Quarterly Financial Report

2014 First Quarter

Management's Discussion & Analysis

Profile

The Bonneville Power Administration is a federal electric utility based in the Pacific Northwest within the Department of Energy. BPA markets wholesale electrical power from 31 federal hydroelectric projects owned and operated by the U.S. Army Corps of Engineers and Bureau of Reclamation, one nonfederal nuclear plant and some small nonfederal resources. BPA supplies about one-third of the electric power used in the Pacific Northwest.

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

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

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

General

BPA's hydroelectric power supply depends on the amount and timing of precipitation in the Columbia River Basin and the shape, or timing, of the resulting runoff. BPA monitors the snowpack that drains into the Columbia River Basin to predict each year's water and secondary energy supply. BPA assumes the lowest historical runoff as the basis for calculating its available power supply to meet its firm power obligations. BPA sells secondary energy to purchasers in the Western Interconnection at market prices when available generation exceeds what is needed to serve BPA's firm obligations and purchases energy when supply is not sufficient to meet obligations. To ensure BPA is able to meet its financial responsibilities to counterparties and to the U.S. Treasury, BPA relies on risk mitigation measures such as financial reserves, a line of credit with the U.S. Treasury and a cost recovery adjustment clause that

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can raise rates, if needed. Financial reserves consist of BPA cash, investments in U.S. Treasury market-based special securities and deferred borrowing.

The FCRPS financial statements that follow are a combination of the accounts of BPA, the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers and the Bureau of Reclamation, as well as the operations and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan facilities. Consolidated with BPA are “Special Purpose Corporations” known as Northwest Infrastructure Financing Corporations, from which BPA leases certain transmission facilities.

Rates

For the 2014-2015 rate period, BPA adopted a 9 percent average wholesale power rate increase and an 11 percent average transmission rate increase. The power rate increase stemmed from higher costs of operating and maintaining the federal hydroelectric system, higher costs to fund existing long-term agreements for the fish and wildlife mitigation program and reduced revenues from surplus power sales due to low market prices. The transmission rate increase was the first in six years. The transmission rate increase stemmed from a growing construction program driven by the need to repair and replace aging infrastructure and increased spending on mandatory compliance and security requirements. The new rates took effect October 1, 2013.

Power rates are constructed using BPA’s Tiered Rate Methodology. Under this rate structure, BPA’s publicly owned utility customers may purchase only a limited amount of power at Tier 1 rates. Tier 1 rates recover the costs of the majority of the FCRPS resources, fish and wildlife costs and energy efficiency. Tier 2 rates recover costs of resources that BPA acquires specifically for publicly owned utility customers that request BPA meet their net power requirements in excess of their purchases at Tier 1 rates.

Tiered rates provide BPA’s customers with choices as to how they will serve their full power requirements. As designed, tiered rates also give BPA’s customers even more reason to conserve energy. Energy conserved by a utility will reduce its need to add new resources or purchase power from BPA at higher Tier 2 rates. BPA’s rates also include incentives to reduce and control utilities’ peak power use.

Results of Operations

Operating Revenues

For the three months ended December 31, 2013, sales increased $30 million, or 4 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses.

Power Services sales increased $9 million, or 1 percent. Power priority firm sales increased by $29 million, or 5 percent, for the three months ended December 31, 2013, compared to the three months ended December 31, 2012. The increase was primarily due to the power rate increase which took effect beginning October 1, 2013, and higher preference utility peak loads as a result of colder than average temperatures in October and December, offset by decreased load shaping which has monthly variations due to seasonality. Power secondary sales, net of bookouts (see Bookouts section that follows), decreased $20 million, or 30 percent, due to below average streamflows and reduced turbine capacity at Grand Coulee Dam, partially offset by higher market prices.

Transmission Services sales increased $21 million for the three months ended December 31, 2013, or 10 percent, compared to the three months ended December 31, 2012. The primary driver of increased transmission sales was higher transmission rates for Point-to-Point Long-Term and Scheduling, System Control and Dispatch.

U.S. Treasury credits for fish increased $3 million for the three months ended December 31, 2013, from the comparable period a year earlier. The increase was driven by higher replacement power purchases for fish and wildlife mitigation purposes made necessary by the lower-than-average precipitation in the Columbia River Basin.

Operating Expenses

Operations and maintenance expense decreased $10 million, or 2 percent, for the three months ended December 31, 2013, from the comparable period a year earlier. Energy Northwest's Columbia Generating Station nuclear power plant costs decreased $19 million due to higher maintenance and biennial refueling performed in fiscal year 2013. The decrease was partially offset by an increase of $9 million for federal hydro maintenance and transmission engineering and operations.

Purchased power expense, net of bookouts, increased $28 million, or 69 percent, for the three months ended December 31, 2013, from the comparable period a year earlier. The increase in purchased power was driven mainly by below average streamflows and reduced turbine capacity at Grand Coulee Dam to meet peak loads.

Nonfederal projects debt service increased $12 million, or 7 percent, for the three months ended December 31, 2013, from the comparable period a year earlier. This increase was due to increased scheduled debt payments of $12 million for WNP No. 1 and $5 million for CGS, offset by a $5 million decrease in debt service payments for other nonfederal debt.

Depreciation and amortization expense increased $5 million, or 5 percent, for the three months ended December 31, 2013, when compared to the same period for fiscal year 2013, primarily due to higher transmission and generation completed plant.

Bookouts

When sales and purchases are scheduled with the same counterparty on the same 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 are recorded as bookouts. The result is that revenues and expenses are presented on a net basis in the Combined Statements of Revenues and Expenses. Therefore, the accounting treatment for bookouts has no effect on net revenues, cash flows or margins.

Net Interest Expense

Net interest expense increased $9 million, or 14 percent, for the three months ended December 31, 2013, from the comparable period a year ago due to increased borrowing necessary to finance construction projects including lease-financed transmission construction projects. Of the increase, $4 million relates to the Customer Prepayment Power Purchase Program that BPA implemented in March 2013 to provide BPA with an additional source of funding.

Liquidity and Capital Resources

Net Revenues and Operating Activities

As a result of the factors previously discussed, the FCRPS had net expenses of $20 million for the three months ended December 31, 2013. Net expenses were $5 million for the three months ended December 31, 2012. Net cash provided by operating activities of the FCRPS decreased $37 million to $40 million for the three months ended December 31, 2013, when compared to the three months ended December 31, 2012. The changes in operating cash flow reflect differences in the timing of collecting receivables and payments of accounts payable and accrued liabilities. Cash used for operating activities also includes expenditures for regulatory assets, such as the conservation and fish and wildlife programs.

The Ninth Circuit Court ruling upholding the 2012 Residential Exchange Program Settlement became final in December 2013. In fiscal year 2014 BPA expects to pay approximately $89 million to certain investor-owned utilities related to the 2008 REP Interim Agreement true-up payments. As BPA had previously reported all associated liabilities, there were no further impacts to reported net revenues and expenses.

Investing Activities

Net cash used for investing activities of the FCRPS increased $111 million to $510 million for the three months ended December 31, 2013, when compared to the three months ended December 31, 2012.

BPA continues to make significant investments in utility plant with $193 million invested year-to-date in fiscal year 2014, which was up $4 million, or 2 percent, from the comparative period in fiscal year 2013. In addition, the net incremental investment for U.S. Treasury market-based special securities classified as investments on the Combined Balance Sheets, purchases less maturities, as of December 31, 2013, was $175 million, which was a decrease of $31 million from the comparative period in the prior year. Under a banking arrangement with the U.S. Treasury, BPA has agreed to invest an additional $100 million annually for up to 10 years through fiscal year 2018 or until the BPA fund is fully invested. BPA's net incremental investment in U.S. Treasury market-based specials across all categories including cash equivalents, purchases less maturities, was $100 million during the three months ended December 31, 2013.

BPA manages restricted trust funds in connection with its Lease Financing program activities through consolidated special purpose corporations and an unconsolidated third party, the Port of Morrow. Receipts from, and deposits into, these restricted funds are investing activities. Lease financing trust funds net deposits and receipts were $142 million for the three months ended December 31, 2013, as compared to net deposits and receipts of $3 million in the comparative period in fiscal year 2013. This change is primarily the result of a lease entered into for the Central Ferry-Lower Monumental transmission project in fiscal year 2014 under the Lease Financing program.

Financing Activities

Net cash provided by financing activities of the FCRPS was $354 million for the three months ended December 31, 2013, compared to $108 million for the comparable period a year earlier, or an increase of $246 million.

During the three months ended December 31, 2013, BPA borrowings from the U.S. Treasury were $183 million, or $63 million higher than borrowings during the three months ended December 31, 2012. The $183 million was borrowed at fixed interest rates and was used to fund investments of $112 million for transmission, $9 million for generation, $40 million for conservation, and $22 million for fish and wildlife programs.

Nonfederal debt proceeds increased from $30 million for the three months ended December 31, 2012, to $179 million for the three months ended December 31, 2013, or an increase of $149 million, primarily as a result of new Lease Financing program arrangements for the Central Ferry-Lower Monumental transmission project mentioned previously.

Non-GAAP Financial Information

Adjusted Net Revenue

In fiscal year 2013, BPA developed a new Key Agency Target called Adjusted Net Revenue. Adjusted Net Revenue is net revenue after removing the current year effects of certain debt management actions, in particular the Debt Service Reassignment, from prior years. These debt management actions were implemented to increase available U.S. Treasury borrowing authority by extending Energy Northwest's debt repayments and using the resultant available cash to repay U.S. Treasury debt. With the Energy Northwest debt maturing and due, nonfederal projects expense is higher, resulting in lower FCRPS net revenues.

The effects of these past debt management actions are not considered to be related to ongoing FCRPS operations, and management has therefore determined that Adjusted Net Revenue is a better representation of FCRPS financial performance for the period. Adjusted Net Revenue for the three months ended December 31, 2013, was $23 million. The table below presents the calculation for Adjusted Net Revenue.

Adjusted Net Revenue

Federal Columbia River Power System
For the fiscal year-to-date ended December 31 — millions of dollars

	2013	2012
Net revenues (expenses)	**$ (20)**	$ (5)
Adjustment for Debt Service Reassignment	**43**	40
Adjusted Net Revenue	**$ 23**	$ 35

Additional Information

To see BPA's most recent annual report including audited financial statements, go to www.bpa.gov/Finance/FinancialInformation/AnnualReports/Pages/default.aspx

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.transmission.bpa.gov

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

	As of December 31, 2013	As of September 30, 2013
Assets		
Utility plant		
Completed plant	**$ 16,163,746**	$ 16,153,536
Accumulated depreciation	**(5,768,278)**	(5,700,821)
	10,395,468	10,452,715
Construction work in progress	**1,496,473**	1,344,033
Net utility plant	**11,891,941**	11,796,748
Nonfederal generation	**3,267,947**	3,243,713
Current assets		
Cash and cash equivalents	**893,312**	1,010,128
Short-term investments in U.S. Treasury securities	**428,501**	388,914
Accounts receivable, net of allowance	**28,695**	29,540
Accrued unbilled revenues	**304,614**	260,757
Materials and supplies, at average cost	**115,627**	112,019
Prepaid expenses	**66,976**	40,458
Total current assets	**1,837,725**	1,841,816
Other assets		
Regulatory assets	**6,785,141**	6,953,397
Investments in U.S. Treasury securities	**169,220**	34,961
Nonfederal nuclear decommissioning trusts	**264,900**	254,752
Deferred charges and other	**300,346**	146,682
Total other assets	**7,519,607**	7,389,792
Total assets	**$ 24,517,220**	$ 24,272,069
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 2,412,389**	$ 2,432,217
Federal appropriations	**4,302,671**	4,291,457
Borrowings from U.S. Treasury	**3,818,040**	3,738,040
Nonfederal debt	**6,400,948**	6,229,004
Total capitalization and long-term liabilities	**16,934,048**	16,690,718
Commitments and contingencies (See Note 14 to 2013 Annual Report)		
Current liabilities		
Borrowings from U.S. Treasury	**247,000**	147,000
Nonfederal debt	**631,109**	607,865
Accounts payable and other	**531,195**	503,112
Total current liabilities	**1,409,304**	1,257,977
Other liabilities		
Regulatory liabilities	**2,413,137**	2,434,065
IOU exchange benefits	**2,877,017**	2,992,740
Asset retirement obligations	**173,319**	171,554
Deferred credits and other	**710,395**	725,015
Total other liabilities	**6,173,868**	6,323,374
Total capitalization and liabilities	**$ 24,517,220**	$ 24,272,069

Federal Columbia River Power System

Combined Statements of Revenues and Expenses (Unaudited)

(Thousands of dollars)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Fiscal Year-to-Date Ended December 31, 2013	Fiscal Year-to-Date Ended December 31, 2012
Operating revenues				
Sales	**$ 822,852**	$ 793,160	**$ 822,852**	$ 793,160
U.S. Treasury credits for fish	**28,339**	25,405	**28,339**	25,405
Miscellaneous revenues	**16,822**	18,777	**16,822**	18,777
Total operating revenues	**868,013**	837,342	**868,013**	837,342
Operating expenses				
Operations and maintenance	**441,046**	450,588	**441,046**	450,588
Purchased power	**67,692**	40,132	**67,692**	40,132
Nonfederal projects	**192,294**	180,007	**192,294**	180,007
Depreciation and amortization	**109,327**	103,890	**109,327**	103,890
Total operating expenses	**810,359**	774,617	**810,359**	774,617
Net operating revenues	**57,654**	62,725	**57,654**	62,725
Interest expense and (income)				
Interest expense	**93,905**	84,462	**93,905**	84,462
Allowance for funds used during construction	**(11,617)**	(11,810)	**(11,617)**	(11,810)
Interest income	**(4,806)**	(4,652)	**(4,806)**	(4,652)
Net interest expense	**77,482**	68,000	**77,482**	68,000
Net expenses	**$ (19,828)**	$ (5,275)	**$ (19,828)**	$ (5,275)

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

	Fiscal Year-to-Date Ended December 31, 2013	2012
Cash flows from operating activities		
Net expenses	**$ (19,828)**	$ (5,275)
Non-cash items:		
Depreciation and amortization	**109,327**	103,890
Amortization of nonfederal projects	**121,974**	122,507
Changes in:		
Receivables and unbilled revenues	**(42,588)**	(13,815)
Materials and supplies	**(3,608)**	(5,711)
Prepaid expenses	**(26,518)**	(6,639)
Accounts payable and other	**49,492**	(72,402)
Regulatory assets and liabilities	**(9,035)**	(9,795)
Other assets and liabilities	**(139,307)**	(36,247)
Net cash provided by operating activities	**39,909**	76,513
Cash flows from investing activities		
Investments in utility plant, including AFUDC	**(192,805)**	(188,606)
U.S. Treasury Securities:		
Purchases	**(350,000)**	(310,000)
Maturities	**174,936**	103,917
Deposits to nonfederal nuclear decommissioning trusts	**(800)**	(932)
Lease financing trust funds:		
Deposits to	**(179,472)**	(30,045)
Receipts from	**37,907**	26,860
Net cash used for investing activities	**(510,234)**	(398,806)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**11,214**	16,644
Borrowings from U.S. Treasury:		
Proceeds	**183,000**	120,000
Repayment	**(3,000)**	(35,000)
Nonfederal debt:		
Proceeds	**179,493**	30,045
Repayment	**(7,257)**	(3,276)
Customers:		
Net advances (refunds) for construction	**753**	(10,089)
Repayment of funds used for construction	**(10,694)**	(10,297)
Net cash provided by financing activities	**353,509**	108,027
Net decrease in cash and cash equivalents	**(116,816)**	(214,266)
Cash and cash equivalents at beginning of year	**1,010,128**	948,859
Cash and cash equivalents at end of quarter	**$ 893,312**	$ 734,593
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 96,013**	$ 79,070
Significant noncash investing and financing activities:		
Debt actions by Energy Northwest	**$ 22,952**	$ -