Quarterly Financial Report
2014 Third 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 BPA 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 7-25-2014.

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 nine months ended June 30, 2014, sales increased $200 million, or 8 percent, from the comparable period a year earlier, as reported in the Combined Statements of Revenues and Expenses.

Power Services sales increased $126 million, or 7 percent, compared to the nine months ended June 30, 2013. Power priority firm sales increased by $94 million, or 6 percent, for the nine months ended June 30, 2014, compared to the nine months ended June 30, 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 and Tier 2 sales. Power secondary sales, net of bookouts (see Bookouts section that follows), increased $32 million, or 10 percent, due to increased streamflows in the spring and higher market prices, partially offset by reduced turbine capacity at Grand Coulee Dam.

Transmission Services sales increased $74 million for the nine months ended June 30, 2014, or 12 percent, compared to the nine months ended June 30, 2013. The primary driver of increased transmission sales was an increase in rates for Point-to-Point Long-Term and Short-Term, Network Integration, and the associated required Ancillary Service of Scheduling, System Control, and Dispatch. In addition, there was an increase of Point-to-Point Short-Term sales, particularly for the month of March 2014, due to the increase in stream flow runoff.

U.S. Treasury credits for fish increased $24 million for the nine months ended June 30, 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 $22 million, or 2 percent, for the nine months ended June 30, 2014, from the comparable period a year earlier. Energy Northwest's Columbia Generating Station nuclear power plant costs decreased $52 million due to higher maintenance and biennial refueling performed in fiscal year 2013, but not in fiscal year 2014. The decrease was offset by an increase of $30 million for federal hydro maintenance, transmission engineering and operations, and other program costs.

Purchased power expense, net of bookouts, increased $36 million, or 28 percent, for the nine months ended June 30, 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 decreased $284 million, or 53 percent, for the nine months ended June 30, 2014, from the comparable period a year earlier. Consistent with a new regional cooperation debt refinancing to manage Energy Northwest debt, the repayment of certain Energy Northwest debt will be made with the proceeds of new refinancing obligations issued by Energy Northwest in August 2014. As a result of these Energy Northwest debt refinancing actions, amounts otherwise collected in BPA's current Power rates will not be needed to fund the Energy Northwest related principal payments as originally intended, and as included in rates in fiscal year 2014, and will instead be used to repay, before their maturity date, a like amount of higher interest rate federal appropriations during fiscal year 2014. BPA and the Energy Northwest board decided in June 2014 to refinance and restructure $321 million of the debt issued by Energy Northwest for its Projects 1 and 3. In June 2014 Energy Northwest entered into a short-term line of credit to pay the $321 million of maturing debt due on July 1, 2014, and anticipates the line of credit will be repaid with bond proceeds from bonds expected to be issued in August 2014. While these actions are cash flow neutral, they impact reported expenses because principal payments on Energy Northwest debt are included in operating expenses as nonfederal projects expense with a corresponding reduction to the related regulatory assets. In connection with these actions, BPA's administrator clarified prospective rate setting principles to specify that the debt service on the long-term refinancing bonds that Energy Northwest issues, as described above, will be fully recovered in BPA's future rates. Therefore, in June 2014 BPA reduced reported debt service expense for Energy Northwest's Projects 1 and 3 by $321 million, which increased the applicable regulatory assets and resulted in higher net revenues than would have otherwise been reported.

Depreciation and amortization expense increased $14 million, or 4 percent, for the nine months ended June 30, 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 or cash flows.

Net Interest Expense

Net interest expense decreased $21 million, or 10 percent for the nine months ended June 30, 2014, from the comparable period a year ago. 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. Increased borrowing necessary to finance power-related construction projects and transmission projects increased interest expense by $15 million.

Liquidity and Capital Resources

Net Revenues and Operating Activities

As a result of the factors previously discussed, particularly the effects of the planned fiscal year 2014 Energy Northwest Projects 1 and 3 debt refinancing actions, the FCRPS had net revenues of $488 million for the nine months ended June 30, 2014. Net expenses were $7 million for the nine months ended June 30, 2013. Net cash provided by operating activities of the FCRPS increased $86 million to $587 million for the nine months ended June 30, 2014, when compared to the nine months ended June 30, 2013. The changes in operating cash flow reflect higher sales and changes to unbilled revenues, accounts payable and accrued liabilities. Cash used for operating activities includes expenditures for regulatory assets, such as the conservation and fish and wildlife programs. As of June 30, 2014, BPA had paid $68 million to certain investor-owned utilities related to the 2008 Residential Exchange Program Interim Agreement true-up payments. BPA expects to pay the remaining $22 million liability by the end of fiscal year 2014.

Investing Activities

Net cash used for investing activities of the FCRPS increased $268 million to $980 million for the nine months ended June 30, 2014, when compared to the nine months ended June 30, 2013. BPA continues to make significant investments in utility plant with $560 million invested year-to-date in fiscal year 2014, which was down $20 million, or 3 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 June 30, 2014, was $175 million, an increase of $39 million from the comparative period in the prior year. Under a banking arrangement with the U.S. Treasury, BPA has agreed to invest at least $100 million annually for up to 10 years through fiscal year 2018, or until the BPA fund is fully invested.

BPA manages restricted trust funds in connection with its Lease-Purchase Program activities through consolidated special purpose corporations and an unconsolidated third party, the Port of Morrow. Receipts from, and deposits to, these restricted funds are investing activities. Net deposits to lease-purchase trust funds were $242 million for the nine months ended June 30, 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 Celilo-Sylmar Line Rebuild projects under the Lease-Purchase Program.

Financing Activities

Net cash provided by financing activities of the FCRPS was $670 million for the nine months ended June 30, 2014, compared to $457 million for the comparable period a year earlier, or an increase of $213 million. During the nine months ended June 30, 2014, BPA borrowings from the U.S. Treasury were $444 million, or $60 million lower than borrowings during the nine months ended June 30, 2013. Of the $444 million borrowed, $251 million was at fixed interest rates and $193 million at variable interest rates. Borrowings were used to fund investments of $298 million for transmission, $27 million for generation, $83 million for conservation and $36 million for fish and wildlife programs.

Nonfederal debt proceeds decreased from $453 million for the nine months ended June 30, 2013, to $418 million for the nine months ended June 30, 2014, or a decrease of $35 million. This decrease was primarily due to proceeds of $340 million for the Customer Prepayment Purchase Power Program received in fiscal year 2013 but not 2014, offset by higher proceeds received in fiscal year 2014 to support the previously mentioned Lease-Purchase Program activities. Nonfederal debt repayments decreased from $485 million for the nine months ended June 30, 2013, to $217 million for the nine months ended June 30, 2014, primarily as a result of the fiscal year 2014 Energy Northwest Projects 1 and 3 debt refinancing actions previously discussed.

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. For fiscal year 2014, Adjusted Net Revenue also removes the current year effects of certain debt management actions associated with Energy Northwest's Projects 1 and 3 debt refinancing actions. This debt maturity extension will enable BPA to use amounts otherwise collected in its rates to repay Energy Northwest debt to instead repay a like amount of higher interest rate federal appropriations.

Past debt management actions were implemented to increase available U.S. Treasury borrowing authority by extending Energy Northwest's average weighted debt maturities and using the resultant freed-up cash to repay U.S. Treasury debt. With the related Energy Northwest debt maturing and due, nonfederal projects expense would be higher, resulting in lower FCRPS net revenues.

In fiscal year 2014, debt refinancing actions for Energy Northwest Projects 1 and 3 lowered nonfederal projects expense compared to what would have otherwise been reported and what was included for recovery in Power rates. This effect resulted in higher reported net revenues.

The effects of these 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 nine months ended June 30, 2014, was $295 million. The table that follows presents the calculation for Adjusted Net Revenue.

Adjusted Net Revenue

Federal Columbia River Power System
For the fiscal year-to-date ended June 30 — millions of dollars

	2014	2013
Net revenues (expenses)	**$ 488**	$ (7)
Adjustments:		
Debt Service Reassignment	**128**	120
Energy Northwest Projects 1 and 3 debt refinancing	**(321)**	--
Adjusted Net Revenue	**$ 295**	$ 113

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 June 30, 2014	As of September 30, 2013
Assets		
Utility plant		
Completed plant	**$ 16,371,588**	$ 16,153,536
Accumulated depreciation	**(5,895,841)**	(5,700,821)
	10,475,747	10,452,715
Construction work in progress	**1,627,247**	1,344,033
Net utility plant	**12,102,994**	11,796,748
Nonfederal generation	**3,390,595**	3,243,713
Current assets		
Cash and cash equivalents	**1,286,960**	1,010,128
Short-term investments in U.S. Treasury securities	**474,580**	388,914
Accounts receivable, net of allowance	**28,359**	29,540
Accrued unbilled revenues	**302,380**	260,757
Materials and supplies, at average cost	**111,007**	112,019
Prepaid expenses	**75,901**	40,458
Total current assets	**2,279,187**	1,841,816
Other assets		
Regulatory assets	**6,758,514**	6,953,397
Investments in U.S. Treasury securities	**118,801**	34,961
Nonfederal nuclear decommissioning trusts	**280,460**	254,752
Deferred charges and other	**397,702**	146,682
Total other assets	**7,555,477**	7,389,792
Total assets	**$ 25,328,253**	$ 24,272,069

Capitalization and Liabilities

	As of June 30, 2014	As of September 30, 2013
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 2,920,272**	$ 2,432,217
Federal appropriations	**4,345,839**	4,291,457
Borrowings from U.S. Treasury	**3,974,040**	3,738,040
Nonfederal debt	**6,075,770**	6,229,004
Total capitalization and long-term liabilities	**17,315,921**	16,690,718
Commitments and contingencies (See Note 14 to 2013 Audited Financial Statements)		
Current liabilities		
Borrowings from U.S. Treasury	**313,000**	147,000
Nonfederal debt	**1,123,189**	607,865
Accounts payable and other	**522,902**	503,112
Total current liabilities	**1,959,091**	1,257,977
Other liabilities		
Regulatory liabilities	**2,351,785**	2,434,065
IOU exchange benefits	**2,814,574**	2,992,740
Asset retirement obligations	**176,690**	171,554
Deferred credits and other	**710,192**	725,015
Total other liabilities	**6,053,241**	6,323,374
Total capitalization and liabilities	**$ 25,328,253**	$ 24,272,069

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

	Three Months Ended June 30,		Fiscal Year-to-Date Ended June 30,	
	2014	2013	**2014**	2013
Operating revenues				
Sales	**$ 896,708**	$ 800,516	**$ 2,645,474**	$ 2,445,225
U.S. Treasury credits for fish	**9,294**	20,452	**90,814**	67,073
Miscellaneous revenues	**15,576**	18,350	**49,717**	55,897
Total operating revenues	**921,578**	839,318	**2,786,005**	2,568,195
Operating expenses				
Operations and maintenance	**467,679**	462,076	**1,363,089**	1,385,224
Purchased power	**12,237**	19,106	**161,862**	126,326
Nonfederal projects	**(128,330)**	180,007	**256,243**	539,994
Depreciation and amortization	**110,646**	105,259	**329,796**	315,705
Total operating expenses	**462,232**	766,448	**2,110,990**	2,367,249
Net operating revenues	**459,346**	72,870	**675,015**	200,946
Interest expense and (income)				
Interest expense	**91,027**	91,966	**240,336**	261,469
Allowance for funds used during construction	**(12,239)**	(11,025)	**(36,919)**	(32,905)
Interest income	**(6,944)**	(10,702)	**(16,457)**	(20,639)
Net interest expense	**71,844**	70,239	**186,960**	207,925
Net revenues (expenses)	**$ 387,502**	$ 2,631	**$ 488,055**	$ (6,979)

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

	Fiscal Year-to-Date Ended June 30, 2014	2013
Cash flows from operating activities		
Net revenues (expenses)	**$ 488,055**	$ (6,979)
Non-cash items:		
Depreciation and amortization	**329,796**	315,705
Amortization of nonfederal projects	**64,190**	367,551
Gain on extinguishment of U.S. Treasury bonds	**(36,122)**	-
Changes in:		
Receivables and unbilled revenues	**(37,874)**	44,325
Materials and supplies	**1,012**	(11,189)
Prepaid expenses	**(35,443)**	(26,658)
Accounts payable and other	**39,498**	(22,976)
Regulatory assets and liabilities	**(33,610)**	(63,837)
IOU exchange benefits	**(178,166)**	(72,603)
Other assets and liabilities	**(14,509)**	(22,950)
Net cash provided by operating activities	**586,827**	500,389
Cash flows from investing activities		
Investments in utility plant, including AFUDC	**(559,786)**	(580,012)
U.S. Treasury Securities:		
Purchases	**(725,000)**	(670,000)
Maturities	**549,691**	533,917
Deposits to nonfederal nuclear decommissioning trusts	**(2,401)**	(2,797)
Lease-purchase trust funds:		
Deposits to	**(417,643)**	(110,137)
Receipts from	**175,618**	117,412
Net cash used for investing activities	**(979,521)**	(711,617)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**54,382**	58,377
Borrowings from U.S. Treasury:		
Proceeds	**444,000**	504,000
Repayment	**(2,898)**	(35,000)
Nonfederal debt:		
Proceeds	**418,044**	452,539
Repayment	**(216,760)**	(485,122)
Customers:		
Net advances (refunds) for construction	**1,395**	(6,973)
Repayment of funds used for construction	**(28,637)**	(30,903)
Net cash provided by financing activities	**669,526**	456,918
Net increase in cash and cash equivalents	**276,832**	245,690
Cash and cash equivalents at beginning of year	**1,010,128**	948,859
Cash and cash equivalents at end of quarter	**$ 1,286,960**	$ 1,194,549
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 255,776**	$ 270,698
Significant noncash investing and financing activities:		
U.S. Treasury bonds repaid with non-cash gains	**$ (39,102)**	$ -
Nonfederal debt increase for Energy Northwest	**$ 221,550**	$ -
Nonfederal debt extinguished through refinancing for Energy Northwest	**$ (60,744)**	$ -