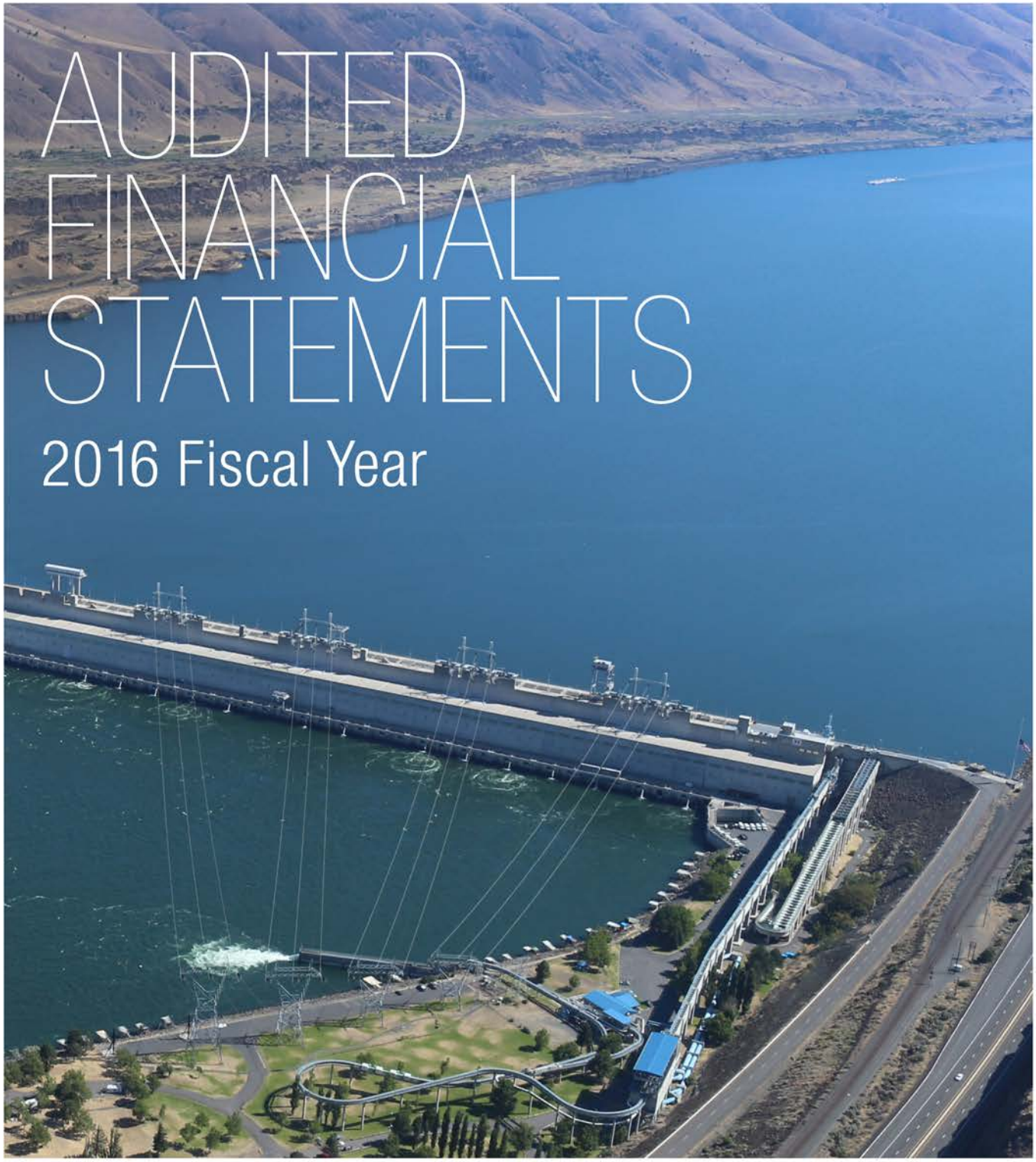
BONNEVILLE POWER ADMINISTRATION

AUDITED FINANCIAL STATEMENTS

2016 Fiscal Year



Additional Information

For general information about BPA, refer to BPA's home page at www.bpa.gov.

This BPA-approved Financial Information has been made publicly available by BPA on Oct. 28, 2016.

Report of Independent Auditors

To the Administrator of the
Bonneville Power Administration,
United States Department of Energy

We have audited the accompanying combined financial statements of the Federal Columbia River Power System which comprise the combined balance sheets as of September 30, 2016 and 2015 and the related combined statements of revenues and expenses and cash flows for each of the three years in the period ended September 30, 2016.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Federal Columbia River Power System as of September 30, 2016 and September 30, 2015, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 28, 2016

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Federal Columbia River Power System
Combined Balance Sheets

As of September 30

(Millions of Dollars)

	2016	2015
Assets		
Utility plant		
Completed plant	**$ 18,276.5**	$ 17,235.7
Accumulated depreciation	**(6,310.4)**	(6,192.7)
Net completed plant	**11,966.1**	11,043.0
Construction work in progress	**1,312.0**	1,815.7
Net utility plant	**13,278.1**	12,858.7
Nonfederal generation	**3,504.8**	3,534.2
Current assets		
Cash and cash equivalents	**579.6**	646.7
Short-term investments in U.S. Treasury securities	**272.9**	694.3
Accounts receivable, net of allowance	**50.5**	35.7
Accrued unbilled revenues	**279.8**	298.9
Materials and supplies, at average cost	**111.9**	116.9
Prepaid expenses	**31.8**	27.4
Total current assets	**1,326.5**	1,819.9
Other assets		
Regulatory assets	**6,180.2**	6,603.2
Nonfederal nuclear decommissioning trusts	**314.3**	282.7
Deferred charges and other	**293.8**	449.9
Total other assets	**6,788.3**	7,335.8
Total assets	**$ 24,897.7**	$ 25,548.6

The accompanying notes are an integral part of these financial statements.

Federal Columbia River Power System
Combined Balance Sheets

As of September 30

(Millions of Dollars)

	2016	2015
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 3,392.6**	$ 3,175.7
Debt		
Federal appropriations	**2,866.9**	3,901.7
Borrowings from U.S. Treasury	**4,682.6**	4,366.7
Nonfederal debt	**7,158.2**	6,786.9
Total capitalization and long-term liabilities	**18,100.3**	18,231.0
Commitments and contingencies (Note 13)		
Current liabilities		
Debt		
Borrowings from U.S. Treasury	**76.1**	282.0
Nonfederal debt	**857.6**	752.5
Accounts payable and other	**437.2**	539.8
Total current liabilities	**1,370.9**	1,574.3
Other liabilities		
Regulatory liabilities	**2,143.8**	2,259.8
IOU exchange benefits	**2,551.9**	2,683.9
Asset retirement obligations	**185.7**	184.8
Deferred credits and other	**545.1**	614.8
Total other liabilities	**5,426.5**	5,743.3
Total capitalization and liabilities	**$ 24,897.7**	$ 25,548.6

The accompanying notes are an integral part of these financial statements.

Federal Columbia River Power System
Combined Statements of Revenues and Expenses

For the Years Ended September 30

(Millions of Dollars)

	2016	2015	2014
Operating revenues			
Sales	**$ 3,283.5**	$ 3,257.5	$ 3,426.5
U.S. Treasury credits	**77.2**	82.3	108.5
Miscellaneous revenues	**71.9**	64.6	65.3
Total operating revenues	**3,432.6**	3,404.4	3,600.3
Operating expenses			
Operations and maintenance	**2,025.3**	1,959.2	1,901.3
Purchased power	**111.7**	76.3	199.1
Nonfederal projects	**249.2**	229.0	355.8
Depreciation and amortization	**471.1**	448.0	440.5
Total operating expenses	**2,857.3**	2,712.5	2,896.7
Net operating revenues	**575.3**	691.9	703.6
Interest expense and (income)			
Interest expense	**353.8**	355.7	333.7
Allowance for funds used during construction	**(40.3)**	(53.2)	(50.2)
Interest income	**(15.4)**	(15.3)	(23.4)
Net interest expense	**298.1**	287.2	260.1
Net revenues	**$ 277.2**	$ 404.7	$ 443.5
Accumulated net revenues, beginning of year	**3,175.7**	2,823.1	2,432.2
Irrigation assistance	**(60.3)**	(52.1)	(52.6)
Accumulated net revenues, end of year	**$ 3,392.6**	$ 3,175.7	$ 2,823.1

The accompanying notes are an integral part of these financial statements.

Federal Columbia River Power System
Combined Statements of Cash Flows
For the Years Ended September 30
(Millions of Dollars)

	2016	2015	2014
Cash flows from operating activities			
Net revenues	**$ 277.2**	$ 404.7	$ 443.5
Non-cash items:			
Depreciation and amortization	**471.1**	448.0	440.5
Amortization of nonfederal projects	**25.9**	23.1	119.2
Deferred payments for Energy Northwest-related O&M and interest	**259.0**	-	-
Gain on extinguishment of U.S. Treasury bonds	**-**	-	(36.1)
Changes in:			
Receivables and unbilled revenues	**8.3**	(22.6)	(14.8)
Materials and supplies	**5.0**	(4.4)	(0.4)
Prepaid expenses	**(4.4)**	5.0	8.0
Accounts payable and other	**(92.5)**	(1.1)	35.6
Regulatory assets and liabilities	**65.0**	16.6	(95.5)
IOU exchange benefits	**(132.0)**	(111.6)	(197.3)
Other assets and liabilities	**(27.8)**	(82.0)	(5.1)
Net cash provided by operating activities	**854.8**	675.7	697.6
Cash flows from investing activities			
Investment in utility plant, including AFUDC	**(808.3)**	(964.5)	(843.0)
U.S. Treasury securities:			
Purchases	**(939.0)**	(1,323.0)	(950.0)
Maturities	**1,356.9**	1,185.2	808.4
Deposits to nonfederal nuclear decommissioning trusts	**(3.5)**	(3.4)	(3.2)
Lease-purchase trust funds:			
Deposits to	**(90.6)**	(205.8)	(519.0)
Receipts from	**219.1**	205.2	256.8
Net cash used for investing activities	**(265.4)**	(1,106.3)	(1,250.0)
Cash flows from financing activities			
Federal appropriations:			
Proceeds	**83.0**	48.0	119.7
Repayment	**(1,117.8)**	(236.3)	(321.1)
Borrowings from U.S. Treasury:			
Proceeds	**429.0**	619.0	603.0
Repayment	**(319.0)**	(212.3)	(206.9)
Nonfederal debt:			
Proceeds	**411.6**	206.2	520.1
Repayment	**(49.6)**	(121.7)	(227.0)
Customers:			
Net advances for construction	**5.1**	4.0	3.7
Repayment of funds used for construction	**(38.5)**	(36.7)	(37.4)
Irrigation assistance	**(60.3)**	(52.1)	(52.6)
Net cash (used for) and provided by financing activities	**(656.5)**	218.1	401.5
Net decrease in cash and cash equivalents	**$ (67.1)**	$ (212.5)	$ (150.9)
Cash and cash equivalents at beginning of year	**646.7**	859.2	1,010.1
Cash and cash equivalents at end of year	**$ 579.6**	$ 646.7	$ 859.2
Supplemental disclosures:			
Cash paid for interest, net of amount capitalized	**$ 376.2**	$ 365.8	$ 350.7
Significant noncash investing and financing activities:			
U.S Treasury bonds repaid with non-cash gains	**$ -**	$ -	$ (39.1)
Nonfederal debt increase for Energy Northwest	**$ 320.7**	$ 572.8	$ 221.6
Nonfederal debt extinguished through refinancing for Energy Northwest	**$ (217.9)**	$ (359.7)	$ (112.0)
Other nonfederal	**$ 11.6**	$ 2.3	$ -

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

ACCOUNTING PRINCIPLES

Combination and consolidation of entities

The Federal Columbia River Power System (FCRPS) financial statements combine the accounts of the Bonneville Power Administration (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. (See Note 7, Debt and Appropriations, and Note 8, Variable Interest Entities.)

BPA is a separate and distinct entity within the U.S. Department of Energy; the Corps is part of the U.S. Department of Defense; and Reclamation and U.S. Fish and Wildlife Service are part of the U.S. Department of the Interior. Each of the combined entities is separately managed, but the facilities are operated as an integrated power system with the financial results combined as the FCRPS. BPA is a self-funding federal power marketing administration that purchases, transmits and markets power for the FCRPS. While the costs of Corps and Reclamation projects serve multiple purposes, only the power portion of total project costs are assigned to the FCRPS through cost allocation processes. All intracompany and intercompany accounts and transactions have been eliminated from the FCRPS financial statements.

FCRPS financial statements are prepared in accordance with generally accepted accounting principles (GAAP) of the United States of America. FCRPS financial statements also reflect the Uniform System of Accounts (USoA) applicable to federal entities as prescribed for electric public utilities by the Federal Energy Regulatory Commission (FERC). FCRPS accounting policies also reflect other specific legislation and directives issued by U.S. government agencies. All U.S. government properties and income are tax exempt.

Use of estimates

The preparation of FCRPS financial statements in conformity with 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 FCRPS financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year balances in the Notes to Financial Statements have been reclassified to conform with the current presentation. These reclassifications had no effect on prior year FCRPS combined results of operations, financial condition, or cash flows.

Rates and regulatory authority

BPA establishes separate power and transmission rates in accordance with several statutory directives. Rates proposed by BPA are subject to an extensive formal hearing process, after which they are proposed by BPA and reviewed by FERC. FERC’s review is based on BPA statutes that include a requirement that rates must be sufficient to ensure repayment of the federal investment in the FCRPS over a reasonable number of years after first meeting BPA’s other costs. After the final FERC approval, BPA’s rates may be reviewed by the United States Court of Appeals for the Ninth Circuit (Ninth Circuit Court) if challenged by parties involved in the rate proceedings. Petitions seeking such review must be filed within 90 days of the final FERC approval. The Ninth Circuit Court may either confirm or reject a rate proposed by BPA. BPA’s rates are not structured to provide a rate of return on its assets.

In accordance with authoritative guidance for regulated operations, certain costs or credits may be included in rates for recovery or refund over a future period and are recorded as regulatory assets or liabilities. (See Note 4, Effects of Regulation.)

Utility plant

Utility plant is stated at original cost and includes federal system hydro generation, transmission and other assets. The costs of substantial additions, major replacements and substantial betterments are capitalized. Costs include direct labor and materials; payments to contractors; indirect charges for engineering, supervision and certain overhead items; and an allowance for funds used during construction (AFUDC). Maintenance, repairs and replacements of items determined to be less than major units of property are charged as incurred to Operations and maintenance in the Combined Statements of Revenues and Expenses. When utility plant is retired, the original cost and any net proceeds from the disposition are charged to accumulated depreciation. (See Note 2, Utility Plant.)

Depreciation and amortization

Depreciation of the original cost of generation plant is computed using straight-line methods based on estimated average service lives of the various classes of property. For transmission plant, depreciation of original cost and estimated net cost of removal is computed primarily on the straight-line group life method based on estimated average service lives of the various classes of property. The estimated net cost of removal is included in depreciation expense. (See Note 2, Utility Plant.)

In the event removal costs are expected to exceed salvage proceeds, a reclassification of this negative salvage is made from accumulated depreciation to a regulatory liability. As actual removal costs are incurred, the associated regulatory liability is reduced. (See Note 4, Effects of Regulation.)

Amortization expense relates primarily to certain regulatory assets. (See Note 4, Effects of Regulation.)

Allowance for funds used during construction

AFUDC represents the estimated cost of interest on financing the construction of new assets. AFUDC is based on the construction work in progress balance and is charged to the capitalized cost of the utility plant asset. AFUDC is a reduction of interest expense.

AFUDC is capitalized at one rate for construction funded substantially by BPA and at another rate for Corps and Reclamation construction funded by congressional appropriations. The BPA rate is determined based on the weighted-average cost of borrowing for BPA and for the Lease-Purchase Program. (See discussion of the Lease-Purchase Program in Note 7, Debt and Appropriations.) The rate for appropriated funds is provided each year to BPA by the U.S. Treasury. (See Note 2, Utility Plant.)

Nonfederal generation

BPA is party to long-term contracts for BPA to acquire all of the generating capability of Energy Northwest's Columbia Generating Station (CGS) nuclear power plant and Lewis County PUD's Cowlitz Falls Hydroelectric Project. These contracts require BPA to meet all of the facilities' operating, maintenance and debt service costs. Operations and maintenance and debt service expenses for these projects are recognized based upon total project cash funding requirements. The Nonfederal generation assets in the Combined Balance Sheets are amortized over the term of the related outstanding nonfederal debt, with the amortization expense included in Nonfederal projects on the Combined Statements of Revenues and Expenses. (See Note 7, Debt and Appropriations.)

Cash and cash equivalents

Cash amounts for the FCRPS include cash in the Bonneville Power Administration Fund (Bonneville Fund) within the U.S. Treasury and cash from certain unexpended appropriations of the Corps and Reclamation related to the FCRPS. Cash in the Bonneville Fund includes cash and cash equivalents, which consist of investments in non-marketable market-based special securities issued by the U.S. Treasury (market-based

specials) with maturities of 90 days or less at the date of investment. The carrying value of cash and cash equivalents approximates fair value.

Concentrations of credit risks

General credit risk

Financial instruments that potentially subject the FCRPS to concentrations of credit risk consist primarily of BPA accounts receivable. Credit risk relates to the loss that might occur as a result of counterparty non-performance.

BPA's accounts receivable are spread across a diverse group of customers throughout the western United States and Canada, and include consumer-owned utilities (COUs), investor-owned utilities (IOUs), power marketers, wind generators and others. BPA's accounts receivable exposure is generally from large and stable counterparties and does not represent a significant concentration of credit risk. During fiscal years 2016, 2015 and 2014, BPA experienced no material losses as a result of any customer defaults or bankruptcy filings.

BPA mitigates credit risk by reviewing counterparties for creditworthiness, establishing credit limits and monitoring credit exposure. To further manage credit risk, BPA obtains credit support, such as letters of credit, parental guarantees, and cash in the form of prepayments, deposits or escrow funds, from some counterparties. BPA monitors counterparties for changes in financial condition and regularly updates credit reviews. (See Note 11, Risk Management and Derivative Instruments.)

Allowance for doubtful accounts

Management reviews accounts receivable to determine if any receivable will potentially be uncollectible. The allowance for doubtful accounts includes amounts estimated through an evaluation of specific customer accounts, based upon the best available facts and circumstances of customers that may be unable to meet their financial obligations, and a reserve for all other customers based on historical experience. The balance is not material to the financial statements.

Derivative instruments

Derivative instruments are measured at fair value and recognized on the Combined Balance Sheets as either Deferred charges and other or as Deferred credits and other unless the contract is eligible for the normal purchases and normal sales exception under derivatives and hedging accounting guidance. Derivative instruments reported by the FCRPS consist primarily of forward electricity contracts, which are generally considered normal purchases and normal sales if they require physical delivery, are expected to be used or sold in the normal course of business and meet the derivative accounting definition of capacity. Recognition of these contracts in Sales or Purchased power in the Combined Statements of Revenues and Expenses occurs when the contracts settle. (See Note 11, Risk Management and Derivative Instruments.)

Changes in fair value are deferred as either Regulatory assets or Regulatory liabilities on the Combined Balance Sheets in accordance with regulated operations accounting guidance. The FCRPS does not apply hedge accounting.

Fair value

Carrying amounts of current assets and current liabilities approximate fair value based on the short-term nature of these instruments. Fair value measurements are applied to certain financial assets and liabilities and to determine fair value disclosures in accordance with GAAP. When developing fair value measurements, it is FCRPS policy to use quoted market prices whenever available or to maximize the use of observable inputs and minimize the use of unobservable inputs when quoted market prices are not available. Fair values are primarily developed using industry standard models that consider various inputs including quoted forward prices for commodities, time value, volatility factors, current market and contractual prices for underlying instruments, market interest rates and yield curves, and credit spreads, as well as other relevant economic measures. (See Note 11, Risk Management and Derivative Instruments and Note 12, Fair Value Measurements.)

Revenues and net revenues

Operating revenues are recorded when power, transmission and related services are delivered and include estimated unbilled revenues. Net revenues over time are committed to payment of operational obligations, including debt for both operating and non-operating nonfederal projects, debt service on bonds BPA issues to the U.S. Treasury, the repayment of federal appropriations for the FCRPS, and the payment of certain irrigation costs.

U.S. Treasury credits

U.S. Treasury credits represent nonpower-related costs that BPA recovers from the U.S. Treasury in accordance with certain laws. The primary U.S. Treasury credit is the 4(h)(10)(C) credit provided for in the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). This credit requires BPA to recover the nonpower portion of expenditures BPA makes for fish and wildlife protection, mitigation and enhancement. Through Section 4(h)(10)(C), the Northwest Power Act ensures that the costs of mitigating these impacts are allocated between the power-related and other purposes of the federal hydroelectric projects of the FCRPS. Power-related costs are recovered in BPA's rates. U.S. Treasury credits are reported as a component of Operating revenues in the Combined Statements of Revenues and Expenses.

Purchased power

Purchased power expense represents wholesale power purchases that are meant to augment the FCRPS resource pool to meet loads and obligations. Purchased power excludes operations and maintenance expenses associated with CGS and the Cowlitz Falls Hydroelectric Project, and with certain contracts for renewable resources that BPA management considers part of the FCRPS resource pool.

Nonfederal projects

Nonfederal projects expense represents the amortization of nonfederal generation assets and regulatory assets for terminated nonfederal nuclear and hydro facilities, as well as the interest expense on the debt related to those assets. This expense is recognized over the terms of the related outstanding debt.

Interest expense

Interest expense includes interest associated with the unpaid balance of federal appropriations scheduled for repayment, interest on bonds issued by BPA to the U.S. Treasury and interest on certain nonfederal debt and liabilities. Reductions to interest expense include the amortization of a capitalization adjustment regulatory liability and gains, if any, related to the repayment of certain U.S. Treasury bonds considered extinguished or modified after being called and reissued. Interest expense excludes interest on nonfederal debt related to operating or terminated generation assets that is instead reported as a component of nonfederal projects expense. (See Note 7, Debt and Appropriations.)

Interest income

Interest income includes interest earnings on balances in the Bonneville Fund including market-based special securities and interest earnings from other sources. Through Sept. 30, 2016, BPA continued to earn interest offset credits on certain cash balances in the Bonneville Fund that were not invested in market-based specials. These credits reduced some interest payments, associated with federally appropriated investments in the FCRPS, in the amount of the interest earned. The interest offset credits were earned at the weighted-average interest rate of BPA's outstanding U.S. Treasury borrowings. Interest earnings on U.S. Treasury market-based special investments are based on the stated rates of the individual securities. BPA will no longer earn interest offset credits in fiscal year 2017. (See Note 3, Investments in U.S. Treasury Securities.)

Residential Exchange Program

In order to provide qualifying regional utilities, primarily IOUs, access to power benefits from the FCRPS, Congress established the Residential Exchange Program (REP) in Section 5(c) of the Northwest Power Act. Whenever a Pacific Northwest electric utility offers to sell power to BPA at the utility's average system cost of resources, BPA purchases such power and offers, in exchange, to sell an equivalent amount of power at BPA's priority firm exchange rate to the utility for resale to that utility's residential and small farm consumers. REP

costs are forecast for each year of the rate period and included in the revenue requirement for establishing BPA's power rates. The cost of this program is collected through BPA's power rates. REP costs are recognized when incurred and are included in Operations and maintenance in the Combined Statements of Revenues and Expenses.

In fiscal year 2011, BPA signed the 2012 Residential Exchange Program Settlement Agreement (2012 REP Settlement Agreement), resolving disputes related to the REP. The 2012 REP Settlement Agreement provides for fixed "Scheduled Amounts" payable to the IOUs, as well as fixed "Refund Amounts" payable to the COUs. The Refund Amounts do not reduce rates but are bill credits to qualifying COUs as designated in the 2012 REP Settlement Agreement. (See Note 9, Residential Exchange Program.)

Pension and other postretirement benefits

Federal employees associated with the operation of the FCRPS participate in either the Civil Service Retirement System or the Federal Employees Retirement System. Employees may also participate after retirement in the Federal Employees Health and Benefit Program and the Federal Employee Group Life Insurance Program. All such postretirement systems and programs are sponsored by the Office of Personnel Management; therefore, the FCRPS financial statements do not include accumulated plan assets or liabilities related to the administration of such programs. As part of BPA's scheduled payment each year to the U.S. Treasury for bonds and other purposes, BPA makes contributions to cover the estimated annual unfunded portion of FCRPS pension and postretirement benefits. These contribution amounts are paid to the U.S. Treasury and are recorded as Operations and maintenance in the Combined Statements of Revenues and Expenses during the year to which the payment relates.

RECENT ACCOUNTING PRONOUNCEMENTS

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) on revenue from contracts with customers that supersedes the existing revenue recognition guidance, including most industry-specific guidance. On April 1, 2015, the FASB proposed to defer the effective date of the new revenue standard by one year and to permit one year early adoption. In 2016, the FASB issued three updates to the guidance. Management is evaluating the impact of adopting this guidance, which will be effective for fiscal year 2019.

Fees paid in cloud computing arrangements

In April 2015, the FASB issued an ASU addressing customer's accounting for fees paid in a cloud computing arrangement. Existing GAAP does not include explicit guidance about these types of fees. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. BPA does not expect any significant impact to the FCRPS financial statements as a result of adopting this guidance, which will be effective for fiscal year 2017.

Presentation of debt issuance costs

In April 2015, the FASB issued an ASU to align the balance sheet presentation of debt issuance costs with that of debt premiums and discounts. BPA does not expect any significant impact to the FCRPS financial statements as a result of adopting the guidance, which will be effective for fiscal year 2017.

Financial instruments, recognition and measurement

In January 2016, the FASB issued an ASU to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other provisions, the ASU supersedes guidance to classify equity securities into trading or available-for-sale and requires all equity securities to be measured at fair value with changes in fair value recognized through net income. Management is evaluating the impact of adopting this guidance, which will be effective for fiscal year 2020.

Leases

In February 2016, the FASB issued an ASU on leases. The primary change under the ASU is the recognition of lease assets and lease liabilities by lessees for those agreements classified as operating leases under current GAAP. Management is evaluating the impact of adopting this guidance, which will be effective for fiscal year 2020.

Financial instruments, credit losses

In June 2016, the FASB issued an ASU to amend guidance related to credit losses on financial instruments held by a reporting entity. Instead of recognizing credit losses when such losses are probable, the ASU requires assets measured at amortized cost to be presented at the net amount expected to be collected. In addition, credit losses relating to available-for-sale debt securities are required to be recorded through an allowance for credit losses. Management is evaluating the impact of adopting this guidance, which will be effective for fiscal year 2022.

Classification of certain cash receipts and cash payments in the statement of cash flows

In August 2016, the FASB issued an ASU to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. Management is evaluating the impact of adopting this guidance, which will be effective for fiscal year 2020.

SUBSEQUENT EVENTS

Management has performed an evaluation of events and transactions for potential FCRPS recognition or disclosure through Oct. 28, 2016, which is the date the financial statements were issued.

2. Utility Plant

As of Sept. 30 — millions of dollars	2016	2015	Estimated average service lives
Completed plant			
Federal system hydro generation assets	$ 8,964.4	$ 8,838.7	75 years
Transmission assets	9,088.9	8,217.7	48 years
Other assets	223.2	179.3	6 years
Completed plant	$ 18,276.5	$17,235.7	
Accumulated depreciation			
Federal system hydro generation assets	$ (3,235.1)	$(3,116.3)	
Transmission assets	(2,963.5)	(2,982.9)	
Other assets	(111.8)	(93.5)	
Accumulated depreciation	$ (6,310.4)	$(6,192.7)	
Construction work in progress			
Federal system hydro generation assets	$ 485.3	$ 399.6	
Transmission assets	800.6	1,348.1	
Other assets	26.1	68.0	
Construction work in progress	$ 1,312.0	$ 1,815.7	
Net Utility Plant	$ 13,278.1	$12,858.7	

Allowance for funds used during construction

Fiscal year	2016	2015	2014
BPA rate	3.0%	3.1%	3.7%
Appropriated rate	0.4%	0.1%	0.1%

Completed plant assets reported as transmission capital leased assets were $1,285.6 million and $548.2 million, with accumulated depreciation of $45.4 million and $54.2 million, at Sept. 30, 2016, and 2015, respectively.

Construction work in progress includes $118.7 million of transmission assets related to a new transmission line and related facilities, collectively referred to as the I-5 Corridor Reinforcement Project, in western portions of Washington State and Oregon. BPA expects that a decision whether to proceed with construction could be made in the first half of fiscal year 2017. If BPA decides to not proceed with this project, BPA will then evaluate the appropriate accounting treatment for applicable amounts recorded as construction work in progress.

3. Investments in U.S. Treasury Securities

As of Sept. 30 — millions of dollars	2016		2015	
	Amortized cost	Fair value	Amortized cost	Fair value
Short-term	$ 272.9	$ 272.9	$ 694.3	$ 694.6

BPA participates in the U.S. Treasury's Federal Investment Program, which provides investment services to federal government entities that have funds on deposit with the U.S. Treasury and statutory authority to invest those funds. Investments of the funds are generally restricted to market-based special securities. Under its banking arrangement with the U.S. Treasury, BPA had agreed to increase the amounts in the Bonneville Fund that are invested in market-based specials by at least $100.0 million annually. However, as of Sept. 30, 2016, and after making its scheduled payment to the U.S. Treasury for bonds and other purposes, BPA is considered to be fully invested in market-based specials. As such, all balances in the Bonneville Fund will thereafter be invested through the Federal Investment Program and BPA will no longer earn interest offset credits. Instead, BPA will continue to earn interest on its investments in market-based specials. (See Note 1, Summary of Significant Accounting Policies.)

Market-based specials held during fiscal years 2016 and 2015 had a weighted-average yield of 0.6 percent and 0.1 percent, respectively, with maturities of up to two years. The amounts shown in the preceding table exclude U.S. Treasury securities with maturities of 90 days or less at the date of investment, which are considered cash equivalents and are included in the Combined Balance Sheets as part of Cash and cash equivalents. For all other securities, FCRPS follows the authoritative guidance for investments, debt and equity securities. These investments are classified as held-to-maturity and reported at amortized cost. They are not actively traded and their valuations are based on a market input evaluation pricing methodology using a combination of observable market data such as current market trade data, reported bid/ask spreads, and institutional bid information. These fair value measurements are considered Level 2 in the fair value hierarchy as defined by the accounting guidance for fair value measurements and disclosures. (See Note 12, Fair Value Measurements.) Investments with maturities that will be realized in cash between 91 days and one year are classified as short-term investments.

4. Effects of Regulation

REGULATORY ASSETS

As of Sept. 30 — millions of dollars	2016	2015
IOU exchange benefits	$ 2,551.9	$ 2,683.9
Terminated nuclear facilities	1,879.6	2,030.9
Columbia River Fish Mitigation	711.0	695.8
Conservation measures	333.9	379.9
Fish and wildlife measures	282.6	298.9
REP Refund Amounts	222.8	294.2
Legal claims and settlements	54.0	55.6
Spacer damper replacement program	47.6	48.3
Federal Employees' Compensation Act	27.5	32.5
Trojan decommissioning and site restoration	26.7	25.6
Derivative instruments	21.2	33.7
Terminated hydro facilities	13.1	14.5
Other	8.3	9.4
Total	$ 6,180.2	$ 6,603.2

Regulatory assets include the following items:

"**IOU exchange benefits**" reflect amounts to be recovered in rates through 2028 for the IOU exchange benefits liability incurred as part of the 2012 REP Settlement Agreement. These amounts amortize to operations and maintenance expense. (See Note 9, Residential Exchange Program.)

"**Terminated nuclear facilities**" consist of amounts to be recovered in future rates to satisfy the nonfederal debt for Energy Northwest Projects 1 and 3. These assets are amortized to nonfederal projects expense over the term of the related outstanding debt. (See Note 7, Debt and Appropriations.)

"**Columbia River Fish Mitigation**" is the cost of research and development for fish bypass facilities funded through appropriations since 1989 in accordance with the Energy and Water Development Appropriations Act of 1989, Public Law 100-371. These costs are recovered in rates over 75 years and amortized to depreciation and amortization expense.

"**Conservation measures**" consist of the costs of deferred energy conservation measures to be recovered in future rates. These costs are amortized to depreciation and amortization expense over periods of 12 or 20 years. BPA deferred certain costs of energy conservation measures through fiscal year 2015 and, beginning with fiscal year 2016 and the BP-16 rate period, began expensing such costs as incurred.

"**Fish and wildlife measures**" consist of deferred fish and wildlife project expenses to be recovered in future rates. These costs are amortized to depreciation and amortization expense over a period of 15 years.

"**REP Refund Amounts**" are amounts that were established in the 2012 REP Settlement Agreement. (See Note 9, Residential Exchange Program.) These amounts are recovered in rates through 2019 from IOUs as a reduction in their IOU Exchange benefits and are equal to the regulatory liability for REP Refund Amounts to COUs.

"**Legal claims and settlements**" reflect amounts to be recovered in future rates to satisfy accrued liabilities related to outstanding legal claims and settlement agreements. These costs will be recovered and amortized to operations and maintenance expense over a period established by BPA.

"**Spacer damper replacement program**" consists of costs to replace deteriorated spacer dampers and are recovered in future rates under the Spacer Damper Replacement Program. These costs are amortized to depreciation and amortization expense over a period of 25 or 30 years.

"**Federal Employees' Compensation Act**" reflects the actuarial estimated amount of future payments for current recipients of BPA's worker compensation benefits. This amount equals the associated liability, and related expenses are recorded to operations and maintenance expense as payments are made. (See Note 6, Deferred Charges and Other.)

"**Trojan decommissioning and site restoration**" reflects the amount to be recovered in future rates for funding the asset retirement obligation (ARO) liability related to the former Trojan nuclear facility. This amount equals the associated liability. (See Note 5, Asset Retirement Obligations.)

"**Derivative instruments**" reflect the unrealized losses from BPA's derivative portfolio. These amounts are deferred over the corresponding underlying contract delivery months. (See Note 11, Risk Management and Derivative Instruments.)

"**Terminated hydro facilities"** consist of the amounts to be recovered in future rates to satisfy nonfederal debt for the Northern Wasco hydro project, for which BPA ceased its participation. These assets are amortized to nonfederal projects expense over the term of the related outstanding debt. (See Note 7, Debt and Appropriations.)

REGULATORY LIABILITIES

As of Sept. 30 — millions of dollars	2016	2015
Capitalization adjustment	$ 1,277.3	$ 1,342.2
Accumulated plant removal costs	432.3	423.2
REP Refund Amounts to COUs	222.8	294.2
Decommissioning and site restoration	157.7	125.8
Derivative instruments	47.3	68.1
Other	6.4	6.3
Total	$ 2,143.8	$ 2,259.8

Regulatory liabilities include the following items:

"**Capitalization adjustment**" is the difference between the outstanding balance of federal appropriations, plus $100 million, before and after refinancing under the BPA Refinancing Section of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Refinancing Act), 16 U.S.C. 838(l). Consistent with treatment in BPA's power and transmission rate cases, this adjustment is amortized over a 40-year period through fiscal year 2036. Amortization of the capitalization adjustment as a reduction to interest expense was $64.9 million for fiscal years 2016, 2015 and 2014, respectively.

"**Accumulated plant removal costs**" are the amounts previously collected through rates as part of depreciation. The liability will be reduced as actual removal costs are incurred. (See Note 1, Summary of Significant Accounting Policies.)

"**REP Refund Amounts to COUs**" are the amounts previously collected through rates that are owed to qualifying COUs and will be provided as future bill credits through fiscal year 2019 as established in the 2012 REP Settlement Agreement. These amounts are equal to regulatory assets for REP Refund Amounts. (See Note 9, Residential Exchange Program.)

"**Decommissioning and site restoration**" is the amount previously collected through rates and invested in the related nonfederal nuclear decommissioning trusts in excess of the ARO balances for (i) CGS decommissioning and site restoration, and (ii) Energy Northwest Projects 1 and 4 site restoration. (See Note 5, Asset Retirement Obligations.)

"**Derivative instruments**" reflect the unrealized gains from BPA's derivative portfolio. These amounts are deferred over the corresponding underlying contract delivery months. (See Note 11, Risk Management and Derivative Instruments.)

5. Asset Retirement Obligations

As of Sept. 30 — millions of dollars	2016	2015
Beginning Balance	$ 184.8	$ 176.1
Activities:		
Accretion	9.4	9.1
Expenditures	(2.7)	(2.1)
Revisions	(5.8)	1.7
Ending Balance	$ 185.7	$ 184.8

AROs are recognized based on the estimated fair value of the dismantlement and restoration costs associated with the retirement of certain tangible long-lived assets. The liability is adjusted for any revisions, expenditures and the passage of time. The FCRPS also has tangible long-lived assets such as federal hydro projects and transmission assets without an associated ARO because no obligation exists to remove these assets.

AROs include the following items as of Sept. 30, 2016:

CGS decommissioning and site restoration of $149.9 million

Trojan decommissioning of $26.7 million

Energy Northwest Projects 1 and 4 site restoration of $9.1 million

NONFEDERAL NUCLEAR DECOMMISSIONING TRUSTS

As of Sept. 30 — millions of dollars	2016		2015	
	Amortized cost	Fair value	Amortized cost	Fair value
Equity index funds	$ 152.6	$ 174.6	$ 130.7	$ 135.5
Bond index funds	118.6	120.5	130.3	129.6
U.S. government obligation mutual funds	19.5	19.2	19.0	17.6
Total	$ 290.7	$ 314.3	$ 280.0	$ 282.7

These assets represent trust fund account balances for decommissioning and site restoration costs. External trust fund accounts for decommissioning and site restoration costs for CGS are funded monthly and are charged to operations and maintenance expense. The decommissioning trust fund account was established to provide for decommissioning at the end of the project's safe storage period in accordance with Nuclear Regulatory Commission (NRC) requirements. The NRC requires that this period be no longer than 60 years from the time the plant ceases operations. Decommissioning funding requirements for CGS are based on an NRC decommissioning cost estimate and the license termination date, which is in 2043. The CGS trust fund accounts are funded and managed by BPA in accordance with NRC requirements and site certification agreements.

The investment securities in the decommissioning and site restoration trust fund accounts are classified as available-for-sale and recorded at fair value in accordance with accounting guidance for investments, debt and equity securities. Net unrealized and realized gains and losses on these investment securities are recognized as adjustments to the related regulatory liability, which represents the excess of the amount previously collected through rates over the current ARO balance. (See Note 4, Effects of Regulation.)

Contribution payments to the CGS trust fund accounts for fiscal years 2016, 2015 and 2014 were $3.5 million, $3.4 million and $3.2 million, respectively. BPA and Energy Northwest have no obligation to make further payments into the site restoration fund for Energy Northwest Projects 1 and 4.

Based on an agreement in place, BPA directly funds Eugene Water and Electric Board's 30 percent share of Trojan's decommissioning costs through current rates. Decommissioning costs are included in Operations and maintenance in the Combined Statements of Revenues and Expenses.

6. Deferred Charges and Other

As of Sept. 30 — millions of dollars	2016	2015
Lease-Purchase trust funds	$ 197.7	$ 335.6
Derivative instruments	47.3	68.1
Settlements receivable	16.0	16.0
Funding agreements	14.4	11.7
Spectrum Relocation Fund	13.3	13.4
Other	5.1	5.1
Total	$ 293.8	$ 449.9

Deferred Charges and Other include the following items:

"**Lease-Purchase trust funds**" are amounts held in separate trust accounts outside the Bonneville Fund for the construction of leased transmission assets, the use of which BPA has received under lease-purchase agreements. The amounts held in trust are also used in part for debt service payments during the construction period and include an investment fund mainly for future principal and interest debt service payments. (See Note 7, Debt and Appropriations.) These trust balances consist of cash and cash equivalents and investments classified as either trading or held to maturity. Trading securities, which comprise the majority of trust balances, are held for construction purposes and are stated at fair value based on quoted market prices. Interest income and realized and unrealized gains or losses on amounts held in trust for construction are recorded as AFUDC. Interest income and gains and losses on other trust balances are recorded as either income or expense in the period when earned.

"**Derivative instruments**" represent unrealized gains from BPA's derivative portfolio, which includes physical power purchase and sale transactions and power exchange transactions.

"**Settlements receivable**" represents interest earned by BPA on certain settlements, the principal of which has been collected. The timing of cash receipt of the interest is unknown.

"**Funding agreements**" represent deferred costs associated with BPA's contractual obligations to determine the feasibility of certain joint transmission projects.

"**Spectrum Relocation Fund**" was created to reimburse certain federal agencies such as BPA for the costs of replacing radio communication equipment displaced as a result of radio band frequencies no longer available to the affected federal agencies. Amounts received for Spectrum Relocation Fund from the U.S. Treasury are held in the Bonneville Fund for the sole purpose of constructing replacement assets.

7. Debt and Appropriations

As of Sept. 30 — millions of dollars		2016		2015	
	Terms	Carrying Value	Weighted-Average Interest Rate	Carrying Value	Weighted-Average Interest Rate
Nonfederal debt					
Nonfederal generation:					
Columbia Generating Station	0.7 – 6.8% through 2044	$ 3,636.0	3.9%	$ 3,453.0	4.0 %
Cowlitz Falls Project	4.0 – 5.3% through 2032	78.9	5.1	82.1	5.1
Terminated nonfederal generation:					
Nuclear Project 1	0.7 – 5.0% through 2028	864.8	4.8	902.8	4.7
Nuclear Project 3	0.7 – 5.3% through 2028	1,068.1	4.8	1,132.7	4.7
Northern Wasco Hydro Project	1.5 – 5.0% through 2024	14.2	3.7	15.6	3.5
Lease-Purchase Program:					
Capital lease obligations	1.5 – 6.1% through 2042	1,707.7	2.7	1,181.0	2.9
Consolidated NIFC debt	1.8 – 5.4% through 2034	319.6	3.3	437.6	3.1
Other capital lease obligations	4.2 – 7.4% through 2043	41.3	5.4	32.1	6.4
Customer prepaid power purchases	4.3 – 4.6% through 2028	285.2	4.5	302.5	4.5
Total Nonfederal debt		$ 8,015.8	3.9	$ 7,539.4	4.0
Federal debt and appropriations					
Borrowings from U.S Treasury	0.5 – 5.9% through 2045	$ 4,758.7	3.1	$ 4,648.7	3.0
Federal appropriations	2.9 – 7.3% through 2066	2,430.2	5.1	3,513.8	5.8
Federal appropriations (not yet scheduled for repayment)		436.7	n/a	387.9	n/a
Total Federal debt and appropriations		$ 7,625.6	3.8	$ 8,550.4	4.2
Total debt and appropriations		$ 15,641.4	3.8%	$16,089.8	4.1%

Nonfederal generation and Terminated nonfederal generation

BPA is party to long-term contracts for BPA to acquire all of the generating capability of Energy Northwest's Columbia Generating Station and all of Lewis County PUD's Cowlitz Falls Hydroelectric Project through 2032. These contracts require that BPA meet all of the operating, maintenance and debt service costs for these projects. Under certain agreements, BPA also has financial responsibility for meeting all costs of Energy Northwest's Projects 1 and 3, including debt service costs of bonds and other financial instruments issued for the projects, even though these projects have been terminated. BPA is also required by a "Settlement and Termination Agreement" between BPA and Northern Wasco PUD to pay amounts equal to annual debt service on certain bonds of the Northern Wasco Hydro Project. Under the Settlement and Termination Agreement, BPA ceased its participation in this project.

BPA recognizes expenses for these nonfederal generation and terminated nonfederal generation projects based on total project cash funding requirements, which include debt service and operating and maintenance expense. BPA recognized operating and maintenance expense for these projects of $263.2 million, $323.3 million and $301.1 million in fiscal years 2016, 2015 and 2014, respectively, which is included in Operations and maintenance in the Combined Statements of Revenues and Expenses. Debt service expense for all projects of $249.2 million, $229.0 million and $355.8 million for fiscal years 2016, 2015 and 2014, respectively, is reported as Nonfederal projects in the Combined Statements of Revenues and Expenses. On the Combined Balance Sheets, related assets for operating projects are included in Nonfederal generation.

Related assets for terminated generation are included in Regulatory assets. (See Note 4, Effects of Regulation.)

As a result of debt management actions taken by Energy Northwest under a Regional Cooperation Debt effort with BPA, amounts otherwise collected in BPA's power and transmission rates during fiscal years 2016 and 2015 were not used to fund the Energy Northwest-related principal payments as originally intended, and as included in rates. Instead, these principal amounts were refinanced to fiscal year 2032 at the latest. Amounts otherwise collected to fund these principal payments were used to prepay instead, before their maturity date, $618.0 million and $229.3 million of comparatively higher interest rate federal appropriations during fiscal years 2016 and 2015, respectively.

Also during fiscal year 2016, Energy Northwest funded operations and maintenance for Columbia Generating Station and interest expense on bonds previously issued for CGS and terminated nuclear Projects 1 and 3 with $259.0 million received from a borrowing arrangement with a bank. This arrangement bears interest at variable rates and is due to be repaid on or before June 30, 2017. The rate was less than one percent per annum in fiscal year 2016. At the end of fiscal year 2016, BPA used the $259.0 million, that it would otherwise have provided to Energy Northwest, to fund the prepayment of $259.0 million of comparatively higher interest rate federal appropriations. These appropriations were otherwise anticipated to be prepaid at the end of fiscal year 2017. By June 30, 2017, BPA expects to fund Energy Northwest's repayment of the $259.0 million it received under the borrowing agreement.

Amounts recorded in the FCRPS Combined Statements of Revenues and Expenses were not affected by the foregoing Energy Northwest borrowing arrangement. However, because the transaction deferred BPA's funding of Energy Northwest costs in the amount that Energy Northwest borrowed under the arrangement, the FCRPS Combined Statements of Cash Flows recorded a $259.0 million increase to cash provided by operating activities. If the $259.0 million is repaid as expected in fiscal year 2017, the FCRPS Combined Statements of Cash Flows will record a financing activity outflow.

Energy Northwest debt of $1.64 billion is callable, in whole or in part, at Energy Northwest's option, on call dates between July 2017 and July 2026 at 100 percent of the principal amount.

The fair value of Energy Northwest debt exceeded carrying value by $704.2 million and $560.7 million as of Sept. 30, 2016, and 2015, respectively. The valuations are based on a market input evaluation pricing methodology using a combination of market observable data such as current market trade data, reported bid/ask spreads and institutional bid information. These fair value measurements are considered Level 2 in the fair value hierarchy. (See Note 12, Fair Value Measurements.)

Lease-Purchase Program and Other capital lease obligations

Under the Lease-Purchase Program, BPA consolidates special purpose corporations, collectively referred to as Northwest Infrastructure Financing Corporations (NIFCs). These entities issued debt to and received advances from nonfederal sources, which were used to finance construction of transmission facilities leased to BPA. The combined NIFCs have issued $119.6 million in bonds and borrowed $200.0 million on a line of credit as of Sept. 30, 2016. The rental payments from BPA are pledged to the payment of the debt, but the facilities themselves do not secure the debt. The bonds bear interest at 5.4 percent and mature in 2034. All NIFC bonds outstanding are subject to redemption by the issuing NIFC, in whole or in part, at any date, at the higher of the principal amount of the bonds or the present value of the bonds discounted using the U.S. Treasury rate plus a premium of 12.5 basis points. The line of credit becomes due in full on Jan. 1, 2019. The lease-purchase agreements contain provisions that allow BPA to purchase the related assets at any time during each lease term for a bargain purchase price plus the value of the related outstanding debt instrument. (See Note 8, Variable Interest Entities.)

The fair value of the consolidated NIFC debt exceeded the carrying value by $39.5 million and $20.8 million as of Sept. 30, 2016, and 2015, respectively. The valuations are based on the discounted future cash flows using interest rates for similar debt that could have been issued at Sept. 30, 2016, and 2015, respectively. These fair

value measurements are considered Level 2 in the fair value hierarchy. (See Note 12, Fair Value Measurements.)

Lease-purchase transactions with entities that are not consolidated in the FCRPS financial statements are reported as transmission capital leased assets. These include BPA's lease-purchase transactions with the Port of Morrow, a port district located in Morrow County, Oregon, and the Idaho Energy Resources Authority (IERA), an independent public instrumentality of the State of Idaho, for transmission facilities, including lines, substations and general plant assets. These capital lease obligations are paid from the rental payments made by BPA. The facilities themselves are not security for the payment of these obligations.

On the Combined Balance Sheets, the consolidated NIFC debt and capital lease liabilities are included in Nonfederal debt. The related assets are included in Utility plant and Deferred charges and other for unspent funds held in trust accounts outside the Bonneville Fund. The capital lease obligations expire on various dates through 2043.

Completed plant assets reported as transmission capital leased assets are described in Note 2, Utility Plant.

In fiscal years 2016 and 2015, certain of the NIFC entities sold their lease receivables, rights to future lease revenues, and title to their leased assets to the Port of Morrow, resulting in the associated liabilities being reported as capital lease obligations instead of as consolidated NIFC debt. One of these transactions occurred in fiscal year 2016 and two occurred in fiscal year 2015. These transactions resulted in increases of $124.9 million and $303.3 million to transmission capital leased assets in fiscal years 2016 and 2015, respectively, with an immaterial net change in both years to Completed plant on the Combined Balance Sheets. (See Note 2, Utility Plant.)

Customer prepaid power purchases

During fiscal year 2013, BPA entered into agreements with four regional COUs for the advance payment of portions of their power purchases. Under this program, customers purchased prepaid power in blocks through fiscal year 2028. For each block purchased, BPA repays the prepayment, with interest, as monthly fixed credits on the customers' power bills.

In March 2013, BPA received $340.0 million representing $474.3 million in scheduled credits for blocks purchased by customers. BPA accounts for the prepayment proceeds as a financing transaction and reports the value of the obligations associated with the fixed credits as a prepayment liability. Interest expense is recognized using a weighted-average effective interest rate of 4.5 percent. The prepaid liability is reduced and the credits are applied as power is delivered through fiscal year 2028.

Borrowings from U.S. Treasury

BPA is authorized by Congress to issue and sell to the U.S. Treasury, and have outstanding at any one time, up to $7.70 billion aggregate principal amount of bonds. Of the $7.70 billion in U.S. Treasury borrowing authority, $1.25 billion is available for electric power conservation and renewable resources, including capital investment at the FCRPS hydroelectric facilities owned by the Corps and Reclamation, and $6.45 billion is available for BPA's transmission capital program and to implement BPA's authorities under the Northwest Power Act. Of the $7.70 billion, $750.0 million can be issued to finance Northwest Power Act related expenses. The interest on BPA's outstanding bonds is set at rates comparable to rates on debt issued by other comparable federal government institutions at the time of issuance. Bonds can be issued with call options.

As of Sept. 30, 2016, of the total $4.76 billion outstanding balance, none related to Northwest Power Act expenses. Outstanding bonds carrying a variable rate of interest were $800.0 million and $700.0 million at Sept. 30, 2016, and 2015, respectively. The weighted-average interest rate of BPA's borrowings from the U.S. Treasury exceeds current rates. As a result, the fair value of BPA's U.S. Treasury borrowings exceeded the carrying value by approximately $651.2 million and $474.5 million, based on discounted future cash flows using agency rates offered by the U.S. Treasury as of Sept. 30, 2016, and 2015, respectively, for similar maturities. These fair value measurements are considered Level 2 in the fair value hierarchy. (See discussion in Note 12, Fair Value Measurements.)

Of the outstanding U.S. Treasury borrowings, $218.8 million is not subject to redemption prior to their stated maturities. As of Sept. 30, 2016, $800.0 million of borrowings are callable by BPA at par value and the remaining $3.74 billion of borrowings are callable by BPA at a premium or discount, which is calculated based on the current government agency rates for the remaining term to maturity at the time the borrowings are called.

In fiscal years 2016 and 2015, BPA did not call any bonds it had issued to the U.S. Treasury. However, during fiscal year 2014, BPA called $1.18 billion principal amount of previously issued U.S. Treasury borrowings prior to maturity and reissued $1.14 billion principal amount of shorter-duration debt at lower interest rates. The result of these noncash transactions was a gain in fiscal year 2014 of $36.0 million for extinguished debt, which decreased interest expense immediately, as well as a gain of $3.0 million for modified debt, which is amortized to interest expense over the term of the new debt.

Federal appropriations

Federal appropriations reflect the responsibility that BPA has to repay congressionally appropriated amounts in the FCRPS. Federal appropriations consist primarily of the remaining unpaid power portion of Corps and Reclamation capital investments funded through congressional appropriations and include appropriations for Columbia River Fish Mitigation as allocated to the power purpose of the Corps' FCRPS hydroelectric projects.

BPA is obligated to establish rates to repay to the U.S. Treasury appropriations for federal generation and transmission plant investments within a specified repayment period, which is the reasonable expected service life of the facilities, not to exceed 50 years. Federal appropriations may be paid early without penalty, and BPA repaid appropriations early in fiscal years 2016 and 2015. All outstanding federal appropriations are scheduled for repayment in fiscal year 2020 and thereafter. BPA establishes schedules for the repayment of federal appropriations when it establishes its power and transmission rates. These schedules can change depending on whether appropriations have been prepaid or deferred. Interest on appropriated amounts begins accruing when the related assets are placed into service.

As of Sept. 30 — millions of dollars	Maturing Nonfederal debt excluding capital leases	Future minimum lease payments under capital leases	Borrowings from U.S. Treasury	Federal appropriations	Total
2017	$ 855.8	$ 51.3	$ 76.1	$ -	$ 983.2
2018	932.0	51.3	14.0	-	997.3
2019	644.8	61.6	574.9	-	1,281.3
2020	383.1	427.2	389.0	8.2	1,207.5
2021	386.7	615.4	275.0	63.2	1,340.3
2022 and thereafter	3,064.4	1,030.9	3,429.7	2,795.5	10,320.5
Total	$ 6,266.8	$ 2,237.7	$ 4,758.7	$ 2,866.9	$ 16,130.1
Less: Executory costs	-	27.9	-	-	27.9
Less: Amount representing interest	-	460.8	-	-	460.8
Present value of debt	6,266.8	1,749.0	4,758.7	2,866.9	15,641.4
Less: Current portion	855.8	1.8	76.1	-	933.7
Long-term debt	$ 5,411.0	$ 1,747.2	$ 4,682.6	$ 2,866.9	$ 14,707.7

8. Variable Interest Entities

A VIE is an entity that does not have sufficient equity at risk to finance its activities without additional financial support or whose equity investors lack characteristics of a controlling financial interest. An enterprise that has a controlling interest is known as the VIE's primary beneficiary and is required to consolidate the VIE.

Management reviews executed lease-purchase agreements with nonfederal entities, such as the NIFCs. BPA is the primary beneficiary of the NIFCs, and BPA therefore consolidates the NIFCs into the FCRPS financial statements as VIEs. The key factors in this determination are BPA's ability to take contractual actions that significantly impact the economic, commercial and operating activities of the NIFCs and that BPA may be obligated to absorb losses that could be significant to the NIFCs. Additionally, BPA's lease-purchase agreements with the NIFC entities obligate BPA to absorb the operational and commercial risks, and thus potentially significant benefits or losses associated with the underlying transmission facilities. BPA also has exclusive use and control of the facilities during the lease periods and has indemnified the NIFC entities for all construction and operating risks associated with their respective transmission facilities.

Amounts related to the NIFC entities include Lease-Purchase trust funds and other assets of $21.8 million and $22.4 million and Nonfederal debt of $319.6 million and $437.6 million as of Sept. 30, 2016, and 2015, respectively. BPA has also entered into lease-purchase agreements with other nonfederal entities. These entities are governmental and, in accordance with VIE accounting guidance, are therefore not consolidated into the FCRPS financial statements. (See Note 7, Debt and Appropriations.)

BPA has entered into power purchase agreements with wind farm-related VIEs, which, because of their pricing arrangements, provide that BPA absorb commodity price risk from the perspective of the counterparty entities. However, BPA management has concluded that in no instance does BPA have the power to control the most significant operating and maintenance activities of these entities and, therefore, BPA is not the primary beneficiary and does not consolidate these entities. Additionally, BPA does not provide, and does not plan to provide, any additional financial support to these entities beyond what BPA is contractually obligated to pay. Thus, BPA has no exposure to loss on contracts with these VIEs. Expenses related to VIEs for which BPA is not the primary beneficiary were $21.6 million, $19.7 million and $21.8 million in fiscal years 2016, 2015 and 2014, respectively. These expenses were recorded to operations and maintenance as BPA management considers the related purchases to be part of the FCRPS resource pool.

9. Residential Exchange Program

BACKGROUND

As provided in the Northwest Power Act, in 1981 BPA began to implement the REP through various contracts with eligible regional utility customers. BPA's implementation of the REP has been the subject of various litigations and settlement agreements.

2012 RESIDENTIAL EXCHANGE PROGRAM SETTLEMENT AGREEMENT

Beginning in April 2010, over 50 litigants and other regional parties entered into mediation to resolve numerous disputes over the REP. In February 2011 the parties reached a final settlement agreement – the 2012 Residential Exchange Program Settlement Agreement (2012 REP Settlement Agreement), and in July 2011 BPA also signed the 2012 REP Settlement Agreement. In fiscal year 2012, BPA recorded an associated long-term IOU exchange benefits liability and corresponding regulatory asset of $3.07 billion. Under the 2012 REP Settlement Agreement, the IOU's REP benefits were determined for fiscal years 2012-2028 (also referred to herein as Scheduled Amounts). The Scheduled Amounts started at $182.1 million for fiscal year 2012 and increase over time to $286.1 million for fiscal year 2028. As provided in the 2012 REP Settlement Agreement, the Scheduled Amounts are established for each IOU based on the IOU's average system cost, its residential exchange load and BPA's applicable Priority Firm Exchange rate. The Scheduled Amounts total $4.07 billion over the 17-year period through 2028, with remaining Scheduled Amounts as of Sept. 30, 2016, totaling

$3.09 billion. Amounts recorded of $2.55 billion at Sept. 30, 2016, represent the present value of future cash outflows for these IOUs exchange benefits.

REP SCHEDULED AMOUNTS

As of Sept. 30 — millions of dollars		
2017	$	214.1
2018		232.2
2019		232.2
2020		245.2
2021		245.2
2022 through 2028		1,923.5
Subtotal of annual payments		3,092.4
Less: Discount for present value		540.5
IOU exchange benefits	$	2,551.9

In addition to Scheduled Amounts, the 2012 REP Settlement Agreement calls for Refund Amounts to be paid to COUs in the amount of $76.5 million each year from fiscal year 2012 through fiscal year 2019. The Refund Amounts were established as a regulatory asset and regulatory liability for the refunds that will be provided to COU customers as bill credits. The 2012 REP Settlement Agreement established Refund Amounts totaling $612.3 million, with remaining refunds as of Sept. 30, 2016, totaling $229.6 million. Amounts recorded as a regulatory liability of $222.8 million at Sept. 30, 2016, represent the present value of future cash flows for the amounts to be refunded to COUs.

10. Deferred Credits and Other

As of Sept. 30 — millions of dollars		2016		2015
Customer reimbursable projects	$	196.8	$	216.5
Generation interconnection agreements		142.2		169.0
Third AC Intertie capacity agreements		97.7		99.9
Legal claims and settlements		34.4		33.7
Federal Employees' Compensation Act		27.5		32.5
Derivative instruments		21.2		33.7
Fiber optic leasing fees		18.0		21.9
Other		7.3		7.6
Total	$	545.1	$	614.8

Deferred Credits and Other include the following items:

"**Customer reimbursable projects**" consist of advances received from customers where either the customer or BPA will own the resulting asset. If the customer will own the asset under construction, the revenue is recognized as the expenditures are incurred. If BPA will own the resulting asset, the revenue is recognized over the life of the asset once the corresponding asset is placed in service.

"**Generation interconnection agreements**" are generators' advances held as security for requested new network upgrades and interconnection. These advances accrue interest and will be returned as cash or credits against future transmission service on the new or upgraded lines.

"**Third AC Intertie capacity agreements**" reflect unearned revenue from customers related to the Third AC Intertie transmission line capacity project. Revenue is recognized over an estimated 49-year life of the related assets.

"**Legal claims and settlements**" reflect amounts accrued for outstanding legal claims and settlements. (See Note 13, Commitments and Contingencies.)

"**Federal Employees' Compensation Act**" reflects the actuarial estimated amount of future payments for current recipients of BPA's worker compensation benefits.

"**Derivative instruments**" reflect the unrealized loss of the derivative portfolio, which primarily includes physical power purchase and sale transactions.

"**Fiber optic leasing fees**" reflect unearned revenue related to the leasing of fiber optic cables. Revenue is recognized over the lease terms extending through 2024.

11. Risk Management and Derivative Instruments

BPA is exposed to various forms of market risks related to commodity prices and volumes, counterparty credit, and interest rates. Non-performance risk, which includes credit risk, is described in Note 12, Fair Value Measurements. BPA has formalized risk management processes in place to manage agency risks, including the use of derivative instruments. The following sections describe BPA's exposure to and management of certain risks.

RISK MANAGEMENT

Due to the operational risk posed by fluctuations in river flows and electricity market prices, net revenues that result from underlying surplus or deficit energy positions are inherently uncertain. BPA's Risk Oversight Committee has responsibility for the oversight of market risk and determines the transactional risk policy and control environment at BPA. Through simulation and analysis of the hydro supply system, experienced business and risk managers install market price risk measures to capture additional market-related risks, including credit and event risk.

COMMODITY PRICE RISK AND VOLUMETRIC RISK

BPA has exposure to commodity price risk through fluctuations in electricity market prices that affect the value of energy bought and sold. Volumetric risk is the uncertainty of energy production from the hydro system. The combination of the two results in net revenue uncertainty. BPA routinely models commodity price risk and volumetric risk through parametric calculations, Monte Carlo simulations and general market observations to derive net revenues at risk, mark-to-market valuations, value at risk and other metrics as appropriate. These metrics capture the uncertainty around single point forecasts in order to monitor changes in the revenue risk profile from changes in market price, market price volatility and forecasted hydro generation. BPA measures and monitors the output of these methods on a regular basis. In order to mitigate revenue uncertainty that is beyond BPA's risk tolerance, BPA enters into short-term and long-term purchase and sale contracts by using instruments such as forwards, futures, swaps, and options.

CREDIT RISK

Credit risk relates to the loss that might occur as a result of counterparty non-performance. BPA mitigates credit risk by reviewing counterparties for creditworthiness, establishing credit limits and monitoring credit exposure. To further manage credit risk, BPA obtains credit support such as letters of credit, parental guarantees, cash in the form of prepayment or deposit of escrow funds, from some counterparties. BPA monitors counterparties for changes in financial condition and regularly updates credit reviews. BPA uses scoring models, publicly available financial information and external ratings from major credit rating agencies to determine appropriate levels of credit for its counterparties.

During fiscal year 2016, BPA experienced no material losses as a result of any customer defaults or bankruptcy filings. As of Sept. 30, 2016, BPA had $78.2 million in credit exposure related to purchase and sale contracts after taking into account netting rights. Of this credit exposure, $50.1 million was related to sub-investment grade counterparties who provided letters of credit for $36.4 million. The letters of credit serve as a guarantee arrangement and mitigate BPA's credit risk exposure to these counterparties.

INTEREST RATE RISK

BPA has the ability to issue variable rate bonds or related instruments to the U.S. Treasury. BPA manages the interest rate risk presented by variable rate U.S. Treasury debt by holding a like amount of variable rate U.S. Treasury security investments with a similar maturity profile. These U.S. Treasury investments earn interest at a variable rate that is correlated, but not identical, to the interest rate paid on U.S. Treasury variable rate debt. Energy Northwest may also issue variable rate debt for which BPA is expected to fund the repayment. (See Note 3, Investments in U.S. Treasury Securities and Note 7, Debt and Appropriations.)

DERIVATIVE INSTRUMENTS

Commodity Contracts

BPA's forward electricity contracts are eligible for the normal purchases and normal sales exception if they require physical delivery, are expected to be used or sold by BPA in the normal course of business and meet the derivative accounting definition of capacity described in the derivatives and hedging accounting guidance. These transactions are not recorded at fair value in the financial statements. Recognition of these contracts in Sales or Purchased power in the Combined Statements of Revenues and Expenses occurs when the contracts are delivered and settled.

For derivative instruments not eligible for the normal purchases and normal sales exception, BPA records unrealized gains and losses in Regulatory assets and Regulatory liabilities in the Combined Balance Sheets. Realized gains and losses are included in Sales and Purchased power in the Combined Statements of Revenues and Expenses as the contracts are delivered and settled.

When available, quoted market prices or prices obtained through external sources are used to measure a contract's fair value. For contracts without available quoted market prices, fair value is determined based on internally developed modeled prices. (See Note 12, Fair Value Measurements.)

As of Sept. 30, 2016, the derivative commodity contracts recorded at fair value totaled 4.7 million megawatt hours (MWh), gross basis, with delivery months extending to September 2022.

In the Combined Balance Sheets, BPA reports gross fair value amounts of derivative instruments subject to a master netting arrangement, excluding contracts designated as normal purchases or normal sales. (See Note 6, Deferred Charges and Other and Note 10, Deferred Credits and Other.) In the event of default or termination, contracts with the same counterparty are offset and net settle through a single payment. BPA does not offset cash collateral against recognized derivative instruments with the same counterparty under the master netting arrangements.

If netted by counterparty, BPA's derivative position would result in an asset of $47.3 million and $68.1 million and a liability of $21.2 million and $33.7 million as of Sept. 30, 2016, and 2015, respectively.

12. Fair Value Measurements

BPA applies fair value measurements and disclosures accounting guidance to certain assets and liabilities including commodity derivative instruments, nuclear decommissioning trusts and other investments. BPA maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, BPA seeks price information from external sources, including broker quotes and industry publications. If

pricing information from external sources is not available, BPA uses forward price curves derived from internal models based on perceived pricing relationships to major trading hubs.

BPA also utilizes the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value, into three broad levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities that BPA has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of financial instruments such as fixed income investments, equity mutual funds and money market funds.

Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include certain non-exchange traded commodity derivatives and certain agency, corporate and municipal securities as part of the Lease-Purchase trust funds investments. Fair value for certain non-exchange traded derivatives is based on forward exchange market prices and broker quotes adjusted and discounted. Lease-Purchase trust funds investments are based on a market input evaluation pricing methodology using a combination of observable market data such as current market trade data, reported bid/ask spreads, and institutional bid information.

Level 3 – Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 include long-dated and modeled commodity contracts where inputs into the valuation are adjusted market prices plus an adder.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

BPA includes non-performance risk when calculating fair value measurements. This includes a credit risk adjustment based on the credit spreads of BPA's counterparties when in an unrealized gain position, or on BPA's own credit spread when in an unrealized loss position. BPA's assessment of non-performance risk is generally derived from the credit default swap market and from bond market credit spreads. The impact of the credit risk adjustments for all outstanding derivatives was immaterial to the fair value calculation at Sept. 30, 2016, and 2015. There were no transfers between Level 1 or Level 2 during the fiscal years ended Sept. 30, 2016, and 2015.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

As of Sept. 30, 2016 — millions of dollars

	Level 1	Level 2	Level 3	Total
Assets				
Nonfederal nuclear decommissioning trusts				
Equity index funds	$ 174.6	$ —	$ —	$ 174.6
Bond index funds	120.5	—	—	120.5
U.S. government obligation mutual funds	19.2	—	—	19.2
Derivative instruments [1]				
Commodity contracts	—	47.3	—	47.3
Lease-Purchase trust funds				
U.S. government sponsored enterprise obligations	—	22.8	—	22.8
U.S. government obligations	—	120.9	—	120.9
Corporate obligations	—	13.0	—	13.0
Municipal obligations	—	13.2	—	13.2
Total	$ 314.3	$ 217.2	$ —	$ 531.5
Liabilities				
Derivative instruments [1]				
Commodity contracts	$ —	$ (21.2)	$ —	$ (21.2)
Total	$ —	$ (21.2)	$ —	$ (21.2)

As of Sept. 30, 2015 — millions of dollars

Assets				
Nonfederal nuclear decommissioning trusts				
Equity index funds	$ 135.5	$ —	$ —	$ 135.5
U.S. government obligation mutual funds	129.6	—	—	129.6
Corporate bond index funds	17.6	—	—	17.6
Derivative instruments [1]				
Commodity contracts	—	—	70.4	70.4
Lease-Purchase trust funds				
U.S. government sponsored enterprise obligations	—	199.0	—	199.0
U.S. government obligations	—	48.2	—	48.2
Corporate obligations	—	35.7	—	35.7
Municipal obligations	—	22.4	—	22.4
Total	$ 282.7	$ 305.3	$ 70.4	$ 658.4
Liabilities				
Derivative instruments [1]				
Commodity contracts	$ —	$ (33.7)	$ —	$ (33.7)
Total	$ —	$ (33.7)	$ —	$ (33.7)

[1] Derivative instruments assets and liabilities are included in Deferred charges and other and Deferred credits and other in the Combined Balance Sheets, respectively. (See Note 6, Deferred Charges and Other and Note 10, Deferred Credits and Other.) See Note 11, Risk Management and Derivative Instruments for more information related to BPA's risk management strategy and use of derivative instruments.

Level 3 derivative commodity contracts are long-dated power contracts measured at fair value on a recurring basis using the California-Oregon Border (COB) and Mid-Columbia (Mid-C) forward price curves. They include power contracts delivering to illiquid trading points or contracts without available market transactions for the entire delivery period; therefore, they are considered unobservable. Forward prices are considered a key

component to contract valuations. All valuation pricing data is generated internally by BPA's risk management organization.

The risk management organization constructs the forward price curve through the use of available market prices, broker quotes and bid/offer spreads. In periods where market prices or broker quotes are not available, the risk management organization derives monthly prices by applying seasonal shaping based on historical broker quotes and spreads. Long-term prices are derived from internally developed or commercial models with both internal and external data inputs. BPA management believes this approach maximizes the use of pricing information from external sources and is currently the best option for valuation. Significant increases or decreases in the inputs would result in a significantly higher or lower fair value measurement.

Forward power prices are influenced by, among other factors, the price of natural gas, seasonality, hydro forecasts, expectations of demand growth, planned changes in the regional generating plants, and the emergence of new marginal fuels for generation.

COMMODITY CONTRACTS

The following table presents the changes in the assets and liabilities measured at fair value on a recurring basis and included in the Level 3 fair value category.

As of Sept. 30 — millions of dollars	2016	2015
Beginning Balance	$ 70.4	$ 4.7
Changes in unrealized gains (losses)[1]	(23.2)	65.7
Transfers out of Level 3 to Level 2	(47.2)	-
Ending Balance	$ -	$ 70.4

[1] Unrealized gains and losses are included in Regulatory assets and Regulatory liabilities in the Combined Balance Sheets. Realized gains and losses are included in Sales and Purchased power, respectively, in the Combined Statements of Revenues and Expenses.

During fiscal year 2016, transfers out of Level 3 occurred when the significant inputs became more observable, such as when the time between the valuation date and the delivery term of a transaction became shorter.

13. Commitments and Contingencies

INTEGRATED FISH AND WILDLIFE PROGRAM

The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife and their habitats to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries, from which BPA markets power. BPA makes expenditures and incurs other costs for fish and wildlife protection and mitigation that are consistent with the purposes of the Northwest Power Act and the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. In addition, certain fish and wildlife species that inhabit the Columbia River Basin are listed under the Endangered Species Act (ESA) as threatened or endangered. BPA makes expenditures and incurs other costs related to power purposes to comply with the ESA and implement certain biological opinions (BiOp) prepared by the National Oceanic and Atmospheric Administration Fisheries Service and the U.S. Fish and Wildlife Service in furtherance of the ESA. BPA's total commitment including timing of payments under the Northwest Power Act, ESA and BiOp fluctuates because it is in part dependent on river flows and water conditions. As of Sept. 30, 2016, BPA has entered into long-term fish and wildlife agreements with estimated contractual commitments of $468.1 million. These agreements will expire at various dates between fiscal years 2018 and 2025.

IRRIGATION ASSISTANCE

Scheduled distributions

As of Sept. 30 — millions of dollars		
2017	$	50.8
2018		27.2
2019		56.6
2020		24.3
2021		14.8
2022 through 2045		268.4
Total	$	442.1

As directed by law, BPA is required to establish rates sufficient to make distributions to the U.S. Treasury for original construction costs of certain Pacific Northwest irrigation projects for which the costs have been determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation. In establishing power rates, particular statutory provisions guide the assumptions that BPA makes as to the amount and timing of such distributions. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from accumulated net revenues when paid. Future irrigation assistance payments are scheduled to total $442.1 million over a maximum of 66 years since the time the irrigation facilities were completed and placed in service. BPA is required by the Grand Coulee Dam - Third Powerplant Act to demonstrate that reimbursable costs of the FCRPS will be returned to the U.S. Treasury from BPA within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects to the extent the costs have been determined to be beyond the irrigators' ability to repay. These requirements are met by conducting power repayment studies including schedules of distributions at the proposed rates to demonstrate repayment of principal within the allowable repayment period. Irrigation assistance excludes $40.3 million for Teton Dam, which failed prior to completion and for which BPA has no obligation to repay.

FIRM PURCHASE POWER COMMITMENTS

As of Sept. 30 — millions of dollars		
2017	$	70.5
2018		74.8
2019		77.6
2020		43.9
2021		33.6
Total	$	300.4

BPA periodically enters into long-term commitments to purchase power for future delivery. When BPA forecasts a resource shortage, based on its planned contractual obligations for a period and the historical water record for the Columbia River basin, BPA takes a variety of operational and business steps to cover a potential shortage including entering into power purchase commitments. Additionally, under BPA's current Tiered Rates Methodology and its current Regional Dialogue power sales contracts, BPA's customers may request that BPA meet their power requirements in excess of the Rate Period High Water Mark load under their contract. For these Above High Water Mark load requests, BPA may meet such requests by entering into power purchase commitments. The preceding table includes firm purchase power agreements of known costs that are currently

in place to assist in meeting expected future obligations under BPA's current long-term power sales contracts. Included are six purchases made specifically to meet BPA's commitments to sell power at Tier 2 rates in fiscal years 2017-2019 and two purchases to meet load obligations in Idaho. The expenses associated with Tier 2 purchases to meet prior commitments were $22.1 million, $24.6 million and $4.9 million for fiscal years 2016, 2015 and 2014, respectively. The expenses associated with the Idaho purchases, which are not included in the Tier 2 amounts, commenced July 1, 2016, and were $9.0 million for fiscal 2016. BPA has several other purchase agreements with wind-powered and other generating facilities that are not included in the preceding table as payments are based on the variable amount of future energy generated and as there are no minimum payments required.

ENERGY EFFICIENCY PROGRAM

BPA is required by the Northwest Power Act to meet the net firm power load requirements of its customers in the Pacific Northwest. BPA is authorized to help meet its net firm power load through the acquisition of electric conservation. BPA makes available a portfolio of initiatives and infrastructure support activities to its customers to ensure the conservation targets established in the Northwest Power and Conservation Council's then-current Power Plan are achieved. The Council released the Seventh Power Plan in fiscal year 2016. These initiatives and activities are often executed via conservation commitments made by BPA to its customers through $78.0 million of agreements with utility customers and contractors that provide support in the way of energy efficiency program research, development and implementation. The timing of the payments under these commitments is not fixed or determinable, and these agreements will expire at various dates through fiscal year 2020.

1989 ENERGY NORTHWEST LETTER AGREEMENT

In 1989, BPA agreed with Energy Northwest that, in the event any participant shall be unable for any reason, or shall fail or refuse, to pay to Energy Northwest any amount due from such participant under its net billing agreement for which a net billing credit or cash payment to such participant has been provided by BPA, BPA will be obligated to pay the unpaid amount in cash directly to Energy Northwest.

NUCLEAR INSURANCE

BPA is a member of the Nuclear Electric Insurance Limited (NEIL), a mutual insurance company established to provide insurance coverage for nuclear power plants. The insurance policies purchased from NEIL by BPA include: 1) Primary Property and Decontamination Liability Insurance; 2) Decontamination Liability, Decommissioning Liability and Excess Property Insurance; and 3) NEIL I Accidental Outage Insurance.

Under each insurance policy, BPA could be subject to a retrospective premium assessment in the event that a member-insured loss exceeds reinsurance and reserves held by NEIL. The maximum assessment for the Primary Property and Decontamination Liability Insurance policy is $19.6 million. For the Decontamination Liability, Decommissioning Liability and Excess Property Insurance policy, the maximum assessment is $7.3 million. For the NEIL I Accidental Outage Insurance policy, the maximum assessment is $5.3 million.

As a separate requirement, BPA is liable under the Nuclear Regulatory Commission's indemnity for public liability coverage under the Price-Anderson Act. In the event of a nuclear accident resulting in public liability losses exceeding $375.0 million, BPA could be subject to a retrospective assessment of up to $121.3 million limited to $19.0 million per incident within one calendar year. Assessments would be included in BPA's costs and recovered through rates. As of Sept. 30, 2016, there have been no assessments to BPA under either of these programs.

ENVIRONMENTAL MATTERS

From time to time there are sites for which BPA, the Corps or Reclamation may be identified as potential responsible parties. Costs associated with cleanup of sites are not expected to be material to the FCRPS financial statements. As such, no material liability has been recorded.

INDEMNIFICATION AGREEMENTS

BPA, the Corps and Reclamation have provided indemnifications of varying scope and terms in contracts with customers, vendors, lessors, trustees, and other parties with respect to certain matters, including, but not limited to, losses arising out of particular actions taken on behalf of the FCRPS, certain circumstances related to Energy Northwest Projects, and in connection with lease-purchases. Because of the absence of a maximum obligation in the provisions, management is not able to reasonably estimate the overall maximum potential future payments. Based on historical experience and current evaluation of circumstances, management believes that, as of Sept. 30, 2016, the likelihood is remote that the FCRPS would incur any significant costs with respect to such indemnities. No liability has been recorded in the financial statements with respect to these indemnification provisions.

LITIGATION

Southern California Edison

Southern California Edison (SCE) filed two separate actions pending in the U.S. Court of Federal Claims against BPA related to a power sales and exchange agreement (Sale and Exchange Agreement) between BPA and SCE. The actions challenged: 1) BPA's decision to convert the contract from a sale of power to an exchange of power as provided for under the terms of the contract (Conversion Claim); and 2) BPA's termination of the Sales and Exchange Agreement due to SCE's nonperformance (Termination Claim).

In 2006, BPA and SCE executed an agreement to settle the claims wherein BPA would make a payment of $28.5 million plus applicable interest to SCE if certain identified conditions were met, including a final resolution of BPA's claims pending in the California refund proceedings and related litigation as discussed below. BPA has recorded a liability of $34.4 million, including interest, on the basis that all conditions have been met except the final resolution in the California refund proceedings and related litigation, which management considers probable. BPA established an offsetting regulatory asset, as the costs will be collected in future rates.

California parties' refund claims

BPA was a party to proceedings at FERC that sought refunds for sales into markets operated by the California Independent System Operator and the California Power Exchange during the California energy crisis of 2000-2001. In BPA v. FERC, 422 F.3d 908 (9th Cir. 2005) the Ninth Circuit Court found that governmental utilities, like BPA, were not subject to FERC's statutory authority to order market participants to pay refunds. As a consequence of the Ninth Circuit Court's decision, three California investor-owned utilities along with the State of California filed breach of contract claims in the United States Court of Federal Claims against BPA. The complaints, filed in 2007, alleged that BPA was contractually obligated to pay refunds on transactions where BPA received amounts in excess of mitigated market clearing prices retroactively established by FERC.

In May 2012, the Court of Federal Claims issued an opinion that held that BPA breached its contracts with the California parties. Assuming the amounts owed included interest, such refunds could have amounted up to $51.8 million. While the ruling did not establish a specific liability in this matter, BPA recorded a liability in this amount in fiscal year 2012.

On April 2, 2013, the Court of Federal Claims issued a Declaratory Judgment in favor of the California parties in response to motions by these parties requesting declaratory relief for certain transactions.

Thereafter, a new judge for the Court of Federal Claims was assigned to the claims, and on Dec. 20, 2013, she vacated the May 2012 opinion. After hearings conducted in June 2014 and January 2015, at the judge's request, BPA filed a motion to dismiss the claims. On March 12, 2015, the judge issued a decision granting BPA's motion to dismiss and holding that the California parties lacked standing to sue because they had no contractual privity with BPA. The judge also found that even if the California parties had standing, the breach of contract claims should nevertheless be dismissed because the factual predicate for a breach of contract claim against Bonneville did not exist because FERC had not retroactively revised the rates applicable to the BPA transactions, as alleged by the California parties. Thereafter the California parties filed appeals of the order in the United States Court of Appeals for the Federal Circuit. On Oct. 3, 2016, the Federal Circuit Court of

Appeals affirmed the dismissal by the Court of Federal Claims of all breach of contract claims against Bonneville.

In a separate proceeding as part of FERC's California refund docket, an administrative law judge appointed by the FERC Commissioners conducted a hearing in 2012 to make certain findings related to certain classes of transactions at issue in the California parties' breach of contract litigation in the Court of Federal Claims. The FERC proceeding had potential impacts on the scope of potential damages in the breach of contract case. On Feb. 15, 2013, the FERC administrative law judge issued findings to the effect that the prices involved in certain transactions were unjust and unreasonable and subject to refund and recommended that BPA pay $59.6 million, plus interest. On Nov. 10, 2014, FERC dismissed BPA from the FERC California refund proceeding and did not affirm the administrative law judge's findings and recommendations. The California parties did not appeal the dismissal of BPA from the proceeding.

In fiscal year 2015, BPA removed its liability for the California parties' refund claims as a result of the judge's dismissal in 2015 of all the claims in the Court of Federal Claims on the basis that BPA's management has determined that the probability of financial loss is remote.

Rates

BPA's rates are frequently the subject of litigation. Most of the litigation involves claims that BPA's rates are inconsistent with statutory directives, are not supported by substantial evidence in the record, or are arbitrary and capricious. It is the opinion of BPA's general counsel that if any rate were to be rejected, the remedy accorded would be a remand to BPA to establish a new rate. BPA's flexibility in establishing rates could be restricted by the rejection of a BPA rate, depending on the grounds for the rejection. BPA is unable to predict, however, what new rate it would establish if a rate were rejected. If BPA were to establish a rate that was lower than the rejected rate, a petitioner may be entitled to a refund in the amount overpaid; however, BPA is required by law to set rates to meet all of its costs. Thus, it is the opinion of BPA's general counsel that BPA may be required to increase its rates to seek to recover the amount of any such refunds, if needed.

OTHER

The FCRPS may be affected by various other legal claims, actions and complaints, including litigation under the Endangered Species Act, which may include BPA as a named party. Certain of these cases may involve material amounts. Management is unable to predict whether the FCRPS will avoid adverse outcomes in these legal matters; however, management believes that disposition of pending matters will not have a materially adverse effect on the FCRPS financial position or results of operations for fiscal year 2016.

Judgments and settlements are included in FCRPS costs and recovered through rates. Except with respect to the SCE matter described above, no liability has been recorded for the above legal matters. (See Note 10, Deferred Credits and Other, for discussion of amounts accrued for outstanding legal claims and settlements.)