Quarterly Financial Report
2015 First Quarter

Management's Discussion & Analysis

Profile

The Bonneville Power Administration (BPA) is a federal nonprofit 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 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 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. 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, the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (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 (NIFCs), from which BPA leases certain transmission facilities.

FCRPS revenues are derived principally from the sale of power and transmission products and services. In 1937, the Bonneville Project Act created BPA and directed it to market federally produced hydroelectric power to customers, giving preference and priority in power sales to public bodies and cooperatives. The Act authorized BPA to provide, construct, operate, maintain and improve transmission facilities to deliver federal power at cost. BPA is obligated to meet its statutory and contractual load obligations to preference customers so they can meet their total retail loads and load growth, minus their own nonfederal power supply. As an open access transmission service provider, BPA has an obligation to provide Ancillary and Control Area Services to support basic transmission services, including providing balancing reserves for interconnected renewable generation. BPA remains committed to providing non-discriminatory open access transmission after meeting statutory responsibilities to preference customers and others.

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. For ratemaking purposes, BPA assumes runoff consistent with "critical water conditions," which yield historically low power generation. Federal power is designated to first meet preference customer loads. Power produced in excess of BPA's firm load obligations, if available, is considered by BPA to be surplus power and is sold in the Western Interconnection wholesale power markets. When generation is not sufficient to meet loads, BPA purchases power on the wholesale markets or could acquire resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (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 could differ from those estimates.

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 and stemmed from both a growing construction program, driven by the need to repair and replace aging infrastructure, and from increased spending on mandatory compliance and security requirements. The rates took effect October 2013 and are effective through September 2015.

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 to purchase power from BPA at higher Tier 2 rates. BPA's rates also include incentives to reduce and control utilities' peak power use.

BPA is currently conducting a consolidated power and transmission rate proceeding, BP-16, to set rates for the fiscal year 2016 and 2017 rate period. BPA anticipates concluding the BP-16 rate proceeding in July 2015 with release of the Administrator's Final Record of Decision and Final Proposal. Rates are expected to go into effect Oct. 1, 2015, and following final approval by the Federal Energy Regulatory Commission will be effective through September 2017.

Results of Operations

Operating Revenues

A comparison of FCRPS operating revenues follows for the three months ended Dec. 31, 2014, and Dec. 31, 2013:

(Thousands of dollars)	2014	2013	Change	Change %
Consolidated gross sales				
Power	$ 618,519	$ 607,611	$ 10,908	2%
Transmission	226,522	223,326	3,196	1
Bookouts (Power)	(4,959)	(8,085)	3,126	(39)
Sales	840,082	822,852	17,230	2
U.S. Treasury credits				
Fish credits	25,159	28,339	(3,180)	(11)
Other	1,150	1,150	-	0
Miscellaneous revenues				
Power	8,385	6,511	1,874	29
Transmission	7,978	9,161	(1,183)	(13)
Total operating revenues	$ 882,754	$ 868,013	$ 14,741	2

Total operating revenues were $883 million for the first quarter of fiscal year 2015, an increase of $15 million as compared to operating revenues for the first quarter of fiscal year 2014.

Consolidated gross sales for Power and Transmission Services, including the effect of bookouts, increased $17 million. Power Services sales, net of bookouts, increased $14 million. The increase was primarily due to higher surplus power sales associated with higher streamflows, partially offset by lower prices in the first quarter of fiscal year 2015. Transmission Services sales increased $3 million for oversupply events that occurred in fiscal year 2012.

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 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.

U.S. Treasury credits decreased $3 million for the three months ended Dec. 31, 2014, from the comparable period a year earlier. Treasury credits are recovered as a reduction to BPA's cash payments to the U.S. Treasury. The Pacific Northwest Electric Power Planning and Conservation Act allows BPA to recover from the U.S. Treasury nonpower expenditures for fish and wildlife mitigation or other nonpower purposes. The $3 million decrease was due to lower replacement power purchases for fish and wildlife mitigation purposes.

Operating Expenses

A comparison of FCRPS operating expenses follows for the three months ended Dec. 31, 2014, and Dec. 31, 2013:

(Thousands of dollars)	2014	2013	Change	Change %
Operations and maintenance	$ 486,221	$ 441,046	$ 45,175	10%
Purchased power	7,105	67,692	(60,587)	(90)
Nonfederal projects	99,277	192,294	(93,017)	(48)
Depreciation and amortization	111,746	109,327	2,419	2
Total operating expenses	$ 704,349	$ 810,359	$ (106,010)	(13)

For the first quarter of fiscal year 2015, total operating expenses were $704 million, a decrease of $106 million as compared to the first quarter of fiscal year 2014.

Operations and maintenance expense increased $45 million for the first quarter of fiscal year 2015. Energy Northwest's Columbia Generating Station nuclear power plant costs increased $20 million due to higher budgeted maintenance and costs related to biennial refueling in fiscal year 2015. BPA recorded a $9 million expense to write off a regulatory asset related to environmental redispatch costs for which BPA has recorded a liability. BPA will relieve this liability in fiscal year 2015 from existing cash without seeking explicit cost recovery in future rates. Also, in connection with the previously mentioned $3 million increase to Transmission Services sales, BPA recorded a $3 million noncash expense to amortize a regulatory asset for oversupply events that occurred in fiscal year 2012. In addition, the FCRPS incurred $13 million higher expenses for fish and wildlife and for maintenance on both Corps of Engineers hydro facilities and transmission assets.

Purchased power expense, net of bookouts, decreased $61 million. The decrease in purchased power was driven mainly by improved streamflows, thereby decreasing the need for market purchases.

Nonfederal projects debt service decreased $93 million. In the fourth quarter of fiscal year 2014 and consistent with a regional cooperation debt refinancing, Energy Northwest, with BPA support, undertook debt management actions for Projects 1 and 3, which reduced debt service and amortization of the related regulatory assets from rate case estimates. BPA's reduced debt service expense for regional cooperation debt resulted in $57 million higher net revenues for the first quarter of fiscal year 2015 than would have otherwise been reported. In addition, lower scheduled debt maturities for Projects 1 and 3 and Columbia Generating Station for fiscal year 2015 resulted in a further reduction of $36 million in nonfederal projects expense.

Net Interest Expense

A comparison of FCRPS net interest expense follows for the three months ended Dec. 31, 2014 and Dec. 31, 2013:

(Thousands of dollars)	2014	2013	Change	Change %
Interest expense	$ 88,241	$ 93,905	$ (5,664)	(6)%
Allowance for funds used during construction	(13,322)	(11,617)	(1,705)	15
Interest income	(3,024)	(4,806)	1,782	(37)
Net interest expense	$ 71,895	$ 77,482	$ (5,587)	(7)

Net interest expense was $72 million for the first quarter of fiscal year 2015, a decrease of $6 million as compared to net interest expense for the first quarter of fiscal year 2014.

- Interest expense decreased $6 million due to lower weighted-average interest rates offset by higher average debt balances.
- Allowance for funds used during construction increased $2 million due to increased construction work-in progress balances.
- Interest income decreased $2 million primarily due to lower interest rates earned on cash balances with U.S. Treasury.

Liquidity and Capital Resources

Cash and cash equivalents and Financial reserves

As of Dec. 31, 2014, the FCRPS cash and cash equivalents balance was $693 million. BPA's cash and cash equivalents balance was $364 million, and the combined cash balance held by Corps and Reclamation was $329 million.

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. BPA's financial reserves were $1.21 billion at Dec. 31, 2014, as compared to $1.24 billion at Dec. 31, 2013. Financial reserves, a non-GAAP liquidity measure used by BPA management, consist of BPA cash and cash equivalents, investments in U.S. Treasury market-based special securities and deferred borrowing. The U.S. Treasury market-based special securities reflect the market value as if securities were liquidated as of the end of the period. Deferred borrowing represents amounts that BPA is authorized to borrow from the U.S. Treasury for capital expenditures on utility plant and for expenditures on certain regulatory assets, primarily related to fish and wildlife and conservation measures, that BPA has incurred but has not borrowed for as of the end of the period.

A comparison of FCRPS cash flows follows for the three months ended Dec. 31, 2014, and Dec. 31, 2013:

(Thousands of dollars)	2014	2013	Change	Change %
Cash and cash equivalents at beginning of quarter	$ 859,242	$ 1,010,128	$ (150,866)	(15)%
Cash flows from				
Operating activities	66,758	39,909	26,849	67
Investing activities	(442,248)	(510,234)	67,986	(13)
Financing activities	209,290	353,509	(144,219)	(41)
Net increase (decrease) in cash and cash equivalents	(166,200)	(116,816)	(49,384)	42
Cash and cash equivalents at end of quarter	$ 693,042	$ 893,312	$ (200,270)	(22)

Operating activities

Net cash provided by operating activities of the FCRPS was $67 million for the first quarter of fiscal year 2015, an increase of $27 million as compared to net cash provided by operating activities for the first quarter of fiscal year 2014. As a result of the factors previously discussed, the FCRPS had net revenues of $107 million for the three months ended Dec. 31, 2014, as compared to net expenses of $20 million for the three months ended Dec. 31, 2013. The increase in operating cash flows primarily reflects reduced power purchases and higher sales, offset partially by changes in receivables and unbilled revenues.

Investing activities

Net cash used for investing activities of the FCRPS decreased $68 million to $442 million for the three months ended Dec. 31, 2014, when compared to the three months ended Dec. 31, 2013. BPA continues to make significant investments in utility plant with $277 million invested year-to-date in fiscal year 2015, an increase of $84 million from the comparable period in fiscal year 2014. Transmission capital expenditures for the first quarter of fiscal year 2015 were higher due to work on key projects such as Central Ferry-Lower Monumental Line and the Celilo Substation.

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 Dec. 31, 2014, was $136 million, a decrease of $39 million from the comparable period in the prior year. Under a banking arrangement with the U.S. Treasury, BPA agreed to invest at least $100 million annually through fiscal year 2018 or until the BPA fund is fully invested.

Fiscal year 2015 deposits to the Lease-Purchase Program restricted trust funds decreased by $109 million as a result of entering into larger individual leases in the first quarter of fiscal year 2014. These leases included the Central Ferry-Lower Monumental Line project under the Lease-Purchase Program.

Financing activities

Net cash provided by financing activities was $209 million for the first quarter of fiscal year 2015, a decrease of $144 million as compared to net cash provided by financing activities for the first quarter of fiscal year 2014. In the first quarter of fiscal year 2015, BPA borrowings from the U.S. Treasury decreased $27 million to $156 million, of which $117 million was at fixed interest rates and $39 million at variable interest rates. Borrowings were used to fund investments of $107 million for transmission, $3 million for generation, $23 million for conservation measures and $23 million for fish and wildlife measures. BPA's U.S. Treasury borrowing strategy and its connection to expenditures for both utility plant and certain regulatory assets has not changed from the prior year.

Nonfederal debt proceeds decreased $109 million from the first quarter of fiscal year 2014. This decrease was primarily due to higher Lease-Purchase Program activity in fiscal year 2014 as previously discussed.

In December 2014, NIFC III sold its lease receivable from BPA, rights to future lease revenue, and title to the leased assets to the Port of Morrow, Oregon, a port district located in Morrow County, Oregon. NIFC III's $200 million bank line of credit was replaced by a $193 million capital lease with the Port of Morrow, Oregon. The net financial reporting effect of this transaction was a nonfederal debt cash repayment of $9 million and a $2 million noncash increase to nonfederal debt.

Adjusted Net Revenues

In fiscal year 2013, BPA developed a new Key Agency Target called Adjusted Net Revenues (ANR). ANR, a non-GAAP measurement, is net revenues after removing the current year effects of certain debt management actions, in particular the Debt Service Reassignment, from prior years. Beginning in fiscal year 2014, ANR also removed the effects of certain debt management actions associated with Energy Northwest's Projects 1 and 3 debt refinancing actions. These actions, including debt maturity extensions, now 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.

Debt Service Reassignment actions were implemented to increase available U.S. Treasury borrowing authority by extending Energy Northwest's debt repayments and using the resultant freed-up cash to repay U.S. Treasury debt. With the Energy Northwest debt maturing and due, nonfederal projects expense would have been higher, resulting in lower FCRPS net revenues.

For both fiscal years 2015 and 2014, debt management 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 Services 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 ANR is a better representation of FCRPS financial performance for the periods presented.

A comparison of ANR follows for the three months ended Dec. 31, 2014, and Dec. 31, 2013:

(*Millions of dollars)*	2014	2013
Net revenues (expenses)	$ 107	$ (20)
Adjustments		
Debt Service Reassignment	44	43
Energy Northwest Projects 1 and 3 debt management actions	(57)	-
Adjusted Net Revenues	$ 94	$ 23

Additional Information

To see BPA's annual and quarterly reports, 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, 2014	As of September 30, 2014
Assets		
Utility plant		
Completed plant	$ 16,713,571	$ 16,618,215
Accumulated depreciation	(6,011,354)	(5,941,078)
	10,702,217	10,677,137
Construction work in progress	1,751,448	1,603,811
Net utility plant	12,453,665	12,280,948
Nonfederal generation	3,332,163	3,361,386
Current assets		
Cash and cash equivalents	693,042	859,242
Short-term investments in U.S. Treasury securities	696,723	465,756
Accounts receivable, net of allowance	27,777	24,321
Accrued unbilled revenues	334,988	283,377
Materials and supplies, at average cost	117,712	112,445
Prepaid expenses	60,967	32,443
Total current assets	1,931,209	1,777,584
Other assets		
Regulatory assets	6,672,450	6,741,604
Investments in U.S. Treasury securities	-	94,542
Nonfederal nuclear decommissioning trusts	285,871	279,210
Deferred charges and other	444,189	396,876
Total other assets	7,402,510	7,512,232
Total assets	$ 25,119,547	$ 24,932,150
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	$ 2,929,595	$ 2,823,085
Debt		
Federal appropriations	4,093,746	4,090,050
Borrowings from U.S. Treasury	4,059,040	3,944,040
Nonfederal debt	6,697,585	6,439,711
Total capitalization and long-term liabilities	17,779,966	17,296,886
Commitments and contingencies (See Note 14 to 2014 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	339,000	298,000
Nonfederal debt	598,323	799,829
Accounts payable and other	454,051	555,165
Total current liabilities	1,391,374	1,652,994
Other liabilities		
Regulatory liabilities	2,300,282	2,322,386
IOU exchange benefits	2,768,003	2,795,470
Asset retirement obligations	177,709	176,127
Deferred credits and other	702,213	688,287
Total other liabilities	5,948,207	5,982,270
Total capitalization and liabilities	$ 25,119,547	$ 24,932,150

Federal Columbia River Power System

Combined Statements of Revenues and Expenses (Unaudited)

(Thousands of dollars)

	Three Months Ended December 31,		Fiscal Year-to-Date Ended December 31,	
	2014	2013	**2014**	2013
Operating revenues				
Sales	**$ 840,082**	$ 822,852	**$ 840,082**	$ 822,852
U.S. Treasury credits	**26,309**	29,489	**26,309**	29,489
Miscellaneous revenues	**16,363**	15,672	**16,363**	15,672
Total operating revenues	**882,754**	868,013	**882,754**	868,013
Operating expenses				
Operations and maintenance	**486,221**	441,046	**486,221**	441,046
Purchased power	**7,105**	67,692	**7,105**	67,692
Nonfederal projects	**99,277**	192,294	**99,277**	192,294
Depreciation and amortization	**111,746**	109,327	**111,746**	109,327
Total operating expenses	**704,349**	810,359	**704,349**	810,359
Net operating revenues	**178,405**	57,654	**178,405**	57,654
Interest expense and (income)				
Interest expense	**88,241**	93,905	**88,241**	93,905
Allowance for funds used during construction	**(13,322)**	(11,617)	**(13,322)**	(11,617)
Interest income	**(3,024)**	(4,806)	**(3,024)**	(4,806)
Net interest expense	**71,895**	77,482	**71,895**	77,482
Net revenues (expenses)	**$ 106,510**	$ (19,828)	**$ 106,510**	$ (19,828)

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

	Fiscal Year-to-Date Ended December 31, 2014	2013
Cash flows from operating activities		
Net revenues (expenses)	**$ 106,510**	$ (19,828)
Non-cash items:		
Depreciation and amortization	**111,746**	109,327
Amortization of nonfederal projects	**55,259**	121,974
Changes in:		
Receivables and unbilled revenues	**(54,554)**	(42,588)
Materials and supplies	**(5,267)**	(3,608)
Prepaid expenses	**(28,524)**	(26,518)
Accounts payable and other	**(70,395)**	49,492
Regulatory assets and liabilities	**(11,219)**	(9,035)
IOU exchange benefits	**(27,467)**	(115,722)
Other assets and liabilities	**(9,331)**	(23,585)
Net cash provided by operating activities	**66,758**	39,909
Cash flows from investing activities		
Investments in utility plant, including AFUDC	**(277,187)**	(192,805)
U.S. Treasury Securities:		
Purchases	**(404,000)**	(350,000)
Maturities	**268,069**	174,936
Deposits to nonfederal nuclear decommissioning trusts	**(833)**	(800)
Lease-purchase trust funds:		
Deposits to	**(70,821)**	(179,472)
Receipts from	**42,524**	37,907
Net cash used for investing activities	**(442,248)**	(510,234)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**3,696**	11,214
Borrowings from U.S. Treasury:		
Proceeds	**156,000**	183,000
Repayment	**-**	(3,000)
Nonfederal debt:		
Proceeds	**70,861**	179,493
Repayment	**(16,007)**	(7,257)
Customers:		
Net advances (refunds) for construction	**3,176**	753
Repayment of funds used for construction	**(8,436)**	(10,694)
Net cash provided by financing activities	**209,290**	353,509
Net decrease in cash and cash equivalents	**(166,200)**	(116,816)
Cash and cash equivalents at beginning of year	**859,242**	1,010,128
Cash and cash equivalents at end of quarter	**$ 693,042**	$ 893,312
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 87,415**	$ 96,013
Significant noncash investing and financing activities:		
Nonfederal debt extinguished through refinancing for Energy Northwest	**$ -**	$ 22,952
Other nonfederal	**$ 1,514**	$ -