Quarterly Financial Report

2nd Quarter 2004

Management's Discussion and Analysis

Net Revenues

Through the six months ended March 31, 2004, the Federal Columbia River Power System (FCRPS) earned net revenues of $347 million, compared with $210 million for the same period a year ago. The $137 million increase in net revenues from the first half of fiscal 2003 is the result of several factors. Total operating revenues decreased $214 million, operations and maintenance decreased $56 million, purchased power decreased $293 million, nonfederal projects increased $15 million, federal projects depreciation increased $5 million and net interest decreased $23 million from last year.

For a third year, BPA's Debt Optimization program and other debt management actions have contributed significantly to increased net revenues.

Modified Net Revenues

Modified net revenues are net revenues after removing the effects of "Statement of Financial Accounting Standards 133 mark-to-market for identified derivative instruments," and debt management actions that differ from rate case assumptions. Management has determined that modified net revenues are a better representation of the outcomes of normal operations during periods of debt management actions and fluctuations in derivative market prices. Calculations similar to modified net revenues were developed as part of the initial rates for the current period and are used to determine the thresholds for two of the Power Business Line Cost Recovery Adjustment Clauses (CRACs) - Financial-Based (FB CRAC) and Safety Net (SN CRAC). The table below demonstrates the calculation for modified net revenues.

Modified Net Revenues
(Thousands of Dollars)

	Six months ended March 31		Twelve months ended March 31	
	2004	2003	2004	2003
Net Revenues	**$ 347,478**	$ 209,770	**$ 693,132**	$ 282,720
SFAS 133 mark-to-market (gain) loss	**(28,413)**	(21,230)	**(62,448)**	(58,265)
Debt Service Energy Northwest:				
Per Accounting Record	**116,549**	102,558	**116,535**	154,507
Per Rate Case	**(278,740)**	(282,915)	**(561,654)**	(547,347)
Modified Net Revenues (Expenses)	**$ 156,874**	$ 8,183	**$ 185,565**	$ (168,385)

Operating Revenues

Revenues of $1,515 million from electricity sales and transmission were down $198 million or 12 percent compared to the prior year's first half. Decreased revenue in the Power Business Line (PBL) accounted for the majority of the decrease.

PBL revenues and purchased power expenses for the second quarter reflect the Oct. 1, 2003 adoption of EITF 03-11, Reporting Realized Gains and Losses on Derivative Instruments that are Subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes. EITF 03-11 requires that realized gains and losses associated with non-trading derivative activities, that are not physically settled, be reported on a net basis. PBL revenues and purchased power expenses for the second quarter both decreased by $98 million as a result of the adoption of EITF 03-11. Prior to Oct. 1, 2003, such settlements were recorded on a gross basis in both PBL revenues and purchased power expense. Amounts for periods prior to Oct. 1, 2003 have not been reclassified. Although determination of the effect of the change on prior years' reported revenues and expenses is not practical, the change has no impact on reported net revenues.

Additionally, during fiscal 2003 PBL negotiated the termination of several sales and purchase power commitments for fiscal 2004 and subsequent periods.

Accrued U.S. Treasury credits for fish are down $30 million through the first half of the year. Conditions were dryer prior to March fiscal 2003 resulting in higher credit estimates when compared to the same period of fiscal 2004.

Operating Expenses

In total, FCRPS operations and maintenance (O&M) costs through the first half of fiscal 2004 decreased $56 million or 10 percent from the first half of fiscal 2003. BPA operating expenses decreased $36 million, while Energy Northwest's Columbia Generating Station nuclear power plant O&M costs decreased $30 million and federal hydro O&M costs increased $10 million.

BPA's expense for purchased power decreased $293 million or 50 percent when compared to the first half of fiscal 2003. During fiscal 2003 PBL negotiated the termination of several sales and purchase power commitments for fiscal 2004 and subsequent periods. Additionally, as discussed in operating revenues above, PBL purchased power expenses for the second quarter reflects the Oct. 1, 2003 adoption of EITF 03-11. PBL revenues and purchased power expenses for the second quarter both decreased by $98 million as a result of the adoption of EITF 03-11.

As shown above in the Modified Net Revenues table, Energy Northwest debt service decreased $162 million in the first half of fiscal 2004 from rate case estimates. Nonetheless, nonfederal projects debt service expense increased $15 million or 13 percent from the first half of fiscal 2003. Fiscal 2003 expense was low because refinanced Energy Northwest bonds deferred all principal payments due in fiscal 2003 into the future.

In total, operating expenses decreased $329 million, or 23 percent.

Interest Expense

Net interest expense decreased $23 million, or 13 percent, compared to the same period in 2003. The weighted average interest rate was 5.3 percent on outstanding long-term debt with the U.S. Treasury as of Sept. 30, 2003 vs. 6.0 percent as of Sept. 30, 2002. This decrease lowered interest expense on long-term debt owed to the U.S. Treasury. Interest expense also decreased as the income earned on BPA's cash account at the U.S. Treasury increased with higher cash balances. BPA reports interest expense on long-term debt net of the interest income earned.

Utility Plant

Construction work in progress at the end of the first half of fiscal 2004 increased $121 million, or 9 percent, over the balance at March 31, 2003. Federal hydro projects increased $66 million, and BPA transmission $55 million year over year. The federal hydro increase was a combination of appropriated and direct funds for fish and power system reliability and improvement investments.

During the past decade, BPA minimized the construction of new transmission facilities, and instead emphasized the use of software system control investments where possible to meet the demands of load growth and system congestion. Having reached the limit of system control improvements, in late 2001 BPA started investing in several new transmission lines and substations. The planned BPA transmission build-out will continue until at least 2006.

Decommissioning Cost

BPA's liability for decommissioning cost at the end of the first half of fiscal 2004 increased $50 million, or 68 percent, over the balance at March 31, 2003. BPA booked the liability for decommissioning cost of Columbia Generating Station in the fourth quarter of fiscal 2003. Previously the decommissioning cost included only estimated decommissioning cost for BPA's interest in the Trojan plant.

Current Assets

Current assets at the end of the first half of fiscal 2004 increased $419 million, or 39 percent, over the balance one year earlier. This increase was the result of a higher cash balance partially offset by decreases in accounts receivable, accrued unbilled revenues and prepaid expenses.

$80 million of the increase is cash received from the Northwest Infrastructure Financing Corporation Transmission Facilities Lease Revenue Bonds issued March 10, 2004. The proceeds will be used to fund the transmission lines, associated with a new 60-mile long 500-kV transmission line.

Other Assets

Other assets at the end of the first half of fiscal 2004 increased $110 million, or 66 percent, over the balance one year earlier. The increase is the un-amortized SFAS 71 asset related to the Enron settlement and remaining cash received from the Northwest Infrastructure Financing Corporation (NIFC) Transmission Facilities Lease, which provided funds to begin construction on the Schultz-Wautoma transmission line.

Long-Term Debt

Long-term debt at the end of the first half of fiscal 2004 decreased $182 million, or 7 percent, from the balance one year earlier. This decrease was primarily the result of the payment of high U.S Treasury bond amortization at the end of fiscal 2003 as a result of the debt optimization program and a higher current portion for long-term debt. The decrease was partially offset by the NIFC Transmission Facilities Lease revenue bonds.

Current Liabilities

Current liabilities at the end of the first half of fiscal 2004 increased $233 million, or 29 percent, over the balance one year earlier. This increase was the result of a higher current portion for long-term debt partially offset by early amortization of the current portion of federal appropriations.

Deferred Credits

Deferred credits at the end of the first half of fiscal 2004 increased $95 million, or 20 percent, over the balance one year earlier. This increase was primarily the Enron settlement balance and Investor Owned Utility Settlement Deferral.

Rates

BPA has three CRACs that are designed to collect additional revenues to insure that BPA has sufficient funds to meet its obligations, including repayment to Treasury during the rate period from 2002 to 2006. The three CRACs include a Load-Based (LB) CRAC, an FB CRAC, and an SN CRAC. The LB CRAC is a percentage rate adjustment and is based on BPA's costs to purchase power to meet load obligations. Because BPA will be acquiring some portions of this power in a highly volatile market, it is not possible to forecast accurately the cost of purchasing this power over the entire five-year rate period. Accordingly, the LB CRAC has been designed to be responsive to changes in the market price of power and to reflect the change in prices in the fixed power purchase contracts and will be reset every six months to recover the anticipated augmentation costs to meet load that cannot be recovered with the base rates.

The FB CRAC triggers when forecasted accumulated net revenues falls below a threshold value for a particular year. BPA triggered the FB CRAC on Oct. 1, 2002. The SN CRAC is designed to raise rates if a payment to Treasury or other creditor has been missed, or if the Administrator projects a 50 percent probability that such a payment may be missed in the then-current fiscal year. The SN CRAC triggered in fiscal 2003, requiring an expedited rate case and resulting in rates that went into effect Oct. 1, 2003.

Through the three months ended Dec. 31, 2003, BPA charged customers approximately $34 million under the SN CRAC. This amount was not recognized as revenue in the first quarter of fiscal 2004 as it was "Revenues Subject to Refund" under the structure of the Public/IOU Settlement that was offered in Oct. of 2003. Therefore the amount was classified as a liability as of December 31, 2003. With the collapse of the Settlement in January of 2004, these amounts were recognized as revenue in the second quarter of fiscal 2004. For a complete presentation of the current rates use the second link below.

Additional Information

For general information about BPA and access to agency press releases, refer to our external page at http://www.bpa.gov/corporate/

For current information about the proposed agreement with regional investor-owned utilities over the benefits flowing to their residential and small-farm customers and the effect that agreement could have on public power rates, go to http://www.bpa.gov/power/pl/subscription/announcements.shtml

For the latest information on the Transmission Business Line's innovative approach to using non-wires solutions to transmission, go to http://www.transmission.bpa.gov/planproj/non-construction_round_table/

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

Assets

	March 31	
	2004	2003
Utility Plant		
Completed plant	**$ 11,959,132**	$ 11,576,469
Accumulated depreciation	**(4,408,844)**	(4,174,785)
	7,550,288	7,401,684
Construction work in progress	**1,410,943**	1,290,326
Net utility plant	**8,961,231**	8,692,010
Nonfederal Projects		
Conservation	**43,761**	45,303
Hydro	**146,210**	163,215
Nuclear	**2,181,772**	2,129,235
Terminated hydro facilities	**28,090**	28,840
Terminated nuclear facilities	**3,889,847**	3,837,979
Total nonfederal projects	**6,289,680**	6,204,572
Decommissioning Cost	**123,935**	73,726
Conservation, net of accumulated amortization	**357,365**	391,701
Fish & Wildlife, net of accumulated amortization	**124,681**	126,475
Current Assets		
Cash	**969,776**	458,377
Accounts receivable, net of allowance	**108,395**	129,115
Accrued unbilled revenues	**209,167**	269,005
Materials and supplies, at average cost	**83,678**	86,150
Prepaid expenses	**118,666**	127,563
Total current assets	**1,489,682**	1,070,210
Other Assets	**275,274**	165,572
	$ 17,621,848	$ 16,724,266

Capitalization and Liabilities

	2004	2003
Capitalization and Long-Term Liabilities		
Accumulated Net Revenues (Expenses)	**$ 691,226**	$ (1,906)
Federal Appropriations	**4,607,730**	4,596,506
Capitalization Adjustment	**2,090,903**	2,158,548
Long-Term Debt	**2,481,385**	2,663,141
Nonfederal Projects Debt	**6,024,866**	5,961,206
Decommissioning Reserve	**123,935**	73,726
Total capitalization and long-term liabilities	**16,020,045**	15,451,221
Current Liabilities		
Current portion of federal appropriations	**-**	46,687
Current portion of long-term debt	**384,700**	137,300
Current portion of nonfederal projects debt	**264,814**	243,366
Accounts payable and other current liabilities	**375,432**	364,144
Total current liabilities	**1,024,946**	791,497
Deferred Credits	**576,857**	481,548
	$ 17,621,848	$ 16,724,266

Federal Columbia River Power System

Comparative Statements of Revenues and Expenses (Unaudited)

(Thousands of Dollars)

	Six months ended March 31		Twelve months ended March 31	
	2004	2003	**2004**	2003
Operating Revenues				
Revenues	**$ 1,514,616**	$ 1,712,807	**$ 3,130,086**	$ 3,393,582
SFAS 133 mark-to-market gain	**28,413**	21,230	**62,448**	58,265
Other revenues	**27,598**	20,789	**60,487**	53,169
U.S. Treasury credits for fish	**36,504**	66,264	**145,124**	78,506
Total operating revenues	**1,607,131**	1,821,090	**3,398,145**	3,583,522
Operating Expenses				
Operations and maintenance	**511,472**	567,490	**1,142,503**	1,310,129
Purchased power	**291,557**	584,260	**750,306**	1,132,423
Non-Federal projects	**128,024**	112,993	**134,565**	172,406
Federal projects depreciation	**178,855**	173,721	**355,159**	348,003
Total operating expenses	**1,109,908**	1,438,464	**2,382,533**	2,962,961
Net operating revenues	**497,223**	382,626	**1,015,612**	620,561
Interest Expense				
Interest on federal investment				
Appropriated funds	**103,293**	109,010	**206,674**	242,465
Long-term debt	**62,342**	78,560	**150,380**	155,465
Allowance for funds used during construction	**(15,890)**	(14,714)	**(34,574)**	(60,089)
Net interest expense	**149,745**	172,856	**322,480**	337,841
Net Revenues	**$ 347,478**	$ 209,770	**$ 693,132**	$ 282,720

Derivative Instruments and Hedging Activities

The SFAS 133 mark-to-market (MTM) amount is an "accounting only" (no cash impact) adjustment representing the MTM adjustment required by SFAS 133, as amended, for identified derivative instruments.

Federal Columbia River Power System

Statements of Cash Flows (Unaudited)

(Thousands of Dollars)

	Fiscal Year to Date March 31	
	2004	2003
Cash from Operating Activities		
Net revenues	**$ 347,478**	$ 209,770
Expenses (income) not requiring cash:		
Depreciation	**143,383**	134,342
Amortization of conservation and fish & wildlife	**35,472**	39,379
Amortization of capitalization adjustment	**(33,794)**	(33,852)
AFUDC	**(15,889)**	(14,714)
(Increase) decrease in:		
Receivables and unbilled revenues	**19,623**	(99,080)
Materials and supplies	**628**	(1,042)
Prepaid expenses	**169,400**	158,133
(Increase) decrease in:		
Accounts payable and other current liabilities	**5,611**	20,719
Other	**(98,163)**	(31,968)
Cash from operating activities	**573,749**	381,687
Cash used for Investment Activities		
Investment in:		
Utility plant	**(187,362)**	(175,529)
Conservation	**(9,734)**	(13,004)
Fish and wildlife	**(5,004)**	(777)
Cash used for investment activities	**(202,100)**	(189,310)
Cash from Borrowing and Appropriations		
Increase in federal construction appropriations	**(73,230)**	591
Increase in long-term debt	**168,331**	30,000
Cash from borrowing and appropriations	**95,101**	30,591
Increase in cash	**466,750**	222,968
Beginning cash balance	**503,026**	235,409
Ending cash balance	**$ 969,776**	$ 458,377

Federal Columbia River Power System

SFAS 131 Segment Reporting (Unaudited)

(Thousands of Dollars)

	Six months ended March 31 2004				
	Power	**Transmission**	**Corporate**	**Consolidated**	**FCRPS**
Unaffiliated revenues	**$ 1,326,943**	**$ 280,188**	**$ -**	**$ -**	**$ 1,607,131**
Intersegment revenues	**39,252**	**50,115**	**-**	**(89,367)**	**-**
Total operating revenues	**1,366,195**	**330,303**	**-**	**(89,367)**	**1,607,131**
Unaffiliated expenses	**907,318**	**115,448**	**(91,713)**	**-**	**931,053**
Depreciation	**87,614**	**91,241**	**-**	**-**	**178,855**
Intersegment expenses	**50,088**	**39,252**	**27**	**(89,367)**	**-**
Total operating expenses	**1,045,020**	**245,941**	**(91,686)**	**(89,367)**	**1,109,908**
Net operating revenues	**321,175**	**84,362**	**91,686**	**-**	**497,223**
Interest expense	**84,178**	**73,384**	**(7,817)**	**-**	**149,745**
Net revenues	**$ 236,997**	**$ 10,978**	**$ 99,503**	**$ -**	**$ 347,478**

	2003				
	Power	Transmission	Corporate	Consolidated	FCRPS
Unaffiliated Revenues	$ 1,543,398	$ 277,692	$ -	$ -	$ 1,821,090
Intersegment Revenues	39,587	41,774	-	(81,361)	-
Total Operating Revenues	1,582,985	319,466	-	(81,361)	1,821,090
Unaffiliated expenses	1,264,579	111,558	(111,394)	-	1,264,743
Depreciation	90,285	83,436	-	-	173,721
Intersegment expenses	41,732	39,597	32	(81,361)	-
Total operating expenses	1,396,596	234,591	(111,362)	(81,361)	1,438,464
Net operating revenues	186,389	84,875	111,362	-	382,626
Interest expense	93,961	78,983	(88)	-	172,856
Net revenues	$ 92,428	$ 5,892	$ 111,450	$ -	$ 209,770

Federal Columbia River Power System

SFAS 131 Segment Reporting (Unaudited)

(Thousands of Dollars)

	Twelve Months Ended March 31 2004				
	Power	**Transmission**	**Corporate**	**Consolidated**	**FCRPS**
Unaffiliated Revenues	**$ 2,842,931**	**$ 555,214**	**$ -**	**$ -**	**$ 3,398,145**
Intersegment Revenues	**85,090**	**119,225**	**-**	**(204,315)**	**-**
Total Operating Revenues	**2,928,021**	**674,439**	**-**	**(204,315)**	**3,398,145**
Unaffiliated expenses	**2,078,662**	**244,350**	**(295,639)**	**-**	**2,027,373**
Depreciation	**176,225**	**178,935**	**-**	**-**	**355,160**
Intersegment expenses	**118,757**	**85,443**	**115**	**(204,315)**	**-**
Total operating expenses	**2,373,644**	**508,728**	**(295,524)**	**(204,315)**	**2,382,533**
Net operating revenues	**554,377**	**165,711**	**295,524**	**-**	**1,015,612**
Interest expense	**166,812**	**163,397**	**(7,729)**	**-**	**322,480**
Net revenues	**$ 387,565**	**$ 2,314**	**$ 303,253**	**$ -**	**$ 693,132**
Total Assets	**$ 7,122,748**	**$ 815,926**	**$ 14,911,660**	**$ (5,228,486)**	**$ 17,621,848**

	2003				
	Power	Transmission	Corporate	Consolidated	FCRPS
Unaffiliated Revenues	$ 3,020,933	$ 562,589	$ -	$ -	$ 3,583,522
Intersegment Revenues	81,646	136,418	-	(218,064)	-
Operating Revenues	3,102,579	699,007	-	(218,064)	3,583,522
Unaffiliated expenses	2,518,834	269,742	(165,951)	-	2,622,625
Depreciation	174,537	165,799	-	-	340,336
Intersegment expenses	136,348	81,655	61	(218,064)	-
Total operating expenses	2,829,719	517,196	(165,890)	(218,064)	2,962,961
Net operating revenues	272,860	181,811	165,890	-	620,561
Interest expense	183,479	154,684	(322)	-	337,841
Net revenues	$ 89,381	$ 27,127	$ 166,212	$ -	$ 282,720
Total Assets	$ 6,551,579	$ 351,069	$ 15,050,104	$ (5,228,486)	$ 16,724,266

Operating Segments

The FCRP'S major operating segments are defined by the utility functions of generation and transmission. The Power Business Line identifies the operations of the generation function, while the Transmission Business Line identifies the operations of the transmission function.

The business lines are not separate legal entities. Where applicable, "Corporate" represents items that are necessary to reconcile to the financial statements which generally include shared activity and eliminations. Each FCRPS segment operates predominantly in one industry and geographic region: the generation and transmission of electric power in the Pacific Northwest.

BPA centrally manages all interest expense activity. Since BPA has one fund with the United States Department of Treasury, all cash and cash transactions are also centrally managed. Unaffiliated revenues represent sales to external customers for each segment.

Intersegment revenues are eliminated as shown.

Major Customers

During fiscal 2004, and 2003, no single customer represented 10% or more of the FCRPS's revenues.