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

Quarterly Financial Report

2019 Third Quarter

Management's Discussion and Analysis

Profile

The Bonneville Power Administration (BPA) is a nonprofit federal power marketing administration based in the Pacific Northwest. Although BPA is part of the U.S. Department of Energy, it is self-funded and covers its costs by selling its products and services. BPA markets wholesale electrical power from 31 federal hydroelectric projects in the Northwest, one nonfederal nuclear plant and several small nonfederal power plants. The dams are operated by the U.S. Army Corps of Engineers (USACE) and the Bureau of Reclamation (Reclamation). The nonfederal nuclear plant, Columbia Generating Station, is owned and operated by Energy Northwest, a joint operating agency of the state of Washington. BPA provides about 28 percent of the electric power used in the Northwest, and its resources – primarily hydroelectric – make its power nearly carbon free.

BPA also operates and maintains about three-fourths of the high-voltage transmission in its service territory. BPA's service territory includes Idaho, Oregon, Washington, western Montana and small parts of eastern Montana, California, Nevada, Utah and Wyoming.

BPA promotes energy efficiency, renewable resources and new technologies that improve its ability to deliver on its mission. It also funds regional efforts to protect and enhance fish and wildlife populations affected by hydropower development in the Columbia River Basin.

BPA is committed to public service and seeks to make its decisions in a manner that provides opportunities for input from stakeholders. In its vision statement, BPA dedicates itself to providing high system reliability, low rates consistent with sound business principles, environmental stewardship and accountability.

General

The Federal Columbia River Power System (FCRPS) financial statements combine the accounts of BPA with the accounts of the Pacific Northwest generating facilities of the USACE and Reclamation. The FCRPS combined financial statements also include the operations and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan facilities. Consolidated with BPA is a variable interest entity (VIE) of which BPA is the primary beneficiary, and from which BPA leases certain transmission facilities.

Use of Estimates and Forward-Looking Information

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

This Management's Discussion and Analysis is unaudited and may contain statements which, to the extent they are not recitations of historical facts, constitute "forward-looking statements." In this respect, the words "planned," "predict," "could," "estimate," "expect" and similar expressions are intended to identify forward-looking statements.

This BPA-approved financial information was made publicly available on 7-26-2019.

A number of important factors affecting FCRPS business and financial results could cause actual results to differ materially from those stated in forward-looking statements due to factors such as changes in economic, industry, political and business conditions; changes in laws, regulations and policies and the application of the laws; and changes in climate, weather, hydroelectric conditions and power services supply and demand. BPA does not plan to issue updates or revisions to the forward-looking statements.

Results of Operations

Operating revenues

A comparison of FCRPS operating revenues follows for the nine months ended June 30, 2019, and June 30, 2018:

(Millions of dollars)	Fiscal Year 2019	Fiscal Year 2018	Revenue Increase (Decrease)	% Change
Sales				
Consolidated gross sales				
Power	$ 1,965.7	$ 2,006.9	$ (41.2)	(2) %
Transmission	675.3	698.3	(23.0)	(3)
Bookouts (Power)	(22.8)	(11.7)	(11.1)	95
Consolidated gross sales	2,618.2	2,693.5	(75.3)	(3)
Other revenues				
Power	40.8	23.2	17.6	76
Transmission	35.8	29.9	5.9	20
Other revenues	76.6	53.1	23.5	44
Sales	2,694.8	2,746.6	(51.8)	(2)
U.S. Treasury credits	86.3	67.7	18.6	27
Total operating revenues	$ 2,781.1	$ 2,814.3	$ (33.2)	(1)

Total operating revenues decreased $33.2 million when compared to the same period of fiscal year 2018. Consolidated gross sales for Power and Transmission Services, including other revenues and the effect of bookouts, decreased $51.8 million.

Power Services gross sales decreased $41.2 million.

- Firm power sales increased $18.4 million largely due to higher sales to Alcoa, which had curtailed service during the first half of fiscal year 2018 but not during fiscal year 2019. In addition, persistent cold weather during the second quarter of fiscal year 2019 led to higher load shaping and demand revenues.
- Surplus power sales, including revenues from derivative instruments decreased $59.6 million. This decrease was mainly driven by comparatively dry weather, resulting in lower streamflows and water available to generate power for surplus sales. This was the case generally through the first half of fiscal year 2019, including the period of very cold weather in February and early March.

Bookouts are presented on a net basis in the Combined Statements of Revenues and Expenses. When sales and purchases are scheduled with the same counterparty on the same transmission path for the same hour, the power is typically booked out and not scheduled for physical delivery. The megawatt-hours that offset each other net to zero. The dollar values of these offsetting transactions reduce both sales and purchased power expense and are recorded as bookouts. Therefore, the accounting treatment for bookouts has no effect on net revenues, cash flows or margins.

Transmission Services gross sales decreased $23.0 million primarily due to wind-related services, a result of certain customers leaving BPA's balancing authority in early 2018. In addition, lower stream flows and price spreads on short-term point-to-point services led to decreased revenues. Furthermore, $4.9 million of oversupply revenues were earned in fiscal year 2018 while no such revenues were earned in fiscal year 2019. Oversupply revenues are offset by a corresponding expense.

Other power revenues increased $17.6 million, nearly all of which was due to gains realized on financial futures trades during the second quarter of fiscal year 2019. BPA uses financial futures contracts on energy as an operational hedge to mitigate for price volatility in the physical energy market. As a result of the high power prices during the second quarter of fiscal year 2019, BPA recognized realized gains on financial futures contracts.

U.S. Treasury credits increased $18.6 million year over year for fish and wildlife mitigation due to increased purchased power requirements resulting from reduced streamflows through the first half of fiscal year 2019. Power purchases were needed to replace lost hydroelectric generation due to fish mitigation measures. Under the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), BPA reduces its payment to the U.S. Treasury for the nonpower expenditures made by BPA for fish and wildlife mitigation.

Operating expenses

A comparison of FCRPS operating expenses follows for the nine months ended June 30, 2019, and June 30, 2018:

(Millions of dollars)	Fiscal Year 2019	Fiscal Year 2018	Expense Increase (Decrease)	% Change
Operations and maintenance	$ 1,583.8	$ 1,509.7	$ 74.1	5 %
Purchased power	268.5	84.0	184.5	220
Nonfederal projects	158.2	214.8	(56.6)	(26)
Depreciation and amortization	397.5	376.5	21.0	6
Total operating expenses	$ 2,408.0	$ 2,185.0	$ 223.0	10

Total operating expenses increased $223.0 million when compared to the same period of fiscal year 2018. Operations and maintenance expense increased $74.1 million primarily because of the following factors:

- Energy Northwest's Columbia Generating Station nuclear power plant costs increased $81.2 million due to fiscal year 2019 being a refueling year. Refueling occurs biennially, most recently in fiscal year 2017, and refueling and maintenance expenses are higher in refueling years.
- Corps of Engineers operations and maintenance costs increased $9.1 million largely due to an increase in non-routine work performed on the Chief Joseph Dam spillway gate, The Dalles Dam powerhouse arc flash reduction, and for efforts related to the Columbia River System Operations Environmental Impact Statement.
- Bureau of Reclamation operations and maintenance costs increased $5.9 million largely due to an increase in non-routine work performed on Grand Coulee Dam's third power plant overhaul and on the Leavenworth fish hatcheries.
- Transmission-related operations and maintenance expenses increased $7.6 million due to increased grid modernization efforts, Puget Sound Area Northern Intertie work, increased non-electric facilities maintenance costs and reimbursable work performed for the Department of Energy. Included within the overall increase in transmission-related operations and maintenance expenses is a $4.9 million decrease due to the offset of oversupply revenues that were earned in fiscal year 2018, but were not earned in fiscal year 2019.
- Contributions for post-retirement benefit programs and pension costs increased $6.2 million as a result of changes in the cost factors developed by the Office of Personnel Management. The changes were made during the latter half of fiscal year 2018.

- Generation Conservation costs decreased $24.4 million due to a planned reduction in the amount of energy efficiency projects completed by customers and which are reimbursed by BPA. Certain work was completed in fiscal year 2018 instead of fiscal year 2019.
- Fish and Wildlife costs decreased $12.3 million primarily due to Fish and Wildlife program reductions to avoid a potential spill surcharge cost for fiscal year 2019. The spill surcharge, a component of power rates, allows BPA to recover from customers forgone revenue and costs that result from increases in planned spill levels. However, due to the aforementioned program reductions, no surcharge was charged to customers for fiscal year 2019.

Purchased power expense, including the effects of bookouts, increased $184.5 million primarily because of the following factors:

- Contracted power purchases increased $100.2 million due to dry conditions and lower water available for power generation, which resulted in an increased amount of power purchases during times of high market prices and extremely cold weather in early 2019.
- High power prices through the second quarter of 2019 resulted in BC Hydro, an electric utility owned by the Province of British Columbia, releasing water from Arrow Dam in Canada under certain water storage agreements. Per terms of these agreements between BPA and BC Hydro, water was released from storage accounts which caused BPA to accrue a liability to BC Hydro for the value of the water released at the prevailing price at time of release. The expense recognized for amounts due to BC Hydro was $86.6 million higher through the first nine months of fiscal year 2019 compared to the same period in 2018.

Nonfederal projects debt service decreased $56.6 million primarily due to the receipt of additional revenues by Energy Northwest in fiscal year 2019 for the sale of its nuclear fuel, which is treated as an offset to debt service related to outstanding debt for Columbia Generating Station.

Depreciation and amortization increased $21.0 million due to revised depreciation rates that went into effect in March 2018, resulting from a new depreciation study completed in February 2018, and an increase in the utility plant assets in service.

Other Operational Matters

U.S. Treasury liquidity facility

In December 2018, BPA issued $75.0 million of short-term debt on its liquidity facility with the U.S. Treasury to meet operating expenses and manage within-year working capital. BPA repaid this amount in February 2019.

Energy Northwest line of credit activity

In January 2019, Energy Northwest obtained a new $227.0 million bank line of credit (that could be increased to $457.4 million upon agreement with BPA, Energy Northwest, and the bank) to finance operations and maintenance expenses and interest payments for outstanding bonds related to Columbia Generating Station (CGS). Amounts borrowed are due to be repaid on or before June 30, 2021. Through June 30, 2019, Energy Northwest had borrowed the entire $227.0 million on this line of credit, thereby relieving BPA of providing an equivalent amount of funding to Energy Northwest for CGS. As with recent Energy Northwest line of credit arrangements, BPA will fund the repayment of the $227.0 million.

In June 2019, Energy Northwest drew an additional $230.4 million, thus fully utilizing the $457.4 million bank line of credit. This amount financed interest and principal payments due July 1, 2019, for certain outstanding CGS bonds. Energy Northwest expects to receive payment by October 2019 from the Tennessee Valley Authority (TVA) in accordance with a previous agreement with TVA regarding the purchase of nuclear fuel. The payments from TVA will be used to pay off the $230.4 million borrowed under this line of credit. The $230.4 million increase to Nonfederal debt on the Combined Balance Sheets was offset by an increased Nonfederal generation asset. There were no impacts to cash flows, revenues or expenses as a result of the aforementioned items.

Decommissioning study

In March 2019 as a result of a site-specific decommissioning study on CGS, BPA management increased its asset retirement obligation (ARO) liability for CGS by $594.8 million. For fiscal year 2019 and for the 2020–2021 rate period, BPA management does not expect the increased ARO liability to affect power rates charged to customers or to require any adjustments to its current trust fund contribution levels. A $594.8 million increase to the Nonfederal generation asset on the Combined Balance Sheets offset the increased ARO liability. There were no impacts to cash flows, revenues or expenses as a result of the aforementioned items. For fiscal year 2020, and as a result of the increased ARO liability, BPA management expects amortization expense related to the CGS nonfederal generation asset to increase approximately $58 million.

Fiscal Years 2020-2021 Rates

To establish rates for fiscal years 2020 and 2021, BPA concluded the BP-20 rate proceeding in July 2019 by releasing the Administrator's Final Record of Decision and Final Proposal. Rates are expected to go into effect on Oct. 1, 2019, and will be effective through Sept. 30, 2021, assuming approval by the Federal Energy Regulatory Commission (FERC). FERC's practice is to grant approval of BPA's rates on an interim basis at the beginning of the rate period, pending final review. There is no increase to base power rates. The average transmission rate increase is 3.6 percent when compared to the prior rate period. Rates include a Financial Reserves Policy surcharge, which can result in up to $30 million per year being recovered for Power Services' reserves. If the surcharge is implemented, which at this time appears likely, the effective power rate increase would be up to approximately 1.5% for the two-year rate period.

Additional Information

To see BPA's annual and quarterly reports, go to www.bpa.gov/goto/AnnualReport

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

For information on Power Services, go to www.bpa.gov/power

For information on Transmission Services, go to www.bpa.gov/transmission

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

	As of June 30, 2019	As of September 30, 2018
Assets		
Utility plant		
Completed plant	**$ 19,528.8**	$ 19,307.4
Accumulated depreciation	**(7,119.3)**	(6,883.4)
Net completed plant	**12,409.5**	12,424.0
Construction work in progress	**1,461.5**	1,290.1
Net utility plant	**13,871.0**	13,714.1
Nonfederal generation	**4,032.6**	3,350.9
Current assets		
Cash and cash equivalents	**779.0**	804.2
Short-term investments in U.S. Treasury securities	**-**	40.2
Accounts receivable, net of allowance	**39.9**	75.2
Accrued unbilled revenues	**302.9**	292.4
Materials and supplies, at average cost	**105.8**	109.1
Prepaid expenses	**51.7**	48.2
Total current assets	**1,279.3**	1,369.3
Other assets		
Regulatory assets	**5,344.4**	5,587.7
Nonfederal nuclear decommissioning trusts	**385.6**	377.6
Deferred charges and other	**133.1**	176.8
Total other assets	**5,863.1**	6,142.1
Total assets	**$ 25,046.0**	$ 24,576.4
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 4,344.1**	$ 4,123.8
Debt		
Federal appropriations	**1,827.0**	1,791.7
Borrowings from U.S. Treasury	**4,749.7**	4,955.7
Nonfederal debt	**6,978.8**	7,111.4
Total capitalization and long-term liabilities	**17,899.6**	17,982.6
Commitments and contingencies (See Note 13 to 2018 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	**543.9**	574.9
Nonfederal debt	**854.8**	598.3
Accounts payable and other	**470.5**	511.4
Total current liabilities	**1,869.2**	1,684.6
Other liabilities		
Regulatory liabilities	**1,825.2**	1,912.0
IOU exchange benefits	**2,125.8**	2,256.7
Asset retirement obligations	**813.4**	208.0
Deferred credits and other	**512.8**	532.5
Total other liabilities	**5,277.2**	4,909.2
Total capitalization and liabilities	**$ 25,046.0**	$ 24,576.4

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

	Three Months Ended June 30,		Fiscal Year-to-Date Ended June 30,	
	2019	2018	**2019**	2018
Operating revenues				
Sales	**$ 863.1**	$ 879.3	**$ 2,694.8**	$ 2,746.6
U.S. Treasury credits	**9.2**	18.2	**86.3**	67.7
Total operating revenues	**872.3**	897.5	**2,781.1**	2,814.3
Operating expenses				
Operations and maintenance	**538.1**	507.0	**1,583.8**	1,509.7
Purchased power	**19.0**	20.7	**268.5**	84.0
Nonfederal projects	**54.3**	67.9	**158.2**	214.8
Depreciation and amortization	**133.1**	129.9	**397.5**	376.5
Total operating expenses	**744.5**	725.5	**2,408.0**	2,185.0
Net operating revenues	**127.8**	172.0	**373.1**	629.3
Interest expense and (income)				
Interest expense	**61.0**	61.4	**184.2**	181.3
Allowance for funds used during construction	**(8.5)**	(7.5)	**(24.2)**	(23.9)
Interest income	**(2.6)**	(2.5)	**(7.2)**	(4.3)
Net interest expense	**49.9**	51.4	**152.8**	153.1
Net revenues	**$ 77.9**	$ 120.6	**$ 220.3**	$ 476.2

Federal Columbia River Power System
Combined Statements of Cash Flows (Unaudited)
(Millions of dollars)

	Fiscal Year-to-Date Ended June 30, 2019	2018
Cash flows from operating activities		
Net revenues	**$ 220.3**	$ 476.2
Adjustments to reconcile net revenues to cash provided by operations:		
Depreciation and amortization	**397.5**	376.5
Amortization of nonfederal projects	**152.6**	148.8
Deferred payments for Energy Northwest-related O&M and interest	**227.0**	141.0
Changes in:		
Receivables and unbilled revenues	**24.8**	(9.0)
Materials and supplies	**3.3**	0.5
Prepaid expenses	**(3.5)**	15.6
Accounts payable and other	**(33.1)**	(73.1)
Regulatory assets and liabilities	**49.0**	88.2
IOU exchange benefits	**(130.9)**	(127.2)
Other assets and liabilities	**(12.5)**	(12.0)
Net cash provided by operating activities	**894.5**	1,025.5
Cash flows from investing activities		
Investments in utility plant, including AFUDC	**(450.5)**	(523.1)
U.S. Treasury securities:		
Purchases	**(110.0)**	(292.0)
Maturities	**150.0**	167.0
Deposits to nonfederal nuclear decommissioning trusts	**(2.9)**	(2.8)
Lease-purchase trust funds:		
Deposits to	**-**	(9.6)
Receipts from	**39.4**	40.9
Net cash used for investing activities	**(374.0)**	(619.6)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**35.3**	68.0
Borrowings from U.S. Treasury:		
Proceeds	**75.0**	133.0
Repayment	**(312.0)**	(56.1)
Nonfederal debt:		
Proceeds	**4.0**	9.9
Repayment	**(359.5)**	(668.8)
Customers:		
Net advances for construction	**21.9**	57.4
Repayment of funds used for construction	**(10.9)**	(14.2)
Net cash used for financing activities	**(546.2)**	(470.8)
Net increase (decrease) in cash, cash equivalents and restricted cash	**$ (25.7)**	$ (64.9)
Cash, cash equivalents and restricted cash at beginning of year	**816.4**	610.7
Cash, cash equivalents and restricted cash at end of quarter	**$ 790.7**	$ 545.8
Less: Restricted cash at end of quarter	**11.7**	12.5
Cash and cash equivalents at end of quarter	**$ 779.0**	$ 533.3
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 198.4**	$ 196.9
Significant noncash activities:		
Nonfederal debt increase for Energy Northwest	**$ 727.3**	$ 1,257.4
Nonfederal debt decrease for Energy Northwest	**$ (263.9)**	$ (1,002.5)
Other Nonfederal debt actions	**$ 16.0**	$ -
Increase in Nonfederal generation asset	**$ 825.2**	$ -