Quarterly Financial Report Q1

2022 First Quarter

Management's Discussion and Analysis

Profile

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

BPA also operates and maintains more than 15,000 circuit miles of high-voltage transmission in its service territory. BPA's territory includes Idaho, Oregon, Washington, western Montana and small parts of eastern Montana, California, Nevada, Utah and Wyoming.

BPA promotes energy efficiency, renewable resources and new technologies that improve its ability to deliver on its mission. To mitigate the impacts of the federal dams, BPA implements a fish and wildlife program that includes working with its partners to make the federal dams safer for fish passage.

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

General

The Federal Columbia River Power System (FCRPS) financial statements combine the accounts of BPA with the accounts of the Pacific Northwest generating facilities of the USACE and Reclamation. The FCRPS financial statements also include the operations and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan facilities. Consolidated with BPA is a variable interest entity (VIE) of which BPA is the primary beneficiary, and from which BPA leases certain transmission facilities. The FCRPS fiscal year is from October 1 to September 30.

Use of Estimates and Forward-Looking Information

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates

This BPA-approved financial information was made publicly available on 1-28-2022.

and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

This Management's Discussion and Analysis (MD&A) is unaudited and may contain statements, which to the extent they are not recitations of historical facts, constitute "forward-looking statements." In this respect, the words "planned," "predict," "could," "estimate," "expect" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting FCRPS business and financial results could cause actual results to differ materially from those stated in forward-looking statements due to factors such as changes in economic, industry, political and business conditions; changes in laws, regulations and policies and the application of the laws; and changes in climate, weather, hydroelectric conditions and power services supply and demand. BPA does not plan to issue updates or revisions to the forward-looking statements.

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

Rates and the Effect of Regulations

Rates for Fiscal Years 2022-2023

To establish rates for fiscal years 2022 and 2023, BPA concluded the BP-22 rate proceeding in July 2021 by releasing the Administrator's Final Record of Decision and Final Proposal. On Sept. 30, 2021, FERC granted interim approval of rates for the BP-22 rate period and such rates became effective on an interim basis, pending FERC final review, on Oct. 1, 2021, and will be effective through Sept. 30, 2023. When compared to the BP-20 rate period, the final average power rate decrease was 2.5%, and the final weighted average transmission rate increase was 6.1%.

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

Based on the amount of financial reserves available for risk that were attributed to Power Services and BPA at the end of fiscal year 2021, the Power RDC "triggered" resulting in a Power RDC Amount of $13.7 million. As defined in the BP-22 rate case, if business line financial reserves and agency financial reserves are above their respective upper thresholds, and the RDC amount is greater than $5 million, the BPA Administrator shall consider the above-threshold financial reserves for debt reduction, incremental capital investment, rate reduction through a Power Dividend Distribution, distribution to customers, or any other Power-specific purposes determined by the BPA Administrator. In December 2021, the Administrator determined that the entire amount would be used to reduce rates through a Power Dividend Distribution which resulted in a credit to be applied to December 2021 through September 2022 customer bills. To satisfy this commitment, BPA has recorded a reduction to Power Services revenue of $1.5 million through Dec. 31, 2021.

Results of Operations

Operating revenues

A comparison of FCRPS operating revenues follows for the three months ended Dec. 31, 2021 and Dec. 31, 2020:

(Millions of dollars)	Fiscal Year 2022	Fiscal Year 2021	Revenue Increase (Decrease)	% Change
Sales				
Consolidated sales				
Power gross sales	$ 705.9	$ 667.0	$ 38.9	6 %
Transmission	254.2	234.5	19.7	8
Bookouts (Power)	(10.7)	(9.3)	(1.4)	15
Consolidated sales	949.4	892.2	57.2	6
Other revenues				
Power	6.5	8.0	(1.5)	(19)
Transmission	11.0	9.2	1.8	20
Other revenues	17.5	17.2	0.3	2
Sales	966.9	909.4	57.5	6
U.S. Treasury credits	36.6	23.5	13.1	56
Total operating revenues	$ 1,003.5	$ 932.9	$ 70.6	8

Total operating revenues increased $70.6 million when compared to the same period of fiscal year 2021. Sales of Power and Transmission Services, including other revenues and the effect of bookouts, increased $57.5 million.

Power Services gross sales increased $38.9 million. Surplus power sales, including revenue from derivative instruments settled with physical deliveries, increased $74.2 million. This increase was mainly driven by higher volumes and higher electricity prices realized for surplus sales when compared to the same period of fiscal year 2021. Partially offsetting this increase was a $35.3 million decrease in firm power sales, which is consistent with the average power rate decrease in BP-22 and a slight decrease in volume sold when compared to the first quarter of fiscal year 2021.

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

Transmission Services revenues increased $19.7 million primarily due to an increase in the sale of point-to-point long-term transmission service. This increase is also consistent with a 7.5% rate increase for this service at the start of the BP-22 rate period.

U.S. Treasury credits increased $13.1 million for fish and wildlife mitigation due to higher volumes of replacement power purchases at higher market prices when compared to the first quarter of fiscal year 2021. Under the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), BPA reduces its annual payment to the U.S. Treasury for the nonpower portion of expenditures, set at 22.3%, that BPA makes for fish and wildlife protection, mitigation and enhancement. Through the fiscal year, BPA records anticipated U.S. Treasury credits earned through the reporting period. At fiscal year-end, BPA calculates and records the annual amount of U.S. Treasury credits earned.

Operating expenses

A comparison of FCRPS operating expenses follows for the three months ended Dec. 31, 2021 and Dec. 31, 2020:

(Millions of dollars)	Fiscal Year 2022	Fiscal Year 2021	Expense Increase (Decrease)	% Change
Operations and maintenance	$ 509.3	$ 501.2	$ 8.1	2 %
Purchased power	69.1	43.6	25.5	58
Depreciation, amortization and accretion	209.9	207.2	2.7	1
Total operating expenses	$ 788.3	$ 752.0	$ 36.3	5

Total operating expenses increased $36.3 million when compared to the same period of fiscal year 2021.

Operations and maintenance expense increased $8.1 million primarily due to the following factors:

- $14.9 million decrease to Energy Northwest's Columbia Generating Station nuclear power plant. This decrease was largely due to fiscal year 2021 being a refueling year. Refueling occurs biennially, most recently in fiscal year 2021, and refueling and maintenance expenses are higher in refueling years.
- $7.7 million increase to "Scheduled Amounts" in accordance with the 2012 Residential Exchange Program Settlement Agreement. Increases to these Scheduled Amounts occur at the start of each new rate period.
- $6.6 million increase in Reclamation and USACE expenses primarily due to increased labor costs at Reclamation and to USACE expenses for an environmental liability and fish mitigation.
- $8.7 million net increase to various other Power, Transmission and Enterprise Services program costs.

Purchased power expense, including the effects of bookouts, increased $25.5 million primarily due to a $46.6 million increase in contracted power purchases resulting from high market prices realized during the first quarter of fiscal year 2022. Partially offsetting this increase was a $21.2 million expense decrease related to water storage agreements with BC Hydro, an electric utility owned by the Province of British Columbia. Yearly fluctuations in water levels, river operations and storage plans, particularly at certain dams in and near Canada, affect the amounts owed to or from BC Hydro.

Interest expense and other income, net

A comparison of FCRPS interest expense and other income, net follows for the three months ended Dec. 31, 2021 and Dec. 31, 2020:

(*Millions of dollars)*	Fiscal Year 2022	Fiscal Year 2021	Expense Increase (Decrease)	% Change
Interest expense	$ 105.8	$ 109.6	$ (3.8)	(3) %
Allowance for funds used during construction	(6.8)	(7.5)	0.7	(9)
Interest income	(0.3)	(0.4)	0.1	(25)
Other income, net	(9.9)	(9.1)	(0.8)	9
Total interest expense and other income, net	$ 88.8	$ 92.6	$ (3.8)	(4)

Total interest expense and other income, net decreased $3.8 million when compared to the same period of fiscal year 2021. This decrease was primarily driven by a reduction of interest expense on nonfederal debt, primarily for the Columbia Generating Station.

Accrued Construction work in progress

Amounts accrued in Accounts payable and other on the Combined Balance Sheet for Construction work in progress assets were approximately $72 million and $51 million as of December 31, 2021, and 2020, respectively.

Other Operational Matters

U.S. Treasury Borrowing Authority Increase

The Bipartisan Infrastructure Deal legislation signed into law on Nov. 15, 2021, increased the amount of bonds that BPA is authorized to issue and sell to the U.S. Treasury, and to have outstanding at any one time, from $7.7 billion to $17.7 billion. Of the total $10 billion increase, $6 billion is authorized for immediate use, with the remaining $4 billion becoming available for use beginning in fiscal year 2028.

Energy Northwest line of credit activity

In December 2021, Energy Northwest borrowed approximately $49 million under an existing short-term borrowing arrangement to pay a portion of the interest coupon payment allocable to unamortized bond premiums related to certain outstanding bonds for Columbia Generating Station and terminated nuclear facilities Projects 1 and 3. BPA management expects Energy Northwest to issue long-term bonds to repay this amount in spring 2022.

COVID-19 Pandemic and Effects on the Bonneville Power Administration

The COVID-19 pandemic did not materially affect FCRPS net revenues for the three months ended Dec. 31, 2021. Electric power loads served by BPA remained stable and comparable to fiscal year 2021 levels. The COVID-19 pandemic has led to a broad range of supply chain issues. For example, delivery times and prices on certain materials and components have increased while the availability of contract labor personnel has been constricted in some labor categories. Despite these challenges BPA continues to fulfill its mission to deliver reliable power and transmission service throughout the region.

Consistent with federal and Department of Energy (DOE) guidance, most of the BPA non-essential workforce remained in maximum telework status. BPA implemented a maximum telework status on March 13, 2020, for non-essential employees and contract personnel and closed its Portland, Vancouver and Spokane facilities to non-essential staff until further notice. As of Dec. 31, 2021, some operational restrictions have eased to allow access to a facility or worksite for those workers whose duties cannot be performed remotely.

BPA implemented a Sept. 9, 2021, executive order requiring federal employees to be fully vaccinated. As of Dec. 31, 2021, most of the BPA workforce was fully vaccinated. Most of the remaining employees requested reasonable accommodations for either medical or religious reasons. On Jan. 21, 2022, a federal district court issued a nationwide preliminary injunction with regard to the executive order that enjoins implementation of the COVID-19 vaccination requirement. Consistent with DOE guidance, BPA has paused enforcement of the COVID-19 vaccination requirement and the processing of any associated reasonable accommodation requests.

DOE issued its COVID-19 Workplace Safety and Reentry Framework Dec. 15, 2021, allowing for a phased return to facilities beginning in 2022. BPA is reviewing the requirements of the DOE framework to form a transition plan and reentry dates to meet its specific needs. This plan is not yet final, and BPA management continues to actively monitor and take actions in response to the evolving public health threat under its continuity of operations plans.

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

Additional Information

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

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

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

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

Federal Columbia River Power System

Combined Balance Sheets (Unaudited)

(Millions of Dollars)

	As of December 31, 2021	As of September 30, 2021
Assets		
Utility plant and nonfederal generation		
Completed plant	$ 20,913.8	$ 20,758.8
Accumulated depreciation	(7,829.5)	(7,758.6)
Net completed plant	13,084.3	13,000.2
Construction work in progress	1,305.0	1,342.8
Net utility plant	14,389.3	14,343.0
Nonfederal generation	3,516.5	3,527.7
Net utility plant and nonfederal generation	17,905.8	17,870.7
Current assets		
Cash and cash equivalents	1,094.8	1,207.9
Accounts receivable, net of allowance	48.9	18.3
Accrued unbilled revenues	400.4	301.3
Materials and supplies, at average cost	112.0	109.5
Prepaid expenses	51.0	39.5
Total current assets	1,707.1	1,676.5
Other assets		
Regulatory assets	4,615.5	4,781.5
Nonfederal nuclear decommissioning trusts	546.2	515.2
Deferred charges and other	253.4	214.6
Total other assets	5,415.1	5,511.3
Total assets	$ 25,028.0	$ 25,058.5

Federal Columbia River Power System

Combined Balance Sheets (Unaudited)

(Millions of Dollars)

	As of December 31, 2021	As of September 30, 2021
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 5,039.0**	$ 4,912.6
Debt		
Federal appropriations	**1,607.7**	1,602.8
Borrowings from U.S. Treasury	**5,029.9**	5,049.9
Nonfederal debt	**6,923.4**	6,932.2
Total capitalization and long-term liabilities	**18,600.0**	18,497.5
Commitments and contingencies (See Note 14 to 2021 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	**585.0**	579.0
Nonfederal debt	**501.2**	451.0
Accounts payable and other	**549.5**	668.7
Total current liabilities	**1,635.7**	1,698.7
Other liabilities		
Regulatory liabilities	**1,580.5**	1,552.6
IOU exchange benefits	**1,670.6**	1,722.2
Asset retirement obligations	**937.3**	929.2
Deferred credits and other	**603.9**	658.3
Total other liabilities	**4,792.3**	4,862.3
Total capitalization and liabilities	**$ 25,028.0**	$ 25,058.5

Federal Columbia River Power System

Combined Statements of Revenues and Expenses (Unaudited)

(Millions of Dollars)

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Fiscal Year-to-Date Ended December 31, 2021	Fiscal Year-to-Date Ended December 31, 2020
Operating revenues				
Sales	**$ 966.9**	$ 909.4	**$ 966.9**	$ 909.4
U.S. Treasury credits	**36.6**	23.5	**36.6**	23.5
Total operating revenues	**1,003.5**	932.9	**1,003.5**	932.9
Operating expenses				
Operations and maintenance	**509.3**	501.2	**509.3**	501.2
Purchased power	**69.1**	43.6	**69.1**	43.6
Depreciation, amortization and accretion	**209.9**	207.2	**209.9**	207.2
Total operating expenses	**788.3**	752.0	**788.3**	752.0
Net operating revenues	**215.2**	180.9	**215.2**	180.9
Interest expense and other income, net				
Interest expense	**105.8**	109.6	**105.8**	109.6
Allowance for funds used during construction	**(6.8)**	(7.5)	**(6.8)**	(7.5)
Interest income	**(0.3)**	(0.4)	**(0.3)**	(0.4)
Other income, net	**(9.9)**	(9.1)	**(9.9)**	(9.1)
Total interest expense and other income, net	**88.8**	92.6	**88.8**	92.6
Net revenues	**$ 126.4**	$ 88.3	**$ 126.4**	$ 88.3

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

	Fiscal Year-to-Date Ended December 31, 2021	2020
Cash flows from operating activities		
Net revenues	**$ 126.4**	$ 88.3
Adjustments to reconcile net revenues to cash provided by operations:		
Depreciation, amortization and accretion	**209.9**	207.2
Other	**(3.7)**	(0.9)
Changes in:		
Receivables and unbilled revenues	**(129.7)**	(3.8)
Materials and supplies	**(2.5)**	(1.9)
Prepaid expenses	**(11.5)**	(21.7)
Accounts payable and other	**(50.0)**	(17.0)
Regulatory assets and liabilities	**106.1**	69.1
IOU exchange benefits	**(51.6)**	(46.7)
Nonfederal nuclear decommissioning trusts	**(29.8)**	(53.4)
Other assets and liabilities	**(100.4)**	(33.2)
Net cash provided by operating activities	**63.2**	186.0
Cash flows from investing activities		
Investment in utility plant, including AFUDC	**(173.2)**	(161.4)
Proceeds from sale of utility plant	**9.4**	-
Deposits to nonfederal nuclear decommissioning trusts	**(1.2)**	(1.1)
Lease-purchase trust funds:		
Receipts from	**-**	7.4
Net cash used for investing activities	**(165.0)**	(155.1)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**4.9**	6.8
Borrowings from U.S. Treasury:		
Repayment	**(14.0)**	(9.0)
Nonfederal debt:		
Repayment	**(8.5)**	(7.6)
Debt extinguishment costs	**-**	(0.7)
Customers:		
Net advances for construction	**9.3**	3.9
Repayment of funds used for construction	**(4.1)**	(4.0)
Net cash used for financing activities	**(12.4)**	(10.6)
Net increase (decrease) in cash, cash equivalents and restricted cash	**(114.2)**	20.3
Cash, cash equivalents and restricted cash at beginning of year	**1,218.7**	857.5
Cash, cash equivalents and restricted cash at end of quarter	**$ 1,104.5**	$ 877.8
Less: Restricted cash at end of quarter, reported in Deferred charges and other	**9.7**	11.0
Cash and cash equivalents at end of quarter	**$ 1,094.8**	$ 866.8
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 111.4**	$ 102.4
Significant noncash investing and financing activities:		
Nonfederal debt increase	**$ 56.1**	$ 343.3
Nonfederal debt decrease	**$ (6.2)**	$ (201.8)
Nonfederal debt cost of issuance	**$ -**	$ (1.0)