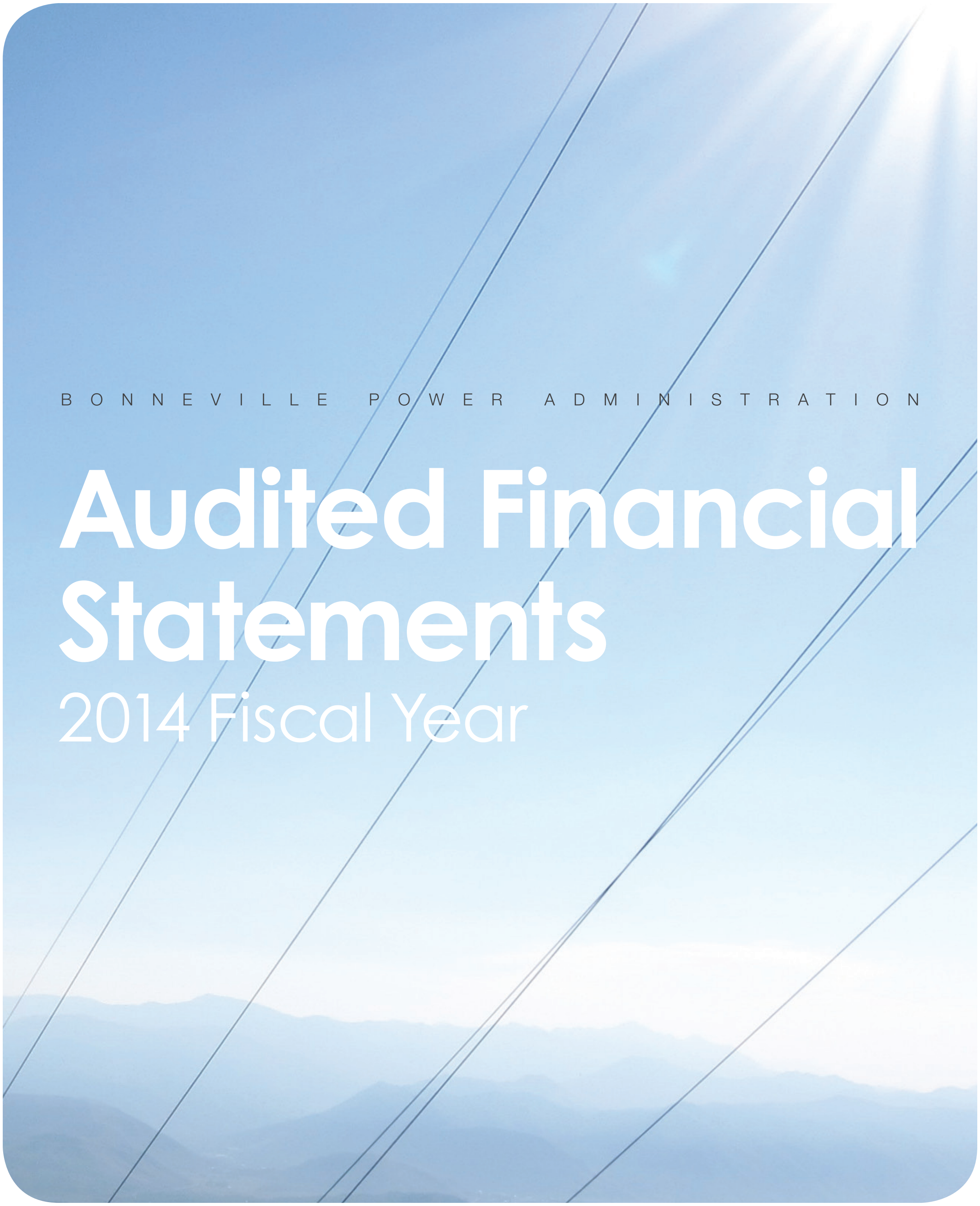

BONNEVILLE POWER ADMINISTRATION

Audited Financial Statements

2014 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. 30, 2014

Independent Auditor's Report

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 (FCRPS), which comprise the combined balance sheets as of September 30, 2014 and 2013 and the related combined statements of revenue and expenses and cash flows for each of the three years in the period ended September 30, 2014.

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.

Auditor's 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.

PricewaterhouseCoopers LLP, 805 SW Broadway, Suite 800, Portland, OR 97205-3344
T: (971) 544 4000, F: (971) 544 4100, www.pwc.com/us

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 at September 30, 2014 and 2013 and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 30, 2014

Federal Columbia River Power System
Combined Balance Sheets

As of September 30

(Thousands of Dollars)

	2014	2013
Assets		
Utility plant		
Completed plant	**$ 16,618,215**	$ 16,153,536
Accumulated depreciation	**(5,941,078)**	(5,700,821)
	10,677,137	10,452,715
Construction work in progress	**1,603,811**	1,344,033
Net utility plant	**12,280,948**	11,796,748
Nonfederal generation	**3,361,386**	3,243,713
Current assets		
Cash and cash equivalents	**859,242**	1,010,128
Short-term investments in U.S. Treasury securities	**465,756**	388,914
Accounts receivable, net of allowance	**24,321**	29,540
Accrued unbilled revenues	**283,377**	260,757
Materials and supplies, at average cost	**112,445**	112,019
Prepaid expenses	**32,443**	40,458
Total current assets	**1,777,584**	1,841,816
Other assets		
Regulatory assets	**6,741,604**	6,953,397
Investments in U.S. Treasury securities	**94,542**	34,961
Nonfederal nuclear decommissioning trusts	**279,210**	254,752
Deferred charges and other	**396,876**	146,682
Total other assets	**7,512,232**	7,389,792
Total assets	**$ 24,932,150**	$ 24,272,069

The accompanying notes are an integral part of these statements.

Federal Columbia River Power System
Combined Balance Sheets

As of September 30

(Thousands of Dollars)

	2014	2013
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 2,823,085**	$ 2,432,217
Federal appropriations	**4,090,050**	4,291,457
Borrowings from U.S. Treasury	**3,944,040**	3,738,040
Nonfederal debt	**6,439,711**	6,229,004
Total capitalization and long-term liabilities	**17,296,886**	16,690,718
Commitments and contingencies (Note 14)		
Current liabilities		
Borrowings from U.S. Treasury	**298,000**	147,000
Nonfederal debt	**799,829**	607,865
Accounts payable and other	**555,165**	503,112
Total current liabilities	**1,652,994**	1,257,977
Other liabilities		
Regulatory liabilities	**2,322,386**	2,434,065
IOU exchange benefits	**2,795,470**	2,992,740
Asset retirement obligations	**176,127**	171,554
Deferred credits and other	**688,287**	725,015
Total other liabilities	**5,982,270**	6,323,374
Total capitalization and liabilities	**$ 24,932,150**	$ 24,272,069

The accompanying notes are an integral part of these statements.

Federal Columbia River Power System
Combined Statements of Revenues and Expenses
For the Years Ended September 30

(Thousands of Dollars)

	2014	2013	2012
Operating revenues			
Sales	**$ 3,426,514**	$ 3,175,570	$ 3,179,592
U.S. Treasury credits for fish	**103,853**	84,092	76,983
Miscellaneous revenues	**69,979**	86,619	61,275
Total operating revenues	**3,600,346**	3,346,281	3,317,850
Operating expenses			
Operations and maintenance	**1,901,288**	1,843,972	1,796,902
Purchased power	**199,056**	154,173	143,119
Nonfederal projects	**355,828**	733,313	659,680
Depreciation and amortization	**440,524**	429,717	389,097
Total operating expenses	**2,896,696**	3,161,175	2,988,798
Net operating revenues	**703,650**	185,106	329,052
Interest expense and (income)			
Interest expense	**333,820**	356,337	331,732
Allowance for funds used during construction	**(50,236)**	(37,529)	(45,845)
Interest income	**(23,446)**	(28,937)	(43,587)
Net interest expense	**260,138**	289,871	242,300
Net revenues (expenses)	**443,512**	(104,765)	86,752
Accumulated net revenues at October 1	**2,432,217**	2,595,940	2,510,373
Irrigation assistance	**(52,644)**	(58,958)	(1,185)
Accumulated net revenues at September 30	**$ 2,823,085**	$ 2,432,217	$ 2,595,940

The accompanying notes are an integral part of these statements.

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

	2014	2013	2012
Cash flows from operating activities			
Net revenues (expenses)	**$ 443,512**	$ (104,765)	$ 86,752
Non-cash items:			
Depreciation and amortization	**440,524**	429,717	389,097
Amortization of nonfederal projects	**119,168**	512,363	390,266
Gain on extinguishment of U.S. Treasury bonds	**(36,122)**	-	-
Changes in:			
Receivables and unbilled revenues	**(14,833)**	45,261	(7,564)
Materials and supplies	**(426)**	(12,583)	(5,512)
Prepaid expenses	**8,015**	(14,398)	3,370
Accounts payable and other	**35,636**	(53,511)	35,084
Regulatory assets and liabilities	**(95,454)**	(141,867)	(162,772)
IOU exchange benefits	**(197,270)**	(88,313)	(80,198)
Other assets and liabilities	**(5,148)**	(3,259)	(500)
Net cash provided by operating activities	**697,602**	568,645	648,023
Cash flows from investing activities			
Investment in utility plant, including AFUDC	**(842,983)**	(778,785)	(861,754)
U.S. Treasury securities:			
Purchases	**(950,001)**	(940,000)	(635,000)
Maturities	**808,429**	808,783	638,767
Deposits to nonfederal nuclear decommissioning trusts	**(3,234)**	(3,598)	(9,211)
Lease-purchase trust funds:			
Deposits to	**(519,039)**	(144,208)	(202,287)
Receipts from	**256,784**	160,095	231,994
Net cash used for investing activities	**(1,250,044)**	(897,713)	(837,491)
Cash flows from financing activities			
Federal appropriations:			
Proceeds	**119,654**	99,175	104,696
Repayment	**(321,061)**	(56,740)	(164,594)
Borrowings from U.S. Treasury:			
Proceeds	**603,000**	632,000	806,000
Repayment	**(206,898)**	(167,800)	(328,600)
Nonfederal debt:			
Proceeds	**520,118**	488,965	202,289
Repayment	**(227,043)**	(498,748)	(364,388)
Customers:			
Net advances (refunds) for construction	**3,664**	(6,425)	27,634
Repayment of funds used for construction	**(37,234)**	(41,132)	(35,650)
Irrigation assistance	**(52,644)**	(58,958)	(1,185)
Net cash provided by financing activities	**401,556**	390,337	246,202
Net (decrease) increase in cash and cash equivalents	**(150,886)**	61,269	56,734
Cash and cash equivalents at beginning of year	**1,010,128**	948,859	892,125
Cash and cash equivalents at end of year	**$ 859,242**	$ 1,010,128	$ 948,859
Supplemental disclosures:			
Cash paid for interest, net of amount capitalized	**$ 350,743**	$ 377,167	$ 350,581
Significant noncash investing and financing activities:			
U.S Treasury bonds repaid with non-cash gains	**$ (39,102)**	$ -	$ -
Federal appropriations	**$ -**	$ -	$ (40,583)
Nonfederal debt increase for Energy Northwest	**$ 221,550**	$ 12,639	$ 782,655
Nonfederal debt extinguished through refinancing for Energy Northwest	**$ (111,954)**	$ (20,235)	$ (66,865)
Other nonfederal	**$ -**	$ (10,135)	$ 38,101

The accompanying notes are an integral part of these 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 8, Nonfederal Financing.)

BPA is the power marketing administration that purchases, transmits and markets power for the FCRPS. 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. 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 a cost allocation process. All intracompany and intercompany accounts and transactions have been eliminated from the combined financial statements.

FCRPS accounts are maintained in accordance with generally accepted accounting principles of the United States of America and the Uniform System of Accounts (USoA) prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). FCRPS accounting policies also reflect specific legislation and directives issued by U.S. government agencies. BPA is a separate and distinct entity within the U.S. Department of Energy; Reclamation and U.S. Fish and Wildlife Service are part of the U.S. Department of the Interior; and the Corps is part of the U.S. Department of Defense. U.S. government properties and income are tax exempt.

Use of estimates

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

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 3, Effects of Regulation.)

Utility plant

Utility plant is stated at original cost and includes generation and transmission assets. Generation assets were $8.62 billion and $8.43 billion at Sept. 30, 2014, and 2013, respectively. Transmission assets were $7.99 billion and $7.72 billion, including assets under capital lease agreements of $150.7 million and $127.7 million, at Sept. 30, 2014, and 2013, respectively. 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 similar 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 to maintenance and operating expense as incurred. When utility plant is retired, the original cost and any net proceeds from the disposition are charged to accumulated depreciation.

Depreciation and amortization

Depreciation of the original cost of generation plant is computed using straight-line methods based on estimated service lives of the various classes of property, which average 75 years. 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 service lives of the various classes of property, which average 48 years. The estimated net cost of removal is included in depreciation.

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.

Amortization expense relates primarily to certain regulatory assets. (See Note 3, 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 Corps and Reclamation construction funded by congressional appropriations and at another rate for construction funded substantially by BPA and the NIFCs. The rates for appropriated funds are provided each year to BPA by the U.S. Treasury, whereas the BPA rate is determined based on the weighted-average cost of borrowing for BPA and for the Lease-Purchase Program. The respective rates for appropriated and BPA funds were approximately 0.1 percent and 3.7 percent in fiscal year 2014, 0.1 percent and 3.6 percent in fiscal year 2013, and 0.1 percent and 4.1 percent in fiscal year 2012.

Nonfederal generation

BPA contracted 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 outstanding debt, with the amortization expense included in Nonfederal projects on the Combined Statements of Revenues and Expenses. (See Note 8, Nonfederal Financing.)

Cash and cash equivalents

Cash amounts include cash in the Bonneville Power Administration Fund (Bonneville Fund) with the U.S. Treasury and unexpended appropriations of the Corps and Reclamation. Cash equivalents 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 represents the loss that would be recognized if counterparties fail to perform as contracted.

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 2014, 2013 and 2012, 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 on a daily basis. In order 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 closely monitors counterparties for changes in financial condition and regularly updates credit reviews.

Allowance for doubtful accounts

Management reviews accounts receivable on a monthly basis 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 an asset or liability unless the contract is eligible for the normal purchases and normal sales exception under Derivatives and Hedging accounting guidance. Forward electricity contracts 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.

The fair value of derivative instruments that do not qualify for the normal purchases and normal sales exception are recognized on the Combined Balance Sheets as deferred credits or deferred charges. Changes in fair value are not recognized in the Combined Statements of Revenues and Expenses but are deferred as either regulatory assets or regulatory liabilities 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. In accordance with authoritative guidance for Fair Value Measurements, fair value measurements are used to record adjustments to certain financial assets and liabilities and to determine fair value disclosures. 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: (a) quoted forward prices for commodities; (b) time value; (c) volatility factors; (d) current market and contractual prices for underlying instruments; (e) market interest rates and yield curves; and (f) credit spreads, as well as other relevant economic measures. (See Note 12, Risk Management and Derivative Instruments and Note 13, 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 nonoperating nonfederal projects, debt service on bonds BPA issues to the U.S. Treasury, the repayment of federal appropriations in the FCRPS, and the payment of certain irrigation costs.

U.S. Treasury credits for fish

Under the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), BPA makes expenditures for fish and wildlife protection, mitigation and enhancement for both power and nonpower purposes. Section 4(h)(10)(C) of the Northwest Power Act also specifies that consumers of electric power, through rates BPA establishes for power services, “shall bear the costs of measures designed to deal with adverse impacts caused by the development and operation of electric power facilities and programs only.” This provision of law ensures that the costs of mitigating these impacts are properly accounted for among the power-related and other purposes of the federal hydroelectric projects of the FCRPS. Power-related costs are recovered in BPA’s rates. Nonpower-related costs are recovered as a reduction to BPA’s cash payments to the U.S. Treasury and are shown as a component of Operating revenues in the Combined Statements of Revenues and Expenses.

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 balance of federal appropriations for investments in the FCRPS, interest on bonds issued by BPA to the U.S. Treasury, and interest on certain nonfederal debt. Reductions to interest expense include the amortization of a capitalization adjustment regulatory liability and also gains related to the repayment of certain U.S. Treasury bonds considered extinguished or modified after being called and reissued. Interest expense excludes interest on certain nonfederal debt that is instead reported as a component of nonfederal projects expense.

Interest income

Interest income includes earnings on balances in the Bonneville Fund including market-based specials and from other sources. BPA continues to earn interest offset credits on certain cash balances in the Fund that are not invested in market-based specials. These credits reduce some interest payments, associated with federally appropriated investments in the FCRPS, in the amount of the interest earned. The interest offset credits are 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.

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 rates. The cost of this program is collected through rates. Program costs are recognized when incurred.

In fiscal year 2011, the BPA administrator 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 reflected as credits to qualifying COUs' bills as designated in the 2012 REP Settlement Agreement. (See Note 10, 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 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, FCRPS does not record any accumulated plan assets or liabilities related to the administration of such programs. Contribution amounts are paid to the U.S. Treasury and are recorded as expense during the year to which the payment relates.

RECENT ACCOUNTING PRONOUNCEMENTS

Balance Sheet Offsetting

In January 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance that clarifies the scope of disclosure about offsetting assets and liabilities that are presented on a net or gross basis in the Combined Balance Sheets. The guidance requires additional qualitative and quantitative disclosures about financial instruments and derivative instruments subject to an enforceable master netting agreement or similar agreement. FCRPS adopted this guidance on October 1, 2013. This guidance enhanced disclosures in the notes to financial statements with no impact to BPA's financial condition, results of operations or cash flows.

Revenue Recognition

In May 2014, the FASB issued authoritative guidance that supersedes the existing revenue recognition guidance, including most industry-specific guidance. Management is evaluating the impact of adopting this guidance, which will be effective for fiscal year 2018.

SUBSEQUENT EVENTS

Management has performed an evaluation of events and transactions for potential FCRPS recognition or disclosure through Oct. 30, 2014, which is the date the financial statements were issued.

2. Investments in U.S. Treasury Securities

As of Sept. 30 — thousands of dollars	**2014**		2013	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Short-term	**$ 465,756**	**$ 465,821**	$ 388,914	$ 389,127
Long-term	**94,542**	**94,693**	34,961	34,972
Total	**$ 560,298**	**$ 560,514**	$ 423,875	$ 424,099

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 have statutory authority to invest those funds. Investments of the funds are generally restricted to market-based specials. Under its banking arrangement with the U.S. Treasury, BPA has agreed to invest at least $100 million annually in market-based specials, thereby increasing the amounts of market-based specials in the Bonneville Fund. At the earlier of the date that the Bonneville Fund is fully invested or Sept. 30, 2018, all balances in the Bonneville Fund will thereafter be invested through the Federal Investment Program.

Market-based specials held during fiscal years 2014 and 2013 had a weighted-average yield of 0.2 percent and 0.3 percent, respectively, and 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. Investments with maturities that will be realized in cash within one year are classified as short-term investments. Long-term investments have stated maturities occurring in October 2015 and beyond.

3. Effects of Regulation

REGULATORY ASSETS

As of Sept. 30 — thousands of dollars	**2014**	2013
REP Scheduled Amounts	**$ 2,795,470**	$ 2,903,634
Terminated nuclear facilities	**2,031,329**	2,154,900
Columbia River Fish Mitigation	**656,677**	600,413
REP Refund Amounts	**364,208**	432,850
Conservation measures	**340,854**	319,082
Fish and wildlife measures	**309,607**	302,245
Legal claims and settlements	**91,755**	76,601
Spacer damper replacement program	**50,006**	46,563
Federal Employees' Compensation Act	**32,558**	32,558
Trojan decommissioning and site restoration	**24,039**	24,431
Derivative instruments	**16,304**	27,108
Terminated hydro facilities	**15,860**	17,238
Other	**12,937**	15,774
Total	**$ 6,741,604**	$ 6,953,397

Regulatory assets include the following items:

"REP Scheduled Amounts" reflect the costs of REP Scheduled Amounts representing REP benefits payable under the 2012 REP Settlement Agreement that will be recovered in rates through 2028. These amounts amortize to operations and maintenance expense. (See Note 10, Residential Exchange Program.)

"Terminated nuclear facilities" consist of the nonfederal debt for Energy Northwest Nuclear Projects 1 and 3. These assets are amortized to nonfederal projects expense over the term of the related outstanding debt. (See Note 8, Nonfederal Financing.)

"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.

"REP Refund Amounts" are amounts that reduce the REP benefit payments through fiscal year 2019 and were established in the 2012 REP Settlement Agreement. (See Note 10, Residential Exchange Program.) These amounts are recoverable in future rates and are equal to the regulatory liability for REP Refund Amounts to COUs.

"Conservation measures" consist of the costs of deferred conservation measures and are amortized to depreciation and amortization expense over periods from five to 20 years.

"Fish and wildlife measures" consist of deferred fish and wildlife project expenses and are amortized to depreciation and amortization expense over a period of 15 years.

"Legal claims and settlements" reflect accrued liabilities related to outstanding legal claims and settlement agreements. These costs will be recovered and amortized to operations and maintenance expense through future rates over a period established by the administrator.

“Spacer damper replacement program” consists of costs to replace deteriorated spacer dampers and are recovered in 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.

“Trojan decommissioning and site restoration” reflects the amount to be recovered in future rates for funding the Trojan asset retirement obligation (ARO) liability. This amount equals the associated liability. (See Note 4, Asset Retirement Obligations.)

“Derivative instruments” reflect the unrealized losses from BPA's derivative portfolio. (See Note 12, Risk Management and Derivative Instruments.) These amounts are deferred over the corresponding underlying contract delivery months and equal the associated liability.

“Terminated hydro facilities” consist of the nonfederal debt for the terminated Northern Wasco hydro project, for which BPA terminated its participation. These assets are amortized to nonfederal projects expense over the term of the related outstanding debt. (See Note 8, Nonfederal Financing.)

REGULATORY LIABILITIES

As of Sept. 30 — thousands of dollars	**2014**	2013
Capitalization adjustment	**$ 1,407,081**	$ 1,471,986
Accumulated plant removal costs	**410,532**	408,218
REP Refund Amounts to COUs	**364,208**	432,850
Decommissioning and site restoration	**129,414**	109,819
Other	**11,151**	11,192
Total	**$ 2,322,386**	$ 2,434,065

Regulatory liabilities include the following items:

“Capitalization adjustment” is the difference between appropriated debt 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). The adjustment is being amortized over the remaining original period of repayment so that total FCRPS net interest expense is equal to what it would have been in the absence of the Refinancing Act. Amortization of the capitalization adjustment as a reduction to interest expense was $64.9 million for fiscal years 2014, 2013 and 2012, respectively. (See Note 6, Federal Appropriations.)

“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 consumer-owned utilities and will be provided as credits on their future bills through 2019 as established in the 2012 REP Settlement Agreement. These amounts are equal to regulatory assets for REP Refund Amounts. (See Note 10, 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 CGS decommissioning and site restoration as well as Energy Northwest Projects 1 and 4 sites. (See Note 4, Asset Retirement Obligations.)

4. Asset Retirement Obligations

As of Sept. 30 — thousands of dollars	**2014**	2013
Beginning Balance	**$ 171,554**	$ 161,215
Activities:		
Accretion	**8,390**	8,507
Expenditures	**(1,601)**	(596)
Revisions	**(2,216)**	2,428
Ending Balance	**$ 176,127**	$ 171,554

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, 2014:

- CGS decommissioning and site restoration of $135.5 million;
- Trojan decommissioning of $24.0 million;
- Energy Northwest Projects 1 and 4 site restoration of $16.6 million.

NONFEDERAL NUCLEAR DECOMMISSIONING TRUSTS

As of Sept. 30 — thousands of dollars	**2014**		2013	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Equity index funds	**$ 85,550**	**$ 121,088**	$ 87,723	$ 117,212
U.S. government obligation mutual funds	**93,537**	**93,329**	77,022	76,801
Corporate bond index funds	**61,888**	**64,789**	59,402	60,726
Cash and cash equivalents	**4**	**4**	13	13
Total	**$ 240,979**	**$ 279,210**	$ 224,160	$ 254,752

These assets represent trust fund balances for decommissioning and site restoration costs. External trust funds for decommissioning and site restoration costs are funded monthly for CGS and are charged to operations and maintenance. The trust funds are expected 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. In May 2012, the NRC renewed CGS's operating license for an additional 20 years, with the license now expiring in 2043. Trust fund requirements for CGS are based on an NRC decommissioning cost estimate and the license termination date. The trusts are funded and managed by BPA in accordance with the NRC requirements and site certification agreements.

The investment securities in the decommissioning and site restoration trust accounts are classified as available-for-sale and recorded at fair value in accordance with accounting guidance related to Investments, Debt and Equity Securities. Unrealized 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 3, Effects of Regulation.)

Contribution payments to the CGS trusts for fiscal years 2014, 2013 and 2012 were approximately $3.2 million, $3.6 million and $9.2 million, respectively. In connection with the relicensing of CGS in 2012, funding of the trust was reassessed and resulted in a reduction in annual contributions beginning in fiscal year 2013. 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 expense in the accompanying Combined Statements of Revenues and Expenses.

5. Deferred Charges and Other

As of Sept. 30 — thousands of dollars	**2014**	2013
Lease-Purchase trust funds	**$ 355,370**	$ 99,623
Settlements receivable	**16,000**	16,000
Spectrum Relocation fund	**8,290**	8,307
Funding agreements	**7,174**	7,174
Derivative instruments	**4,772**	4,814
Other	**5,270**	10,764
Total	**$ 396,876**	$ 146,682

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 8, Nonfederal Financing.) 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.

"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.

"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 federal agencies. Amounts received from the U.S. Treasury in connection with the Commercial Spectrum Enhancement Act are held in the Bonneville Fund for the sole purpose of constructing replacement assets.

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

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

6. Federal Appropriations

Federal appropriations consist primarily of the power portion of Corps and Reclamation capital investments funded through congressional appropriations and the remaining unpaid capital investments in the BPA transmission system prior to implementation of the Federal Columbia River Transmission System Act of 1974, 16 U.S.C. 838(j).

The Refinancing Act required that the outstanding balance of the FCRPS federal appropriations repayment balance be reset and assigned market rates of interest prevailing as of Oct. 1, 1996. This resulted in a determination that the principal amount of appropriations should be equal to the present value of the principal and interest that would have been paid to the U.S. Treasury in the absence of the Refinancing Act, plus $100 million. Appropriations in the amount of $6.69 billion were subsequently refinanced for $4.10 billion. This adjustment was recorded as a capitalization adjustment in regulatory liabilities and is being amortized over the remaining original period of repayment. (See Note 3, Effects of Regulation.)

Appropriations for federal generation and transmission plant investments are repaid to the U.S. Treasury within a specified repayment period, which is the reasonable expected service life of the facility, not to exceed 50 years. Federal appropriations may be paid early without penalty. All outstanding federal appropriations are due in fiscal year 2019 and thereafter.

The weighted-average interest rate was 5.9 percent and 6.1 percent on outstanding appropriations as of Sept. 30, 2014, and 2013, respectively.

7. 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 Federal System 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 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, 2014, of the total $4.24 billion of outstanding balance, none related to Northwest Power Act expenses. Outstanding bonds carrying a variable rate of interest were $661.0 million and $300.0 million at Sept. 30, 2014, and 2013, 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 $416.9 million and $297.2 million, based on discounted future cash flows using agency rates offered by the U.S. Treasury as of Sept. 30, 2014, and 2013, respectively, for similar maturities.

The weighted-average interest rate on outstanding U.S. Treasury borrowings was 3.1 percent and 3.8 percent as of Sept. 30, 2014, and 2013, respectively. As of Sept. 30, 2014, the outstanding bonds with a variable rate of interest carried an interest rate of 0.2 percent.

Of the outstanding U.S. Treasury borrowings, $218.8 million is not subject to redemption prior to their stated maturities. As of Sept. 30, 2014, $661.0 million are callable by BPA at par value and the remaining $3.36 billion 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 bond is called.

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 of $36.4 million for extinguished debt, which decreased interest expense immediately, as well as a gain of $3.4 million for modified debt, which is amortized to interest expense over the term of the new debt.

MATURING BORROWINGS FROM U.S. TREASURY

As of Sept. 30 — thousands of dollars

2015	$ 298,000
2016	30,000
2017	68,400
2018	9,000
2019	574,940
2020 through 2044	3,261,700
Total	**$ 4,242,040**

8. Nonfederal Financing

PROJECTS FINANCED WITH NONFEDERAL DEBT

As of Sept. 30 — thousands of dollars		**2014**		2013	
	Terms	**Recorded Value**	Weighted Average Interest Rate	Recorded Value	Weighted Average Interest Rate
Nonfederal generation:					
Columbia Generating Station	0.3 – 6.8% through 2044	**$ 3,304,805**	4.2%	$ 3,175,659	4.3 %
Cowlitz Falls	2.0 – 5.3% through 2032	**85,055**	5.1	87,995	5.0
Terminated nonfederal generation:					
Nuclear Project 1	1.3 – 7.1% through 2027	**913,015**	5.0	1,048,005	5.0
Nuclear Project 3	1.3 – 7.1% through 2028	**1,143,705**	4.9	1,229,245	5.0
Northern Wasco Hydro Project	1.0 – 5.0% through 2024	**17,010**	3.3	18,375	3.1
Lease-Purchase Program:					
Consolidated NIFC debt	1.8 – 5.4% through 2034	**734,783**	3.4	713,018	3.5
Capital leases	1.9 – 6.1% through 2042	**686,795**	2.8	188,443	3.1
Other capital leases	5.3 – 7.4% through 2044	**33,498**	6.8	34,721	6.7
Customer prepaid power purchases	4.3 – 4.6% through 2028	**319,084**	4.5	334,909	4.5
Other	2.0 – 5.0% through 2015	**1,790**	4.6	6,499	4.6
Total		**$ 7,239,540**		$ 6,836,869	

Nonfederal generation and Terminated nonfederal generation

BPA contracted to acquire all of the generating capability of Energy Northwest's Columbia Generating Station and Lewis County PUD's Cowlitz Falls Hydroelectric Project. These contracts require that BPA meet all of the operating, maintenance and debt service costs for these projects. BPA also contracted to acquire all of the generating capacity of Energy Northwest's Nuclear Project 1 and 70 percent of Energy Northwest's Nuclear Project 3; however, these projects were terminated prior to completion. Although not in operation, BPA is required by these contracts to pay debt service costs for these terminated nuclear projects. 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 the Northern Wasco Hydro Project under which BPA ceased its participation.

BPA recognizes expenses for these nonfederal generation and terminated nuclear generation projects based on total project cash funding requirements, which include debt service and operating and maintenance expenses. BPA recognized operating and maintenance expense for these projects of $301.1 million, $307.3 million and $298.3 million in fiscal years 2014, 2013 and 2012, respectively, which is included in Operations and maintenance in the accompanying Combined Statements of Revenues and Expenses. Debt service expense for all projects of $355.8 million, $733.3 million and $659.7 million for fiscal years 2014, 2013 and 2012, respectively, is reported as Nonfederal projects in the accompanying Combined Statements of Revenues and Expenses.

During fiscal year 2014, Energy Northwest took debt management actions for terminated Projects 1 and 3, which reduced debt service and amortization of the related regulatory assets in fiscal year 2014 by $378.1 million from rate case estimates. As a result of these debt management actions, amounts otherwise collected in BPA's Power rates were not used to fund the Energy Northwest related principal payments as originally intended, and as included in rates, and were instead used to repay, before their maturity date, $320.6 million of higher interest rate federal appropriations during fiscal year 2014.

On the accompanying 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 3, Effects of Regulation.)

The underlying debt for the Energy Northwest obligations currently matures through 2044. Energy Northwest debt of $1.27 billion is callable, in whole or in part, at Energy Northwest's option, on call dates between July 2015 and July 2024 at 100 percent of the principal amount.

The fair value of Energy Northwest debt exceeded recorded value by $591.2 million and $510.7 million as of Sept. 30, 2014, and 2013, 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.

Lease-Purchase Program and Other capital leases

Under the Lease-Purchase Program, BPA consolidates five special purpose corporations, collectively referred to as Northwest Infrastructure Financing Corporations (NIFCs), which issued debt to and received advances from nonfederal sources. The combined NIFCs have issued $119.6 million in bonds and borrowed $615.2 million on lines of credit with various banks as of Sept. 30, 2014. 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 lines of credit become due in full at various dates ranging between April 1, 2015, and Jan. 1, 2019.

The fair value of the combined NIFC bonds and lines of credit, reported as capital leases, exceeded the recorded value by $23.6 million and $30.2 million as of Sept. 30, 2014, and 2013, 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, 2014, and 2013, respectively.

Lease-purchases with entities that are not consolidated in the combined FCRPS financial statements are reported as capital leases. These include BPA's lease-purchases with the Port of Morrow, a port district located in Morrow County, Oregon, and Idaho Energy Resources Authority (IERA) for transmission facilities, including lines, substations and general plant assets.

On the accompanying Combined Balance Sheets, the bonds and bank line of credit facilities are included in Nonfederal debt. The leased assets are included in Utility plant and Deferred charges and other for unspent funds held in trust.

Completed plant assets under capital lease agreements were $150.7 million and $127.7 million, and the accumulated depreciation was $22.7 million and $19.3 million, at Sept. 30, 2014, and 2013, respectively. The capital leases expire on various dates through 2044. Generally the capital lease 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. Additionally one lease agreement includes a minimum lease payment escalation clause based on transmission usage.

Customer prepaid power purchases

During fiscal year 2013, BPA entered into agreements with four regional COUs for the advance payment of customer 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 as power is delivered and the credits are applied through fiscal year 2028.

As of Sept. 30 — thousands of dollars	**MATURING NONFEDERAL DEBT EXCLUDING CAPITAL LEASES**	**FUTURE MINIMUM LEASE PAYMENTS UNDER CAPITAL LEASES**	**TOTAL**
2015	$ 798,601	$ 24,408	$ 823,009
2016	817,904	24,343	842,247
2017	592,296	24,263	616,559
2018	929,292	24,243	953,535
2019	636,156	23,928	660,084
2020 and thereafter	2,744,998	856,079	3,601,077
Total	$ 6,519,247	$ 977,264	$ 7,496,511
Less: Executory costs	—	30,441	30,441
Less: Amount representing interest	—	226,530	226,530
Present value of Nonfederal debt	**6,519,247**	**720,293**	**7,239,540**
Less: Current portion	798,601	1,228	799,829
Long-term Nonfederal debt	$ 5,720,646	$ 719,065	$ 6,439,711

9. 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 power purchase agreements with counterparties that may be considered VIEs. These VIEs are typically legal entities structured to own and operate specific generating facilities, primarily wind farms. Because of their pricing arrangements, these agreements may provide that BPA absorb commodity price risk of the counterparty entities. 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. Management has concluded that it does not control the operating and maintenance activities that most significantly impact these entities. Therefore, BPA is not considered the primary beneficiary of these VIEs and does not consolidate any entities because of power purchase agreements.

Management also reviews executed lease-purchase agreements with certain nonfederal entities. These entities, including the Port of Morrow and IERA, are governmental and therefore do not qualify for consolidation into the FCRPS financial statements according to VIE accounting guidance. However, BPA is the primary beneficiary of the NIFCs, which are considered VIEs, and BPA therefore consolidates these entities into the FCRPS financial statements. The key factor in this determination is BPA's ability to direct the commercial and operating activities of the transmission facilities underlying the lease-purchase agreements. 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. Under the lease-purchase agreements, the NIFCs issue debt to finance the construction of the transmission facilities, the full use of which is then provided to BPA. The collateral for the debt is the lease rental payment stream from BPA. The NIFC entities hold legal title to the transmission facilities during the lease term, and BPA is responsible for constructing the leased 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. At any time during each lease term, BPA has the option to buy the transmission facilities at a bargain purchase price plus the value of the related outstanding debt instruments.

Amounts related to the NIFC entities include Lease-Purchase trust funds and other assets of $25.5 million and $27.0 million and Nonfederal debt of $734.8 million and $713.0 million as of Sept. 30, 2014, and 2013, respectively.

10. Residential Exchange Program

BACKGROUND

As provided in the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), beginning in 1981 BPA entered into 20-year Residential Purchase and Sale Agreements (RPSAs) with eligible regional utility customers. The RPSAs implemented the REP. The REP has been the subject of numerous settlement agreements and has been litigated at many stages of its implementation.

2008 IOU EXCHANGE BENEFITS

In fiscal year 2008, Interim Agreements were executed to provide certain IOUs with temporary REP benefits for their residential and small farm consumers. These agreements included a provision to true up the amounts advanced with the actual REP benefits for fiscal year 2008. The true up amount for the IOUs accumulated to $89.4 million by the end of December 2013; however, provisions in the agreement provided that true up payments could not be paid until any subsequent legal challenges to BPA's final Record of Decision (ROD), if any, were resolved. In fiscal year 2014, the conditions allowing for payment were met, and BPA paid all remaining Interim Agreement true up payments. (See Note 14, Commitments and Contingencies.)

2012 RESIDENTIAL EXCHANGE PROGRAM SETTLEMENT AGREEMENT

Beginning in April 2010, over 50 litigants and other regional parties entered into mediation to resolve their numerous disputes over the REP. Participants reached an agreement in principle in early September 2010 and in February 2011 reached a final settlement agreement – the 2012 Residential Exchange Program Settlement Agreement (2012 REP Settlement Agreement).

In July 2011, the BPA administrator signed the REP-12 Final ROD and the 2012 REP Settlement Agreement, and BPA recorded an associated long-term IOU exchange benefits liability and corresponding regulatory asset of $3.07 billion. Beginning in fiscal year 2012, under the provisions of the 2012 REP Settlement Agreement the

IOUs began to receive Scheduled Amounts annually starting at $182.1 million with increases over time to $286.1 million as the final payment in fiscal year 2028. The distribution of these payments is established in the 2012 REP Settlement Agreement that relies upon each IOU's average system cost, BPA's Priority Firm Exchange rates and exchange load. The settled Scheduled Amounts to be paid to the IOUs total $4.07 billion over the 17-year period through 2028, with remaining payments as of Sept. 30, 2014, totaling $3.50 billion. Amounts recorded of $2.80 billion at Sept. 30, 2014, represent the present value of future cash outflows for these exchange benefits.

REP SCHEDULED AMOUNTS

As of Sept. 30 — thousands of dollars	
2015	$ 197,500
2016	214,100
2017	214,100
2018	232,200
2019	232,200
2020 through 2028	2,413,900
Total	**$ 3,504,000**

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 BPA customers as credits on customer monthly bills. The 2012 REP Settlement Agreement established Refund Amounts totaling $612.3 million, with remaining refunds as of Sept. 30, 2014, totaling $382.7 million. Amounts recorded as a regulatory liability of $364.2 million at Sept. 30, 2014, represent the present value of future cash flows for the amounts to be refunded to COUs and collected from IOUs.

11. Deferred Credits and Other

As of Sept. 30 — thousands of dollars	**2014**	2013
Customer reimbursable projects	**$ 220,165**	$ 227,120
Generation interconnection agreements	**196,183**	219,510
Third AC Intertie capacity agreements	**101,323**	104,406
Legal claims and settlements	**89,019**	82,580
Federal Employees' Compensation Act	**32,558**	32,558
Fiber optic leasing fees	**24,821**	27,004
Derivative instruments	**16,304**	27,108
Other	**7,914**	4,729
Total	**$ 688,287**	$ 725,015

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 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 14, Commitments and Contingencies.)

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

"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.

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

12. Risk Management and Derivative Instruments

BPA is exposed to various forms of market risk including commodity price risk, commodity volumetric risk, interest rate risk, credit risk and event risk. Non-performance risk, which includes credit risk, is described in Note 13, Fair Value Measurements. BPA has formalized risk management processes in place to manage agency risks, including the use of derivative instruments. The following describes BPA's exposure to and management of 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 Transacting Risk Management 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 the agency'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 on a daily basis. To further manage credit risk, BPA obtains credit support such as letters of credit, parental guarantees, cash in the form of prepayment and/or deposit of escrow 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 2014, BPA experienced no material losses as a result of any customer defaults or bankruptcy filings. As of Sept. 30, 2014, BPA had $28.2 million in credit exposure to purchase and sale contracts after taking into account netting rights. BPA's credit exposure, net of cash collateral, to sub-investment grade counterparties was less than one percent of total outstanding credit exposures.

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. (See Note 2, Investments in U.S. Treasury Securities and Note 7, Borrowings from U.S. Treasury.)

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 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 13, Fair Value Measurements.)

As of Sept. 30, 2014, the derivative commodity contracts recorded at fair value totaled 3.1 million MWh (gross basis) with delivery months extending to September 2019.

BPA has elected in the Combined Balance Sheets to report gross fair value amounts of derivative instruments subject to a master netting arrangement, excluding contracts designated as normal purchases or normal sales. 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 a liability of $16.1 million as of Sept. 30, 2014. As of Sept. 30, 2013, BPA's derivative position resulted in a net asset of $0.1 million and a net liability of $27.1 million in other assets and other liabilities, respectively.

13. 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 from an active market, 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 in 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, 2014, and 2013.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

As of Sept. 30, 2014 — thousands of dollars

	Level 1	Level 2	Level 3	Netting[2]	Total
Assets					
Nonfederal nuclear decommissioning trusts					
Equity index funds	$ 121,088	$ —	$ —	$ —	**$ 121,088**
U.S. government obligation mutual funds	93,329	—	—	—	**93,329**
Corporate bond index funds	64,789	—	—	—	**64,789**
Cash and cash equivalents	4	—	—	—	**4**
Derivative instruments [1]					
Commodity contracts	—	227	4,545	—	**4,772**
Lease-Purchase trust funds					
U.S. government sponsored enterprise obligations	—	168,296	—	—	**168,296**
U.S. government obligations	—	92,759	—	—	**92,759**
Corporate obligations	—	27,274	—	—	**27,274**
Municipal obligations	—	30,882	—	—	**30,882**
Total	$ 279,210	$319,438	$ 4,545	$ —	**$ 603,193**
Liabilities					
Derivative instruments [1]					
Commodity contracts	$ —	$(16,304)	$ —	$ —	**$ (16,304)**
Total	$ —	$(16,304)	$ —	$ —	**$ (16,304)**

As of Sept. 30, 2013 — thousands of dollars

	Level 1	Level 2	Level 3	Netting[2]	Total
Assets					
Nonfederal nuclear decommissioning trusts					
Equity index funds	$ 117,212	$ —	$ —	$ —	$ 117,212
U.S. government obligation mutual funds	76,801	—	—	—	76,801
Corporate bond index funds	60,726	—	—	—	60,726
Cash and cash equivalents	13	—	—	—	13
Derivative instruments [1]					
Commodity contracts	—	630	4,747	(563)	4,814
Lease-Purchase trust funds					
U.S. government sponsored enterprise obligations	—	50,265	—	—	50,265
U.S. government obligations	—	21,676	—	—	21,676
Total	$ 254,752	$ 72,571	$ 4,747	$ (563)	$ 331,507
Liabilities					
Derivative instruments [1]					
Commodity contracts	$ —	$(27,671)	$ —	$ 563	$ (27,108)
Total	$ —	$(27,671)	$ —	$ 563	$ (27,108)

[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 5, Deferred Charges and Other and Note 11, Deferred Credits and Other.) See Note 12, Risk Management and Derivative Instruments for more information related to BPA's risk management strategy and use of derivative instruments.

[2] Netting represents a balance sheet adjustment for same counterparty master netting arrangements.

Level 3 derivative commodity contracts are power contracts measured at fair value on a recurring basis using the California-Oregon Border (COB) forward price curve. COB does not have a sufficient number of transactions to be considered a liquid trading point. Therefore, COB prices are considered unobservable. Prices are considered a key component to COB contract valuations. All valuation pricing data is generated internally by BPA's risk management organization.

The risk management organization constructs the COB forward price curve through the use of broker quotes and bid/offer spreads to a more liquid trading point. In periods where broker quotes are not available, the risk management organization derives monthly prices by applying seasonal shaping factors and/or models monthly prices based on historical broker quotes and spreads from a closely located major trading point. BPA management believes this approach maximizes the use of pricing information from external sources and is currently the best option for valuation.

The fair value of derivative commodity contracts transacted at COB was $4.5 million at Sept. 30, 2014. The volumes under these contracts will be physically delivered in various quantities through April 2016.

As of Sept. 30, 2014, forward prices for power to be delivered at COB through April 2016 varied as shown in the following table. All prices are presented in dollars per megawatt-hour.

COB	Low	High	Weighted Average
On-Peak	$33.90	$47.85	$41.64
Off-Peak	$21.10	$41.20	$35.11

Forward power prices are influenced by, among other factors, 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 — thousands of dollars	**2014**	2013
Beginning Balance	**$ 4,747**	$ 13,966
Changes in unrealized gains (losses)[1]	**(202)**	(9,219)
Ending Balance	**$ 4,545**	$ 4,747

[1] Unrealized gains and losses are included in Regulatory assets and 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.

14. Commitments and Contingencies

INTEGRATED FISH AND WILDLIFE PROGRAM

The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife projects that are consistent with the Northwest Power Act and that are consistent with the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. In addition, certain fish species are listed under the Endangered Species Act (ESA) as threatened or endangered. BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and 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 is not fixed or determinable. However, the current estimate of long-term fish and wildlife agreements with a contractual commitment that BPA has entered into is $709.8 million as of Sept. 30, 2014. These agreements will expire at various dates between fiscal years 2018 and 2025.

IRRIGATION ASSISTANCE

Scheduled distributions

As of Sept. 30 — thousands of dollars		
2015	$	52,204
2016		61,066
2017		51,482
2018		27,612
2019		57,317
2020 through 2045		305,206
Total	**$**	**554,887**

As directed by law, BPA is required to establish rates sufficient to make cash distributions to the U.S. Treasury for original construction costs of certain Pacific Northwest irrigation projects that 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 $554.9 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 the cost of which BPA has no obligation to repay.

FIRM PURCHASE POWER COMMITMENTS

As of Sept. 30 — thousands of dollars		
2015	$	24,656
2016		32,337
2017		70,446
2018		74,834
2019		77,563
2020 and 2021		77,580
Total	**$**	**357,416**

BPA periodically enters into long-term commitments to purchase power for future delivery. When BPA forecasts a resource shortage based on expected obligations and the historical water record for the Columbia River basin, BPA takes a variety of steps to cover the shortage including entering into power purchase commitments. Additionally, under BPA's current tiered rates structure, BPA's customers may request that BPA meet their power requirements in excess of their share of BPA's generation resources. BPA may meet these 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 long-term power sales contracts. Included are 10 purchases made specifically to meet BPA’s commitments to sell power at Tier 2 rates in fiscal years 2015-2019 and two purchases to meet load obligations in Idaho. The expenses associated with Tier 2 purchases were $4.9 million, $23.4 million and $8.5 million for fiscal years 2014, 2013 and 2012, respectively. Idaho purchases do not commence until July 1, 2016, and extend through fiscal year 2021. BPA has several power 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 Sixth Power Plan are achieved. These initiatives and activities are often executed via conservation commitments made by BPA to its customers. These commitments are captured through $107.9 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 2017.

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 $17.2 million. For the Decontamination Liability, Decommissioning Liability and Excess Property Insurance policy, the maximum assessment is $6.8 million. For the NEIL I Accidental Outage Insurance policy, the maximum assessment is $4.4 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 an annual maximum of $18.9 million. Assessments would be included in BPA’s costs and recovered through rates. As of Sept. 30, 2014, 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 has 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 BPA, electrical disturbances on specific projects, 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 September 30, 2014, the likelihood is remote that BPA 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 $33.1 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 (ISO) and the California Power Exchange (PX) during the California energy crisis of 2000-2001. BPA, along with a number of other governmental utilities, challenged FERC's refund authority over governmental utilities. 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 refund authority. 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 established by FERC.

In May 2012, the Court of Federal Claims issued an opinion in the trial on liability issues and held that BPA breached its contracts with the California parties by failing to pay refunds for amounts owed in excess of the mitigated market clearing prices during the refund period. BPA estimates that such refund amounts, including interest, through Sept. 30, 2014, could approximate up to $55.9 million. While this ruling does not establish a specific liability in this matter, BPA recorded a liability in this amount.

The plaintiffs' contractual breach claims were premised in part upon a November 2009 order where FERC found that as a consequence of establishing a new just and reasonable rate for the purpose of calculating refunds for jurisdictional utilities, it also retroactively reset the prices under the ISO and PX tariffs for all market participants. BPA separately appealed the November 2009 order to the Ninth Circuit Court. In August 2012, subsequent to the ruling of the Court of Federal Claims described above, the Ninth Circuit Court issued a decision on this appeal and held that establishing a new price for purposes of calculating refunds did not retroactively revise the rate for all market participants. The United States Department of Justice, representing BPA in this matter, filed a motion to reconsider the May 2012 decision of the Court of Federal Claims based upon this recent Ninth Circuit Court ruling. On April 2, 2013, the Court of Federal Claims denied the motion for reconsideration.

In a separate proceeding at FERC as part of the California refund docket, an administrative law judge appointed by the FERC Commissioners conducted a hearing in 2012 to make certain findings related to three additional classes of transactions (“summer 2000, exchange, and multi-day”). On Feb. 15, 2013, the FERC administrative law judge issued the initial decision on the summer 2000, exchange, and multi-day transactions to the FERC Commissioners. As part of his findings, the FERC administrative law judge determined that BPA violated the tariff with 84 summer 2000 transactions and that prices charged for the exchange and multi-day transactions were unjust and unreasonable and are subject to refund. The initial decision has been appealed to the commissioners and is advisory to them. The FERC administrative law judge recommended BPA pay $15.1 million for multi-day transactions and $44.5 million for exchange transactions, plus interest. However, BPA liability for those amounts would not ripen unless the Commissioners adopt the initial decision and the related April 2, 2013, Court of Federal Claims order (mentioned below) stands. While the administrative law judge made findings of summer period tariff violations by BPA, he did not make any recommendation regarding refund amounts related to them. When the Commissioners established the hearing, they stated that when they receive the administrative law judge’s factual determinations regarding the summer period, they will decide the further steps to be taken. Management does not believe the initial decision is defensible and filed a Brief on Exceptions on April 11, 2013, in an effort to overturn it. FERC will consider all the parties’ arguments and issue a Final Decision.

The California parties filed separate motions with the Court of Federal Claims requesting a ruling on their declaratory relief claims for the summer 2000, exchange and multi-day transactions. On April 2, 2013, the Court of Federal Claims issued a Declaratory Judgment in favor of the California parties’ relief claims.

A new judge for the Court of Federal Claims was assigned to the claims, and on December 20, 2013, she vacated the May 2012 ruling that BPA breached its contracts with California parties. The judge conducted a hearing on June 5, 2014, for the parties to show cause why the court, on reconsideration, should not dismiss the cases, because of plaintiffs’ failure to establish the requirements of standing to sue on a government contract, thereby depriving the court of jurisdiction of the claims. BPA filed a motion to dismiss plaintiffs’ claims for breach of contract on July 1, 2014. BPA is awaiting a decision on the motion to dismiss. The plaintiffs will have the opportunity to appeal if the cases are dismissed by the Court of Federal Claims. Management will reassess the probability of financial loss after the judge issues a ruling on the plaintiffs’ standing and the court’s jurisdiction over the claims, and will take into consideration the prospects of the matter on appeal, if appeals are filed.

BPA has not adjusted its liability for the California parties’ refund claims as a result of the events occurring at the Court of Federal Claims during fiscal year 2014 on the basis that management has determined that it is not probable that such events will ultimately result in a change in liabilities already recorded in connection with resolution of the California parties’ refund claims.

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.

Currently pending before the Ninth Circuit Court are numerous challenges to the decisions BPA reached in the WP-07 Supplemental Rate Case and the WP-10 Rate Case. The petitioners in these cases challenge, among other issues, BPA’s calculation of certain refunds (referred to as "Lookback Amounts") associated with rates charged to BPA's preference customers from fiscal years 2002 through 2008. These refunds resulted from BPA's implementation of an REP settlement in fiscal years 2002 through 2008 that was later found unlawful and from payment of REP benefits to BPA's investor-owned utility customers under that settlement. Following extensive negotiations, representatives from most of the region's consumer- and investor-owned utilities reached a proposed agreement on how BPA should establish REP benefits and recover the costs of those benefits through rates for the fiscal year period 2002 through 2028. BPA conducted a formal evidentiary hearing to review the proposed settlement agreement, which was signed by the BPA administrator in July 2011. In 2011, BPA and many COUs filed respective motions in the Ninth Circuit Court to dismiss pending litigation challenging BPA's former decisions related to the REP. Those decisions were stayed pending a decision from the Ninth Circuit on the merits of the 2012 REP Settlement Agreement. On October 28, 2013, the Court affirmed the 2012 REP Settlement Agreement. In May 2014, BPA, the IOUs, and many COUs filed renewed motions to dismiss on the grounds that such challenges were moot due to the 2012 REP Settlement Agreement and the Court's October 28, 2013 ruling. The Court has not ruled on these motions to date.

The cost of providing REP benefits will be recovered through future rates. BPA has recorded regulatory assets, a liability and a regulatory liability for the effects of the 2012 REP Settlement Agreement. (See Note 10, Residential Exchange Program.)

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 2014.

Judgments and settlements are included in FCRPS costs and recovered through rates. Except with respect to the SCE, California parties' refund claims, and REP matters described above, no liability has been recorded for the above legal matters. (See Note 11, Deferred Credits and Other, for discussion of amounts accrued for outstanding legal claims and settlements.)