Billing Agreements. Each Participant has covenanted that it will establish, maintain and collect rates or charges for power and energy and other services furnished through its electric utility properties which shall be adequate to provide revenues sufficient to make required payments to Energy Northwest under the Net Billing Agreements and to pay all other charges and obligations payable from or constituting a charge and lien upon such revenues.

The amounts potentially subject to net billing are substantial. The debt service on the Net Billed Bonds in Fiscal Year 2019 was \$223 million. In addition, the operations and maintenance expense for the Columbia Generating Station in Fiscal Year 2019 was \$324 million.

#### *Bonneville’s Transmission Facility Lease-Purchase Program*

One type of Non-Federal Debt involves the entry by Bonneville into lease-purchase agreements to acquire the use of transmission assets owned by a third party. Bonneville’s lease-purchase payments are pledged by the related project owner to the payment of certain short-term bank loans that the owner incurs or long-term bonds that the owner issues

to the public. The proceeds of the bank loans or bonds are used to fund the acquisition of and or construction, installation, and equipping of, the related facilities. Under these transactions, the related bonds and bank loans are secured solely by Bonneville's payments under the related lease-purchase agreement; furthermore, Bonneville's related lease rental payments are not conditioned on the completion, suspension, or termination of the related facilities.

Bonneville currently has outstanding short-term lease-purchase arrangements with the Port of Morrow and the Idaho Energy Resources Authority ("IERA") and long-term lease-purchase arrangements with Northwest Infrastructure Financing Corporation, the Port of Morrow, and the IERA. The Series 2020-1 Bonds when issued will be included in Non-Federal Debt under the Lease-Purchase Program.

The aggregate principal amount of outstanding bank loans and publicly-issued bonds associated with Bonneville's lease-purchase agreements, together with the principal amount associated with certain pre-existing capital leases, was \$2.2 billion as of September 30, 2019. Of the foregoing amount, the aggregate outstanding principal amount of publicly-issued lease-purchase bonds was approximately \$1.3 billion. Approximately \$910 million of the remaining aggregate outstanding principal amount relates to bank loans associated with short-term lease-purchase agreements that terminate in Fiscal Year 2020 through Fiscal Year 2025, which Bonneville expects to fund from publicly-issued lease-purchase bonds, including the Series 2020-1 Bonds.

Bonneville expects to continue to participate in financings where short-term lease-purchases secure construction loans that are repaid with the proceeds of long-term bonds secured by subsequent long-term lease-purchases. See "—Bonneville's Capital Program—Possible Non-Federal Debt Activities in the Near Future." In connection with the issuance of the Series 2020-1 Bonds, the Issuer will use most of the proceeds thereof to repay its related short-term construction loan.

#### *Electric Power Prepayments*

In Fiscal Year 2013, Bonneville and four Preference Customers agreed to separate electricity prepayment arrangements in which the Preference Customers provided lump-sum payments to Bonneville as prepayments of a portion of their power purchases through September 30, 2028, the termination date of the Long-Term Preference Contracts. The participating customers are entitled to future deliveries of a portion of the electricity pursuant to such Long-Term Preference Contracts without additional payments. The right to future deliveries of that portion of electricity without additional payments is and will be reflected as fixed equal monthly credits to the participating customers' power bills from Bonneville. The prepayments are not for fixed blocks of electricity. The prepayments entitle the participating customers to receive a fixed monthly value of electricity, valued at Bonneville's then-applicable power rates. Bonneville received \$340 million in aggregate of prepayments from the participating customers. The offsetting prepayment credits are set at \$3 million per month, in aggregate, for power provided to the participating customers in the period April 1, 2013 through September 30, 2028.

Bonneville expended the remaining \$82 million in prepayments on Federal System hydroelectric facility investments in Fiscal Year 2019.

As of September 30, 2019, outstanding Non-Federal Debt associated with electric power prepayments was \$228 million.

#### *Resource Acquisitions*

Under this form of Non-Federal Debt, Bonneville enters into resource acquisition agreements in which a third party issues bonds, the proceeds of which are used to construct or acquire generating facilities or to fund energy conservation measures, the project capability or conservation savings of which are provided to Bonneville. As of September 30, 2019, outstanding Non-Federal Debt for generating resource acquisitions was \$78 million. See "POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Bonneville's Obligation to Meet Certain Firm Power Requirements in the Region—Bonneville's Resource Program and Bonneville's Resource Strategies—Electric Power Conservation." Bonneville has no current plans to enter into new capitalized resource acquisition agreements.

*Total Non-Federal and Federal Debt*

The following table depicts the types and amounts of Non-Federal and Federal Debt outstanding as of the end of each of Fiscal Years 2017 through 2019. Any discrepancies in totals for figures portrayed in this table are due to rounding.

**Non-Federal and Federal Debt, Fiscal Years 2017-2019  
(Dollars in millions)**

**Non-Federal and Federal Debt Outstanding**

<b>Projects Financed with Non-Federal Debt</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Non-Federal Generation</b>			
Columbia Generating Station	\$3,365	\$3,469	\$3,854
Cowlitz Falls Project	68	72	76
<b>Terminated Generation</b>			
Nuclear Project No. 1	794	796	838
Nuclear Project No. 3	913	914	1,044
Northern Wasco Hydro Project	10	11	13
Lease-Purchase Program/Capital Leases	2,215	2,200	2,170
Customer prepaid power purchases	228	248	267
<b>Total Non-Federal Debt</b>	<b>\$7,593</b>	<b>\$7,710</b>	<b>\$8,262</b>
<b>Federal Debt</b>			
Borrowings from U.S. Treasury	5,280	5,531	5,009
Federal appropriations	1,183	1,355	1,583
Federal appropriations (not yet scheduled for repayment)	412	437	446
<b>Total Federal Debt</b>	<b>\$6,875</b>	<b>\$7,322</b>	<b>\$7,038</b>
<b>Total Debt</b>	<b>\$14,468</b>	<b>\$15,032</b>	<b>\$15,300</b>

To the extent that Bonneville has entered into (or will enter into) arrangements involving Non-Federal Debt secured by cash payments by Bonneville, such as transmission facility lease-purchase arrangements and electric power conservation or generating resource acquisitions, the related debt service costs are and will be payable on the same parity as the lease rental payments for the Project under the Lease-Purchase Agreement) in the order in which Bonneville's costs are met. See "—Order in Which Bonneville's Costs Are Met." To the extent that Bonneville uses Non-Federal Debt that involves the provision by Bonneville of financial credits or offsets (including net billing credits with respect to the Net Billed Projects), such obligations may reduce the amount of cash otherwise available in the Bonneville Fund to meet Bonneville's cash payment obligations, including lease rental payments for the Project under the Lease-Purchase Agreement.

**Bonneville's Capital Program**

Bonneville operates in a capital intensive industry and expenditure levels for its capital program have been substantial. As with all capital investments, there is potential that certain investments may not be constructed to completion, provide the results expected, or achieve functionality for their full expected useful lives. The following table depicts Bonneville's capital investment levels by asset category for Fiscal Years 2015-2019. The following table excludes appropriated capital funding received by the Corps and Reclamation and capital investments associated with the Columbia Generating Station.

**Historical Capital Spending by Program by Fiscal Year<sup>(1)</sup>**  
(Dollars in millions)

	2015	2016	2017	2018	2019	Total
Transmission <sup>(2)</sup>	\$734	\$552	\$440	\$411	\$432	<b>\$2,569</b>
Federal System Hydro	167	187	207	199	200	<b>960</b>
Energy Efficiency <sup>(3)</sup>	87	0	0	0	0	<b>87</b>
Fish and Wildlife	21	16	5	31	22	<b>95</b>
Facilities, Information Technology, Security <sup>(2)</sup>	28	22	10	14	10	<b>84</b>
<b>Total</b>	<b>\$1,037</b>	<b>\$777</b>	<b>\$662</b>	<b>\$655</b>	<b>\$664</b>	<b>\$3,795</b>

(1) Amounts include an Allowance for Funds Used during Construction (“AFUDC”), as applied in accordance with Bonneville’s accounting policy as described in Appendix B-1 to the Official Statement (Note 1 to Financial Statements). AFUDC is a measure of interest on funds borrowed to construct electric utility plant to completion and operation.

(2) Certain amounts for Facilities, Information Technology, and Security related to Transmission Services are reported under Transmission.

(3) Beginning in Fiscal Year 2016, Bonneville began expensing energy efficiency program costs.

To date Bonneville has met its capital program needs through various sources that include borrowing from the United States Treasury, and transactions involving Non-Federal Debt, as described above. Bonneville also uses funds from reserves and funds from customers in connection with “Projects Funded in Advance.” Projects Funded in Advance are specific transmission capital investments that are made by Bonneville in the Federal Transmission System at the request of a customer or to meet a customer’s transmission needs. The customer provides funds to Bonneville to construct all or a portion of the related facilities and in some circumstances certain customers may receive offsetting payment credits in future transmission bills from Bonneville. Bonneville owns the facilities in its own name. See “TRANSMISSION SERVICES—Bonneville’s Federal Transmission System.” The following table presents Bonneville’s capital funding sources for Fiscal Year 2015 through Fiscal Year 2019. It excludes capital investments for the Columbia Generating Station and for the Columbia River Fish Mitigation as appropriated by Congress to the Corps.

**Historical Capital Funding by Source and Fiscal Year<sup>(1)</sup>**  
(Dollars in millions)

	2015	2016	2017	2018	2019	Total
Borrowing from United States Treasury	\$647	\$504	\$521	\$498	\$424	<b>\$2,594</b>
Lease-Purchases <sup>(2)</sup>	249	255	134	77	37	<b>752</b>
Projects Funded in Advance	2	3	7	65	106	<b>183</b>
Reserve Funding	15	15	0	15	15	<b>60</b>
Electric Power Prepayments <sup>(3)</sup>	124	0	0	0	81	<b>205</b>
<b>Total</b>	<b>\$1,037</b>	<b>\$777</b>	<b>\$662</b>	<b>\$655</b>	<b>\$663</b>	<b>\$3,794</b>

(1) Reflects actual capital expenditures funded by the related source, not the amount of the debt (or related liability) by source.

(2) See “—Bonneville’s Non-Federal Debt—Bonneville’s Transmission Facility Lease-Purchase Program.”

(3) See “—Bonneville’s Non-Federal Debt—Electric Power Prepayments.”

*Bonneville's Capital Investment Expectations and Capital Prioritization Process*

To meet a variety of needs, Bonneville is forecasting aggregate planned capital expenditures comparable to or larger than levels in the recent past. Bonneville expects to fund substantial investment: (i) in the Federal Transmission System to assure reliable operation of existing facilities and to address new demands (such as integrating wind generation), (ii) in the hydroelectric dams of the Federal System to maintain and improve reliability and performance, and to protect fish and wildlife, and (iii) to meet fish and wildlife capital commitments under the Columbia Basin Fish Accords, the applicable Columbia River System biological opinions, and the Willamette BiOp. Bonneville's capital expenditures also include information technology, certain heavy equipment and certain costs related to financing.

In 2016, Bonneville introduced its Asset Management Key Strategic Initiative ("KSI") designed to bring a renewed focus to asset management. Central to the renewed focus is the effort to more closely align Bonneville's asset management processes with ISO 55000 Asset Management as outlined in the Institute of Asset Management principles and practices. The key components of that alignment are strategic asset management plans and asset plans, first developed by Bonneville throughout 2017 and 2018. In Fiscal Year 2017, Bonneville implemented the Business Transformation Office ("BTO") to ensure that Bonneville's transformational initiatives, including the KSIs, are executed in the most efficient manner, from a time, cost and resource perspective.

The strategic asset management plans provide a medium to long-term strategic approach that aligns with the goals in Bonneville's Strategic Plan. See "—Bonneville's Capital Financing Strategy." The more detailed and near-term asset plans were developed from the strategic asset management plans using a value-based analytical methodology to prioritize competing investment needs. This prioritization seeks to balance the often competing goals of keeping Bonneville's power and transmission rates as low as possible consistent with sound business principles, making timely and needed investments in the Federal System, and assuring sustainable long-term financial health. Planned investments at the Columbia Generating Station and certain other investments that Bonneville believes are not within its direct control to determine are considered in long-term rate analysis but are not subject to prioritization.

Most of Bonneville's capital investments involve renewals, upgrades and replacement of existing facilities and are incremental in character. Occasionally, Bonneville makes determinations that involve substantial long-term commitments for new capital investments.

In connection with developing the 2020-2021 Final Rate Proposal, Bonneville has assumed the capital spending levels shown in the table that follows. These spending levels reflect the preliminary outcome of Bonneville's capital prioritization process.

**Forecast Capital Spending by Program and Fiscal Year  
(Dollars in millions)**

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Transmission	\$475	\$468	\$463	\$456	\$465	\$474	\$483	\$493	\$502	\$511	<b>\$4,790</b>
Fed System Hydro	238	256	281	300	306	313	319	326	333	340	<b>3,012</b>
Fish and Wildlife	47	48	43	43	40	40	40	40	40	15	<b>396</b>
Facilities, Information Technology, Security	57	51	44	68	76	28	50	50	49	50	<b>523</b>
AFUDC <sup>(1)</sup>	32	30	31	32	32	33	34	34	35	36	<b>329</b>
<b>Total</b>	<b>\$849</b>	<b>\$853</b>	<b>\$862</b>	<b>\$899</b>	<b>\$919</b>	<b>\$888</b>	<b>\$926</b>	<b>\$943</b>	<b>\$959</b>	<b>\$952</b>	<b>\$9,050</b>

<sup>(1)</sup> AFUDC is based on forecasts of spend rates, completion dates and interest rates. AFUDC will be applied to specific program projects as construction begins and will accumulate during the construction period in accordance with Bonneville's accounting policy as described in Appendix B-1 to the Official Statement (Note 1 to Financial Statements).

The forecast capital spending for Transmission mentioned above is being affected by the COVID-19 pandemic and stay-at-home orders throughout the Region. See "CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—COVID-19 Pandemic and Effects on Bonneville."

The Forecast Capital Spending table above does not include investments projected by Energy Northwest for the Columbia Generation Station. Energy Northwest has developed a long-term capital investment strategy for the Columbia Generation Station in view of a 20-year operating license extension, evolving and expected guidance from the Nuclear Regulatory Commission, and other factors. The strategy identified \$1.2 billion in additional capital requirements from July 2018 through June 2030. Bonneville expects that new capital needs for the project will be funded with Net Billed Bonds issued by Energy Northwest, the debt service of which will be covered by Bonneville under Net Billing Agreements. See “—Possible Non-Federal Debt Activities in the Near Future.” The Forecast Capital Spending table above also does not include investments related to the Columbia River Fish Mitigation program as appropriated by Congress to the Corps. See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife.”

There is substantial uncertainty in forecasting capital program needs. Actual capital spending can differ substantially from forecasts due to various factors including, among other things, changing needs, customer demands and input, expected rate impacts, and changes in expected costs, regulatory requirements, technology, asset prioritization, and the availability of non-capital investment alternatives.

#### *Bonneville’s Capital Financing Strategy*

Given the large amount of potential Federal System investment described above, and based on current and forecast capital spending levels, and the amount of available United States Treasury borrowing authority, Bonneville has worked and continues to work with its customers to develop a strategic approach to assure that current capital investment sources described in the table above, including Non-Federal Debt, and borrowing from the United States Treasury, and other means, are sufficient to meet Bonneville’s capital program and liquidity needs. Bonneville believes that Non-Federal debt actions planned for and assumptions made when developing the 2020-2021 Final Rate Proposal will enable Bonneville to meet its capital and financial liquidity needs through at least Fiscal Year 2023. Bonneville also established a new Leverage Policy guiding Bonneville’s debt management practices. The Leverage Policy, like the Financial Reserves Policy, is implemented through development of Bonneville rates. The Leverage Policy requires each business line maintain or decrease its financial leverage over time and sets a target of 75-85% leverage by Fiscal Year 2028 and a long-term target of 60-70%. Finally, under the Regional Cooperation Debt initiative, the Energy Northwest Board adopted a motion supporting the refinancing of up to an additional \$3.5 billion of Net Billed Bonds through 2030 to provide for the funding of capital investments in the Federal Columbia River Power System in Fiscal Years 2021 through Fiscal Year 2030. The expected extension of the Regional Cooperation Debt efforts will provide flexibility for Bonneville to shape and stabilize capital related costs over time enabling it to pay down, in a reasonable amount of time, Federal Repayment Obligations. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Regional Cooperation Debt and Related Actions” and “—Possible Non-Federal Debt Activities in the Near Future.”

#### *Possible Non-Federal Debt Activities in the Near Future*

In carrying out its capital financing strategy, Bonneville is planning to or may seek to enter into Non-Federal Debt arrangements in the near future.

Future Lease-Purchases. As described in the Official Statement, the Issuer will use the proceeds from the sale of the Series 2020-1 Bonds to refinance certain transmission facilities owned by the Issuer and funded through short-term lease-purchase construction bank facilities. See the Official Statement under “INTRODUCTORY STATEMENT” and “PURPOSE OF ISSUANCE AND USE OF PROCEEDS.” The Series 2020-1 Bonds will be secured solely by the Issuer’s pledge of Bonneville’s rental payments under the Lease-Purchase Agreement.

For future fiscal years, Bonneville assumes that the amount of long-term lease-purchase arrangements to refinance certain transmission facilities funded through short-term lease-purchase construction bank facilities and the bonds secured thereby could be up to \$550 million in Fiscal Year 2021. It is possible that the Port of Morrow, IERA, or others could issue such publicly-offered bonds.

Possible Additional Net Billed Bonds and Net Billed Project Debt Restructuring. Bonneville expects that Energy Northwest will continue to issue Net Billed Bonds to fund new capital investments for the Columbia Generating Station which are expected to be made in the amount of approximately \$1.2 billion from May 2020 through

June 2030. Additional Net Billed Bonds for additional capital investments for Columbia Generating Station may be issued thereafter. In addition, Bonneville expects to continue to work with Energy Northwest to refinance up to \$3.5 billion of certain Net Billed Bond debt through 2030 to extend the average maturity of the outstanding principal balance of such debt to match more closely the originally expected economic useful lives of the facilities financed thereby. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Regional Cooperation Debt and Related Actions.”

Possible Additional Electric Power Prepayments. While Bonneville has no current plans to do so, it is possible that Bonneville may seek to use Electric Power Prepayments, a form of Non-Federal Debt, to meet some of its capital funding needs. See “—Bonneville’s Non-Federal Debt.”

Possible Additional Resource Acquisitions. While Bonneville has no current plans to do so, Bonneville may seek to use this form of Non-Federal Debt to acquire electric power generating and conservation resources. See “—Bonneville’s Non-Federal Debt.”

### **Direct Pay Agreements**

In Fiscal Year 2006, Bonneville and Energy Northwest entered into certain Direct Pay Agreements. Under these agreements, Bonneville has agreed by contract to pay directly to Energy Northwest the costs of Columbia Generating Station, Project 1, and Project 3 as billed to Bonneville by Energy Northwest. Under these agreements, Bonneville’s cash receipts and payments are more efficiently matched so that Bonneville may reduce the cash balance it carries in the Bonneville Fund to assure full and timely payment of its obligations, both federal and non-federal.

In reliance on Bonneville’s Direct Pay Agreement obligations, the billing statements that Energy Northwest is required to provide to Participants under the Net Billing Agreements show and will show the expected payments from Bonneville under the Direct Pay Agreements as amounts payable from sources other than the Net Billing Agreements. Thus, the amounts to be paid by Participants to Energy Northwest in a Net Billing Agreement Contract Year are and will in the future be reduced to zero, thereby reducing Bonneville’s obligation to provide net billing credits to zero as well. In this manner, Bonneville meets and will meet the costs of the Net Billed Projects on a current basis entirely by means of cash payments from the Bonneville Fund.

The Direct Pay Agreements did not and do not result in the amendment or termination of the Net Billing Agreements or any other agreements of Bonneville with respect to the Net Billed Projects. The Direct Pay Agreements provide that, in the event that Bonneville were to fail to make required payments under the Direct Pay Agreements, Energy Northwest would re-initiate net billing as required under the Net Billing Agreements. In the event that payments under the Direct Pay Agreements were to fall short of meeting Net Billed Project costs or the Direct Payment Agreements were terminated, under the Net Billing Agreements, the Participants would resume making payments directly to Energy Northwest and Bonneville would resume crediting (net billing) amounts otherwise due to Bonneville by the Participants for power and transmission purchases from Bonneville, up to the amount of payments made by the Participants to Energy Northwest. In general, the amount of the Participants’ payments subject to net billing is based on the amount of transmission and power purchased from Bonneville and the rates levels charged by Bonneville for such purchases.

### **Direct Funding of Federal System Operations and Maintenance Expense**

In 1992, Congress enacted legislation authorizing but not requiring the Corps and the Department of Interior, encompassing both Reclamation and the Fish and Wildlife Service, to enter into direct funding agreements with Bonneville for operations and maintenance activities for the benefit of the Federal System. Under direct funding, periodically during the course of each fiscal year, Bonneville pays amounts directly to the Corps or the Department of Interior for operations and maintenance of their respective Federal System hydroelectric facilities as the Corps or the Department of Interior and Bonneville may agree. Bonneville now “direct funds” virtually all of the Corps and Reclamation Federal System operations and maintenance activities. Bonneville’s cash payments for operations and maintenance expense to the Corps, Reclamation, and the Fish and Wildlife Service were \$239 million, \$163 million, and \$31 million, respectively, in Fiscal Year 2019.

Bonneville believes that the direct funding approach has increased Bonneville's influence on the Corps' and the Department of Interior's Federal System operations and maintenance activities, expenses, and budgets because, in general, Bonneville's approval is necessary for the Corps and the Department of Interior to assure funding. Under the direct funding agreements, direct payments from Bonneville for operations and maintenance are subject to the prior application of amounts in the Bonneville Fund to the payment of Bonneville's non-federal obligations, including Bonneville's payments, if any, with respect to the Net Billed Projects. Notwithstanding the foregoing, as a practical matter, since direct funding would be made by cash disbursement from the Bonneville Fund during the course of the year rather than as a repayment of a loan at the end of the year, it is possible that direct funding could be made to the exclusion of non-federal payments that would otherwise have been paid under historical practice. One result of direct funding obligations by Bonneville is that there has been and will be a reduction in the amount of Federal System operations and maintenance appropriations that Bonneville would otherwise have to repay, thereby reducing the amount of Bonneville's repayments to the United States Treasury that would otherwise be subject to deferral. Nonetheless, Bonneville expects to have approximately \$318 million to \$409 million in scheduled payments each year to the United States Treasury, exclusive of the Corps' and the Department of Interior's operations and maintenance expenses, through Fiscal Year 2023. Bonneville expects that it will renew and extend the direct funding agreements with the Corps and the Department of Interior prior to the expiration dates of the respective agreements.

As part of Bonneville's increased commitments for capital facilities to assist in Federal System fish and wildlife activities, in particular under the Columbia Basin Fish Accords, Bonneville has agreed in principle to establish a mechanism to use direct funding to finance certain capital expenditures of the Corps at its Federal System Hydroelectric Projects. Under this arrangement, Bonneville will borrow funds from the United States Treasury and transfer the funds to the Corps to make the expenditures. The debt service on the amounts borrowed from the United States Treasury would be payable by Bonneville from "net proceeds." See "—Order in Which Bonneville's Costs Are Met."

#### **Order in Which Bonneville's Costs Are Met**

Bonneville is required to establish rates sufficient to make, and Bonneville makes, certain annual payments to the United States Treasury. These payments are subject to the availability of net proceeds, which are gross cash receipts remaining in the Bonneville Fund after deducting all of the costs paid by Bonneville to operate and maintain the Federal System other than those used to make payments to the United States Treasury for: (i) the repayment of the federal investment in certain transmission facilities and the power generating facilities at the Federal System Hydroelectric Projects, (ii) debt service on bonds issued by Bonneville and sold to the United States Treasury, (iii) repayment of appropriated amounts to the Corps and Reclamation for costs that are allocated to power generation at the Federal System Hydroelectric Projects, and (iv) costs allocated to irrigation projects as are required by law to be recovered from power sales. Bonneville met its Fiscal Year 2019 payment responsibility to the United States Treasury in full and on time. Of Bonneville's payments to the U.S. Treasury in the amount of \$1.06 billion in Fiscal Year 2019, approximately \$227 million was for the amortization ahead of schedule of certain Federal Appropriations Repayment Obligations. Bonneville plans to make similar advance amortization payments of approximately \$20 million to the United States Treasury at the end of Fiscal Year 2020. See "CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Regional Cooperation Debt and Related Actions."

For various reasons, Bonneville's revenues from the sale of electric power and other services may vary significantly from year to year. In order to accommodate such fluctuations in revenues and to assure that Bonneville has sufficient revenues to pay the costs necessary to maintain and operate the Federal System, all non-United States Treasury cash payment obligations of Bonneville, including lease rental payments for the Project under the Lease-Purchase Agreement; and other operating and maintenance expenses, including the costs of transmission facility lease-purchase agreements and electric power conservation or generating resource acquisitions, have priority over payments by Bonneville to the United States Treasury. In the opinion of Bonneville's General Counsel, under federal statutes, Bonneville may make payments to the United States Treasury only from net proceeds; all other cash payments of Bonneville, including lease rental payments for the Project under the Lease-Purchase Agreement; and other operating and maintenance expenses, including the costs of transmission facility lease-purchase agreements and electric power conservation or generating resource acquisitions, have priority over payments by Bonneville to the United States Treasury for the costs described in (i) through (iv) in the preceding paragraph. See "—Direct Pay Agreements."

Bonneville's operating revenues include amounts equal to net billing credits if and as provided by Bonneville under the Net Billing Agreements, see “—Bonneville's Non-Federal Debt—Bonds for Energy Northwest's Net Billed Projects” and “—Direct Pay Agreements” above. Net billing credits reduce Bonneville's cash receipts by the amount of the credits. Thus, the costs payable under the Energy Northwest Net Billing Agreements for the Net Billed Projects, to the extent covered by net billing credits, are paid without regard to amounts in the Bonneville Fund. Bonneville and Energy Northwest have entered into Direct Pay Agreements under which Bonneville pays the costs of the Net Billed Projects on a current cash basis thereby reducing the use of net billing to meet the costs of the Net Billed Projects. See “—Direct Pay Agreements.”

Bonneville also has obligations to reduce future amounts receivable from certain power customers that have prepaid for electric power, see “—Bonneville's Non-Federal Debt—Electric Power Prepayments,” and from certain transmission customers that have provided lump sum payments to Bonneville for it to construct or install certain transmission facilities necessary to provide transmission service to the customers. The electric power prepayments involve the recognition (as credits) of the prepayments in future electric power bills by Bonneville. The credits for prepaid power will be approximately \$31 million per fiscal year through Fiscal Year 2028. Transmission service credit offsets for amounts advanced to Bonneville for new transmission integration investments were \$15 million in Fiscal Year 2019. Bonneville estimates that transmission service credit offsets will be \$19 million in Fiscal Year 2020. The foregoing credits have the effect of reducing Bonneville's future cash revenue from the participating customers, and will reduce in the future the amount of cash in the Bonneville Fund that would otherwise be available to meet Bonneville's cash payment obligations, including lease rental payments for the Project under the Lease-Purchase Agreement.

The requirement to pay the United States Treasury exclusively from net proceeds would result in a deferral of payments to the United States Treasury in the event that net proceeds were not sufficient for Bonneville to make its annual payment in full to the United States Treasury. This could occur if Bonneville were to receive substantially less revenue or incur substantially greater costs than expected.

Under the repayment methodology as specified in the United States Secretary of Energy's directive RA 6120.2, amortization of the Federal System investment is paid after all other cash obligations have been met. If, in any year, Bonneville has insufficient cash to make a scheduled amortization payment, Bonneville must reschedule amortization payments not made in that year over the remaining repayment period. If a cash under-recovery were larger than the amount of planned amortization payments, Bonneville would first reschedule planned amortization payments payable to the U.S. Treasury and then defer current interest payments payable to the U.S. Treasury. When Bonneville defers an interest payment associated with repayment of appropriated Federal System investment in the Federal System, the deferred amount may be assigned a market interest rate determined by the Secretary of the United States Treasury and must be repaid before Bonneville may make any other repayment of principal to the United States Treasury. See the table under the heading “Statement of Non-Federal Debt Service Coverage and United States Treasury Payments” for historical United States Treasury payments.

While all amounts in the Bonneville Fund are available to pay Bonneville's costs without regard to whether such costs are Power Services' costs or Transmission Services' costs, some reserves are derived from Power Services' rates and operations and some are derived from Transmission Services' rates and operations. (As of the end of Fiscal Year 2019, approximately \$343 million in Total Financial Reserves (cash, investments in United States Treasury market-based special securities and Deferred Borrowing (as defined below)) were derived from Power Services' rates and operations and \$430 million in Total Financial Reserves were derived from Transmission Services' rates and operations.) “Total Financial Reserves” is an unaudited metric that is not in accordance with GAAP but which Bonneville uses to reflect the amount of reliably available financial resources in or available to the Bonneville Fund to meet payment obligations. See “—Bonneville's Use of Non-GAAP Financial Metrics.”

Because Bonneville's power rates are to be established to recover the costs of power operations and Bonneville's transmission rates are to be established to recover the cost of transmission operations, if Bonneville were to use Transmission Services-derived reserves to pay Power Services' costs, use of the Transmission Services' reserves would be treated as an obligation of Power Services, with the requirement that Power Services replenish any amounts of Transmission Services-derived reserves so used. Similarly, if Bonneville were to use Power Services-derived reserves to pay Transmission Services' costs, use of the Power Services' reserves would be treated as an obligation of

Transmission Services, with the requirement that Transmission Services replenish any amounts of Power Services-derived reserves so used.

### **Bonneville's Use of Non-GAAP Financial Metrics**

For a variety of reasons, Bonneville has developed and employs certain financial metrics that Bonneville management believes are descriptive of Bonneville's financial performance notwithstanding that such financial metrics are not consistent with GAAP and are unaudited.

Reserves Available for Risk. For ratemaking purposes, Bonneville uses a financial metric it refers to as "Reserves Available for Risk," or "RAR," as a measure of financial reserves. While the RAR metric is not a measure in accordance with GAAP and is unaudited, Bonneville management nonetheless believes that the RAR metric provides a sound measure of Bonneville's reserves derived (and retained) from operations. See "—Management's Discussion of Operating Results—Fiscal Year 2019." The RAR metric represents amounts in, or reliably available to, the Bonneville Fund which are generated through normal operations and excludes deposits from third parties, capital funds drawn in advance, borrowings for expenses and other amounts deemed by Bonneville not to be available for risk.

As of the end of Fiscal Year 2019, Bonneville had \$484 million in RAR and a \$750 million short-term credit facility (available to meet certain expenses) with the United States Treasury. The RAR balances and the short-term borrowing facility combine to provide a cushion of liquidity for Bonneville to meet its costs in situations where revenues and expenses deviate from rate case assumptions. Bonneville forecasts and assesses uncertainty in expenses, revenues, and cash flow through the end of the rate period. Bonneville models the effect of these uncertainties on RAR and short-term liquidity, given proposed rates. This assessment yields information about several key metrics, including TPP, which is the probability that Bonneville will be able to make all payments to the United States Treasury during the rate period. See "CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Bonneville Power and Transmission Rates Developments" and "—Fiscal Year 2020 Expectations and Related Information," and POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Power Rates for Fiscal Years 2020-2021." Depending on numerous variables, assumptions and forecasts, Bonneville may establish rates that, on average, will increase (or decrease) RAR for the relevant business line in the applicable rate period in amounts that are sufficient to meet Bonneville's TPP policy. Bonneville measures RAR for both Power Services operations and Transmission Services operations.

Total Financial Reserves. "Total Financial Reserves" is a non-GAAP and unaudited metric that Bonneville uses to reflect current cash and cash equivalents. Bonneville uses the metric to reflect the amount of reliably available financial resources in or available to the Bonneville Fund to meet payment obligations. Total Financial Reserves are composed of cash, cash equivalents, and special investments held in the Bonneville Fund, and amounts that Bonneville is authorized to borrow from the United States Treasury for capital expenditures that Bonneville has incurred but has not yet borrowed for ("Deferred Borrowing"), all of which are available to meet Bonneville's current expenditure needs. To reduce overall interest expense, Bonneville delays borrowing from the United States Treasury until necessary from a cash flow perspective (which increases the Deferred Borrowing balance). Over time, Bonneville intends to borrow such Deferred Borrowing amounts from the United States Treasury. Total Financial Reserves are affected by numerous factors including revenues and expenses for the year, increases or decreases in cash and cash equivalents related to the timing of collections and payments, capital expenditures, and principal and interest payments to the United States Treasury. Bonneville does not use this metric in establishing rates; rather, Bonneville focuses on RAR. As of the end of Fiscal Year 2019, Total Financial Reserves were \$773 million (\$584 million of which represents Deferred Borrowing). See "CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Bonneville Power and Transmission Rates Developments" and "—Fiscal Year 2019 Financial Results," and "POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville's Power Services—Power Rates for Fiscal Years 2020-2021."

Days Liquidity on Hand. One metric that Bonneville uses to measure the amount of liquidity relative to its ability to meet operating expenses is "Days Liquidity on Hand." Bonneville measures this using the following equation: (i) RAR plus Available United States Treasury Short-Term Facility (\$750 million) divided by (ii) Operating Expense (as described in footnote 1 in the "Statement of Non-Federal Debt Service Coverage and United States Treasury Payments") divided by 360. This information is unaudited.

**Bonneville’s Fiscal Year-End Financial Reserves  
Fiscal Years 2015-2019  
(Dollars in millions)**

<b>Fiscal Year</b>	<b>Total Financial Reserves</b>	<b>Reserves Available for Risk<sup>(1)</sup></b>	<b>U.S. Treasury Short-Term Line</b>	<b>Days Liquidity on Hand</b>
2015	1,187	845	750	347
2016	724	602	750	281
2017	766	568	750	258
2018	840	551	750	254
2019	773	484	750	222

<sup>(1)</sup> Beginning in Fiscal Year 2018, Bonneville management made a change to the RAR calculation to exclude short-term carryover cash flow effects such as accruals for revenues earned in Fiscal Year 2018 but not received until Fiscal Year 2019 and expenses incurred in Fiscal Year 2018 that were not paid until Fiscal Year 2019 to provide a clearer reflection of amounts available for risk mitigation at September 30. The Fiscal Year 2018 RAR amount of \$551 million excludes approximately \$72 million of accruals for revenues and expenses that would have been included in RAR calculations in prior years. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Fiscal Year 2019 Financial Results.

**Position Management and Derivative Instrument Activities and Policies**

Bonneville has adopted risk management policies and organizational structures to systematically address the management of derivative instrument activities. Policies governing transacting are overseen by an internal risk committee composed of senior Bonneville executives.

Bonneville’s policies allow the use of financial instruments such as commodity and interest rate futures, forwards, options, and swaps to manage Bonneville’s risk to net revenue outcomes. Such policies do not authorize the use of financial instruments for purposes outside Bonneville-established strategies. Strategies are established in the context of portfolio management, as opposed to individual position/exposure management, and are subject to quantitatively-derived, hard position limits mathematically linked to Bonneville’s financial metrics, such as TPP. Exceptions to established policies must be cleared by Bonneville’s internal risk committee before execution.

Bonneville’s use of these various financial instruments is subject to regulation under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”). Dodd-Frank grants extensive discretion to applicable regulatory bodies, primarily the Commodities Futures Trading Commission (“CFTC”) and the Securities and Exchange Commission (“SEC”), which have established rules regarding trading limits, and capital, reserve, and collateral requirements (primarily margin requirements).

In 2012, Bonneville approved a permanent and ongoing financial hedging program using power futures that do not require physical delivery. Such transactions require Bonneville to provide collateral through the posting of margin payments to cover the credit risk absorbed by the exchange. Margin payments can affect Bonneville’s cash flows, especially if large margin payments are required. For exchange-traded power futures, failure to meet margin calls can subject a party’s related agreements to immediate termination and the net mark-to-market value of the related agreements may become immediately due and payable. In contrast, Bonneville does not currently provide collateral to secure any of its related physical delivery power trading contract obligations, including over-the-counter physical delivery electric power transactions.

## **Historical Federal System Operating Revenue and Operating Expense Compared to Historical Streamflow**

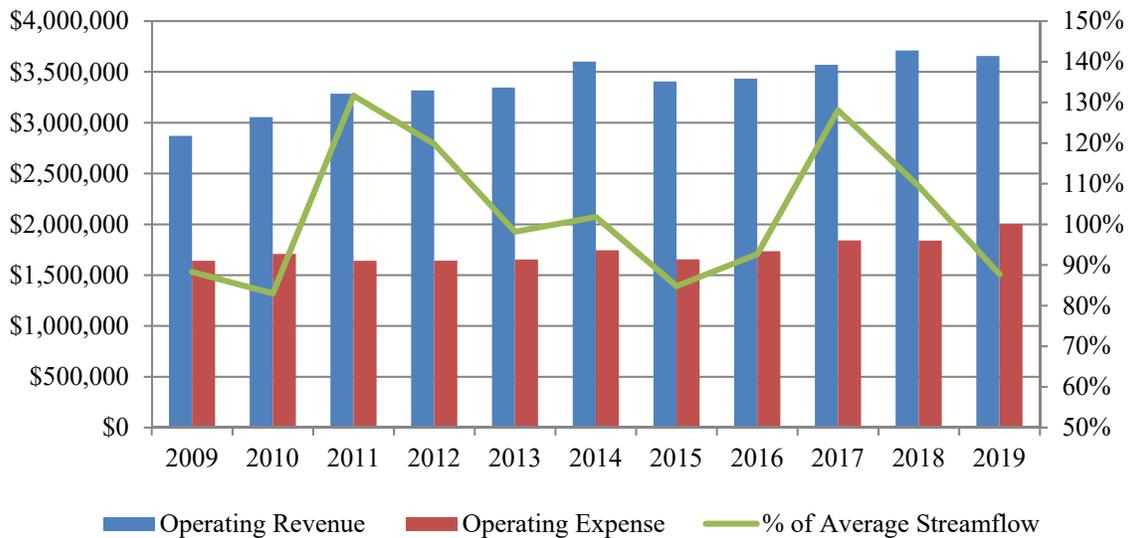
Streamflow is an important variable in Bonneville's financial performance because, in effect, it is the fuel for the hydroelectric facilities of the Federal System. The availability of hydroelectric generation affects Bonneville's purchased power costs as well as surplus (secondary) energy sales. In periods of abundant hydroelectric generation Bonneville can avoid making "balancing" short-term power purchases to match loads. In periods of low hydroelectric generation, Bonneville's purchased power expense can increase to make such balancing purchases. Conversely, in periods of abundant hydroelectric generation Bonneville can obtain additional revenue from marketing seasonal surplus (secondary) energy while in periods of low hydroelectric generation, such revenue can diminish. Bonneville's ratemaking, power and resource planning, financial operations, power operations, power marketing and risk management functions all take hydroelectric variability into account in their operations and have been doing so, in effect, since Bonneville's creation.

The relationship of operating revenues to operating expenses has been stable relative to wide variances in streamflow and hydro-generation. Much of this stability in revenues is attributable to the high proportion of power revenues that Bonneville derives from sales of firm power. Firm power is power expected to be produced by the Federal System under certain assumptions of Low Water Flows/Critical Water. See "POWER SERVICES—Description of the Generation Facilities of the Federal System—Federal Hydro-Generation." By contrast, Bonneville derives fewer revenues from seasonal surplus (secondary) energy. In establishing rates for the 2020-2021 Rate Period, Bonneville assumed that revenues from net secondary energy sales would average approximately \$279 million per fiscal year of the rate period, assuming average streamflow. For reference, \$279 million is approximately eight percent of Bonneville total revenues of approximately \$3.7 billion (Fiscal Year 2019).

The following chart plots Bonneville's annual operating expense and operating revenues (as presented in the table entitled, "Statement of Non-Federal Debt Service Coverage and United States Treasury Payments," see "—Statement of Non-Federal Debt Service Coverage") against Federal System streamflow in the same year. The streamflow data for the relevant year are expressed as a percentage of historical average streamflow. Bonneville believes that the relative stability of operating expense and operating revenue over a wide variety of annual streamflow conditions, particularly since 2002, reflects Bonneville's accommodation of the potential variability of streamflow in virtually all of Bonneville's major functions.

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**Historical Federal System Operating Revenue and Operating Expense  
Compared to Historical Streamflow  
(\$ in thousands)**



In the preceding table, the streamflow data are based on the Federal System’s Operating Year (August 1 – July 30) and the financial information is based on Bonneville’s Fiscal Year (October 1 – September 30). “Operating Expense” is described in footnote 1 in the “Statement of Non-Federal Debt Service Coverage and United States Treasury Payments.”

**Pension and Other Post-Retirement Benefits**

Federal employees associated with the operation of the Federal System participate in either the Civil Service Retirement System or the Federal Employees Retirement System. Employees may also participate in the Federal Employees Health and Benefit Program and the Federal Employee Group Life Insurance Program. All such post-retirement systems and programs are sponsored by the United States Office of Personnel Management; therefore, the accounts of the Federal System do not record any accumulated plan assets or liabilities related to the administration of such programs. Contribution amounts are paid by Bonneville to the United States Treasury and are recorded as expense during the year to which the payment relates. In Fiscal Year 2019, Bonneville made \$41 million in post-retirement contributions.

Almost all of Energy Northwest’s costs for its share of pension benefits relate to employment in connection with the Columbia Generating Station. To the extent that these costs arise in connection with the Energy Northwest Net Billed Projects, they have been and will be recovered under the Net Billing Agreements and borne by Bonneville. Such costs are included in “Non-Federal entities O&M—net billed” as reported in the Federal System Statement of Revenues and Expenses table below. See “BONNEVILLE FINANCIAL OPERATIONS—Bonneville’s Non-Federal Debt—Bonds for Energy Northwest’s Net Billed Projects.”

**Historical Federal System Financial Data**

Federal System historical financial data for Fiscal Years 2017 through 2019 are set forth in the following “Federal System Statement of Revenues and Expenses (Unaudited)” table. Such data have been derived from the annual audited financial statements of the Federal System and differ therefrom in some respects in the categorization of certain costs. The audited Financial Statements of the Federal System (prepared in accordance with GAAP and provided as Appendix B-1 to the Official Statement) include accounts of Bonneville as well as those of the generating facilities that are located in the Region and owned by the Corps and Reclamation and for which Bonneville is the power

marketing agency, and certain operations and maintenance costs of the Fish and Wildlife Service. Any discrepancies in totals for figures portrayed in this table are due to rounding.

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**Federal System Statement of Revenues and Expenses  
(Unaudited)<sup>(14)</sup>**

<b>As of Sept. 30 – Dollars in millions</b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Operating Revenues:			
Sales of electric power —			
Sales within the Northwest Region —			
Northwest Publicly-Owned Utilities <sup>(1)</sup>	\$2,174	\$2,155	\$2,125
Direct Service Industrial Customers	36	25	11
Northwest Investor-Owned Utilities	67	92	96
Sales outside the Northwest Region <sup>(2)</sup>	322	387	307
Book-outs <sup>(3)</sup>	<u>(38)</u>	<u>(20)</u>	<u>(21)</u>
Total Sales of Electric Power	2,561	2,639	2,518
Transmission <sup>(4)</sup>	942	963	964
Fish Credits and other Revenues <sup>(5)</sup>	<u>153</u>	<u>108</u>	<u>88</u>
Total Operating Revenues	3,656	3,710	3,570
Operating Expenses:			
Bonneville O&M <sup>(6)</sup>	1,117	1,150	1,135
Purchased Power <sup>(3)</sup>	298	159	147
Corps, Reclamation, and Fish & Wildlife Service O&M <sup>(7)</sup>	433	418	416
Non-Federal entities O&M — net billed <sup>(8)</sup>	318	262	313
Non-Federal entities O&M — non-net billed <sup>(9)</sup>	<u>30</u>	<u>28</u>	<u>28</u>
Total Operations and Maintenance	2,195	2,017	2,039
Net billed Debt Service	223	258	232
Non-net billed Debt Service	<u>9</u>	<u>9</u>	<u>9</u>
Non-Federal Projects Debt Service <sup>(10)</sup>	233	267	241
Federal Projects Depreciation	531	507	485
Residential Exchange <sup>(11)</sup>	<u>241</u>	<u>241</u>	<u>219</u>
Total Operating Expenses	<u>3,200</u>	<u>3,032</u>	<u>2,984</u>
Net Operating Revenues	<u>456</u>	<u>678</u>	<u>586</u>
Interest Expense:			
Appropriated Funds	56	67	125
Long-term debt	249	236	220
Capitalization Adjustment <sup>(12)</sup>	(65)	(65)	(65)
Allowance for funds used during construction	<u>(32)</u>	<u>(31)</u>	<u>(33)</u>
Net Interest Expense <sup>(13)</sup>	<u>208</u>	<u>207</u>	<u>247</u>
Net Revenues/(Expenses)	<b><u>\$248</u></b>	<b><u>\$471</u></b>	<b><u>\$339</u></b>
Total Sales (annual average megawatts) (Net of Residential Exchange Program and excluding Canadian Entitlement Return)	9,511	9,597	9,760

<sup>(1)</sup> This customer group includes Preference Customers (municipalities, public utility districts, and electric cooperatives in the Region) and federal agencies. This amount reflects refunds to Preference Customers

arising from past overpayments of Residential Exchange Program benefits to Regional IOUs. Refund amounts recorded in Fiscal Year 2019 were \$77 million (see footnote (11) below).

- (2) In general, revenues from Sales outside the Northwest Region are derived from seasonal surplus (secondary) energy and firm long-term sales. The availability of seasonal surplus (secondary) energy that Bonneville has to market is highly dependent upon the occurrence of streamflow in the Columbia River basin that is greater than would occur under Low Water Flows/Critical Water. In almost all years, except when streamflow is near Low Water Flows/Critical Water, the amount of seasonal surplus (secondary) energy that Bonneville exports is greater than firm sales exports. Revenues from seasonal surplus (secondary) energy sales are also affected by the prices Bonneville can obtain for the sale of energy in short-term energy markets, which is influenced by the cost other producers incur to generate energy and the price of fuel (in particular, natural gas) used to generate the energy.
- (3) Total Operating Expenses and Revenue from Electricity Sales reflect accounting guidance associated with energy activities that are “booked out” (settled other than by the physical delivery of power) and are reported on a “net” basis in both operating revenues and purchased power expense. The accounting treatment for book-outs has no effect on net revenues, cash flows, or margins.
- (4) Bonneville obtains revenues from the provision of transmission and other related services.
- (5) Bonneville also receives certain revenues from sources apart from power sales and the provision of transmission services. These revenues relate primarily to fish and wildlife payment credits (also referred to as “4(h)(10)(C) credits”) that reduce Bonneville’s United States Treasury repayment obligation. Such credits are provided on the basis of estimates and forecasts and later are adjusted when actual data are available. The amount of such credits was approximately \$54 million, \$70 million, and \$98 million in Fiscal Years 2017, 2018, and 2019, respectively. See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—Federal Repayment Offsets for Certain Fish and Wildlife Costs Borne by Bonneville.”
- (6) Bonneville O&M expenses include operations and maintenance expenditures for the Federal Transmission System, and other Bonneville functions such as Bonneville’s power marketing, and fish and wildlife programs. Bonneville O&M as included herein reflects a mix of cash payments and accrued amounts, which, when aggregated with other line items presented herein, are consistent with amounts reported in the audited financial statements of the Federal System.
- (7) Corps, Reclamation, and Fish and Wildlife Service O&M expenses include Federal System operations and maintenance expenditures of the Corps, Reclamation and the Fish and Wildlife Service. Amounts shown represent cash payments. An offsetting adjustment for accrued amounts is included in Bonneville O&M (see footnote (6) above).
- (8) The Non-Federal entities O&M – net billed expense includes the operations and maintenance costs for generating facilities, the generating capability or output of which Bonneville has agreed to purchase under net billing agreements, which are capitalized contracts that cover the costs of Energy Northwest’s terminated Project 1, terminated Project 3, and operating Columbia Generating Station, and EWEB’s 30 percent ownership share of the terminated Trojan Nuclear Project.
- (9) The Non-Federal entities O&M – non-net billed expense includes the operations and maintenance costs for generating facilities and the generating capability or output of which Bonneville has agreed to purchase under certain capitalized contracts, the costs of which are not net billed.
- (10) Non-Federal Projects Debt Service includes payments (and net billing credits when in effect) by Bonneville for all or a part of the generating capability of, and the related debt service, including interest, for Energy Northwest’s Net Billed Projects described in footnote (8) above, and the generating capability of other small projects which Bonneville has acquired.
- (11) See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services” and “—Residential Exchange Program” and see “—Management’s Discussion of Operating Results.” Bonneville’s payments to Regional IOUs with respect to the Residential Exchange Program for Fiscal Year 2012 through Fiscal Year 2028 were established under the 2012 Residential Exchange Program Settlement Agreement, dated July 26, 2011. In Fiscal Year 2019, the Residential Exchange Program payments were \$232 million. In Fiscal Year 2019, Bonneville also provided refunds in an aggregate amount of \$77 million to qualifying Preference Customers for overpayments (“Refund Amounts”) Bonneville made to Regional IOUs for the period July 1, 2001 through September 30, 2011 under the original Residential Exchange Program Settlement Agreements, which were invalidated by the Ninth Circuit Court in May 2007. Bonneville recognizes a refund for Refund Amounts recovered from Regional IOUs in the rate setting process and returned to Preference Customers and did so through Fiscal Year 2019, at which time all overpayments were

fully recovered. See “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Residential Exchange Program.”

- (12) The capitalization adjustment represents the annual recognition of the reduction in principal realized from refinancing Federal Appropriations Repayment Obligations under a federal law enacted in 1996.
- (13) Lease-Purchase Program is included in Net Interest Expense as reported in the audited financial statements of the Federal System. Amounts shown are calculated on an accrual basis.
- (14) PricewaterhouseCoopers LLP, Bonneville’s independent auditor, has not audited, reviewed, compiled, or applied agreed-upon procedures with respect to the financial data in this table. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect to the financial data.

## **Management’s Discussion of Operating Results**

### *Fiscal Year 2019*

In Fiscal Year 2019, Bonneville made its scheduled United States Treasury payments on time and in full for the 36th consecutive year. Bonneville finished the fiscal year with Total Financial Reserves of \$773 million, which is a decrease of approximately eight percent from the prior fiscal year.

In Fiscal Year 2019, Federal System net revenues were \$248 million, a decrease of approximately \$223 million from net revenues of \$471 million in Fiscal Year 2018.

In Fiscal Year 2019, Power Services and Transmission Services consolidated gross sales, excluding the effects of bookouts, were \$3.5 billion, which is about \$106 million less than the prior fiscal year. Power Services’ gross sales decreased \$61 million, or approximately two percent, in Fiscal Year 2019 compared to Fiscal Year 2018 primarily due to two key factors: (i) firm power sales decreased \$12 million primarily due to lower power load requirements and (ii) seasonal surplus (secondary) sales decreased \$48.2 million in Fiscal Year 2019 due to below-average hydro power generation. A key metric that Bonneville uses to measure year-to-year changes in river runoff is the amount of water (as measured in MAF) flowing through The Dalles Dam, which is the second dam upriver from the mouth of the Columbia River. January through July 2019 runoff volume at The Dalles Dam was 90 MAF. The full Fiscal Year 2019 volume finished at 116 MAF, a decrease of 29 MAF from Fiscal Year 2018, and below the historical average of 132 MAF.

United States Treasury credits increased \$28 million in Fiscal Year 2019 compared to Fiscal Year 2018. The increase was primarily due to decreased streamflow resulting in higher replacement power purchases.

Operating expense increased \$167 million, or approximately six percent, in Fiscal Year 2019 compared to Fiscal Year 2018. Operations and maintenance expense increased \$39 million, or two percent, from the prior fiscal year primarily due to: (i) a \$55 million increase in Columbia Generating Station plant costs since Fiscal Year 2019 was a refueling year (refueling and maintenance expense are typically higher in refueling years), (ii) a \$20 million increase transmission costs in support of grid modernization efforts, and (iii) a \$16 million increase in Corps and Bureau operations and maintenance costs. These increases were offset in part by (i) a \$22 million decrease in conservation costs due to a planned reduction in the amount of energy efficiency projects completed in Fiscal Year 2019 (due to a larger amount than expected being completed in Fiscal Year 2018) and (ii) a \$19 million decrease in fish and wildlife program costs.

Purchased power expense, including the effects of bookouts, increased \$139 million for Fiscal Year 2019 as compared to Fiscal Year 2018 mainly due to: (i) an increase in purchased power to serve loads in periods of extremely cold weather that increased demand for energy during times of high market prices and limited supply and (ii) an increase in the amount owed to British Columbia Hydro (“BC Hydro”), a Canadian electric utility owned by the province of British Columbia, under certain water storage agreements.

Non-Federal Projects Debt Service expense decreased \$34 million, or 13 percent, from the prior fiscal year, primarily due to the receipt of additional revenues by Energy Northwest for the sale of its nuclear fuel that is treated as an offset to debt service for outstanding debt for the Columbia Generating Station.

Depreciation and amortization increased \$24 million, or five percent, from the prior fiscal year, primarily due to revised higher depreciation rates that went into effect in March 2018 and were only in effect for part of Fiscal Year 2018 while in effect for the full year in Fiscal Year 2019.

At the end of Fiscal Year 2019, aggregate Bonneville RAR was \$484 million, a decrease of approximately 12 percent from the prior fiscal year. See “—Bonneville’s Use of Non-GAAP Financial Metrics.” RAR for Power Services operations was \$203 million, an increase of \$190 million from the prior fiscal year-end balance of \$13 million, and RAR for Transmission Services operations was \$281 million, a decrease of 48 percent from the prior fiscal year. The Fiscal Year 2019 Year-End RAR amounts for Power Services and Transmission Services reflect a one-time, permanent reallocation of \$182.3 million of RAR from Transmission Services to Power Services. For more details regarding this reallocation of RAR, see “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Fiscal Year 2019 Results.”

### *Fiscal Year 2018*

In Fiscal Year 2018, Bonneville made its scheduled United States Treasury payments on time and in full for the 35th consecutive year. Bonneville finished the fiscal year with Total Financial Reserves of \$840 million, which is an increase of approximately 10 percent from the prior fiscal year.

In Fiscal Year 2018, Federal System net revenues were \$471 million, an increase of approximately \$132 million from net revenues of \$339 million in Fiscal Year 2017.

In Fiscal Year 2018, Power Services and Transmission Services consolidated gross sales, excluding the effects of bookouts, were \$3.7 billion, which is about \$141 million greater than the prior fiscal year. Power Services’ gross sales increased \$120 million, or approximately 5 percent, in Fiscal Year 2018 compared to Fiscal Year 2017 primarily due to two key factors: (i) firm power sales increased \$31 million due to the Power Services’ rate increase that went into effect on October 1, 2017 and (ii) seasonal surplus (secondary) sales increased \$88 million in Fiscal Year 2018 due to: (a) above-average hydro power supply sales in the second quarter of Fiscal Year 2018 and (b) slightly higher short-term energy market prices that Bonneville was able to obtain for the sale of seasonal surplus (secondary) energy. A key metric that Bonneville uses to measure year-to-year changes in river runoff is the amount of water (as measured in MAF) flowing through The Dalles Dam, which is the second dam upriver from the mouth of the Columbia River. January through July 2018 runoff volume at The Dalles Dam was 119 MAF. The full Fiscal Year 2018 volume finished at 145 MAF, a decrease of 25 MAF from the 170 MAF attained in Fiscal Year 2017, and above the historical average of 132 MAF.

United States Treasury credits increased \$16 million in Fiscal Year 2018 compared to Fiscal Year 2017. The increase was primarily due to decreased streamflow and higher generation resulting in higher replacement power purchases.

Operating expense increased \$48 million in Fiscal Year 2018 from Fiscal Year 2017. Operations and maintenance expense decreased \$12 million, or one percent, from the prior fiscal year primarily due to a decrease of \$50 million in Columbia Generating Station plant costs since Fiscal Year 2018 was not a refueling year. This increase was offset in part by (i) a scheduled increase of \$22 million in Residential Exchange Program benefits and (ii) an increase of \$13 million in contributions for post-retirement benefit programs and pension benefit costs resulting from changes to cost factors developed by the Office of Personnel Management.

Purchased power expense, including the effects of bookouts, increased \$12 million for Fiscal Year 2018 as compared to Fiscal Year 2017 mainly due to (i) above-average market prices experienced during the summer and (ii) an increase in the amount owed to British Columbia Hydro (“BC Hydro”), a Canadian electric utility owned by the province of British Columbia, under certain water storage agreements.

Non-Federal Projects Debt Service expense increased \$26 million, or 11 percent, from the prior fiscal year, primarily due to the scheduled repayment of certain outstanding Net Billed Bonds for Columbia Generating Station.

Depreciation and amortization increased \$22 million, or five percent, from the prior fiscal year, primarily due to increased depreciation rates implemented as part of a new depreciation study completed in February 2018.

At the end of Fiscal Year 2018, RAR for Power Services operations were \$13 million, a decrease of 88 percent from the prior fiscal year, and RAR for Transmission Services operations were \$538 million, an increase of 16 percent from the prior fiscal year. Aggregate Bonneville RAR were \$551 million, a decrease of three percent from the prior fiscal year. See “—Bonneville’s Use of Non-GAAP Financial Metrics.”

### *Fiscal Year 2017*

In Fiscal Year 2017, Bonneville made its scheduled United States Treasury payments on time and in full for the 34th consecutive year. Bonneville finished the fiscal year with Total Financial Reserves of \$766 million, which is an increase of approximately 6 percent from the prior fiscal year.

In Fiscal Year 2017, Federal System net revenues were \$339 million, an increase of approximately \$62 million from net revenues of \$277 million in Fiscal Year 2016. Bonneville reported Adjusted Net Revenues of \$5 million for Fiscal Year 2017.

In Fiscal Year 2017, Power Services and Transmission Services consolidated gross sales, excluding the effects of bookouts, were \$3.5 billion, which is about \$157 million greater than the prior fiscal year.

Power Services’ gross sales increased \$137 million, or approximately 6 percent, in Fiscal Year 2017 compared to Fiscal Year 2016 primarily due to two key factors: (i) firm power sales increased \$29 million due to increased load shaping revenue from the colder-than-average weather in the Pacific Northwest and increased revenues from DSIs resulting from the slight increase in load commitment at the IP Rate (increase from 10 annual average megawatts to 25 annual average megawatts that went into effect in March 2017) and (ii) seasonal surplus (secondary) sales increased \$108 million in Fiscal Year 2017 due to: (a) above-average hydro power supply sales and (b) slightly higher short-term energy market prices that Bonneville was able to obtain for the sale of seasonal surplus (secondary) energy. A key metric that Bonneville uses to measure year-to-year changes in river runoff is the amount of water (as measured in MAF) flowing through The Dalles Dam, which is the second dam upriver from the mouth of the Columbia River. January through July 2017 runoff volume at The Dalles Dam was 137 MAF. The full Fiscal Year 2017 volume finished at 170 MAF, an increase of 47 MAF from the 123 MAF attained in Fiscal Year 2016, and well above the historical average of 132 MAF.

Transmission Services gross sales increased \$19 million in Fiscal Year 2017 compared to Fiscal Year 2016, primarily due to increased sales of short-term transmission and ancillary services related to the increase in streamflow and higher federal generation as described immediately above.

United States Treasury credits decreased \$19 million in Fiscal Year 2017 compared to Fiscal Year 2016. The decrease was primarily due to increased streamflow and higher generation resulting in lower replacement power purchases.

Operating expense increased \$127 million in Fiscal Year 2017 from Fiscal Year 2016. Operations and maintenance expense increased \$85 million, or four percent, from the prior fiscal year primarily due to: (i) an increase of \$59 million in Columbia Generation Station plant costs due to higher maintenance and costs related to biennial refueling in Fiscal Year 2017, (ii) an increase of \$16 million in Bureau of Reclamation’s operations and maintenance costs related to work at the Grand Coulee Dam Third Power Plant, (iii) an increase of \$24 million in Power Services’ transmission acquisition costs due to increased third-party wheeling costs for delivering energy to transfer service customers, and (iv) a decrease of \$17 million in corporate costs due to cost management initiatives and lower contributions for post-retirement benefits.

Purchased power expense, including the effects of bookouts, increased \$36 million for Fiscal Year 2017 as compared to Fiscal Year 2016 primarily due to an increase in the amount owed to British Columbia Hydro (“BC Hydro”), a Canadian electric utility owned by the province of British Columbia, under certain water storage agreements.

Depreciation and amortization increased \$14 million, or three percent, from the prior fiscal year, primarily due to increased completed plant in service for Power Services and Transmission Services construction projects.

At the end of Fiscal Year 2017, RAR for Power Services operations were \$105 million, a decrease of 34 percent from the prior fiscal year, and RAR for Transmission Services operations were \$463 million, an increase of four percent from the prior fiscal year. Aggregate Bonneville RAR were \$568 million, a decrease of six percent from the prior fiscal year. See “—Bonneville’s Use of Non-GAAP Financial Metrics.”

In Fiscal Year 2013 through Fiscal Year 2017, Bonneville utilized and reported a financial metric, “Adjusted Net Revenues.” While the Adjusted Net Revenues metric was not a measure in accordance with GAAP and was unaudited, Bonneville management believed the use and reporting of Adjusted Net Revenues assisted in reflecting Bonneville’s financial performance for day-to-day operations in such fiscal years. The Adjusted Net Revenues metric was net revenues after removing the non-operating effects on Bonneville of certain debt management and related actions with respect to Net Billed Bonds under the Regional Cooperation Debt approach. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Regional Cooperation Debt and Related Actions.”

The first phase of Regional Cooperation Debt occurred under the Debt Optimization Program (between 2001 and 2009) under which Energy Northwest and Bonneville worked together to refinance certain maturities of Net Billed Bonds so that the weighted average maturities more closely matched the originally expected useful lives of the related Net Billed Project facilities. These debt management actions freed up Bonneville revenues to replenish available United States Treasury borrowing capacity by extending into the future the repayment dates of debt for the Net Billed Projects. The resulting reductions in intervening debt payments (in the period between the dates the Energy Northwest debt was initially due to be repaid and the dates that such refinanced debt was re-set to be repaid) resulted in funds becoming available to repay principal of Bonneville’s then-outstanding United States Treasury debt.

Net Billed Project debt expense is recorded over the term of the related outstanding debt. The lower Net Billed Project debt expense due to the Debt Optimization Program resulted in higher net revenues than otherwise would have been reported in the affected fiscal years absent the debt management actions. As the Energy Northwest debt that was issued for the refinancing under the Debt Optimization Program reaches maturity, as is now occurring, the converse of the original effects of Debt Optimization on financial reporting is also occurring: Net Billed Project debt expense is higher than, and Federal System net revenues are lower than, would have been the case without Debt Optimization.

Bonneville and Energy Northwest initiated another phase of Regional Cooperation Debt beginning in 2014. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Regional Cooperation Debt and Related Actions.” The Regional Cooperation Debt transactions in Fiscal Years 2014 through 2020 have had or expect to have the effect of lowering Net Billed Project debt expense and resulted in or expect to result in higher net revenues than otherwise would have been reported in Fiscal Years 2014 through 2020 absent the Fiscal Years 2014 through 2020 Regional Cooperation Debt management actions.

### **Statement of Non-Federal Debt Service Coverage**

The “Statement of Non-Federal Debt Service Coverage and United States Treasury Payments” below uses the “Federal System Statement of Revenues and Expenses (Unaudited)” to develop a non-federal project debt service coverage ratio (“Non-Federal Debt Service Coverage Ratio”), which demonstrates how many times total non-federal project debt service is covered by net funds available for non-federal project debt service. Net funds available for non-federal debt service is defined as total operating revenues less operating expenses. Net funds available for non-federal project debt service less total non-federal project debt service yields the amount available for payment to the United States Treasury. This Non-Federal Debt Service Coverage Ratio does not reflect the actual priority of payments or distinctions between cash payments and credits under Bonneville’s net billing obligations under the Net Billing Agreements. Any discrepancies in totals for figures portrayed in this table are due to rounding.

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**Statement of Non-Federal Debt Service Coverage and United States Treasury Payments  
(Unaudited)**

<b>As of Sept. 30 – Dollars in millions</b>	<u><b>2019</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>
Total Operating Revenues	\$3,656	\$3,710	\$3,570
Less: Operating Expenses <sup>(1)</sup>	<u>2,003</u>	<u>1,840</u>	<u>1,842</u>
Net Funds Available to meet Non-Federal Debt Service Obligations	1,653	1,870	1,728
Less: Non-Federal Debt Service Obligations			
Non-Federal Projects <sup>(2)</sup>	233	267	241
Lease-Purchase Program <sup>(3)</sup>	74	61	58
Electric Power Prepayments <sup>(4)</sup>	<u>31</u>	<u>31</u>	<u>31</u>
Total Non-Federal Debt Service Obligations	<u>337</u>	<u>359</u>	<u>330</u>
Revenue Available for Treasury	1,315	1,511	1,398
Amount Allocated for Payment to Treasury <sup>(5)</sup> :			
Corps and Reclamation O&M <sup>(6)</sup>	433	418	416
Net Interest Expense <sup>(7)</sup>	208	207	247
Lease-Purchase Program <sup>(3)</sup>	(60)	(61)	(59)
Electric Power Prepayments <sup>(4)</sup>	(11)	(12)	(12)
Capitalization Adjustment <sup>(8)</sup>	65	65	65
Allowance for Funds Used During Construction <sup>(9)</sup>	12	11	12
Amortization of Federal Principal <sup>(10)</sup>	<u>734</u>	<u>569</u>	<u>909</u>
Total Amount Allocated for Payment to Treasury <sup>(5)</sup>	1,381	1,197	1,578
Non-Federal Debt Service Coverage Ratio <sup>(11)</sup>	4.9x	5.2x	5.2x
Non-Federal Project Debt Service Plus Operating Expense Coverage Ratio <sup>(12)</sup>	1.6x	1.7x	1.6x

(1) Operating Expenses include the following items from the Federal System Statement of Revenues and Expenses: Bonneville O&M, Purchased Power, Non-Federal entities O&M-net billed, Non-Federal entities O&M non-net-billed, and the Residential Exchange Program. Operating Expenses do not include certain payments to the Corps and Reclamation. Treatment of the Corps, Reclamation, and Fish and Wildlife Service operating expense is described in “—Direct Funding of Federal System Operations and Maintenance Expense.”

(2) Includes debt service (principal and interest) for generating resources acquired by Bonneville under Net Billing Agreements or other capitalized contracts. Non-net billed debt service amounted to \$9 million, \$9 million, and \$9 million for Fiscal Years 2017, 2018, and 2019 respectively.

(3) To reconcile Net Interest Expense as reported in the audited financial statements of the Federal System (included as Appendix B-1 to the Official Statement) the interest expense portion of the Lease-Purchase Program as shown here is a reduction of Amount Allocated for Payment to Treasury.

(4) To reconcile Net Interest Expense as reported in the audited financial statements of the Federal System (included as Appendix B-1 to the Official Statement) the interest expense portion of the Electric Power Prepayments as shown here is a reduction of Amount Allocated for Payment to Treasury. In Fiscal Year 2013, Bonneville received \$340 million from certain Preference Customers as one-time prepayments of portions of their future power bills through Fiscal Year 2028. In return the customers will receive credits in future power bills. The aggregate amount of the credits is \$2.55 million per month through Fiscal Year 2028.

In Fiscal Year 2019, Bonneville provided credits on Preference Customers' bills in an aggregate amount of \$31 million. Of this amount, \$11 million is accounted for as Net Interest Expense and \$20 million is accounted for as the repayment of principal. See "BONNEVILLE FINANCIAL OPERATIONS—Bonneville's Non-Federal Debt—Electric Power Prepayments."

- (5) In contrast to the "Total Amount Allocated for Payment to Treasury," Bonneville's actual payments to the United States Treasury in Fiscal Years 2017, 2018, and 2019 were \$1.3 billion, \$862 million, and \$1.1 billion respectively, and include the amounts for each such year for direct funding for the Corps, Reclamation, and Fish and Wildlife Service as portrayed under "Corps and Reclamation O&M." See "—Direct Funding of Federal System Operations and Maintenance Expense."
- (6) Amounts shown are calculated on an accrual basis and include direct operations and maintenance payments to the Corps, Reclamation, and Fish and Wildlife Service for Fiscal Years 2017, 2018, and 2019. See "—Direct Funding of Federal System Operations and Maintenance Expense."
- (7) Net Interest Expense as reported in the audited financial statements of the Federal System (included as Appendix B-1 to the Official Statement) includes certain interest associated with obligations to Non-Federal entities (see footnotes (3) and (4)). Amounts shown are calculated on an accrual basis.
- (8) The capitalization adjustment is included in net interest expense but is not part of Bonneville's payment to the United States Treasury.
- (9) The Allowance for Funds Used During Construction includes, among other things, Bonneville's portion of the interest during the construction period for Federal System investments funded by borrowings from the United States Treasury. For clarity, none of the related interest expense for the Lease-Purchase Program is reflected in Allowance for Funds Used During Construction.
- (10) Regional Cooperation Debt actions enabled Bonneville to prepay \$227 million in high-interest rate Federal Appropriations Repayment Obligations in Fiscal Year 2019, \$275 million in Fiscal Year 2018, and \$687 million in Fiscal Year 2017, in addition to the amounts otherwise scheduled for repayment in Bonneville's rates. The effect of these prepayments and the extension of Energy Northwest debt resulted in atypically high Non-Federal Debt Service Coverage Ratios. In Fiscal Years 2011-2013, which immediately preceded the commencement of the Regional Cooperation Debt initiative, the Non-Federal Debt Service Coverage Ratio ranged between 2.2x and 2.5x. Bonneville can provide no assurance regarding future debt service coverage ratios. See "CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Regional Cooperation Debt and Related Actions."
- (11) The "Non-Federal Debt Service Coverage Ratio" is defined as follows:

**Total Operating Revenues-Operating Expense (Footnote 1)**

**Non-Federal Projects + Lease-Purchase Program + Electric Power Prepayments**

- (12) The "Non-Federal Debt Service plus Operating Expense Coverage Ratio" is defined as follows:

**Total Operating Revenues**

**Operating Expense (Footnote 1) + Non-Federal Projects + Lease-Purchase Program + Electric Power Prepayments**

### **Management's Discussion of Unaudited Results for the Six Months ended March 31, 2020**

Total operating revenues were \$1.9 billion through the second quarter of Fiscal Year 2020 ("Fiscal Year 2020 Second Quarter"), a decrease of \$43 million as compared to operating revenues for the six months ended March 31, 2019 ("Fiscal Year 2019 Second Quarter"). Consolidated gross sales for Power and Transmission Services, including the effect of bookouts, decreased \$10 million through Fiscal Year 2020 Second Quarter compared to consolidated gross sales through Fiscal Year 2019 Second Quarter. ("Bookouts" are a reflection of accounting guidance associated with energy activities that are settled other than by the physical delivery of power and are reported on a "net" basis in both operating revenues and purchased power expense. The accounting treatment for book-outs has no effect on net revenues, cash flows, or margins.)

Power Services gross sales decreased \$23 million through Fiscal Year 2020 Second Quarter as compared to Fiscal Year 2019 Second Quarter. Firm power sales decreased by \$34 million primarily due to lower firm power loads in Fiscal Year 2020. Secondary sales increased by \$11 million, primarily due to higher volumes of available surplus secondary energy. Transmission Services gross sales increased \$21 million due to the 3.6 percent average transmission

rate increase that went into effect on October 1, 2019. In addition, unusually cold temperatures in October and November 2019 led to higher power loads and related revenues for transmission service.

United States Treasury credits decreased \$17 million for fish and wildlife mitigation due to decreased purchased power requirements resulting from increased streamflow through Fiscal Year 2020 Second Quarter. Power purchases are needed to replace lost hydroelectric generation due to fish mitigation measures.

Through Fiscal Year 2020 Second Quarter, total operating expenses were \$1.5 billion, a \$176 million decrease when compared to Fiscal Year 2019 Second Quarter. Operations and maintenance expense decreased \$36 million primarily due to a \$56 million decrease at Energy Northwest's Columbia Generating Station nuclear power plant. Refueling occurs biennially, most recently in Fiscal Year 2019, and refueling and maintenance expenses are higher in refueling years. Purchased power expense, including the effects of bookouts, decreased \$180 million primarily due to a \$121 million decrease in the amount owed to BC Hydro under certain water storage agreements.

Depreciation, amortization and accretion increased \$143 million. This was primarily because of \$107 million and \$17 million increases to the amortization of nonfederal generation assets and accretion expense, respectively.

Interest expense and other net income increased \$113 million. This was primarily due to a \$116 million increase in Interest Expense related to changes (as described in the FCRPS Fiscal Year 2020 Second Quarter Report) in reporting of Non-Federal Debt costs beginning in Fiscal Year 2020 to record interest related to Non-Federal Debt as Interest Expense rather than as part of Non-Federal Projects Debt Service. For further information regarding Fiscal Year 2020 Second Quarter unaudited results, see Appendix B-2—"FEDERAL SYSTEM UNAUDITED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED MARCH 31, 2020."

For details related to Bonneville's forecasts for Fiscal Year 2020 year-end revenues and RAR, see "CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Fiscal Year 2020 Expectations and Related Information."

## **BONNEVILLE LITIGATION**

Bonneville is involved in the following matters in addition to the litigation described elsewhere in this Appendix A:

### **Columbia River ESA Litigation**

Since 2001, NOAA Fisheries and the Action Agencies have been involved in continuous litigation with the National Wildlife Federation and other plaintiffs in the Oregon Federal District Court over a succession of biological opinions relating to listed anadromous salmonid species of the Columbia and Snake Rivers. This litigation began with a challenge to the 2000 Columbia River System Biological Opinion and has resulted in a series of revised biological opinions (including the 2004 Biological Opinion, the 2008 Biological Opinion, and the 2010 Supplemental Biological Opinion, each of which attempted to correct the deficiencies identified by the court) and subsequent challenges under the ESA, the Administrative Procedures Act, the Clean Water Act, and NEPA.

In January 2014, NOAA Fisheries issued the 2014 Columbia River System Supplemental Biological Opinion. In February 2014, the Action Agencies each signed a decision document to implement the biological opinion. In May 2014, American Rivers and other plaintiffs filed a petition in the Ninth Circuit Court challenging Bonneville's record of decision. In July 2014, National Wildlife Federation and other plaintiffs challenged NOAA Fisheries' biological opinion and the Corps' and Reclamation's decision documents in Oregon Federal District Court, and the State of Oregon intervened as a plaintiff in this litigation in October 2014. In both the Oregon Federal District Court and Ninth Circuit Court actions, plaintiffs allege that the 2014 Columbia River System Supplemental Biological Opinion and related decisions violate certain provisions of the ESA, NEPA, and Administrative Procedure Act. These lawsuits are similar to previous challenges of past biological opinions, with the exception of one additional claim under NEPA challenging the Action Agencies' failure to prepare a new environmental impact statement for their adoption and implementation of the Reasonable and Prudent Alternative actions in the biological opinion. The Ninth Circuit Court originally issued an order staying the petition against Bonneville pending resolution of the Oregon Federal District Court action. Shortly after the issuance by the District Court of the May 4, 2016 order described immediately below, the lawsuit in the Ninth Circuit Court was voluntarily dismissed.

On May 4, 2016, the Oregon Federal District Court issued a ruling on the ESA challenges to the 2014 Columbia River System Supplemental Biological Opinion and the NEPA challenge. The Oregon Federal District Court concluded that the Corps and Reclamation violated NEPA and identified a number of deficiencies with the 2014 Columbia River System Supplemental Biological Opinion, including that the approach used by NOAA Fisheries to determine whether the listed species “are trending toward recovery” is arbitrary and capricious, that the 2014 Columbia River System Supplemental Biological Opinion relies on habitat restoration benefits that “are too uncertain and do not allow any margin of error,” and that the 2014 Columbia River System Supplemental Biological Opinion “fails to properly analyze the effects of climate change.” See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Developments Relating to the Endangered Species Act,” “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—The Endangered Species Act.”

On July 6, 2016, the Oregon Federal District Court issued an order directing that a new environmental impact statement under NEPA be prepared on or before March 26, 2021 and that the federal agencies’ records of decision documenting decisions on how to implement the ESA, which will be informed by analyses provided in the environmental impact statement, shall be issued on or before September 24, 2021. On April 17, 2018, the Oregon Federal District Court issued an order adjusting the deadline for the new biological opinion and environmental impact statement to March 26, 2021. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Developments Relating to the Endangered Species Act,” “POWER SERVICES—Certain Statutes and Other Matters Affecting Bonneville’s Power Services—Fish and Wildlife—The Endangered Species Act.”

On January 9, 2017, plaintiffs filed requests for injunctive relief with the Oregon Federal District Court seeking increased spring spill at eight Snake and Columbia River Federal System dams and a halt to spending by the Corps of Engineers on certain ongoing and future capital projects at the four lower Snake River dams. In April 2017, the Oregon Federal District Court issued an opinion and order granting in part and denying in part the motions for injunction with respect to spill and capital project funding. In its April 2017 ruling, the Oregon Federal District Court ordered “increased spill” but delayed implementation of changes to system operations “until the spring 2018 migration season” in order to allow time for the parties to develop a “spill implementation plan and proposed injunction order,” either through consensus or by court resolution following subsequent briefings and hearings. On June 2, 2017, the federal defendants filed a notice of appeal from the April 3, 2017 initial injunction ruling. On January 8, 2018, the Oregon Federal District Court issued a final order directing increased spill for the spring 2018 fish passage season (approximately April-June 2018) at all eight Snake River and Columbia River Federal System dams identified in the injunction motions.

The Ninth Circuit Court issued an opinion on April 2, 2018, affirming the Oregon Federal District Court’s spill and fish monitoring injunctions. Spill for fish passage under the Oregon Federal District Court’s injunction order began at the eight Snake and Columbia River Federal System dams in April 2018.

On December 14, 2018, Action Agencies, defendant intervenor State of Washington, plaintiffs the State of Oregon and the Nez Perce Tribe entered into an agreement in which the agencies agreed to specified spring spill operations in 2019 and 2020 in exchange for a pause in litigation on the biological opinion. The agreement set the costs to Bonneville of the 2019 and 2020 spring spill at no more than the cost of 2018 spring spill operations. Because the agreement changed the proposed action, NOAA Fisheries issued a new biological opinion incorporating the agreed to spring spill operations, effective April 1, 2019 until a new action is adopted through records of decision related to the ongoing Columbia River System Operations NEPA process. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Developments Relating to the Endangered Species Act.”

With respect to the capital project injunction, the Oregon Federal District Court concluded that capital spending at the four lower Snake River dams is “likely to cause irreparable harm” under NEPA by creating a significant risk of bias in the NEPA process. The Oregon Federal District Court declined, however, to enjoin the turbine runner and stator wind replacements at the Ice Harbor dam because their primary benefit is increasing fish survival. The court ordered the federal government to develop a proposal to disclose sufficient information to the plaintiffs on future capital spending projects at each dam during the NEPA remand period at appropriate and regular intervals. On May 16, 2017, the parties filed a joint proposed notification process which the Court adopted in an order dated May 25, 2017. The plaintiffs are invited to file new motions to enjoin future projects that the plaintiffs believe are not needed for safe operation of the dams and substantially may bias the NEPA process. See “CERTAIN DEVELOPMENTS RELATING TO BONNEVILLE—Developments Relating to the Endangered Species Act.”

### **EPA Clean Water Act Litigation**

On February 23, 2017, Columbia Riverkeeper and other plaintiffs filed suit against the EPA in Washington Federal District Court in Seattle alleging violations of the Clean Water Act – Section 303(d) and the Administrative Procedure Act. The Washington Federal District Court granted, in part, the plaintiffs’ claims directing EPA to approve or disapprove of what the Washington Federal District Court determined was a constructive submission of a Total Maximum Daily Allowance (“TMDL”) for temperature in the Columbia and Snake Rivers by Oregon and Washington within 30 days of the ruling. The Washington Federal District Court then determined that if EPA disapproves of the constructive TMDL it must issue a new TMDL 30 days from that date. The United States appealed the Washington Federal District Court’s ruling to the Ninth Circuit Court and received a stay on its ruling. EPA and the plaintiffs agreed to an expedited review of the case by the Ninth Circuit Court. EPA filed its opening brief on April 12, 2019. Plaintiffs’ answer was filed on May 10, 2019 and EPA’s reply was filed on June 7, 2019. Oral arguments were held in the Ninth Circuit Court case in August 2019. On December 20, 2019, the Ninth Circuit issued its opinion affirming the district court’s decision that the states had constructively submitted a temperature TMDL, which triggered EPA’s duty to act under the Clean Water Act and develop and issue a temperature TMDL. The EPA expects to produce the temperature TMDL on May 18, 2020.

Bonneville is not a party to this suit but the complaint implies that Federal System Hydroelectric Projects on the Columbia and lower Snake River are responsible for the high water temperatures and exceedances of water quality standards. Bonneville is unable to predict the outcome of this litigation but it could lead to potential changes in the operation and configuration of the Federal System Hydroelectric Projects.

### **Miscellaneous Litigation**

From time to time, Bonneville may be involved in numerous other cases and arbitration proceedings, including land, contract, employment, billing disputes, federal procurement, and tort claims, some of which could result in money judgments or increased costs to Bonneville. The combined amount of damages claimed in these unrelated actions is not expected to exceed \$50 million.

**APPENDIX B-1**

**FEDERAL SYSTEM AUDITED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2019, 2018 AND 2017**

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## **Report of Independent Auditors**

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

We have audited the accompanying combined financial statements of the Federal Columbia River Power System (FCRPS), which comprise the combined balances sheets as of September 30, 2019 and 2018 and the related combined statements of revenues and expenses and cash flows for each of the three years in the period ended September 30, 2019.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Federal Columbia River Power System as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the three years in the period ended September 30, 2019 in accordance with accounting principles generally accepted in the United States of America.



***Emphasis of Matter***

As discussed in Note 1 to the combined financial statements, the FCRPS changed the manner in which it accounts for revenue from contracts with customers in fiscal year 2019. Our opinion is not modified with respect to this matter.

*PricewaterhouseCoopers LLP*

Portland, Oregon  
October 30, 2019

# Federal Columbia River Power System

## Combined Balance Sheets

As of September 30

(Millions of Dollars)

	2019	2018
<b>Assets</b>		
<b>Utility plant</b>		
Completed plant	\$ 19,894.9	\$ 19,307.4
Accumulated depreciation	(7,179.5)	(6,883.4)
Net completed plant	12,715.4	12,424.0
Construction work in progress	1,248.2	1,290.1
<b>Net utility plant</b>	<b>13,963.6</b>	<b>13,714.1</b>
<b>Nonfederal generation</b>	<b>3,774.3</b>	<b>3,350.9</b>
<b>Current assets</b>		
Cash and cash equivalents	523.5	804.2
Short-term investments in U.S. Treasury securities	-	40.2
Accounts receivable, net of allowance	40.3	75.2
Accrued unbilled revenues	294.1	292.4
Materials and supplies, at average cost	106.5	109.1
Prepaid expenses	31.0	48.2
<b>Total current assets</b>	<b>995.4</b>	<b>1,369.3</b>
<b>Other assets</b>		
Regulatory assets	5,292.1	5,587.7
Nonfederal nuclear decommissioning trusts	391.6	377.6
Deferred charges and other	140.9	176.8
<b>Total other assets</b>	<b>5,824.6</b>	<b>6,142.1</b>
<b>Total assets</b>	<b>\$ 24,557.9</b>	<b>\$ 24,576.4</b>

*The accompanying notes are an integral part of these financial statements.*

# Federal Columbia River Power System Combined Balance Sheets

As of September 30

(Millions of Dollars)

	2019	2018
<b>Capitalization and Liabilities</b>		
<b>Capitalization and long-term liabilities</b>		
Accumulated net revenues	\$ 4,315.4	\$ 4,123.8
Debt		
Federal appropriations	1,595.2	1,791.7
Borrowings from U.S. Treasury	4,850.6	4,955.7
Nonfederal debt	6,701.7	7,111.4
<b>Total capitalization and long-term liabilities</b>	<b>17,462.9</b>	<b>17,982.6</b>
 <b>Commitments and contingencies (Note 13)</b>		
 <b>Current liabilities</b>		
Debt		
Borrowings from U.S. Treasury	429.0	574.9
Nonfederal debt	891.6	598.3
Accounts payable and other	551.6	511.4
<b>Total current liabilities</b>	<b>1,872.2</b>	<b>1,684.6</b>
 <b>Other liabilities</b>		
Regulatory liabilities	1,804.5	1,912.0
IOU exchange benefits	2,092.8	2,256.7
Asset retirement obligations	821.2	208.0
Deferred credits and other	504.3	532.5
<b>Total other liabilities</b>	<b>5,222.8</b>	<b>4,909.2</b>
 <b>Total capitalization and liabilities</b>	 <b>\$ 24,557.9</b>	 <b>\$ 24,576.4</b>

*The accompanying notes are an integral part of these financial statements.*

# Federal Columbia River Power System

## Combined Statements of Revenues and Expenses

For the Years Ended September 30

(Millions of Dollars)

	2019	2018	2017
<b>Operating revenues</b>			
Sales	\$ 3,553.1	\$ 3,635.6	\$ 3,511.5
U.S. Treasury credits	102.8	74.7	58.3
<b>Total operating revenues</b>	<b>3,655.9</b>	<b>3,710.3</b>	<b>3,569.8</b>
<b>Operating expenses</b>			
Operations and maintenance	2,137.9	2,098.7	2,110.7
Purchased power	298.3	159.5	147.4
Nonfederal projects	232.6	266.9	241.3
Depreciation and amortization	531.0	507.3	485.0
<b>Total operating expenses</b>	<b>3,199.8</b>	<b>3,032.4</b>	<b>2,984.4</b>
<b>Net operating revenues</b>	<b>456.1</b>	<b>677.9</b>	<b>585.4</b>
<b>Interest expense and (income)</b>			
Interest expense	250.8	245.1	285.9
Allowance for funds used during construction	(32.5)	(31.5)	(33.0)
Interest income	(9.8)	(6.3)	(6.1)
<b>Net interest expense</b>	<b>208.5</b>	<b>207.3</b>	<b>246.8</b>
<b>Net revenues</b>	<b>247.6</b>	<b>470.6</b>	<b>338.6</b>
Accumulated net revenues, beginning of year	4,123.8	3,680.4	3,392.6
Irrigation assistance	(56.0)	(27.2)	(50.8)
<b>Accumulated net revenues, end of year</b>	<b>\$ 4,315.4</b>	<b>\$ 4,123.8</b>	<b>\$ 3,680.4</b>

*The accompanying notes are an integral part of these financial statements.*

# Federal Columbia River Power System

## Combined Statements of Cash Flows

For the Years Ended September 30  
(Millions of Dollars)

	2019	2018	2017
<b>Cash flows from operating activities</b>			
Net revenues	\$ 247.6	\$ 470.6	\$ 338.6
Adjustments to reconcile net revenues to cash provided by operations:			
Depreciation and amortization	531.0	507.3	485.0
Amortization of nonfederal projects	181.4	199.5	67.2
Deferred payments for Energy Northwest-related O&M and interest	227.0	141.0	458.3
Changes in:			
Receivables and unbilled revenues	33.2	(21.9)	(13.4)
Materials and supplies	2.6	2.9	(0.1)
Prepaid expenses	17.2	6.9	(33.2)
Accounts payable and other	32.6	7.2	71.3
Regulatory assets and liabilities	67.1	50.8	92.3
IOU exchange benefits	(163.9)	(159.0)	(136.2)
Other assets and liabilities	(38.2)	(3.5)	(50.9)
<b>Net cash provided by operating activities</b>	<b>1,137.6</b>	<b>1,201.8</b>	<b>1,278.9</b>
<b>Cash flows from investing activities</b>			
Investment in utility plant, including AFUDC	(634.8)	(704.3)	(692.5)
U.S. Treasury securities:			
Purchases	(110.0)	(332.1)	(1,109.0)
Maturities	150.0	322.0	1,352.3
Deposits to nonfederal nuclear decommissioning trusts	(3.9)	(3.8)	(3.6)
Lease-purchase trust funds:			
Deposits to	-	(9.6)	(103.8)
Receipts from	43.3	58.9	132.4
<b>Net cash used for investing activities</b>	<b>(555.4)</b>	<b>(668.9)</b>	<b>(424.2)</b>
<b>Cash flows from financing activities</b>			
Federal appropriations:			
Proceeds	31.0	44.2	71.2
Repayment	(227.5)	(281.9)	(908.7)
Borrowings from U.S. Treasury:			
Proceeds	255.0	809.0	250.0
Repayment	(506.0)	(287.1)	-
Nonfederal debt:			
Proceeds	4.0	30.6	104.1
Repayment	(379.5)	(677.5)	(293.1)
Customers:			
Net advances for construction	29.9	80.5	21.7
Repayment of funds used for construction	(14.6)	(17.8)	(31.3)
Irrigation assistance	(56.0)	(27.2)	(50.8)
<b>Net cash used for financing activities</b>	<b>(863.7)</b>	<b>(327.2)</b>	<b>(836.9)</b>
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	<b>(281.5)</b>	<b>205.7</b>	<b>17.8</b>
Cash, cash equivalents and restricted cash at beginning of year	816.4	610.7	592.9
<b>Cash, cash equivalents and restricted cash at end of year</b>	<b>\$ 534.9</b>	<b>\$ 816.4</b>	<b>\$ 610.7</b>
Less: Restricted cash and cash equivalents at end of year	11.4	12.2	12.8
<b>Cash and cash equivalents at end of year</b>	<b>\$ 523.5</b>	<b>\$ 804.2</b>	<b>\$ 597.9</b>
<b>Supplemental disclosures:</b>			
Cash paid for interest, net of amount capitalized	\$ 284.3	\$ 275.7	\$ 316.1
Significant noncash investing and financing activities:			
Nonfederal debt increase for Energy Northwest	\$ 727.3	\$ 1,257.4	\$ 1,046.2
Nonfederal debt decrease for Energy Northwest	\$ (494.4)	\$ (1,163.5)	\$ (601.5)
Other nonfederal debt actions	\$ 26.2	\$ 0.4	\$ (9.2)
Increase in Nonfederal generation asset	\$ 594.8	\$ -	\$ -

*The accompanying notes are an integral part of these financial statements.*

# Notes to Financial 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) with the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers (USACE) and the Bureau of Reclamation (Reclamation). The FCRPS combined financial statements also include the operations and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan facilities. Consolidated with BPA is a variable interest entity (VIE) of which BPA is the primary beneficiary, and from which BPA leases certain transmission facilities. (See Note 7, Debt and Appropriations, and Note 8, Variable Interest Entities.)

BPA is a separate and distinct entity within the U.S. Department of Energy; the USACE is part of the U.S. Department of Defense; and Reclamation and U.S. Fish and Wildlife Service are part of the U.S. Department of the Interior. Each of the combined entities is separately managed, but the facilities are operated as an integrated power system with the financial results combined as the FCRPS. BPA is a self-funding federal power marketing administration that purchases, transmits and markets power for the FCRPS. While the costs of USACE and Reclamation projects serve multiple purposes, only the power portion of total project costs are assigned to the FCRPS through cost allocation processes. All intracompany and intercompany accounts and transactions have been eliminated from the FCRPS financial statements.

FCRPS financial statements are prepared in accordance with generally accepted accounting principles (GAAP) of the United States of America. FCRPS financial statements also reflect the Uniform System of Accounts (USoA) applicable to federal entities as prescribed for electric public utilities by the Federal Energy Regulatory Commission (FERC). FCRPS accounting policies also reflect other specific legislation and directives issued by U.S. government agencies. All U.S. government properties and income are tax exempt.

#### **Use of estimates**

The preparation of FCRPS financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the FCRPS 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 subject to an extensive formal hearing process, after which they are proposed by BPA and reviewed by FERC. FERC's review is based on BPA statutes that include a requirement that rates must be sufficient to ensure repayment of the federal investment in the FCRPS over a reasonable number of years after first meeting BPA's other costs. After the final FERC approval, BPA's rates may be reviewed by the United States Court of Appeals for the Ninth Circuit (Ninth Circuit Court) if challenged by parties involved in the rate proceedings. Petitions seeking such review must be filed within 90 days of the final FERC approval. The Ninth Circuit Court may either confirm or reject a rate proposed by BPA. BPA's rates are not structured to provide a rate of return on its assets.

In accordance with authoritative guidance for regulated operations, certain costs or credits may be included in rates for recovery or refund over a future period and are recorded as regulatory assets or liabilities. (See Note 4, Effects of Regulation.)

## **Utility plant**

Utility plant is stated at original cost and includes federal system hydro generation assets (i.e., Pacific Northwest generating facilities of the USACE and Reclamation) as well as transmission and other assets. The costs of substantial additions, major replacements and substantial betterments are capitalized. Costs include direct labor and materials; payments to contractors; indirect charges for engineering, supervision and certain overhead items; and an allowance for funds used during construction (AFUDC). Maintenance, repairs and replacements of items determined to be less than major units of property are charged as incurred to Operations and maintenance in the Combined Statements of Revenues and Expenses. When utility plant is retired, the original cost and any net proceeds from the disposition are charged to accumulated depreciation. (See Note 3, Utility Plant.)

## **Depreciation and amortization**

Depreciation of the original cost of generation plant is computed using straight-line methods based on estimated average service lives of the various classes of property. 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 average service lives of the various classes of property. Periodically BPA conducts a depreciation study on transmission and general plant assets. BPA updates depreciation rates based on updated asset lives and net salvage, which considers cost of removal and salvage proceeds. The estimated net cost of removal is included in depreciation expense. (See Note 3, Utility Plant.)

In the event removal costs associated with transmission plant are expected to exceed salvage proceeds, a reclassification of this negative salvage is made from accumulated depreciation to a regulatory liability. As actual removal costs are incurred, the associated regulatory liability is reduced. (See Note 4, Effects of Regulation.)

Amortization expense relates to certain regulatory assets. (See Note 4, Effects of Regulation.)

## **Allowance for funds used during construction**

AFUDC represents the estimated cost of interest on financing the construction of new assets. AFUDC is calculated based on the construction work in progress balance and on Lease-Purchase Program trust fund balances held for construction purposes. (See Note 6, Deferred Charges and Other.) AFUDC is charged to the capitalized cost of the utility plant asset and is a reduction of interest expense.

AFUDC is capitalized at one rate for construction funded substantially by BPA and at another rate for USACE and Reclamation construction funded by congressional appropriations. (See Note 3, Utility Plant.) The BPA rate is determined based on the weighted-average cost of borrowing for certain types of debt and deferred credits that are related to BPA construction activity. The rate for appropriated funds is provided each year to BPA by the U.S. Treasury.

## **Nonfederal generation**

BPA is party to long-term contracts for BPA to acquire all of the generating capability of Energy Northwest's Columbia Generating Station (CGS) nuclear power plant and, through June 2032, Lewis County PUD's Cowlitz Falls Hydroelectric Project. These contracts require BPA to meet all of the facilities' operating, maintenance and debt service costs. Operations and maintenance and debt service expenses for these projects are recognized based upon annual total project cash funding requirements, which vary from year to year. The Nonfederal generation assets on the Combined Balance Sheets are amortized over the term of the related outstanding nonfederal debt, with the amortization expense included in Nonfederal projects in the Combined Statements of Revenues and Expenses. (See Note 7, Debt and Appropriations.)

## **Cash and cash equivalents**

Cash amounts for the FCRPS include cash and cash equivalents in the Bonneville Power Administration Fund (Bonneville Fund) within the U.S. Treasury and cash from certain unexpended appropriations of the USACE and Reclamation related to the FCRPS. The Bonneville Fund primarily holds cash equivalents, which consist of investments in non-marketable market-based special securities issued by the U.S. Treasury (market-based

specials) with maturities of 90 days or less at the date of investment. The carrying value of cash and cash equivalents approximates fair value.

### **Investments in U.S. Treasury securities**

BPA participates in the U.S. Treasury's Federal Investment Program, which provides investment services to federal government entities that have funds on deposit with the U.S. Treasury and statutory authority to invest those funds. Investments of the funds are generally restricted to U.S. Treasury market-based special securities and are informed by prevailing rates of interest for various short-term or longer-term investments.

Investments in U.S. Treasury securities are carried at amortized cost, which approximates fair value, and reflect the ability and intent to hold the securities to maturity. The fair value measurements of investments in U.S. Treasury securities are considered Level 2 in the fair value hierarchy as defined by the accounting guidance for fair value measurements and disclosures. (See Note 12, Fair Value Measurements.)

### **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 relates to the loss that might occur as a result of counterparty non-performance.

BPA's accounts receivable are spread across a diverse group of customers throughout the western United States and Canada, and include consumer-owned utilities (COUs), investor-owned utilities (IOUs), power marketers, wind generators and others. BPA's accounts receivable exposure is generally from large and stable counterparties and does not represent a significant concentration of credit risk. During fiscal years 2019, 2018 and 2017, BPA experienced no material losses as a result of any customer defaults or bankruptcy filings.

BPA mitigates credit risk by reviewing counterparties for creditworthiness, establishing credit limits and monitoring credit exposure. To further manage credit risk, BPA obtains credit support, such as letters of credit, parental guarantees, and cash in the form of prepayments, deposits or escrow funds, from some counterparties. BPA monitors counterparties for changes in financial condition and regularly updates credit reviews. (See Note 11, Risk Management and Derivative Instruments.)

#### **Allowance for doubtful accounts**

Management reviews accounts receivable to determine if any receivable will potentially be uncollectible. The allowance for doubtful accounts includes amounts estimated through an evaluation of specific customer 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 balance is not material to the financial statements.

### **Derivative instruments**

Derivative instruments are measured at fair value and recognized on the Combined Balance Sheets as either Deferred charges and other or as Deferred credits and other except for certain contracts eligible for the normal purchases and normal sales exception under derivatives and hedging accounting guidance. Derivative instruments reported by the FCRPS consist primarily of forward electricity contracts, which are generally considered normal purchases and normal sales if they require physical delivery, are expected to be used or sold in the normal course of business and meet the derivative accounting definition of capacity. Recognition of these contracts in Sales or Purchased power in the Combined Statements of Revenues and Expenses occurs when the contracts settle. (See Note 11, Risk Management and Derivative Instruments.)

Changes in fair value are deferred as either Regulatory assets or Regulatory liabilities on the Combined Balance Sheets in accordance with regulated operations accounting guidance. The FCRPS does not apply hedge accounting.

### **Fair value**

Carrying amounts of current assets and current liabilities approximate fair value based on the short-term nature of these instruments. Fair value measurements are applied to certain financial assets and liabilities and to

determine fair value disclosures in accordance with GAAP. 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 quoted forward prices for commodities, time value, volatility factors, current market and contractual prices for underlying instruments, market interest rates and yield curves, and credit spreads, as well as other relevant economic measures. (See Note 11, Risk Management and Derivative Instruments and Note 12, Fair Value Measurements.)

### **Operating revenues and net revenues**

Operating revenues include estimated unbilled revenues. (See Note 2, Revenue Recognition.) Net revenues over time are committed to payment of operational obligations, including debt for both operating and non-operating nonfederal projects, debt service on bonds BPA issues to the U.S. Treasury, the repayment of federal appropriations for the FCRPS, and the payment of certain irrigation costs.

### **U.S. Treasury credits**

U.S. Treasury credits represent nonpower-related costs that BPA recovers from the U.S. Treasury in accordance with certain laws. (See Note 2, Revenue Recognition.)

### **Purchased power**

Purchased power expense represents wholesale power purchases that are meant to augment the FCRPS resource pool to meet loads and obligations. In addition, this expense includes the costs of certain water storage agreements between BPA and third parties. Purchased power excludes operations and maintenance expenses associated with CGS and the Cowlitz Falls Hydroelectric Project, and with certain contracts for renewable resources that BPA management considers part of the FCRPS resource pool.

### **Nonfederal projects**

Nonfederal projects expense represents the amortization of nonfederal generation assets and regulatory assets for terminated nonfederal nuclear and hydro facilities, as well as the interest expense on the debt related to those assets. This expense varies from year to year and is recognized over the terms of the related outstanding debt, which reflect refinancing actions, if any, undertaken during the fiscal year.

### **Interest expense**

Interest expense includes interest associated with the unpaid balance of federal appropriations scheduled for repayment, interest on bonds issued by BPA to the U.S. Treasury and interest on certain nonfederal debt and liabilities. Reductions to interest expense include the amortization of a capitalization adjustment regulatory liability. (See Note 4, Effects of Regulation.) Interest expense excludes interest on nonfederal debt related to operating or terminated generation assets that is instead reported as a component of nonfederal projects expense. (See Note 7, Debt and Appropriations.)

### **Interest income**

Interest income includes interest earnings on market-based special securities in the Bonneville Fund and interest earnings from other sources. Interest earnings on U.S. Treasury market-based special investments are based on the stated rates of the individual securities.

### **Residential Exchange Program**

In order to provide qualifying regional utilities, primarily IOUs, access to power benefits from the FCRPS, Congress established the Residential Exchange Program (REP) in Section 5(c) of The Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). Whenever a Pacific Northwest electric utility offers to sell power to BPA at the utility's average system cost of resources, BPA purchases such power and offers, in exchange, to sell an equivalent amount of power at BPA's priority firm 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 BPA's power rates. The cost of this program is collected

through BPA's power rates. REP costs are recognized when incurred and are included in Operations and maintenance in the Combined Statements of Revenues and Expenses.

In fiscal year 2011, BPA signed the 2012 Residential Exchange Program Settlement Agreement (2012 REP Settlement Agreement), resolving disputes related to the REP. The 2012 REP Settlement Agreement provided for fixed "Scheduled Amounts" payable to the IOUs through fiscal year 2028, as well as fixed "Refund Amounts" payable to the COUs through fiscal year 2019. (See Note 9, Residential Exchange Program.)

### **Pension and other postretirement benefits**

Federal employees associated with the operation of the FCRPS participate in either the Civil Service Retirement System or the Federal Employees Retirement System. Employees may also participate after retirement in the Federal Employees Health and Benefit Program and the Federal Employee Group Life Insurance Program. All such postretirement systems and programs are sponsored by the Office of Personnel Management; therefore, the FCRPS financial statements do not include accumulated plan assets or liabilities related to the administration of such programs. As part of BPA's scheduled payment each year to the U.S. Treasury for bonds and other purposes, BPA makes contributions to cover the estimated annual unfunded portion of FCRPS pension and postretirement benefits. These contribution amounts are paid to the U.S. Treasury and are recorded as Operations and maintenance in the Combined Statements of Revenues and Expenses during the year to which the payment relates.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **Financial instruments, recognition and measurement**

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01 to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU supersedes existing guidance to classify equity securities as trading or available-for-sale and requires all equity securities to be measured at fair value with changes in fair value recognized through net revenues. Management does not expect any material impact to the FCRPS financial statements or disclosures as a result of adopting this guidance, which became effective Oct. 1, 2019.

### **Leases**

In February 2016, the FASB issued ASU 2016-02 which supersedes current lease accounting guidance found within Topic 840 "Leases." The primary change under the ASU is the recognition of lease assets and corresponding lease liabilities by lessees for those agreements currently classified as operating leases, which currently are not recognized on the balance sheet. In addition, the guidance requires both quantitative and qualitative disclosures regarding amounts recognized in the financial statements and significant judgments made by management in applying the lease standard. Accounting for lessors is substantially unchanged from current accounting guidance.

Management adopted Topic 842 effective Oct. 1, 2019. The standard, which includes amendments made subsequent to ASU 2016-02, was adopted by applying the optional prospective approach which allows for comparative periods prior to adoption to not be restated. These prior periods will not be adjusted to meet requirements of the new lease standard. Of the available expedients provided by the FASB, management elected to adopt (i) the hindsight practical expedient, which permits the use of hindsight to determine lease term, and (ii) the lease component expedient, which permits lease and non-lease components to be accounted for as a single lease component (by asset class). Management has elected to reassess all existing contracts for lease existence, classification, and initial indirect costs, thereby forgoing the package of three practical expedients, which would allow for the carryforward of historical lease classifications. In addition, management elected to evaluate expired or existing land easements for lease content and to apply the standard to short term leases, thus forgoing available transition expedients.

Management has determined there are no material impacts to FCRPS net financial position as a result of adopting this lease guidance in fiscal year 2020. In addition, management has identified the following effects of

adopting this guidance: (i) reclassification of approximately \$2.0 billion of capital lease obligations to debt; (ii) recognition on the Combined Balance Sheets of right-of-use assets and lease liabilities for operating leases of approximately \$41 million each; (iii) recognition on the Combined Balance Sheets of right-of-use assets and lease liabilities for new financing leases of \$3 million each; and (iv) derecognition of a \$50 million build-to-suit, construction work in progress asset and \$49 million of an other financial liability. Upon completion of construction and energization, this asset will be reinstated and reported among completed plant with the liability reported as a lease liability. The accounting for existing finance leases recorded as other capital leases will not materially change. Management does not expect the adoption of this guidance to have a material impact on the Combined Statements of Revenue and Expenses or the Combined Statements of Cash Flows. Management anticipates additional disclosures around the nature of leased assets and liabilities.

## **Fair Value**

In August 2018, the FASB issued ASU 2018-13 which eliminated, modified and added new disclosure requirements to Topic 820 "Fair Value Measurement." Management is evaluating the impact of adopting this guidance, which will be effective in fiscal year 2021.

## **Cloud Computing**

In August 2018, the FASB issued ASU 2018-15 providing new guidance for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract. These costs will be considered in the same manner as accounting for implementation costs incurred to develop or obtain internal-use software. Management is evaluating the impact of adopting this guidance, which will be effective in fiscal year 2022.

## **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

### **Revenue from contracts with customers**

In May 2014, the FASB issued ASU 2014-09 on revenue from contracts with customers to create a new Topic 606 that supersedes the existing revenue recognition guidance, including most industry-specific guidance. The objective of the new accounting standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries and across industries. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires additional disclosures, both qualitative and quantitative, regarding the nature, amount, timing and uncertainty of revenue and cash flows.

Management adopted Topic 606, Revenue from Contracts with Customers, effective Oct. 1, 2018. The standard was adopted by applying the modified retrospective method, which resulted in a change to Sales on the Combined Statements of Revenues and Expenses and in additional revenue-related disclosures in Note 2, Revenue Recognition. Upon adoption of Topic 606 management began reporting miscellaneous revenues within sales. Miscellaneous revenues are considered revenues within Topic 606 and have been presented as such within all comparative periods. (See Note 2, Revenue Recognition, Other revenue from contracts with customers and Other revenue not with customers, for additional information regarding revenues previously reported as miscellaneous revenues.)

Upon the adoption of this standard, management elected the following practical expedients:

- Apply the standard to a portfolio of contracts with similar characteristics when applicable, as the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts.
- Recognize revenue in the amount we have the right to invoice a customer.
- Apply this standard only to contracts that are not completed as of the date of initial application.

## Classification of certain cash receipts and cash payments in the statement of cash flows

In fiscal year 2019, management adopted ASU 2016-15, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The impact of adopting this standard was immaterial to the FCRPS financial statements, and prior year financial statements were not retrospectively adjusted.

### Restricted cash

In fiscal year 2019, management adopted ASU 2016-18, which addresses the classification and presentation of changes in restricted cash on the statement of cash flows with the objective of reducing existing diversity in practice. The standard was adopted by using a retrospective method on the fiscal year 2019 Combined Statements of Cash Flows to begin including restricted cash within beginning and end-of-year cash, cash equivalents and restricted cash. In addition, a reconciliation near the bottom of the Combined Statements of Cash Flows shows a separate row for restricted cash and cash equivalents. The reporting impact of adopting this standard was immaterial to the Combined Statements of Cash Flows and had no effect on the Combined Balance Sheets or the Combined Statements of Revenues and Expenses.

### SUBSEQUENT EVENTS

Management has performed an evaluation of events and transactions for potential FCRPS recognition or disclosure through Oct. 30, 2019, which is the date the financial statements were issued.

## 2. Revenue Recognition

### DISAGGREGATED REVENUE

<i>Twelve months ended Sept. 30 - millions of dollars</i>	2019
Sales	
Power	
Firm	\$ 2,189.7
Surplus	201.3
Transmission	893.3
Other	80.5
Revenue from contracts with customers	\$ 3,364.8
Derivatives	170.1
Other revenue not with customers	18.2
Sales	\$ 3,553.1
U.S. Treasury credits	102.8
Total operating revenues	\$ 3,655.9

### REVENUE FROM CONTRACTS WITH CUSTOMERS

A substantial majority of FCRPS revenues is from rate-regulated sales of power and transmission products and services. BPA establishes rates for its power and transmission services in a formal rate proceeding. The power and transmission rate schedules and general rate schedule provisions establish the rates, billing determinants, and rate provisions applicable to all BPA power and transmission contracts. Charges for services specified in the rate schedules and their provisions represent the amount billed by BPA for the goods or services used and purchased by its customers.

BPA has elected to apply the right-to-invoice practical expedient to FCRPS rate-regulated revenues from power and transmission services. Amounts invoiced correspond directly with the value to the customers for energy or

services provided by the FCRPS reporting entities. Therefore, revenue from power and transmission sales, which includes billed and estimated unbilled amounts, is recognized over time upon the delivery of energy or services to the customers. The customers receive and benefit from the value of power and transmission at the time of delivery. Payments for amounts billed by BPA are generally due from customers within 20 days of billing. There are no material significant financing components.

**“Firm”** power consists of energy, capacity, or both, that is guaranteed to be available to the customer at all times during the period covered by a contract, except by reason of certain uncontrollable forces or service interruption provisions. The Northwest Power Act obligates BPA to meet a utility customer’s firm consumer load net of the customer’s resources used to serve its load. In addition, BPA sells firm power to other federal agencies and to a limited number of direct service industries within the region for their direct consumption. The vast majority of firm power sold by BPA in fiscal year 2019 was to preference customers, which make long-term power purchases from BPA at cost-based rates to meet their retail loads in the region. Preference customers are qualifying public utility districts, municipalities, consumer-owned electric cooperatives, and tribal utilities within the region. BPA’s current power sales agreements with preference customers are in effect through fiscal year 2028.

**“Surplus”** power consists of energy that can be provided on an hourly or other short-term basis that is surplus to meeting certain firm loads as defined in the Northwest Power Act. BPA often describes the sale of surplus power as secondary sales. Most surplus power is sold to Pacific Northwest and California markets under short-term power sales that allow for flexible negotiated prices, or under longer-term contracts. The availability of surplus power depends primarily on precipitation and reservoir storage levels, performance of the Columbia Generating Station, BPA’s firm power load obligations and other factors. Secondary revenues from the sale of surplus power are highly variable and depend on market conditions and the resulting prices. Amounts disclosed are net of bookouts, which occur when sales and purchases are scheduled with the same counterparty on the same path for the same hour.

**“Transmission”** revenues consist primarily of revenue for the transmission of power on BPA’s network within and through the BPA service area. Point-to-point long-term contracts exceeding one year comprise the majority of network revenues and allow customers to move energy on a firm basis from a point of receipt to a point of delivery. In addition, Network Integration Transmission Service delivers power to load within BPA’s balancing authority area and is a significant component of transmission revenues. Revenue from ancillary services and the Southern Intertie also comprise a significant portion of transmission revenues. Ancillary services ensure transmission grid reliability and include items such as scheduling, dispatch, balancing reserves and other services. The Southern Intertie is a system of transmission lines used primarily to transmit power between the Pacific Northwest and California. Nearly all intertie revenue is from long-term contracts exceeding one year in duration. Transmission customers include entities that buy and sell non-federal power in the region, in-region purchasers of federal power, generators, power marketers and utilities that seek to transmit power into, out of, or through the region.

**“Other”** revenues source primarily from the sales of power and other services or items by Reclamation and USACE. In particular, Reclamation sells power to certain Pacific Northwest irrigation districts. Other revenues also include reimbursable revenues associated with work performed for BPA customers. Reimbursable revenues are generally offset by an equivalent amount of reimbursable expenses.

## **REVENUE NOT WITH CUSTOMERS**

**“Derivatives”** revenues source primarily from certain secondary power contracts that involve derivative instruments. In accordance with accounting guidance, management discloses revenue from derivative instruments separately from revenue from contracts with customers. Amounts disclosed are net of bookouts, which occur when sales and purchases are scheduled with the same counterparty on the same path for the same hour. (For further information on derivatives, see Note 11, Risk Management and Derivative Instruments.)

“Other revenue not with customers” consists mainly of revenues from leasing fees that BPA receives as the lessor of certain fiber optic cables and other assets. Additionally, other revenue not with customers includes the recognized revenue from deferred project revenue funded in advance, which is recognized over the life of the corresponding transmission assets once placed in service. (See Note 10, Deferred Credits and Other.)

## U.S. TREASURY CREDITS

U.S. Treasury credits represent nonpower-related costs that BPA recovers from the U.S. Treasury in accordance with certain laws. BPA applies the credits toward its annual payment to the U.S. Treasury, which is made to pay federal debt, interest and other federal obligations. The primary U.S. Treasury credit is the 4(h)(10)(C) credit provided for in the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). This Act requires BPA to recover the nonpower portion of expenditures—set at 22.3 percent—that BPA makes for fish and wildlife protection, mitigation and enhancement. Through Section 4(h)(10)(C), the Northwest Power Act ensures that the costs of mitigating these impacts are allocated between the power-related and other purposes of the federal hydroelectric projects of the FCRPS. Power-related costs are recovered in BPA’s rates. U.S. Treasury credits are reported as a component of Operating revenues in the Combined Statements of Revenues and Expenses.

As part of its annual payment to the U.S. Treasury, BPA applies the U.S. Treasury credits earned each fiscal year against various categories of payment obligations. For example, BPA may apply U.S. Treasury credits against interest expense or liabilities such as federal appropriations.

## CONTRACT BALANCES

<i>As of Sept. 30 — millions of dollars</i>	<b>2019</b>
Receivable assets	
Accounts receivable, net of allowance	\$ 40.3
Accrued unbilled revenues	294.1
Contract liabilities	
Customer prepaid power purchases	\$ 228.2
Third AC Intertie capacity agreements	93.9
Unearned revenue from customer deposits	32.5
Revenue recognized during the fiscal year from amounts included in contract liabilities at the beginning of the year	\$ 102.9

Accounts receivable and accrued unbilled revenues source primarily from contracts with customers.

Contract liabilities represent an entity’s unsatisfied performance obligation to transfer goods or services to a customer from which the entity has received consideration. The contract liability amounts in the table above show expected future revenues to be recorded as power is delivered (for customer prepaid power purchases), over the estimated life of transmission assets placed in service (for Third AC Intertie capacity agreements), or as expenditures are incurred (for unearned revenue from customer deposits). These contract liabilities have no variable consideration and require little or no significant judgment in revenue recognition. The average contract term varies by customer and type and may span several years. (See Note 7, Debt and Appropriations, for further information on customer prepaid power purchases, and Note 10, Deferred Credits and Other, for further information on Third AC Intertie capacity agreements and unearned revenue from customer deposits.)

### 3. Utility Plant

<i>As of Sept. 30 — millions of dollars</i>	2019	2018	2019 Estimated average service lives
<b>Completed plant</b>			
Federal system hydro generation assets	\$ 9,545.1	\$ 9,280.7	75 years
Transmission assets	10,207.0	9,869.3	51 years
Other assets	142.8	157.4	7 years
Completed plant	\$ 19,894.9	\$ 19,307.4	
<b>Accumulated depreciation</b>			
Federal system hydro generation assets	\$ (3,609.9)	\$ (3,485.1)	
Transmission assets	(3,493.9)	(3,319.6)	
Other assets	(75.7)	(78.7)	
Accumulated depreciation	\$ (7,179.5)	\$ (6,883.4)	
<b>Construction work in progress</b>			
Federal system hydro generation assets	\$ 619.2	\$ 668.7	
Transmission assets	613.9	602.1	
Other assets	15.1	19.3	
Construction work in progress	\$ 1,248.2	\$ 1,290.1	
Net Utility Plant	\$ 13,963.6	\$ 13,714.1	

#### Allowance for funds used during construction

<i>Fiscal year</i>	2019	2018	2017
BPA rate	3.2%	3.1%	3.1%
Appropriated rate	2.5%	1.3%	0.6%

Completed plant assets include transmission capital leased assets of \$1.94 billion and \$1.88 billion, with accumulated depreciation of \$191.7 million and \$141.0 million at Sept. 30, 2019, and 2018, respectively.

In fiscal year 2018, BPA completed a depreciation study on BPA's transmission and general plant assets, which are reported in both transmission and other assets in the table above. As a result of the study, the average service lives for transmission assets have increased from 48 years to 51 years. Depreciation expense increased approximately \$19 million in both fiscal years 2019 and 2018 when considering the results of the study and changes to net salvage estimates, including increases to cost of removal in excess of salvage proceeds.

## 4. Effects of Regulation

### REGULATORY ASSETS

<i>As of Sept. 30 — millions of dollars</i>	2019	2018
IOU exchange benefits	\$ 2,092.8	\$ 2,256.7
Terminated nuclear facilities	1,706.4	1,709.0
Columbia River Fish Mitigation	768.8	755.0
Fish and wildlife measures	242.6	254.2
Conservation measures	207.5	249.6
Terminated I-5 Corridor Reinforcement Project	130.0	130.0
Spacer damper replacement program	43.6	44.9
Trojan decommissioning and site restoration	37.7	38.0
Legal claims and settlements	23.0	23.0
Federal Employees' Compensation Act	21.6	27.0
Terminated hydro facilities	8.7	10.2
Other	6.1	7.1
Derivative instruments	3.3	7.3
REP Refund Amounts	—	75.7
<b>Total</b>	<b>\$ 5,292.1</b>	<b>\$ 5,587.7</b>

Regulatory assets include the following items:

**“IOU exchange benefits”** reflect amounts to be recovered in rates through 2028 for the IOU exchange benefits liability incurred as part of the 2012 REP Settlement Agreement. These amounts are amortized to operations and maintenance expense. (See Note 9, Residential Exchange Program.)

**“Terminated nuclear facilities”** consist of amounts to be recovered in future rates to satisfy the nonfederal debt for Energy Northwest Projects 1 and 3. These assets are amortized to nonfederal projects expense over the term of the related outstanding debt. (See Note 7, Debt and Appropriations.)

**“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 in rates over 75 years and amortized to depreciation and amortization expense.

**“Fish and wildlife measures”** consist of deferred fish and wildlife project expenses to be recovered in future rates. These costs are amortized to depreciation and amortization expense over a period of 15 years.

**“Conservation measures”** consist of the costs of deferred energy conservation measures to be recovered in future rates. These costs are amortized to depreciation and amortization expense over periods of 12 or 20 years. BPA deferred certain costs of energy conservation measures through fiscal year 2015 and, beginning with fiscal year 2016 and the BP-16 rate period, began expensing such costs as incurred.

**“Terminated I-5 Corridor Reinforcement Project”** consists of the costs to be recovered in future rates for preliminary construction and related activities for the former I-5 Corridor Reinforcement Project. Beginning with fiscal year 2020, these costs will be amortized to depreciation and amortization expense over a period of five years.

**“Spacer damper replacement program”** consists of costs to replace deteriorated spacer dampers on certain transmission lines and are recovered in future rates under the Spacer Damper Replacement Program. These costs are amortized to depreciation and amortization expense over a period of 25 or 30 years.

**“Trojan decommissioning and site restoration”** reflects the amount to be recovered in future rates for funding the asset retirement obligation (ARO) liability related to the former Trojan nuclear facility. This amount equals the associated liability. (See Note 5, Asset Retirement Obligations.)

“**Legal claims and settlements**” reflect amounts to be recovered in future rates to satisfy accrued liabilities related to legal claims and settlements. These costs will be recovered and amortized to operations and maintenance expense over a period to be established during future rate cases.

“**Federal Employees’ Compensation Act**” reflects the actuarial estimated amount of future payments for current recipients of BPA’s worker compensation benefits. This amount equals the associated liability, and related expenses are recorded to operations and maintenance expense as payments are made. (See Note 6, Deferred Charges and Other.)

“**Terminated hydro facilities**” consist of the amounts to be recovered in future rates to satisfy nonfederal debt for the Northern Wasco Hydro Project, for which BPA ceased its participation as recipient of the project’s electric power. These assets are amortized to nonfederal projects expense over the term of the related outstanding debt. (See Note 7, Debt and Appropriations.)

“**Derivative instruments**” reflect the unrealized losses from BPA’s derivative portfolio. These amounts are deferred over the corresponding underlying contract delivery months. (See Note 11, Risk Management and Derivative Instruments.)

“**REP Refund Amounts**” were amounts that were established in the 2012 REP Settlement Agreement. (See Note 9, Residential Exchange Program.) These amounts were recovered in rates through 2019 from IOUs as a reduction in their IOU Exchange benefits and were equal to the regulatory liability for REP Refund Amounts to COUs.

## REGULATORY LIABILITIES

<i>As of Sept. 30 — millions of dollars</i>	2019	2018
Capitalization adjustment	\$ 1,082.6	\$ 1,147.5
Accumulated plant removal costs	491.0	455.5
Decommissioning and site restoration	205.6	210.2
Derivative instruments	25.3	16.6
REP Refund Amounts to COUs	—	75.7
Other	—	6.5
<b>Total</b>	<b>\$ 1,804.5</b>	<b>\$ 1,912.0</b>

Regulatory liabilities include the following items:

“**Capitalization adjustment**” is the difference between the outstanding balance of federal appropriations, plus \$100 million, before and after refinancing under the BPA Refinancing Section of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Refinancing Act), 16 U.S.C. 838(I). Consistent with treatment in BPA’s power and transmission rate cases, this adjustment is amortized over a 40-year period through fiscal year 2036. Amortization of the capitalization adjustment as a reduction to interest expense was \$64.9 million each year for fiscal years 2019, 2018 and 2017.

“**Accumulated plant removal costs**” are the amounts previously collected through rates as part of depreciation expense. The liability will be reduced as actual removal costs are incurred. (See Note 1, Summary of Significant Accounting Policies.)

“**Decommissioning and site restoration**” represents contributions to the related nonfederal nuclear decommissioning trusts as well as trust fund earnings, offset by deferred expenses related to the AROs for (i) CGS decommissioning and site restoration, and (ii) Energy Northwest Projects 1 and 4 site restoration. (See Note 5, Asset Retirement Obligations.)

“**Derivative instruments**” reflect the unrealized gains from BPA’s derivative portfolio. These amounts are deferred over the corresponding underlying contract delivery months. (See Note 11, Risk Management and Derivative Instruments.)

“**REP Refund Amounts to COUs**” were the amounts previously collected through rates that were owed to qualifying COUs and were provided as future bill credits through fiscal year 2019 as established in the 2012 REP Settlement Agreement. These amounts were equal to regulatory assets for REP Refund Amounts. (See Note 9, Residential Exchange Program.)

## 5. Asset Retirement Obligations

<i>As of Sept. 30 — millions of dollars</i>	2019	2018
Beginning Balance	\$ 208.0	\$ 191.7
Activities:		
Accretion	22.3	9.9
Expenditures	(3.9)	(2.8)
Revisions	594.8	9.2
Ending Balance	\$ 821.2	\$ 208.0

AROs are recognized based on the estimated fair value of the dismantlement and restoration costs associated with the retirement of certain tangible long-lived assets, primarily the Columbia Generating Station (CGS), a nonfederal nuclear power plant owned and operated by Energy Northwest, a joint operating agency of the state of Washington. The liability is adjusted for any revisions, expenditures and the passage of time. As a result of a 2019 site-specific decommissioning study for CGS, BPA management revised the estimate for the ARO liability during fiscal year 2019 by \$594.8 million. This change in estimate was largely driven by the addition of a fuel storage estimate, the change in assumed decommissioning method, and increases in labor rates, which exceed the rate of inflation. Actual decommissioning costs may vary from this estimate because of various factors including future decommissioning dates, requirements, costs and technology. A \$594.8 million increase to the Nonfederal generation asset on the Combined Balance Sheets offset the increased ARO liability.

The FCRPS also has tangible long-lived assets such as federal hydro projects and transmission assets without an associated ARO because no legal obligation exists to remove these assets.

<i>As of Sept. 30 — millions of dollars</i>	2019	2018
CGS decommissioning and site restoration	\$ 781.5	\$ 165.9
Trojan decommissioning	37.7	38.0
Energy Northwest Projects 1 and 4 site restoration	2.0	4.1
Total	\$ 821.2	\$ 208.0

### NONFEDERAL NUCLEAR DECOMMISSIONING TRUSTS

<i>As of Sept. 30 — millions of dollars</i>	2019		2018	
	Amortized cost	Fair value	Amortized cost	Fair value
Equity index funds	\$ 228.8	\$ 289.9	\$ 215.7	\$ 280.0
Bond index funds	53.3	54.4	52.6	50.7
Cash and cash equivalents	29.3	29.3	30.2	30.2
U.S. government obligation mutual funds	18.8	18.0	18.4	16.7
Total	\$ 330.2	\$ 391.6	\$ 316.9	\$ 377.6

These assets represent trust fund account balances for decommissioning and site restoration costs. External trust fund accounts for decommissioning and site restoration costs for CGS are funded monthly and are charged to operations and maintenance expense. The decommissioning trust fund account was established to

provide for decommissioning at the end of the project's operations in accordance with Nuclear Regulatory Commission (NRC) requirements. The NRC requires that this period be no longer than 60 years from the time the plant ceases operations. Decommissioning funding requirements for CGS are based on the 2019 site-specific decommissioning study for CGS and the license termination date, which is in December 2043. The CGS trust fund accounts are funded and managed by BPA in accordance with NRC requirements and site certification agreements.

The investment securities in the decommissioning and site restoration trust fund accounts are classified as available-for-sale and recorded at fair value in accordance with accounting guidance for investments, debt and equity securities. Net unrealized and realized gains and losses on these investment securities are recognized as adjustments to the related regulatory liability. (See Note 4, Effects of Regulation.)

Contribution payments to the CGS trust fund accounts for fiscal years 2019, 2018 and 2017 were \$3.9 million, \$3.8 million and \$3.6 million, respectively. BPA and Energy Northwest have no obligation to make further payments into the site restoration fund for Energy Northwest Projects 1 and 4.

Based on an agreement in place, 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 in the Combined Statements of Revenues and Expenses.

## 6. Deferred Charges and Other

<i>As of Sept. 30 — millions of dollars</i>	2019	2018
Lease-Purchase trust funds	\$ 74.6	\$ 116.2
Derivative instruments	25.3	16.6
Funding agreements	22.3	21.5
Spectrum Relocation Fund	11.4	12.2
Other	7.3	10.3
<b>Total</b>	<b>\$ 140.9</b>	<b>\$ 176.8</b>

Deferred Charges and Other include the following items:

**“Lease-Purchase trust funds”** are investments held in separate trust accounts outside the Bonneville Fund for the construction of leased transmission assets, the use of which BPA has acquired under lease-purchase agreements. The amounts held in trust are also used in part for debt service payments during the construction period and include an investment fund mainly for future principal and interest debt service payments. (See Note 7, Debt and Appropriations.) Interest income and realized and unrealized gains or losses on amounts held in trust for construction are recorded as AFUDC. Interest income and gains and losses on other trust balances are recorded as either income or expense in the period when earned.

Investments classified as trading were \$53.9 million and \$95.5 million, and those classified as held to maturity were \$19.5 million and \$19.6 million, at Sept. 30, 2019, and 2018, respectively. Trading investments are held for construction purposes and are stated at fair value based on quoted market prices. (See Note 12, Fair Value Measurements.) As of Sept. 30, 2019, and 2018, trust balances also included cash and cash equivalents of \$1.2 million and \$1.1 million, respectively.

**“Derivative instruments”** represent unrealized gains from BPA's derivative portfolio, which includes physical power purchase and sale transactions.

**“Funding agreements”** represent deferred costs associated with BPA's contractual obligations to determine the feasibility of certain joint transmission projects.

**“Spectrum Relocation Fund”** was created to reimburse certain federal agencies such as BPA for the costs of replacing radio communication equipment displaced as a result of radio band frequencies no longer available to the affected federal agencies. These amounts previously received from the U.S. Treasury are held as restricted cash in the Bonneville Fund for the sole purpose of constructing replacement assets. These amounts are the only restricted cash reported on the Combined Statements of Cash Flows.

## 7. Debt and Appropriations

<i>As of Sept. 30 — millions of dollars</i>		2019		2018	
Terms	Carrying Value	Weighted-Average Interest Rate	Carrying Value	Weighted-Average Interest Rate	
<b>Nonfederal debt</b>					
Nonfederal generation:					
Columbia Generating Station	1.9 – 6.8% through 2044	\$ 3,365.0	4.4%	\$ 3,468.5	4.3%
Cowlitz Falls Hydro Project	4.0 – 5.3% through 2032	68.5	5.1	72.1	5.1
Terminated nonfederal generation:					
Nuclear Project 1	1.9 – 5.0% through 2028	794.3	5.0	795.6	4.9
Nuclear Project 3	1.9 – 5.0% through 2028	912.7	5.0	914.1	5.0
Northern Wasco Hydro Project	2.6 – 5.0% through 2024	9.9	4.4	11.4	4.2
Lease-Purchase Program:					
Capital lease obligations	1.5 – 6.3% through 2042	2,009.9	2.7	2,022.4	2.7
NIFC debt	5.5% through 2034	118.9	5.5	118.8	5.5
Other capital lease obligations	3.2 – 6.9% through 2043	36.7	4.9	37.5	5.0
Other financial liability	5.6% (not yet scheduled)	49.2	5.6	21.2	5.6
Customer prepaid power purchases	4.3 – 4.6% through 2028	228.2	4.5	248.1	4.5
<b>Total Nonfederal debt</b>		<b>\$ 7,593.3</b>	<b>4.1%</b>	<b>\$ 7,709.7</b>	<b>4.1%</b>
<b>Federal debt and appropriations</b>					
Borrowings from U.S. Treasury	1.5 – 5.9% through 2048	\$ 5,279.6	3.2%	\$ 5,530.6	3.2%
Federal appropriations	2.4 – 4.5% through 2069	1,182.8	3.7	1,354.6	3.9
Federal appropriations (not scheduled for repayment)		412.4	n/a	437.1	n/a
<b>Total Federal debt and appropriations</b>		<b>\$ 6,874.8</b>	<b>3.3%</b>	<b>\$ 7,322.3</b>	<b>3.4%</b>
<b>Total debt and appropriations</b>		<b>\$ 14,468.1</b>	<b>3.7%</b>	<b>\$ 15,032.0</b>	<b>3.7%</b>

### Nonfederal generation and Terminated nonfederal generation

BPA is party to long-term contracts for BPA to acquire all of the generating capability of Energy Northwest's Columbia Generating Station and, through June 2032, all of Lewis County PUD's Cowlitz Falls Hydroelectric Project. These contracts require that BPA meet all of the operating, maintenance and debt service costs for these projects. Under certain agreements, BPA also has financial responsibility for meeting all costs of Energy Northwest's Projects 1 and 3, including debt service costs of bonds and other financial instruments issued for the projects, even though these projects have been terminated. BPA is also required by a "Settlement and Termination Agreement" between BPA and Northern Wasco PUD to pay amounts equal to annual debt service on certain bonds of the Northern Wasco Hydro Project. Under the Settlement and Termination Agreement, BPA ceased its participation in this project.

BPA recognizes expenses for these nonfederal generation and terminated nonfederal generation projects based on annual total project cash funding requirements, which include debt service and operating and maintenance expense. BPA recognized operating and maintenance expense for these projects of \$328.8 million, \$272.5 million and \$322.3 million in fiscal years 2019, 2018 and 2017, respectively, which is included in Operations and maintenance in the Combined Statements of Revenues and Expenses. Debt service expense for all projects of \$232.6 million, \$266.9 million and \$241.3 million for fiscal years 2019, 2018 and 2017, respectively, is reported as

Nonfederal projects in the Combined Statements of Revenues and Expenses. On the Combined Balance Sheets, related assets for operating projects are included in Nonfederal generation. Related assets for terminated generation are included in Regulatory assets. (See Note 4, Effects of Regulation.)

As a result of debt management actions taken by BPA in coordination with Energy Northwest under the Regional Cooperation Debt program, amounts otherwise collected in BPA's power and transmission rates during fiscal years 2019 and 2018 were not used to pay off maturing Energy Northwest-related bonds as originally scheduled. Instead, the repayment of these principal amounts was extended to fiscal year 2038 at the latest. These debt management actions and the borrowings by Energy Northwest described below allowed BPA to prepay comparatively higher-interest-rate federal appropriations during fiscal years 2019 and 2018.

Energy Northwest debt of \$2.44 billion is callable, in whole or in part, at Energy Northwest's option, on call dates between July 2020 and July 2029 at 100 percent of the principal amount.

### **Borrowings by Energy Northwest for expense-related purposes**

<i>As of Sept. 30 — millions of dollars</i>	2019	2018
Amounts outstanding <sup>1</sup>	\$ 227.0	\$ 141.0
Approximate variable interest rate	2.3%	2.4%

<sup>1</sup> Amounts outstanding at September 30 of each fiscal year are included in the applicable nonfederal debt amounts shown in the table at the beginning of Note 7, Debt and Appropriations.

During fiscal years 2019 and 2018, Energy Northwest funded operations and maintenance for CGS and interest payments on CGS-related bonds with line-of-credit borrowing arrangements from banking institutions. These arrangements are or were due to be repaid on or before June 30, 2020, and June 30, 2019, respectively.

Energy Northwest-related expenses recorded in the FCRPS Combined Statements of Revenues and Expenses were not affected by the foregoing borrowing arrangements. Instead of providing funds to Energy Northwest for operations and maintenance and interest payment purposes, BPA either will or has funded the repayment of the borrowing arrangements.

### **Lease-Purchase Program and Other capital lease obligations**

Under the Lease-Purchase Program, BPA has incurred capital lease obligations for lease-purchase transactions with certain third-party entities. These transactions are primarily with the Port of Morrow, a port district located in Morrow County, Oregon, and the Idaho Energy Resources Authority (IERA), an independent public instrumentality of the State of Idaho, for transmission facilities, including lines, substations and general plant assets. These capital lease obligations are paid from the rental payments made by BPA. The facilities are not security for the payment of these obligations. The lease-purchase agreements contain provisions that allow BPA to purchase the related assets at any time during each lease term for a bargain purchase price plus the value of the related outstanding debt instrument. (See Note 8, Variable Interest Entities.)

Under the Lease-Purchase Program, BPA consolidates one special purpose corporation (Northwest Infrastructure Financing Corporation or NIFC). As of Sept. 30, 2019, the NIFC had \$119.6 million of bonds outstanding, including debt issuance costs. The lease rental payments from BPA are pledged to the payment of the debt, but the facilities do not secure the debt. The NIFC bonds are reported as NIFC debt and are subject to redemption by NIFC, in whole or in part, at any date, at the higher of the principal amount of the bonds or the present value of the bonds discounted using the U.S. Treasury rate plus a premium of 12.5 basis points.

On the Combined Balance Sheets, capital lease obligations and NIFC debt are included in Nonfederal debt. The related assets are included in Utility plant and in Deferred charges and other for unspent funds held in trust accounts outside the Bonneville Fund. The capital lease obligations expire on various dates through 2043.

Completed plant assets reported as transmission capital leased assets are described in Note 3, Utility Plant.

## **Other financial liability**

In June 2018, BPA entered into agreements with a transmission customer for the construction, ownership, operation and maintenance of a transmission project in Idaho, for which the customer began construction in fiscal year 2018. BPA is the accounting owner of the assets during construction, which is expected to end in fiscal year 2020. Upon completion and energization, BPA is required to lease the entire capacity of the transmission facilities from the customer. Per terms of the agreements, BPA's total liability for these facilities will be limited to approximately \$65 million. BPA's lease payments to the customer will begin upon energization of the transmission facilities and will continue for 40 years. (See Note 1, Leases section for description of planned fiscal year 2020 derecognition and reinstatement of this liability.)

## **Customer prepaid power purchases**

During fiscal year 2013, BPA entered into agreements with four regional COUs for the advance payment of portions of their power purchases. Under this program, customers purchased prepaid power in blocks through fiscal year 2028. For each block purchased, BPA repays the prepayment, with interest, as monthly fixed credits on the customers' power bills.

In March 2013, BPA received \$340.0 million representing \$474.3 million in scheduled credits for blocks purchased by customers. BPA accounts for the prepayment proceeds as a financing transaction and reports the value of the obligations associated with the fixed credits as a prepayment liability. Interest expense is recognized using a weighted-average effective interest rate of 4.5 percent. The prepaid liability is reduced and the credits are applied as power is delivered through fiscal year 2028.

## **Borrowings from U.S. Treasury**

BPA is authorized by Congress to issue and sell bonds to the U.S. Treasury, and have outstanding at any one time, up to \$7.70 billion aggregate principal amount of bonds. Of the \$7.70 billion in U.S. Treasury borrowing authority, \$1.25 billion is available for electric power conservation and renewable resources, including capital investment at the FCRPS hydroelectric facilities owned by the USACE and Reclamation, and \$6.45 billion is available for BPA's transmission capital program and to implement BPA's authorities under the Northwest Power Act. Of the \$7.70 billion, \$750.0 million can be issued to finance Northwest Power Act related expenses. The interest on BPA's outstanding bonds is set at rates comparable to rates on debt issued by other comparable federal government institutions at the time of issuance. Bonds can be issued with call options.

As of Sept. 30, 2019, and 2018, no bonds outstanding were related to Northwest Power Act expenses.

As of Sept. 30, 2019, \$1.68 billion of variable-rate bonds are callable by BPA at par value on their interest repricing dates, which occurs every six months. The remaining \$3.60 billion of bonds are callable by BPA at a premium or discount, which is calculated based on the current government agency rates for the remaining term to maturity at the time the bonds are called. As of Sept. 30, 2018, \$1.46 billion of variable-rate bonds were outstanding.

In fiscal year 2019, BPA did not call or pay any U.S. Treasury bonds prior to maturity. However, during fiscal year 2018, BPA called and paid \$98.0 million of U.S. Treasury bonds prior to maturity and recognized a noncash gain of \$0.2 million. During fiscal years 2019 and 2018, BPA refinanced \$307.9 million and \$34.0 million, respectively, of U.S. Treasury bonds in noncash transactions with the U.S. Treasury, which resulted in no gain or loss for either year. BPA does not report these refinanced bonds as part of its annual payment to the U.S. Treasury.

## **Federal appropriations**

Federal appropriations reflect the responsibility that BPA has to repay congressionally appropriated amounts in the FCRPS. Federal appropriations repayment obligations consist of the remaining unpaid power portion of USACE and Reclamation capital investments funded through congressional appropriations. These include appropriations for Columbia River Fish Mitigation as allocated to the power purpose of the USACE's FCRPS hydroelectric projects. BPA's repayment obligation begins when capital investments are completed and placed into service.

BPA is obligated to establish rates to repay to the U.S. Treasury appropriations for federal generation and transmission plant investments within a specified repayment period, which is the reasonably expected service life of the facilities, not to exceed 50 years. Federal appropriations may be paid early without penalty at their par value (i.e. carrying value for federal appropriations) as part of BPA's payment to the U.S. Treasury. BPA repaid appropriations earlier than their due dates in fiscal years 2019 and 2018. BPA establishes schedules for the repayment of federal appropriations when it establishes its power and transmission rates. These schedules can change depending on whether appropriations have been prepaid or deferred. Interest on appropriated amounts begins accruing when the related assets are placed into service.

	<i>Maturing Nonfederal debt excluding capital leases</i>		<i>Future minimum lease payments under capital leases</i>		<i>Borrowings from U.S. Treasury</i>		<i>Federal appropriations</i>		<i>Total</i>
<i>As of Sept. 30 — millions of dollars</i>									
2020	\$	612.3	\$	337.1	\$	429.0	\$	-	\$ 1,378.4
2021		382.4		626.4		430.0		-	1,438.8
2022		382.8		306.9		290.0		-	979.7
2023		398.3		102.5		256.0		-	756.8
2024		412.2		118.3		220.0		-	750.5
2025 and thereafter		3,359.4		958.3		3,654.6		1,595.2	9,567.5
<b>Total</b>	<b>\$</b>	<b>5,547.4</b>	<b>\$</b>	<b>2,449.5</b>	<b>\$</b>	<b>5,279.6</b>	<b>\$</b>	<b>1,595.2</b>	<b>\$ 14,871.7</b>
Less: Executory costs		-		25.4		-		-	25.4
Less: Amount representing interest		-		377.5		-		-	377.5
Less: Unamortized debt issuance cost		0.7		-		-		-	0.7
Present value of debt		5,546.7		2,046.6		5,279.6		1,595.2	14,468.1
Less: Current portion		612.3		279.3		429.0		-	1,320.6
<b>Long-term debt</b>	<b>\$</b>	<b>4,934.4</b>	<b>\$</b>	<b>1,767.3</b>	<b>\$</b>	<b>4,850.6</b>	<b>\$</b>	<b>1,595.2</b>	<b>\$ 13,147.5</b>

### **Fair value of debt and appropriations**

See Note 12, Fair Value Measurements, for a comparison of carrying value to fair value for debt. Due to the current par value call provision on BPA's federal appropriations, the fair value of BPA's federal appropriations is equal to the carrying value. This call provision allows BPA to prepay appropriations repayment obligations without premiums or a mark-to-market adjustment.

## 8. Variable Interest Entities

A VIE is an entity that does not have sufficient equity at risk to finance its activities without additional financial support or whose equity investors lack characteristics of a controlling financial interest. An enterprise that has a controlling interest is known as the VIE's primary beneficiary and is required to consolidate the VIE.

Management reviews executed lease-purchase agreements with nonfederal entities for VIE accounting impacts. BPA has determined that NIFC is a VIE and that BPA is the primary beneficiary of NIFC. As such, this entity is consolidated. The key factors in this determination are BPA's ability to take contractual actions that significantly impact the economic, commercial and operating activities of NIFC and BPA's obligation to absorb losses that could be significant to NIFC. Additionally, BPA's lease-purchase agreement with NIFC obligate BPA to absorb the operational and commercial risks, and thus potentially significant benefits or losses associated with the underlying transmission facilities. BPA also has exclusive use and control of the facilities during the lease period and has indemnified NIFC for all construction and operating risks associated with its transmission facilities.

Amounts related to NIFC include Lease-Purchase trust funds and other assets of \$20.5 million and \$20.4 million and Nonfederal debt of \$118.9 million and \$118.8 million as of Sept. 30, 2019 and 2018, respectively. BPA has also entered into lease-purchase agreements with Port of Morrow and IERA, which are nonfederal entities. These entities are governmental and, in accordance with VIE accounting guidance, are therefore not consolidated into the FCRPS financial statements. (See Note 7, Debt and Appropriations.)

BPA has entered into power purchase agreements with wind farm-related VIEs, which, because of their pricing arrangements, provide that BPA absorb commodity price risk from the perspective of the counterparty entities. However, BPA management has concluded that in no instance does BPA have the power to control the most significant operating and maintenance activities of these entities. Therefore, BPA is not the primary beneficiary and does not consolidate these entities. Additionally BPA does not provide, and does not plan to provide, any additional financial support to these entities beyond what BPA is contractually obligated to pay. Thus, BPA has no exposure to loss on contracts with these VIEs. Expenses related to VIEs for which BPA is not the primary beneficiary were \$18.7 million, \$21.8 million and \$19.8 million in fiscal years 2019, 2018 and 2017, respectively. These expenses were recorded to operations and maintenance as BPA management considers the related purchases to be part of the FCRPS resource pool.

## 9. Residential Exchange Program

### REP SCHEDULED AMOUNTS

<i>As of Sept. 30 — millions of dollars</i>		
2020	\$	245.2
2021		245.2
2022		259.0
2023		259.0
2024		273.6
2025 through 2028		1,131.9
Subtotal of annual payments		2,413.9
Less: Discount for present value		321.1
IOU exchange benefits	\$	2,092.8

## BACKGROUND

In 1981 and as provided in the Northwest Power Act, BPA began to implement the Residential Exchange Program (REP) through various contracts with eligible regional utility customers. BPA's implementation of the REP has been the subject of various litigations and settlement agreements.

### 2012 RESIDENTIAL EXCHANGE PROGRAM SETTLEMENT AGREEMENT

Beginning in April 2010, over 50 litigants and other regional parties entered into mediation to resolve numerous disputes over the REP. In fiscal year 2011 the parties reached a final settlement agreement – the 2012 Residential Exchange Program Settlement Agreement (2012 REP Settlement Agreement). As a result of the settlement, BPA recorded an associated long-term IOU exchange benefits liability and corresponding regulatory asset of \$3.07 billion. Under the 2012 REP Settlement Agreement, the IOUs' REP benefits were determined for fiscal years 2012 - 2028 (also referred to herein as Scheduled Amounts). The Scheduled Amounts started at \$182.1 million for fiscal year 2012 and increase over time to \$286.1 million for fiscal year 2028. As provided in the 2012 REP Settlement Agreement, the Scheduled Amounts are established for each IOU based on the IOU's average system cost, its residential exchange load and BPA's applicable Priority Firm Exchange rate. The Scheduled Amounts total \$4.07 billion over the 17-year period through fiscal year 2028, with remaining Scheduled Amounts as of Sept. 30, 2019, totaling \$2.41 billion. Amounts recorded of \$2.09 billion at Sept. 30, 2019, represent the present value of future cash outflows for these IOUs exchange benefits.

### REP SETTLEMENT AGREEMENT REFUND AMOUNTS

In addition to Scheduled Amounts, the 2012 REP Settlement Agreement called for Refund Amounts of \$612.3 million to be paid to COUs in the amount of \$76.5 million each year from fiscal year 2012 through fiscal year 2019. The Refund Amounts were established as a regulatory asset and regulatory liability for the refunds that were provided to COU customers as bill credits. As of Sept. 30, 2019, there were no remaining regulatory assets or liabilities associated with the Refund Amounts.

## 10. Deferred Credits and Other

<i>As of Sept. 30 — millions of dollars</i>	2019	2018
Interconnection agreements	\$ 177.7	\$ 182.6
Deferred project revenue funded in advance	135.9	122.8
Third AC Intertie capacity agreements	93.9	95.4
Unearned revenue from customer deposits	32.5	55.4
Service deposits	22.4	21.6
Federal Employees' Compensation Act	21.6	27.0
Other	8.6	7.1
Fiber optic leasing fees	8.4	13.3
Derivative instruments	3.3	7.3
<b>Total</b>	<b>\$ 504.3</b>	<b>\$ 532.5</b>

Deferred Credits and Other include the following items:

“**Interconnection agreements**” are advances for requested new network upgrades and interconnections. These advances accrue interest and will be returned as cash or credits against future transmission service on the new or upgraded lines.

“**Deferred project revenue funded in advance**” consists of third-party advances received where BPA will own the resulting transmission assets. The balance is amortized as other revenue not with customers over the life of the

assets so that the balance prevents any stranded costs in case of impairment as prescribed by the transmission rate process.

“**Third AC Intertie capacity agreements**” reflect unearned revenue from customers related to the Third AC Intertie transmission line capacity project. Revenue is recognized over an estimated 51-year life of the related assets, which are generally added and retired each year. (See Note 2, Revenue Recognition.)

“**Unearned revenue from customer deposits**” consists of advances received from customers for projects or studies undertaken at their request. Revenue is recognized as expenditures are incurred. (See Note 2, Revenue Recognition.)

“**Service deposits**” reflect required deposits for BPA products or services. The majority of these amounts are expected to be returned to the customer after a period of service. In certain cases, the deposits are considered prepayments, in which case they are recognized as revenue as per terms of the contract.

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

“**Fiber optic leasing fees**” reflect unearned revenue related to the leasing of fiber optic cables. BPA recognizes revenue over the lease terms, which extend through 2024. (See Note 2, Revenue Recognition.)

“**Derivative instruments**” reflect the unrealized loss of the derivative portfolio, which primarily includes physical power purchase and sale transactions.

## 11. Risk Management and Derivative Instruments

BPA is exposed to various forms of market risks related to commodity prices and volumes, counterparty credit, and interest rates. 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 sections describe BPA’s exposure to and management of certain risks.

### RISK MANAGEMENT

Due to the operational risk posed by fluctuations in river flows and electricity market prices, net revenues that result from underlying surplus or deficit energy positions are inherently uncertain. BPA’s Risk Oversight 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

BPA has exposure to commodity price risk through fluctuations in electricity market prices that affect the value of energy bought and sold. Volumetric risk is the uncertainty of energy production from the hydro system. The combination of the two results in net revenue uncertainty. BPA routinely models commodity price risk and volumetric risk through parametric calculations, Monte Carlo simulations and general market observations to derive net revenues at risk, mark-to-market valuations, value at risk and other metrics as appropriate. These metrics capture the uncertainty around single point forecasts in order to monitor changes in the revenue risk profile from changes in market price, market price volatility and forecasted hydro generation. BPA measures and monitors the output of these methods on a regular basis. In order to mitigate revenue uncertainty that is beyond BPA’s risk tolerance, BPA enters into short-term and long-term purchase and sale contracts by using instruments such as forwards, futures, swaps, and options.

### CREDIT RISK

Credit risk relates to the loss that might occur as a result of counterparty non-performance. BPA mitigates credit risk by reviewing counterparties for creditworthiness, establishing credit limits and monitoring credit exposure. To further manage credit risk, BPA obtains credit support, such as letters of credit, parental guarantees, and cash in the form of prepayments, deposits or escrow funds, from some counterparties. BPA monitors counterparties for changes in financial condition and regularly updates credit reviews. BPA uses

scoring models, publicly available financial information and external ratings from major credit rating agencies to determine appropriate levels of credit for its counterparties.

During fiscal year 2019, BPA experienced no material losses as a result of any customer defaults or bankruptcy filings. As of Sept. 30, 2019, BPA had \$46.0 million in credit exposure related to purchase and sale contracts after taking into account netting rights. Of this credit exposure, \$4.1 million was related to sub-investment grade counterparties who provided letters of credit that exceed BPA's exposure to these counterparties. The letters of credit serve as a guarantee arrangement and mitigate BPA's credit risk exposure to these counterparties.

## **INTEREST RATE RISK**

BPA has the ability to issue variable rate bonds to the U.S. Treasury. BPA may manage the interest rate risk presented by variable rate U.S. Treasury debt by holding U.S. Treasury security investments with a similar maturity profile. Such investments may earn interest that is correlated, but typically lower than, the interest rate paid on U.S. Treasury variable rate debt. Energy Northwest may also issue variable rate debt for which BPA is expected to fund the repayment. No variable rate debt has been issued in connection with Energy Northwest or the Lease-Purchase Program.

## **DERIVATIVE INSTRUMENTS**

### **Commodity Contracts**

BPA's forward electricity contracts are eligible for the normal purchases and normal sales exception if they require physical delivery, are expected to be used or sold by BPA in the normal course of business and meet the derivative accounting definition of capacity described in the derivatives and hedging accounting guidance. Transactions for which BPA has elected the normal purchases and normal sales exception are not 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 are delivered and settled.

For derivative instruments recorded at fair value, BPA records unrealized gains and losses in Regulatory assets and Regulatory liabilities on the Combined Balance Sheets. Realized gains and losses are included in Sales and Purchased power in the Combined Statements of Revenues and Expenses as the contracts are delivered and settled.

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.)

As of Sept. 30, 2019, the derivative commodity contracts recorded at fair value totaled 6.1 million megawatt hours (MWh), gross basis, with delivery months extending to December 2021.

On the Combined Balance Sheets, BPA reports gross fair value amounts of derivative instruments subject to a master netting arrangement, excluding contracts designated as normal purchases or normal sales. (See Note 6, Deferred Charges and Other and Note 10, Deferred Credits and Other.) In the event of default or termination, contracts with the same counterparty are offset and net settle through a single payment. BPA does not offset cash collateral against recognized derivative instruments with the same counterparty under the master netting arrangements.

If netted by counterparty, BPA's derivative position would have resulted in assets of \$23.6 million and \$16.5 million, and liabilities of \$1.6 million and \$7.1 million as of Sept. 30, 2019, and 2018, respectively. (See Note 4, Effects of Regulation.)

## 12. Fair Value Measurements

BPA applies fair value measurements and disclosures accounting guidance to certain assets and liabilities including assets held in trust funds, commodity derivative instruments, debt and other items. 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.

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 exchange-traded financial futures, fixed income investments, 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 commodity derivatives and certain agency, corporate and municipal securities as part of the Lease-Purchase trust funds investments. Fair value for certain non-exchange traded derivatives is based on forward exchange market prices and broker quotes adjusted and discounted. Lease-Purchase trust funds investments are based on a market input evaluation pricing methodology using a combination of observable market data such as current market trade data, reported bid/ask spreads, and institutional bid information.

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 where inputs into the valuation are adjusted market prices plus an adder.

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.

BPA includes non-performance risk when 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. 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, 2019, and 2018. There were no transfers between Level 1, Level 2 or Level 3 during fiscal years 2019 and 2018.

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

As of Sept. 30, 2019 — millions of dollars

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Nonfederal nuclear decommissioning trusts				
Equity index funds	\$ 289.9	\$ —	\$ —	\$ 289.9
Bond index funds	54.4	—	—	54.4
Cash and cash equivalents	29.3	—	—	29.3
U.S. government obligation mutual funds	18.0	—	—	18.0
Lease-Purchase trust funds				
U.S. government obligations	—	53.9	—	53.9
Derivative instruments <sup>1</sup>				
Commodity contracts	0.7	3.6	21.1	25.4
<b>Total</b>	<b>\$ 392.3</b>	<b>\$ 57.5</b>	<b>\$ 21.1</b>	<b>\$ 470.9</b>
<b>Liabilities</b>				
Derivative instruments <sup>1</sup>				
Commodity contracts	\$ (0.6)	\$ (2.6)	\$ (0.2)	\$ (3.4)
<b>Total</b>	<b>\$ (0.6)</b>	<b>\$ (2.6)</b>	<b>\$ (0.2)</b>	<b>\$ (3.4)</b>

As of Sept. 30, 2018 — millions of dollars

<b>Assets</b>				
Nonfederal nuclear decommissioning trusts				
Equity index funds	\$ 280.0	\$ —	\$ —	\$ 280.0
Bond index funds	50.7	—	—	50.7
Cash and cash equivalents	30.2	—	—	30.2
U.S. government obligation mutual funds	16.7	—	—	16.7
Lease-Purchase trust funds				
U.S. government obligations	—	88.0	—	88.0
Corporate obligations	—	7.5	—	7.5
Derivative instruments <sup>1</sup>				
Commodity contracts	0.1	12.6	3.9	16.6
<b>Total</b>	<b>\$ 377.7</b>	<b>\$ 108.1</b>	<b>\$ 3.9</b>	<b>\$ 489.7</b>
<b>Liabilities</b>				
Derivative instruments <sup>1</sup>				
Commodity contracts	\$ —	\$ (7.2)	\$ (0.1)	\$ (7.3)
<b>Total</b>	<b>\$ —</b>	<b>\$ (7.2)</b>	<b>\$ (0.1)</b>	<b>\$ (7.3)</b>

<sup>1</sup> Derivative instruments assets and liabilities are included in Deferred charges and other and Deferred credits and other, respectively, on the Combined Balance Sheets. See Note 11, Risk Management and Derivative Instruments for more information related to BPA's risk management strategy and use of derivative instruments.

Level 3 derivative commodity contracts are power contracts measured at fair value on a recurring basis using the California-Oregon Border (COB) forward price curves. They include power contracts delivering to illiquid trading points or contracts without available market transactions for the entire delivery period; therefore, they are considered unobservable. Forward prices are considered a key component to contract valuations. All valuation pricing data is generated internally by BPA's risk management organization.

The risk management organization constructs the forward price curve through the use of available market prices, broker quotes and bid/offer spreads. In periods where market prices or broker quotes are not available, the risk management organization derives monthly prices by applying seasonal shaping based on historical broker quotes and spreads. Long-term prices are derived from internally developed or commercial models with both internal and external data inputs. BPA management believes this approach maximizes the use of pricing information from external sources and is currently the best option for valuation. Significant increases or decreases in the inputs would result in significantly higher or lower fair value measurements.

Forward power prices are influenced by, among other factors, the price of natural gas, seasonality, hydro forecasts, expectations of demand growth, and planned changes in the regional generating plants.

### COMMODITY CONTRACTS

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.

<i>As of Sept. 30 — millions of dollars</i>	2019	2018
Beginning Balance	\$ 3.8	\$ 1.6
Changes in unrealized gains (losses) <sup>1</sup>	17.1	2.2
Ending Balance	\$ 20.9	\$ 3.8

<sup>1</sup> Unrealized gains and losses are included in Regulatory assets and Regulatory liabilities on the Combined Balance Sheets. Realized gains and losses are included in Sales and Purchased power, respectively, in the Combined Statements of Revenues and Expenses.

### DEBT

<i>As of Sept. 30 — millions of dollars</i>	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Nonfederal Debt</b>				
<b>Nonfederal generation:</b>				
Columbia Generating Station	\$ 3,365.0	\$ 3,557.8	\$ 3,468.5	\$ 3,579.8
Cowlitz Falls Project	68.5	77.3	72.1	79.9
<b>Terminated nonfederal generation:</b>				
Nuclear Project 1	794.3	923.3	795.6	897.2
Nuclear Project 3	912.7	1,112.4	914.1	1,060.4
Northern Wasco Hydro Project	9.9	10.8	11.4	12.2
<b>Lease-Purchase Program:</b>				
NIFC debt	118.9	155.8	118.8	134.6
<b>Other financial liability</b>				
	49.2	49.2	21.2	21.2
<b>Customer prepaid power purchases</b>				
	228.2	228.2	248.1	248.1
<b>Federal debt</b>				
Borrowings from U.S. Treasury	\$ 5,279.6	\$ 5,858.3	\$ 5,530.6	\$ 5,720.9

The fair value measurements described above are considered Level 2 in the fair value hierarchy.

The fair value of Nonfederal debt, excluding the Customer prepaid power purchases, is 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 bid information.

The fair value of Other financial liability is based upon terms of a transmission construction agreement that BPA signed with a customer in fiscal year 2018 and is equal to the carrying value.

The opportunity to participate in the Customer prepaid power purchase program was made to a subset of BPA's power customers with repayment terms through billing credits extending to fiscal year 2028. Management believes that the customer prepaid power purchases are specific to BPA's operating environment and are nontransferable. As a result, the carrying value of customer prepaid power purchases is equal to its fair value.

The fair value of Borrowings from U.S. Treasury is based on discounted future cash flows using interest rates for similar debt that could have been issued at Sept. 30, 2019, and 2018.

## 13. Commitments and Contingencies

### **INTEGRATED FISH AND WILDLIFE PROGRAM**

The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife and their habitats to the extent they are affected by the federal hydroelectric projects on the Columbia River and its tributaries from which BPA markets power. BPA makes expenditures and incurs other costs for fish and wildlife protection and mitigation that are consistent with the purposes of the Northwest Power Act and the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. In addition, certain fish and wildlife species that inhabit the Columbia River Basin are listed under the Endangered Species Act (ESA) as threatened or endangered. BPA makes expenditures and incurs other costs related to power purposes to comply with the ESA and implement certain biological opinions (BiOp) 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 total commitment including timing of payments under the Northwest Power Act, ESA and BiOp fluctuates because it is in part dependent on river flows and water conditions.

In October 2018, BPA and its federal partners USACE and Reclamation signed extension agreements with current Accords partners, namely certain states and tribes, to extend the Columbia Basin Fish Accords. The existing agreements expired Sept. 30, 2018, and were extended from October 2018 until Sept. 30, 2022, at the latest. The extension agreements, in addition to a similar new agreement signed later in fiscal year 2019, commit \$502.1 million for fish and wildlife protection and mitigation, which is likely to result in future expenses or regulatory assets.

As of Sept. 30, 2019, BPA has long-term fish and wildlife agreements with estimated contractual commitments of \$672.1 million, which are likely to result in future expenses or regulatory assets. These agreements will expire at various dates through fiscal year 2027 and include the Columbia Basin Fish Accords extension agreements, which are described above.

## IRRIGATION ASSISTANCE

### Scheduled distributions

*As of Sept. 30 — millions of dollars*

2020	\$	24.1
2021		14.7
2022		16.1
2023		12.7
2024		15.0
2025 through 2045		223.3
Total	\$	305.9

As directed by law, BPA is required to establish rates sufficient to make distributions to the U.S. Treasury for original construction costs of certain Pacific Northwest irrigation projects for which the costs 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 when paid. Future irrigation assistance payments are scheduled to total \$305.9 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 repay.

### FIRM PURCHASE POWER COMMITMENTS

*As of Sept. 30 — millions of dollars*

2020	\$	44.0
2021		33.6
Total	\$	77.6

BPA periodically enters into long-term commitments to purchase power for future delivery. When BPA forecasts a resource shortage, based on its planned contractual obligations for a period and the historical water record for the Columbia River basin, BPA takes a variety of operational and business steps to cover a potential shortage including entering into power purchase commitments. Additionally, under BPA's current Tiered Rates Methodology and its current Regional Dialogue power sales contracts, BPA's customers may request that BPA meet their power requirements in excess of the Rate Period High Water Mark load under their contract. For these Above High Water Mark load requests, BPA may meet such requests by entering into power purchase commitments.

The preceding table includes firm purchase power agreements of known costs that are currently in place to assist in meeting expected future obligations under BPA's current long-term power sales contracts. Included are two purchases to meet load obligations in Idaho. The expenses associated with the Idaho purchases were \$43.0 million, \$44.2 million and \$45.3 million for fiscal years 2019, 2018 and 2017, respectively. In prior fiscal years, BPA had firm purchase power agreements made specifically to meet commitments to sell power at Tier 2 rates. The expenses associated with these Tier 2 purchases to meet prior commitments were \$41.1 million, \$29.9 million and \$26.6 million for fiscal years 2019, 2018 and 2017, respectively. BPA has

several other purchase agreements with wind-powered and other generating facilities that are not included in the preceding table as payments are based on the variable amount of future energy generated and as there are no minimum payments required.

## **ENERGY EFFICIENCY PROGRAM**

BPA is required by the Northwest Power Act to meet the net firm power load requirements of its customers in the Pacific Northwest. BPA is authorized to help meet its net firm power load through the acquisition of electric conservation. BPA makes available a portfolio of initiatives and infrastructure support activities to its customers to ensure the conservation targets established in the Northwest Power and Conservation Council's then-current Power Plan are achieved. The Council released the Seventh Power Plan in fiscal year 2016. These initiatives and activities are often executed via conservation commitments made by BPA to its customers through agreements with utility customers and contractors that provide support in the way of energy efficiency program research, development and implementation. The timing of the payments under these commitments is not fixed or determinable, and these agreements will expire at various dates through fiscal year 2024. Conservation-related expenses are recorded to operations and maintenance expense as incurred.

## **1989 ENERGY NORTHWEST LETTER AGREEMENT**

In 1989, BPA agreed with Energy Northwest that, in the event any participant shall be unable for any reason, or shall fail or 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.

## **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 insurance policies purchased from NEIL by BPA include: 1) Primary Property and Decontamination Liability Insurance; 2) Decontamination Liability, Decommissioning Liability and Excess Property Insurance; and 3) NEIL I Accidental Outage Insurance.

Under each insurance policy, BPA could be subject to a retrospective premium 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 Liability Insurance policy is \$20.6 million. For the Decontamination Liability, Decommissioning Liability and Excess Property Insurance policy, the maximum assessment is \$7.3 million. For the NEIL I Accidental Outage Insurance policy, the maximum assessment is \$5.4 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 \$450.0 million, BPA could be subject to a retrospective assessment of up to \$131.1 million limited to \$20.5 million per incident within one calendar year. Assessments would be included in BPA's costs and recovered through rates. As of Sept. 30, 2019, there have been no assessments to BPA under any of these events.

## **ENVIRONMENTAL MATTERS**

From time to time there are sites for which BPA, the USACE 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.

## **INDEMNIFICATION AGREEMENTS**

BPA, USACE and Reclamation have provided indemnifications of varying scope and terms in contracts with customers, vendors, lessors, trustees, and other parties with respect to certain matters, including, but not limited to, losses arising out of particular actions taken on behalf of the FCRPS, certain circumstances related to Energy Northwest Projects, and in connection with lease-purchases. Because of the absence of a maximum obligation in the provisions, management is not able to reasonably estimate the overall maximum potential future payments. Based on historical experience and current evaluation of circumstances, management believes that, as of Sept. 30, 2019, the likelihood is remote that the FCRPS would incur any significant costs

with respect to such indemnities. No liability has been recorded in the financial statements with respect to these indemnification provisions.

## **LITIGATION**

### **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 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.

### **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. Management is unable to predict whether the FCRPS will avoid adverse outcomes in these legal matters.

Judgments and settlements are included in FCRPS costs and recovered through rates. As of Sept. 30, 2019, no material liability has been recorded for the above legal matters.

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**APPENDIX B-2**

**FEDERAL SYSTEM UNAUDITED FINANCIAL INFORMATION FOR  
THE SIX MONTHS ENDED MARCH 31, 2020**

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# Federal Columbia River Power System

## Combined Balance Sheets (Unaudited)

(Millions of dollars)

	As of March 31, 2020	As of September 30, 2019
<b>Assets</b>		
<b>Utility plant and nonfederal generation</b>		
Completed plant	\$ 20,175.6	\$ 19,894.9
Accumulated depreciation	(7,342.9)	(7,179.5)
Net completed plant	12,832.7	12,715.4
Construction work in progress	1,234.6	1,248.2
<b>Net utility plant</b>	<b>14,067.3</b>	<b>13,963.6</b>
Nonfederal generation	3,615.3	3,774.3
<b>Net utility plant and nonfederal generation</b>	<b>17,682.6</b>	<b>17,737.9</b>
<b>Current assets</b>		
Cash and cash equivalents	825.6	523.5
Accounts receivable, net of allowance	29.5	40.3
Accrued unbilled revenues	310.8	294.1
Materials and supplies, at average cost	107.9	106.5
Prepaid expenses	53.5	31.0
<b>Total current assets</b>	<b>1,327.3</b>	<b>995.4</b>
<b>Other assets</b>		
Regulatory assets	5,111.5	5,292.1
Nonfederal nuclear decommissioning trusts	336.1	391.6
Deferred charges and other	288.0	140.9
<b>Total other assets</b>	<b>5,735.6</b>	<b>5,824.6</b>
<b>Total assets</b>	<b>\$ 24,745.5</b>	<b>\$ 24,557.9</b>
<b>Capitalization and Liabilities</b>		
<b>Capitalization and long-term liabilities</b>		
Accumulated net revenues	\$ 4,478.1	\$ 4,315.4
Debt		
Federal appropriations	1,615.0	1,595.2
Borrowings from U.S. Treasury	4,986.6	4,850.6
Nonfederal debt	6,598.5	6,701.7
<b>Total capitalization and long-term liabilities</b>	<b>17,678.2</b>	<b>17,462.9</b>
<b>Commitments and contingencies (See Note 13 to 2019 Audited Financial Statements)</b>		
<b>Current liabilities</b>		
Debt		
Borrowings from U.S. Treasury	543.0	429.0
Nonfederal debt	1,092.2	891.6
Accounts payable and other	470.0	551.6
<b>Total current liabilities</b>	<b>2,105.2</b>	<b>1,872.2</b>
<b>Other liabilities</b>		
Regulatory liabilities	1,605.8	1,804.5
IOU exchange benefits	1,987.3	2,092.8
Asset retirement obligations	836.0	821.2
Deferred credits and other	533.0	504.3
<b>Total other liabilities</b>	<b>4,962.1</b>	<b>5,222.8</b>
<b>Total capitalization and liabilities</b>	<b>\$ 24,745.5</b>	<b>\$ 24,557.9</b>

# Federal Columbia River Power System

## Combined Statements of Revenues and Expenses (Unaudited)

(Millions of dollars)

	Three Months Ended March 31,		Fiscal Year-to-Date Ended March 31,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>Operating revenues</b>				
Sales	\$ 938.9	\$ 966.5	\$ 1,805.9	\$ 1,831.7
U.S. Treasury credits	25.3	32.3	60.2	77.2
<b>Total operating revenues</b>	<b>964.2</b>	<b>998.8</b>	<b>1,866.1</b>	<b>1,908.9</b>
<b>Operating expenses</b>				
Operations and maintenance	522.2	529.5	1,010.1	1,045.8
Purchased power	24.8	189.0	70.0	249.5
Nonfederal projects	-	52.0	-	103.9
Depreciation, amortization and accretion	204.2	132.4	407.4	264.3
<b>Total operating expenses</b>	<b>751.2</b>	<b>902.9</b>	<b>1,487.5</b>	<b>1,663.5</b>
<b>Net operating revenues</b>	<b>213.0</b>	<b>95.9</b>	<b>378.6</b>	<b>245.4</b>
<b>Interest expense and other income, net</b>				
Interest expense	118.7	61.1	238.8	123.3
Allowance for funds used during construction	(6.9)	(7.1)	(14.7)	(15.7)
Interest income	(1.2)	(2.0)	(2.4)	(4.6)
Other income, net	(5.6)	-	(5.8)	-
<b>Total interest expense and other income, net</b>	<b>105.0</b>	<b>52.0</b>	<b>215.9</b>	<b>103.0</b>
<b>Net revenues</b>	<b>\$ 108.0</b>	<b>\$ 43.9</b>	<b>\$ 162.7</b>	<b>\$ 142.4</b>

APPENDIX C

FORM OF OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP

(Date of Closing)

Port of Morrow  
2 Marine Drive  
P.O. Box 200  
Boardman, Oregon 97818

Re: Port of Morrow  
Transmission Facilities Revenue Bonds  
(Bonneville Cooperation Project No. 7)  
Series 2020-1 (Federally Taxable)

Ladies and Gentlemen:

We have acted as special counsel to the United States of America, Department of Energy, acting by and through the Administrator of the Bonneville Power Administration (“Bonneville”) in connection with the issuance by the Port of Morrow (the “Issuer”) of \$377,635,000 aggregate principal amount of the Issuer’s Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 7), Series 2020-1 (Federally Taxable) (the “Series 2020-1 Bonds”), issued pursuant to an Indenture of Trust, dated as of June 1, 2020 (the “Indenture”), between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). The Series 2020-1 Bonds are issued primarily to refinance indebtedness issued for the cost of acquiring, constructing, installing and equipping of certain transmission facilities owned by the Issuer and leased to Bonneville pursuant to the Lease-Purchase Agreement, dated June 25, 2020 (the “Lease-Purchase Agreement”), between the Issuer and Bonneville. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Indenture.

In such connection, we have reviewed the Indenture, the Lease-Purchase Agreement, opinions of counsel to Bonneville, the Trustee and the Issuer, certain resolutions of the Issuer, certificates of the Issuer, the Trustee, Bonneville and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein, including the judicial validation the Issuer received pursuant to an Order, dated March 15, 2012, which, among other things, confirms the valid, legal and binding effect of the proceedings of the Issuer providing for and authorizing the issuance, sale, execution and delivery of the Series 2020-1 Bonds and the funding of the Project. With respect to the due organization and existence of the Issuer and the adoption of the authorizing resolution of the Issuer related to the Series 2020-1 Bonds, we have relied upon the opinion of Monahan, Grove & Tucker.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Series 2020-1 Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Series 2020-1 Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2020-1 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer.

We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in such documents, and of the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Lease-Purchase Agreement.

We call attention to the fact that the rights and obligations under the Series 2020-1 Bonds, Indenture and the Lease-Purchase Agreement and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against port districts in the State of Oregon. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinions with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the Lease-Purchase Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2020-1 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2020-1 Bonds constitute the valid and binding limited recourse obligations of the Issuer, payable solely from the Trust Estate.

2. The Indenture constitutes the valid and binding obligation of the Issuer. The Indenture creates the valid pledge of the Trust Estate, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Lease-Purchase Agreement constitutes the valid and binding agreement of the Issuer.

4. Interest on the Series 2020-1 Bonds is not excluded from gross income for U.S. federal income tax purposes pursuant to Section 103 of the U.S. Internal Revenue Code of 1986, as amended. Interest on the Series 2020-1 Bonds is exempt from State of Oregon personal income taxes.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

**CONTINUING DISCLOSURE CERTIFICATE**

**\$377,635,000**

**PORT OF MORROW, OREGON  
Transmission Facilities Revenue Bonds  
(Bonneville Cooperation Project No. 7)  
Series 2020-1**

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the Bonneville Power Administration (“Bonneville”) as the obligated person for whom financial and operating data is presented in the official statement for the Port of Morrow, Oregon (the “Issuer”) Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 7) Series 2020-1 (the “Bonds”).

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by Bonneville for the benefit of the holders of the Bonds and to assist the underwriters of the Bonds in complying with paragraph (b)(5) of the United States Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) as amended (the “Rule”). This Certificate constitutes Bonneville’s written undertaking for the benefit of the owners of the Bonds as required by paragraph (b)(5) of the Rule.

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds, including persons holding Bonds through nominees or depositories.

“BPA Annual Information” means financial information and operating data generally of the type included in Appendix A of the Official Statement under the heading “POWER SERVICES” in the tables titled “Bonneville Power Services’ Ten Largest Customers by Sales” and “Historical Average PF Preference Rates,” under the heading “TRANSMISSION SERVICES” in the table titled “Transmission Services’ Ten Largest Customers By Sales,” and under the heading “BONNEVILLE FINANCIAL OPERATIONS” in the tables titled “Historical Capital Spending by Program by Fiscal Year,” “Historical Capital Funding by Source and Fiscal Year,” “Historical Federal System Operating Revenue and Operating Expense Compared to Historical Streamflow,” “Federal System Statement of Revenues and Expenses,” “Statement of Non-Federal Debt Service Coverage and United States Treasury Payments” and “Bonneville’s Fiscal Year-End Financial Reserves.”

“Commission” means the United States Securities and Exchange Commission.

“FCRPS” means the Federal Columbia River Power System.

“FCRPS Fiscal Year” means the fiscal year ending each September 30 or, if such fiscal year end is changed, on such new date; provided that if the FCRPS Fiscal Year end is changed, Bonneville shall provide written notice of such change to the MSRB.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt offering; or (iii) guarantee of (i) or (ii) above. Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“MSRB” means the United States Municipal Securities Rulemaking Board or any successor to its functions.

“Official Statement” means the final official statement for the Bonds dated June 11, 2020.

“Rule” means the Commission’s Rule 15c2-12 under the Securities Exchange Act of 1934, as it has been and may be amended.

Section 3. Financial Information. Bonneville agrees to provide or cause to be provided to the MSRB, no later than 180 days after the end of each FCRPS Fiscal Year, commencing with the FCRPS Fiscal Year ending September 30, 2020:

- i. the BPA Annual Information for the FCRPS Fiscal Year; and
- ii. annual financial statements of the FCRPS for the FCRPS Fiscal Year, prepared in accordance with generally accepted accounting principles; and
- iii. if the annual financial statements provided in accordance with subparagraph (ii) above are not the audited annual financial statements of FCRPS, Bonneville shall provide such audited annual financial statements when and if they become available.

Bonneville will notify the Issuer when the financial information in this section has been provided to the MSRB.

Bonneville agrees to notify the MSRB in a timely manner of any failure to provide the information described in Section 3 on or prior to the date set forth in the preceding paragraph.

Section 4. Events Notices. (a) Bonneville agrees to provide to the MSRB and the Issuer in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. modifications to the rights of Bondholders, if material;
8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of the event identified in this paragraph 12, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S.

Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);

13. the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

14. appointment of a successor or additional trustee or the change of name of a trustee, if material;

15. incurrence of a Financial Obligation of Bonneville, if material, or agreement to covenants, events of default, remedies, priority rights, or similar terms of a Financial Obligation of Bonneville, any of which affect security holders, if material;

16. default, event of acceleration, termination event, modification of terms, or similar events under the terms of the Financial Obligation of Bonneville, any of which reflect financial difficulties.

(b) Bonneville intends to comply with the events described in items 15 and 16 listed above, and the definition of Financial Obligation in Section 2, with reference to the Rule, any other applicable federal securities law and the guidance provides by the SEC in Release No. 34-83885 dated August 20, 2018 ( the “2018 Release”), and any further amendments or written guidance provided by the SEC or its staff with respect to the amendments to the Rule effected by the 2018 Release.

Section 5. Termination. Bonneville’s obligations to provide notices of the above-listed events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. In addition, Bonneville may terminate all or any portion of its obligations under this Certificate if Bonneville (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any provision of this Certificate, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (b) notifies the MSRB of such opinion and the termination of its obligations under this Certificate.

Section 6. Amendment. Notwithstanding any other provision of this Certificate, Bonneville may amend this Certificate, provided that the following conditions are satisfied:

A. If the amendment relates to the provisions of Sections 3 or 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of Bonneville with respect to the Bonds, or the type of business conducted; and,

B. If this Certificate, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment either (i) is approved by the owners of the Bonds pursuant to the terms of the governing instrument at the time of the amendment or (ii) does not materially impair the interests of the owners or Beneficial Owners of the Bonds as determined by a party unaffiliated with the obligated person.

In the event of any amendment of a provision of this Certificate, Bonneville shall describe such amendment in its next annual filing pursuant to Section 3 of this Certificate, and shall include, as applicable, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by Bonneville. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of the amendment shall be given in the same manner as for a listed event under Section 4 hereof, and (ii) the annual report for the first fiscal

year that is affected by the change in accounting principles should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Bond Owner's Remedies Under This Certificate. The right of any owner of Bonds or Beneficial Owner of Bonds to obtain legal redress for Bonneville's failure to comply with provisions of this Certificate, or for any breach or default by Bonneville of this Certificate, shall not include monetary damages and any failure by Bonneville to comply with the provisions of this Certificate shall not be an event of default with respect to the Bonds. Specific performance is not available as a remedy against Bonneville for any breach or default by Bonneville under this Certificate. Any owner of Bonds or Beneficial Owner of Bonds shall have only such other rights and remedies available to it under federal law with respect to Bonneville.

Section 8. Form of Information. All information required to be provided under this certificate will be provided in an electronic format as prescribed by the MSRB and with the identifying information prescribed by the MSRB.

Section 9. Submitting Information Through EMMA. So long as the MSRB continues to approve the use of the Electronic Municipal Market Access ("EMMA") continuing disclosure service, any information required to be provided to the MSRB under this Certificate may be provided through EMMA. As of the date of this Certificate, the web portal for EMMA is [emma.msrb.org](http://emma.msrb.org).

Section 10. Choice of Law. This Certificate shall be governed by and construed in accordance with federal law, including federal securities laws and official interpretations thereof.

Dated as of the 25<sup>th</sup> day of June, 2020.

**Bonneville Power Administration**

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Authorized Official

## APPENDIX E

### DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURE

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream Banking (DTC, Euroclear and Clearstream Banking together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, Bonneville, the Municipal Advisor or the Underwriters take any responsibility for the accuracy, completeness or adequacy of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor Bonneville will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Series 2020-1 Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC. Capitalized terms used but not defined in this Appendix D will have the definitions given to such terms in the forepart of this Official Statement.*

THE ISSUER WILL HAVE NO RESPONSIBILITY OR OBLIGATIONS TO DIRECT PARTICIPANTS (DEFINED HEREIN) OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2020-1 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE SERIES 2020-1 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2020-1 BONDS.

#### **DTC Book-Entry Only System**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2020-1 Bonds. The Series 2020-1 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2020-1 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any such maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such maturity. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission (“SEC”). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Series 2020-1 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020-1 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2020-1 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020-1 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial

Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2020-1 Bonds, except in the event that use of the book-entry-only system for the Series 2020-1 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020-1 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2020-1 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020-1 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020-1 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2020-1 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2020-1 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2020-1 Bond documents. For example, Beneficial Owners of Series 2020-1 Bonds may wish to ascertain that the nominee holding the Series 2020-1 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them. THE ISSUER, BONNEVILLE AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT AND INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2020-1 BONDS.

Redemption notices will be sent to DTC. If less than all of the Series 2020-1 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2020-1 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2020-1 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2020-1 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2020-1 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2020-1 Bonds are required to be printed and delivered as described in the Indenture.

The Issuer, at the direction of Bonneville, may decide to discontinue use of the system of the book-entry transfers through DTC (or a successor securities depository). In that event, Series 2020-1 Bond certificates will be printed and delivered to DTC.

THE ISSUER, THE TRUSTEE, BONNEVILLE AND THE UNDERWRITERS SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT OR INDIRECT PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE SERIES 2020-1 BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT; THE PAYMENT BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2020-1 BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF

ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2020-1 BONDS; ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS AN OWNER; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY-ONLY SYSTEM.

SO LONG AS CEDE & CO. (OR SUCH OTHER NOMINEE AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC) IS THE REGISTERED OWNER OF THE SERIES 2020-1 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR OWNERS OR REGISTERED HOLDERS OR REGISTERED OWNERS OF THE SERIES 2020-1 BONDS MEANS CEDE & CO., AS AFORESAID, AND DOES NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2020-1 BONDS.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2020-1 Bonds, payment of principal, interest and other payments on the Series 2020-1 Bonds to Direct and Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Series 2020-1 Bonds and other related transactions by and between DTC, the Direct and Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the Direct nor Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC.

### **Euroclear and Clearstream Banking**

Euroclear and Clearstream Banking each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream Banking provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Banking also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream Banking have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream Banking customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream Banking is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

### **Clearing and Settlement Procedures**

The Series 2020-1 Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream Banking and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Bonds, the record holder will be DTC's nominee. Clearstream Banking and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream Banking's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream Banking or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream Banking or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream Banking or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream Banking participant on that business day. Cash received in Clearstream Banking or Euroclear as a result of sales of securities by or through a Clearstream Banking participant or Euroclear participant to a Direct Participant, other than the depository for Clearstream Banking or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream Banking or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream Banking participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Banking participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect

final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream Banking participants or Euroclear participants may not deliver instructions directly to the depositories.

### **Initial Settlement**

Interests in the Series 2020-1 Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Series 2020-1 Bonds through Euroclear and Clearstream Banking accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Series 2020-1 Bonds will be credited to Euroclear and Clearstream Banking participants' securities clearance accounts on the business day following the date of delivery of the Series 2020-1 Bonds against payment (value as on the date of delivery of the Series 2020-1 Bonds). Direct Participants acting on behalf of purchasers electing to hold book-entry interests in the Series 2020-1 Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. Direct Participants' securities accounts will be credited with book-entry interests in the Series 2020-1 Bonds following confirmation of receipt of payment to the Trustee on the date of delivery of the Series 2020-1 Bonds.

The Issuer will not impose any fees in respect of holding the Series 2020-1 Bonds; however, holders of book-entry interests in the Series 2020-1 Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the Clearing Systems.

### **Secondary Market Trading**

Secondary market trades in the Series 2020-1 Bonds will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream Banking or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Series 2020-1 Bonds may be transferred within Euroclear and within Clearstream Banking and between Euroclear and Clearstream Banking in accordance with procedures established for these purposes by Euroclear and Clearstream Banking. Book-entry interests in the Series 2020-1 Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Series 2020-1 Bonds between Euroclear or Clearstream Banking and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream Banking and DTC.

### **General**

None of Euroclear, Clearstream Banking or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Neither the Trustee nor any of their agents will have any responsibility for the performance by Euroclear, Clearstream Banking or DTC or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

The information herein concerning Euroclear, Clearstream Banking, DTC and DTC's book-entry system has been obtained from sources that the Trustee believes to be reliable, but the Trustee takes no responsibility for the accuracy thereof.

### **Certificated Bonds**

DTC may discontinue providing its services as depository with respect to the Series 2020-1 Bonds at any time by giving reasonable notice to the Issuer. Further, in the event that Bonneville determines that it is in the best interests of the beneficial owners of the Series 2020-1 Bonds that they be able to obtain bond certificates, the Issuer shall, upon the written instruction of Bonneville, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In either such event, the Series 2020-1 Bonds will be transferable in accordance with the Indenture.



