Quarterly Financial Report
2016 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 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 and the Bureau of Reclamation. BPA provides about 28 percent of the electric power used in the Northwest, and its 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. It 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 acquires 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 may differ from those estimates.

Rates

BPA conducted a consolidated power and transmission rate proceeding, BP-16, to establish rates for the fiscal year 2016 and 2017 rate period. BPA concluded the BP-16 rate proceeding in July 2015 with release of the Administrator's Final Record of Decision, with wholesale power rates increasing 7.1 percent on average and transmission rates increasing 4.4 percent on average. Power rates increased for several reasons, among them increased hydro system operations and maintenance costs and fish and wildlife expenses; the expiration of the effects of debt management actions that had reduced Power Service's revenue requirements; the automatic cost escalation under the 2012 Residential Exchange Program settlement; and higher transmission costs that are recovered in power rates. The transmission rates increased mainly due to needed capital investments in the aging transmission system. The new wholesale power and transmission rates were approved on an interim basis by the Federal Energy Regulatory Commission (FERC) on Sept. 17, 2015. The rates went into effect on a provisional basis on Oct. 1, 2015, and assuming final approval by FERC, will be effective through Sept. 30, 2017.

BPA's Treasury payment probability standard requires BPA to establish rates sufficient to maintain a level of financial reserves to achieve a 95 percent probability of making all of BPA's scheduled U.S. Treasury payments during the rate period. As part of BPA's risk mitigation strategy, BPA uses a Cost Recovery Adjustment Clause (CRAC), which enables BPA to increase certain power and transmission rates within a rate period to obtain up to $300 million of additional revenue to meet lower than expected revenues and/or unanticipated expenses. The CRAC is a prospective adjustment to rates that is triggered when an internal rates metric is forecast to be below a specified threshold. In addition, the General Rate Schedule Provisions allow for an increase in the cap of the CRAC or the imposition of a surcharge to increase Power rate levels in the event of certain possible developments related to fish and wildlife costs and operations, such as a court order in pending litigation, a litigation settlement, a new Biological Opinion (BiOp), a BPA commitment to implement certain recovery plans, or actions or measures different than forecast in the 2014 Supplemental FCRPS BiOp.

Results of Operations

Operating Revenues

A comparison of FCRPS operating revenues follows for the three months ended Dec. 31, 2015, and Dec. 31, 2014:

(Millions of dollars)	2015	2014	Change	Change %
Consolidated gross sales				
Power	$ 595	$ 619	$ (24)	(4)%
Transmission	230	227	3	1
Bookouts (Power)	(3)	(5)	2	(40)
Sales	822	841	(19)	(2)
U.S. Treasury credits	28	26	2	8
Miscellaneous revenues				
Power	5	8	(3)	(38)
Transmission	14	8	6	75
Total operating revenues	$ 869	$ 883	$ (14)	(2)

Total operating revenues were $869 million through the first quarter of fiscal year 2016, a decrease of $14 million as compared to total operating revenues through the first quarter of fiscal year 2015.

Consolidated gross sales for Power and Transmission Services decreased $19 million through the first quarter of fiscal year 2016. Power Services gross sales decreased $24 million even though Power priority firm revenues increased $24 million, principally due to the higher power rates that took effect Oct. 1, 2015. However, this increase was more than offset by lower surplus sales resulting from lower streamflows through mid-November and from increased water storage in Canadian reservoirs. Power Services gross sales also decreased due to lower electricity prices on surplus products and lower industrial sales associated with the Alcoa long-term firm power sales agreement that was amended in fiscal year 2015. Transmission Services gross sales increased $3 million largely due to higher rates for ancillary services for long-term products.

Miscellaneous transmission revenues increased $6 million due in part to additional reimbursable work at a substation.

Operating Expenses

A comparison of FCRPS operating expenses follows for the three months ended Dec. 31, 2015, and Dec. 31, 2014:

(Millions of dollars)		2015		2014		Change	Change %
Operations and maintenance	$	470	$	486	$	(16)	(3)%
Purchased power		33		7		26	371
Nonfederal projects		65		99		(34)	(34)
Depreciation and amortization		114		112		2	2
Total operating expenses	$	682	$	704	$	(22)	(3)

Through the first quarter of fiscal year 2016, total operating expenses were $682 million, a decrease of $22 million compared to the same period of fiscal year 2015.

Operations and maintenance expense decreased $16 million through the first quarter of fiscal year 2016:

- Energy Northwest's Columbia Generating Station nuclear power plant costs decreased $32 million due to lower fiscal year 2016 maintenance and biennial refueling costs.
- Transmission acquisition and ancillary purchases decreased $9 million primarily due to an expense write-off in fiscal year 2015 for a regulatory asset related to oversupply events.
- Generation conservation costs increased $12 million largely due to the transition of the energy conservation capital program to expense starting with fiscal year 2016.
- Transmission reimbursable expenses increased $5 million related to the transmission miscellaneous revenues described previously.
- 2012 Residential Exchange Program (REP) Settlement Agreement scheduled amounts increased $4 million per the settlement agreement.
- General and administrative costs increased $4 million in fiscal year 2016 primarily due to higher information technology (IT) applications maintenance, IT infrastructure and buildings management expenses.

Purchased power expense increased $26 million primarily due to lower streamflows through mid-November associated with drought conditions in the Columbia Basin and because of less compensation owed to BPA for certain water storage agreements with BC Hydro, a Canadian electric utility owned by the Province of British Columbia. In the first quarter of fiscal year 2016, when compared to the same period of fiscal year 2015, BC Hydro stored less water at Arrow Dam in British Columbia, which reduced the amount owed to BPA for the value of that stored water. BPA therefore recorded less credits to purchase power expense in fiscal year 2016, which had the effect of increasing the expense when compared to the same period of fiscal year 2015.

Nonfederal projects debt service decreased $34 million largely as a result of Energy Northwest debt management actions under the Regional Cooperation Debt efforts for Projects 1 and 3, and also for Columbia Generating Station. These management actions reduced debt service and amortization of the related regulatory assets and nonfederal generation assets from rate case estimates.

Net Interest Expense

A comparison of FCRPS net interest expense follows for the three months ended Dec. 31, 2015, and Dec. 31, 2014:

(Millions of dollars)	2015	2014	Change	Change %
Interest expense	$ 86	$ 88	$ (2)	(2)%
Allowance for funds used during construction	(13)	(13)	-	-
Interest income	(1)	(3)	2	(67)
Net interest expense	$ 72	$ 72	$ -	-

Liquidity and Capital Resources

Cash and cash equivalents and financial reserves

As of Dec. 31, 2015, the FCRPS cash and cash equivalents balance was $737 million. BPA's cash and cash equivalents balance was $390 million, and the combined cash balance held by Corps and Reclamation was $347 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 $1.20 billion at Dec. 31, 2015, as compared to $1.21 billion at Dec. 31, 2014. 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 measures that BPA has incurred but has not borrowed for as of the end of the period.

A comparison of BPA financial reserves, reported at fair value, follows:

(Millions of dollars)	As of Dec. 31, 2015	As of Dec. 31, 2014	Change	Change %
Cash and cash equivalents	$ 737	$ 693	$ 44	6%
Short-term investments in U.S. Treasury securities	708	697	11	2
	1,445	1,390	55	4
Less: Cash and cash equivalents held by Corps and Reclamation	347	329	18	5
Add: Deferred borrowing	103	150	(47)	(31)
BPA financial reserves balance	$ 1,201	$ 1,211	$ (10)	(1)

This BPA-approved financial information was made publicly available on 01-29-2016.

Cash Flows

A comparison of FCRPS cash flows follows for the three months ended Dec. 31, 2015, and Dec. 31, 2014:

(Millions of dollars)	2015	2014	Change	Change %
Cash and cash equivalents at beginning of year	$ 647	$ 859	$ (212)	(25)%
Cash flows from				
Operating activities	86	67	19	28
Investing activities	(190)	(442)	252	(57)
Financing activities	194	209	(15)	(7)
Net increase in cash and cash equivalents	90	(166)	256	(154)
Cash and cash equivalents at end of the first quarter	$ 737	$ 693	$ 44	6

Operating activities

Net cash provided by operating activities on the Combined Statements of Cash Flows for the FCRPS increased $19 million through the first quarter of fiscal year 2016, when compared to the first quarter of fiscal year 2015. The increase in operating cash flows was due in part to reduced operations and maintenance expense offset by lower sales and higher power purchases. It also reflects changes in receivables, unbilled revenues, and accounts payable and other accrued liabilities.

Investing activities

Net cash used for investing activities of the FCRPS decreased $252 million to $190 million for the three months ended Dec. 31, 2015, when compared to the three months ended Dec. 31, 2014. BPA continues to make significant investments in utility plant with $223 million invested year-to-date in fiscal year 2016. However, in fiscal year 2016 there was a decrease in utility investments of $54 million, primarily due to higher fiscal year 2015 capital project work on the Central Ferry – Lower Monumental line, certain steel and wood pole lines, and upgrades and additions to the Celilo Converter Station.

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, 2015, was $14 million, a decrease of $122 million from the comparable period in the prior year. The decrease is consistent with BPA's investment strategy and is due to the purchases of cash equivalents rather than short-term or long-term investments. Under a banking arrangement with the U.S. Treasury, BPA agreed to invest an additional $100 million annually in lower yield market-based special securities through fiscal year 2018 or until the Bonneville Fund with the U.S. Treasury is fully invested. Therefore, the balances for which BPA receives comparatively high interest repayment credits decline annually.

Fiscal year 2016 deposits to the Lease-Purchase Program restricted trust funds decreased by $25 million as a result of entering into smaller and fewer individual leases through the first quarter of fiscal year 2016 as compared to the same period for fiscal year 2015. Receipts from the lease-purchase restricted trust funds increased by $51 million thus far in fiscal year 2016. These receipts were used to fund on-going construction under the Lease-Purchase Program.

Financing activities

Net cash provided by financing activities was $194 million through the first quarter of fiscal year 2016, a decrease of $15 million as compared to net cash provided by financing activities through the first quarter of fiscal year 2015. Through the first quarter of fiscal year 2016, BPA borrowings from the U.S. Treasury decreased $6 million to $150 million, of which $60 million was at fixed interest rates and $90 million at variable interest rates. Borrowings were used to fund investments of $107 million for transmission, $25 million for conservation measures associated with fiscal year 2015 activities, $9 million for generation and $9 million for fish and wildlife measures. Beginning with fiscal year 2016, BPA no longer debt finances energy conservation measures with the U.S. Treasury. Instead, BPA expenses these costs and recovers them in rates as incurred.

Nonfederal debt proceeds decreased $25 million through the first quarter of fiscal year 2016. This decrease was primarily due to fewer lease-purchase agreements entered into during the quarter.

Adjusted Net Revenues

In fiscal year 2016, BPA continued the use of a Key Agency Target called Adjusted Net Revenues (ANR), a non-GAAP measurement designed to report net revenues after removing the current year effects of certain debt management actions and a rate mitigation adjustment. The effects of these actions and adjustment are not considered to be related to ongoing FCRPS operations, and BPA management has therefore determined that ANR is a better representation of FCRPS financial performance for the periods presented.

ANR is FCRPS net revenues adjusted to reflect:

1) The removal of the effect on FCRPS net revenues of "Debt Optimization" actions that were implemented for several continuous years beginning in fiscal year 2001. Debt Optimization involved the refinancing of Energy Northwest debt to extend its weighted-average maturity, which in turn enabled BPA to reduce the aggregate principal of bonds issued by BPA and then outstanding to the U.S. Treasury. Debt Optimization actions initially had the effect of increasing FCRPS net revenues over what they otherwise would have been in each of the fiscal years in which the actions occurred. In subsequent fiscal years, the repayment of the extended Energy Northwest debt has had the effect of decreasing reported FCRPS net revenues. An element of Debt Optimization, referred to as Debt Service Reassignment, continues to reduce FCRPS net revenues resulting in adjustments to derive the ANR amount.

2) The removal of the effect on FCRPS net revenues of Regional Cooperation Debt (RCD) management actions, from and after fiscal year 2014, to extend the weighted-average maturity of Energy Northwest debt. These RCD management actions have enabled BPA to prepay relatively high interest rate federal appropriations in lieu of the repayment of Energy Northwest debt that had otherwise been assumed to be repaid in BPA's Power rate proposals for the fiscal year(s) in which the appropriations prepayments were made. Amounts related to RCD management actions vary from year to year depending on the change in the weighted-average maturities of the Energy Northwest debt.

3) The removal of the effect of an adjustment to the Power rate case Revenue Requirement, which was accomplished through a Revenue Requirement offset. This offset was introduced so that the effects of certain RCD

debt management and other cost management actions would serve to mitigate, to a limited extent, a rate increase. This offset limits upward Power rate impacts of ceasing to debt finance energy conservation costs beginning in fiscal year 2016. The foregoing actions resulted in lower FCRPS net revenues than would be reported in their absence.

A comparison of ANR follows for the three months ended Dec. 31, 2015, and Dec. 31, 2014:

(*Millions of dollars)*	2015	2014
Net revenues	$ 115	$ 107
Adjustments		
[1] Debt Service Reassignment actions	2	44
[2] Regional Cooperation Debt management actions	(97)	(57)
[3] Revenue Requirement adjustment	18	-
Adjusted Net Revenues	$ 38	$ 94

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)

(Thousands of dollars)

	As of December 31, 2015	As of September 30, 2015
Assets		
Utility plant		
Completed plant	**$ 17,326,850**	$ 17,235,713
Accumulated depreciation	**(6,263,408)**	(6,192,725)
	11,063,442	11,042,988
Construction work in progress	**1,898,693**	1,815,735
Net utility plant	**12,962,135**	12,858,723
Nonfederal generation	**3,525,655**	3,534,241
Current assets		
Cash and cash equivalents	**737,081**	646,670
Short-term investments in U.S. Treasury securities	**707,561**	694,274
Accounts receivable, net of allowance	**32,894**	35,732
Accrued unbilled revenues	**313,026**	298,906
Materials and supplies, at average cost	**121,677**	116,830
Prepaid expenses	**70,625**	27,447
Total current assets	**1,982,864**	1,819,859
Other assets		
Regulatory assets	**6,541,169**	6,603,165
Nonfederal nuclear decommissioning trusts	**288,275**	282,655
Deferred charges and other	**393,806**	449,918
Total other assets	**7,223,250**	7,335,738
Total assets	**$ 25,693,904**	$ 25,548,561
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 3,290,950**	$ 3,175,668
Debt		
Federal appropriations	**3,912,714**	3,901,740
Borrowings from U.S. Treasury	**4,484,740**	4,366,740
Nonfederal debt	**6,805,394**	6,786,856
Total capitalization and long-term liabilities	**18,493,798**	18,231,004
Commitments and contingencies (See Note 13 to 2015 Audited Financial Statements)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	**314,000**	282,000
Nonfederal debt	**782,045**	752,515
Accounts payable and other	**454,998**	539,747
Total current liabilities	**1,551,043**	1,574,262
Other liabilities		
Regulatory liabilities	**2,212,914**	2,259,843
IOU exchange benefits	**2,651,392**	2,683,866
Asset retirement obligations	**187,410**	184,784
Deferred credits and other	**597,347**	614,802
Total other liabilities	**5,649,063**	5,743,295
Total capitalization and liabilities	**$ 25,693,904**	$ 25,548,561

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

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Fiscal Year-to-Date Ended December 31, 2015	Fiscal Year-to-Date Ended December 31, 2014
Operating revenues				
Sales	**$ 821,735**	$ 840,082	**$ 821,735**	$ 840,082
U.S. Treasury credits	**28,330**	26,309	**28,330**	26,309
Miscellaneous revenues	**19,040**	16,363	**19,040**	16,363
Total operating revenues	**869,105**	882,754	**869,105**	882,754
Operating expenses				
Operations and maintenance	**469,781**	486,221	**469,781**	486,221
Purchased power	**33,258**	7,105	**33,258**	7,105
Nonfederal projects	**64,598**	99,277	**64,598**	99,277
Depreciation and amortization	**113,971**	111,746	**113,971**	111,746
Total operating expenses	**681,608**	704,349	**681,608**	704,349
Net operating revenues	**187,497**	178,405	**187,497**	178,405
Interest expense and (income)				
Interest expense	**86,136**	88,241	**86,136**	88,241
Allowance for funds used during construction	**(12,695)**	(13,322)	**(12,695)**	(13,322)
Interest income	**(1,226)**	(3,024)	**(1,226)**	(3,024)
Net interest expense	**72,215**	71,895	**72,215**	71,895
Net revenues	**$ 115,282**	$ 106,510	**$ 115,282**	$ 106,510

Federal Columbia River Power System

Combined Statements of Cash Flows (Unaudited)

(Thousands of dollars)

	Fiscal Year-to-Date Ended December 31, 2015	2014
Cash flows from operating activities		
Net revenues	**$ 115,282**	$ 106,510
Non-cash items:		
Depreciation and amortization	**113,971**	111,746
Amortization of nonfederal projects	**6,523**	55,259
Changes in:		
Receivables and unbilled revenues	**(10,641)**	(54,554)
Materials and supplies	**(4,847)**	(5,267)
Prepaid expenses	**(43,178)**	(28,524)
Accounts payable and other	**(50,989)**	(70,395)
Regulatory assets and liabilities	**(4,025)**	(11,219)
IOU exchange benefits	**(32,474)**	(27,467)
Other assets and liabilities	**(3,070)**	(9,331)
Net cash provided by operating activities	**86,552**	66,758
Cash flows from investing activities		
Investments in utility plant, including AFUDC	**(223,162)**	(277,187)
U.S. Treasury Securities:		
Purchases	**(284,000)**	(404,000)
Maturities	**269,859**	268,069
Deposits to nonfederal nuclear decommissioning trusts	**(866)**	(833)
Lease-purchase trust funds:		
Deposits to	**(45,513)**	(70,821)
Receipts from	**93,945**	42,524
Net cash used for investing activities	**(189,737)**	(442,248)
Cash flows from financing activities		
Federal appropriations:		
Proceeds	**10,974**	3,696
Borrowings from U.S. Treasury:		
Proceeds	**150,000**	156,000
Nonfederal debt:		
Proceeds	**45,397**	70,861
Repayment	**(5,837)**	(16,007)
Customers:		
Net advances for construction	**2,604**	3,176
Repayment of funds used for construction	**(9,542)**	(8,436)
Net cash provided by financing activities	**193,596**	209,290
Net increase (decrease) in cash and cash equivalents	**90,411**	(166,200)
Cash and cash equivalents at beginning of year	**646,670**	859,242
Cash and cash equivalents at end of quarter	**$ 737,081**	$ 693,042
Supplemental disclosures:		
Cash paid for interest, net of amount capitalized	**$ 83,450**	$ 87,415
Significant noncash investing and financing activities:		
Nonfederal debt increase for Energy Northwest	**$ 138,508**	$ -
Nonfederal debt extinguished through refinancing for Energy Northwest	**$ (130,000)**	$ -
Other nonfederal	**$ -**	$ 1,514