Quarterly Financial Report
2014 Second Quarter

Management's Discussion & Analysis

Profile

The Bonneville Power Administration is a federal nonprofit power marketing administration based in the Pacific Northwest. While 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 hydro projects in the Columbia River Basin, one nonfederal nuclear plant and several small nonfederal power plants. The dams are operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation. About 30 percent of the electric power used in the Northwest comes from BPA. BPA's resources — primarily hydroelectric — make its power nearly carbon free.

BPA also operates and maintains about three-fourths of the high-voltage transmission system 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. BPA 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. BPA dedicates itself to providing high system reliability, low rates consistent with sound business principles, environmental stewardship and accountability.

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

This BPA-approved financial information was made publicly available on 4-25-2014.

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.

Use of Estimates

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

Results of Operations

Operating Revenues

For the six months ended March 31, 2014, sales increased $104 million, or 6 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses.

Power Services sales increased $53 million, or 4 percent, compared to the six months ended March 31, 2013. Power priority firm sales increased by $57 million, or 5 percent, for the six months ended March 31, 2014, compared to the six months ended March 31, 2013. The increase was primarily due to the power rate increase which took effect beginning October 1, 2013, and higher preference utility peak loads stemming from colder than average temperatures in October, December and February, offset by slightly lower overall volumes. Power secondary sales, net of bookouts (see Bookouts section that follows), decreased $4 million, or 3 percent, due to below average streamflows and reduced turbine capacity at Grand Coulee Dam, partially offset by higher market prices.

Transmission Services sales increased $51 million for the six months ended March 31, 2014, or 12 percent, compared to the six months ended March 31, 2013. The primary drivers of increased transmission sales were higher transmission rates for Point-to-Point Long-Term, Network Integration, and the associated Ancillary Service of Scheduling, System Control and Dispatch.

U.S. Treasury credits for fish increased $35 million for the six months ended March 31, 2014, 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 Columbia River Basin precipitation from October through early February.

Operating Expenses

Operations and maintenance expense decreased $28 million, or 3 percent, for the six months ended March 31, 2014, from the comparable period a year earlier. Energy Northwest's Columbia Generating Station nuclear power plant costs decreased $38 million due to higher maintenance and biennial refueling performed in fiscal year 2013. The decrease was partially offset by an increase of $10 million for federal hydro maintenance.

Purchased power expense, net of bookouts, increased $42 million, or 40 percent, for the six months ended March 31, 2014, from the comparable period a year earlier. The increase in purchased power was driven mainly by below average streamflows from October through early February and reduced turbine capacity at Grand Coulee Dam to meet peak loads.

Nonfederal projects debt service increased $25 million, or 7 percent, for the six months ended March 31, 2014, from the comparable period a year earlier. This increase was due to higher scheduled debt payments of $24 million for WNP No. 1 and $10 million for CGS, offset by a $9 million decrease in debt service payments for other nonfederal debt.

Depreciation and amortization expense increased $9 million, or 4 percent, for the six months ended March 31, 2014, 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 decreased $23 million, or 16 percent for the six months ended March 31, 2014, from the comparable period a year ago. Interest expense decreased $20 million, or 12 percent. In the second quarter of fiscal year 2014, BPA extinguished $323 million of previously issued U.S. Treasury bonds prior to maturity and reissued $284 million of shorter duration bonds at lower rates of interest, resulting in a gain of $36 million, which decreased interest expense. The Customer Prepayment Power Purchase Program, as well as Lease Financing Program and construction bonds, increased interest expense by $16 million. Allowance for funds used during construction, an offset to interest expense, increased $3 million due to higher construction work in progress balances.

Liquidity and Capital Resources

Net Revenues and Operating Activities

As a result of the factors previously discussed, the FCRPS had net revenues of $101 million for the six months ended March 31, 2014. Net expenses were $10 million for the six months ended March 31, 2013. Net cash provided by operating activities of the FCRPS decreased $77 million to $281 million for the six months ended March 31, 2014, when compared to the six months ended March 31, 2013. The changes in operating cash flow reflect differences in the timing of collecting receivables, higher unbilled secondary revenues due to improved streamflows in the last half of the second quarter, and also 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. As of March 31, 2014, BPA had paid $37 million to certain investor-owned utilities related to the 2008 Residential Exchange Program Interim Agreement true-up payments. BPA expects to pay the remaining $52 million liability by the end of fiscal year 2014.

Investing Activities

Net cash used for investing activities of the FCRPS increased $126 million to $693 million for the six months ended March 31, 2014, when compared to the six months ended March 31, 2013.

BPA continues to make significant investments in utility plant with $348 million invested year-to-date in fiscal year 2014, which was down $17 million, or 5 percent, from the comparative period in fiscal year 2013. 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 March 31, 2014, was $175 million, 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 six months ended March 31, 2014.

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. Net deposits to lease financing trust funds were $168 million for the six months ended March 31, 2014, as compared to net receipts of $7 million in the comparative period in fiscal year 2013. This change is primarily the result of leases entered into in fiscal year 2014 such as the Central Ferry-Lower Monumental and the Forest Grove-Tillamook Line Rebuild projects under the Lease Financing Program.

Financing Activities

Net cash provided by financing activities of the FCRPS was $480 million for the six months ended March 31, 2014, compared to $681 million for the comparable period a year earlier, or a decrease of $201 million.

During the six months ended March 31, 2014, BPA borrowings from the U.S. Treasury were $230 million, or $85 million lower than borrowings during the six months ended March 31, 2013. The $230 million was borrowed at fixed interest rates and was used to fund investments of $143 million for transmission, $13 million for generation, $45 million for conservation, and $29 million for fish and wildlife programs.

Nonfederal debt proceeds decreased from $393 million for the six months ended March 31, 2013, to $253 million for the six months ended March 31, 2014, or a decrease of $140 million. This decrease was due primarily to fiscal year 2013 proceeds of $340 million for the Customer Prepayment Purchase Power Program offset by previously mentioned Lease Financing Program activities.

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 six months ended March 31, 2014, was $186 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 March 31 — millions of dollars

	2014	2013
Net revenues (expenses)	**$ 101**	$ (10)
Adjustment for Debt Service Reassignment	**85**	82
Adjusted Net Revenue	**$ 186**	$ 72

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 March 31, 2014	As of September 30, 2013
Assets		
Utility plant		
Completed plant	**$ 16,271,862**	$ 16,153,536
Accumulated depreciation	**(5,830,276)**	(5,700,821)
	10,441,586	10,452,715
Construction work in progress	**1,534,510**	1,344,033
Net utility plant	**11,976,096**	11,796,748
Nonfederal generation	**3,276,744**	3,243,713
Current assets		
Cash and cash equivalents	**1,077,430**	1,010,128
Short-term investments in U.S. Treasury securities	**477,142**	388,914
Accounts receivable, net of allowance	**42,141**	29,540
Accrued unbilled revenues	**344,172**	260,757
Materials and supplies, at average cost	**114,540**	112,019
Prepaid expenses	**52,975**	40,458
Total current assets	**2,108,400**	1,841,816
Other assets		
Regulatory assets	**6,605,224**	6,953,397
Investments in U.S. Treasury securities	**119,095**	34,961
Nonfederal nuclear decommissioning trusts	**270,754**	254,752
Deferred charges and other	**312,038**	146,682
Total other assets	**7,307,111**	7,389,792
Total assets	**$ 24,668,351**	$ 24,272,069
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 2,532,770**	$ 2,432,217
Federal appropriations	**4,322,999**	4,291,457
Borrowings from U.S. Treasury	**3,801,040**	3,738,040
Nonfederal debt	**6,269,984**	6,229,004
Total capitalization and long-term liabilities	**16,926,793**	16,690,718
Commitments and contingencies (See Note 14 to 2013 Audited Financial Statements)		
Current liabilities		
Borrowings from U.S. Treasury	**272,000**	147,000
Nonfederal debt	**849,778**	607,865
Accounts payable and other	**506,766**	503,112
Total current liabilities	**1,628,544**	1,257,977
Other liabilities		
Regulatory liabilities	**2,385,510**	2,434,065
IOU exchange benefits	**2,837,180**	2,992,740
Asset retirement obligations	**175,005**	171,554
Deferred credits and other	**715,319**	725,015
Total other liabilities	**6,113,014**	6,323,374
Total capitalization and liabilities	**$ 24,668,351**	$ 24,272,069

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Fiscal Year-to-Date Ended March 31, 2014	Fiscal Year-to-Date Ended March 31, 2013
Operating revenues				
Sales	**$ 925,913**	$ 851,549	**$ 1,748,765**	$ 1,644,709
U.S. Treasury credits for fish	**53,180**	21,217	**81,520**	46,622
Miscellaneous revenues	**17,321**	18,770	**34,142**	37,547
Total operating revenues	**996,414**	891,536	**1,864,427**	1,728,878
Operating expenses				
Operations and maintenance	**454,366**	472,560	**895,410**	923,149
Purchased power	**81,932**	67,089	**149,625**	107,221
Nonfederal projects	**192,279**	179,981	**384,573**	359,987
Depreciation and amortization	**109,822**	106,556	**219,150**	210,446
Total operating expenses	**838,399**	826,186	**1,648,758**	1,600,803
Net operating revenues	**158,015**	65,350	**215,669**	128,075
Interest expense and (income)				
Interest expense	**55,405**	85,040	**149,310**	169,503
Allowance for funds used during construction	**(13,064)**	(10,071)	**(24,681)**	(21,881)
Interest income	**(4,707)**	(5,285)	**(9,513)**	(9,937)
Net interest expense	**37,634**	69,684	**115,116**	137,685
Net revenues (expenses)	**$ 120,381**	$ (4,334)	**$ 100,553**	$ (9,610)

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

	Fiscal Year-to-Date Ended March 31, 2014	2013
Cash flows from operating activities		
Net revenues (expenses)	**$ 100,553**	$ (9,610)
Non-cash items:		
Depreciation and amortization	**219,150**	210,446
Amortization of nonfederal projects	**254,945**	245,029
Gain on extinguishment of U.S. Treasury bonds	**(36,122)**	-
Changes in:		
Receivables and unbilled revenues	**(94,332)**	(1,415)
Materials and supplies	**(2,521)**	(9,326)
Prepaid expenses	**(12,517)**	(18,152)
Accounts payable and other	**22,234**	41,503
Regulatory assets and liabilities	**(15,766)**	(38,251)
Other assets and liabilities	**(155,116)**	(62,257)
Net cash provided by operating activities	**280,508**	357,967
Cash flows from investing activities		
Investments in utility plant, including AFUDC	**(348,204)**	(365,224)
U.S. Treasury Securities:		
Purchases	**(515,000)**	(440,000)
Maturities	**339,746**	233,917
Deposits to nonfederal nuclear decommissioning trusts	**(1,601)**	(1,865)
Lease financing trust funds:		
Deposits to	**(252,558)**	(51,946)
Receipts from	**84,528**	58,495
Net cash used for investing activities	**(693,089)**	(566,623)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**31,542**	40,867
Borrowings from U.S. Treasury:		
Proceeds	**230,000**	315,000
Repayment	**(2,898)**	(35,000)
Nonfederal debt:		
Proceeds	**252,940**	392,959
Repayment	**(11,494)**	(3,571)
Customers:		
Net advances (refunds) for construction	**(224)**	(8,990)
Repayment of funds used for construction	**(19,983)**	(20,550)
Net cash provided by financing activities	**479,883**	680,715
Net increase in cash and cash equivalents	**67,302**	472,059
Cash and cash equivalents at beginning of year	**1,010,128**	948,859
Cash and cash equivalents at end of quarter	**$ 1,077,430**	$ 1,420,918
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 160,951**	$ 178,152
Significant noncash investing and financing activities:		
U.S. Treasury bonds repaid with non-cash gains	**$ (39,102)**	$ -
Nonfederal debt increase for Energy Northwest	**$ 41,447**	$ -