Quarterly Financial Report

3rd Quarter 2004

Management's Discussion and Analysis

Net Revenues

Through the 3rd quarter ended June 30, 2004, the Federal Columbia River Power System (FCRPS) earned net revenues of $456 million, compared with $423 million for the same period a year ago. The $33 million increase in net revenues from the 3rd quarter of fiscal 2003 is the result of several factors. Total operating revenues decreased $211 million, operations and maintenance increased $38 million, purchased power decreased $376 million, nonfederal projects increased $123 million, federal projects depreciation increased $8 million and net interest decreased $37 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.

Federal Columbia River Power System

Modified Net Revenues
(Thousands of Dollars)

	Nine months ended June 30		Twelve months ended June 30	
	2004	2003	2004	2003
Net Revenues	**$ 456,370**	$ 422,753	**$ 589,041**	$ 433,153
SFAS 133 mark-to-market (gain) loss	**(113,809)**	(45,942)	**(123,132)**	(69,500)
Debt Service Energy Northwest:				
Per Accounting Record	**145,585**	17,816	**230,313**	64,444
Per Rate Case	**(418,110)**	(424,372)	**(559,567)**	(556,588)
Modified Net Revenues (Expenses)	**$ 70,036**	$ (29,745)	**$ 136,655**	$ (128,491)

Operating Revenues

Revenues of $2,178 million from electricity sales and transmission were down $259 million or 11 percent compared to the prior year's 3rd quarter. Decreased revenue in the Power Business Line (PBL) accounted for the majority of the decrease.

PBL revenues and purchased power expenses for the 2nd quarter reflected 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 2nd 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. Through the 3rd quarter PBL revenues and purchased power expenses decreased an additional $51 million as a result of EITF 03-11, bringing the year to date decrease to $149 million.

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 $28 million through the 3rd quarter 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 3rd quarter of fiscal 2004 increased $38 million or 5 percent from the 3rd quarter of fiscal 2003. BPA operating expenses increased $21 million, while Energy Northwest's Columbia Generating Station nuclear power plant O&M costs increased $2 million and federal hydro O&M costs increased $15 million.

BPA's expense for purchased power decreased $376 million or 47 percent when compared to the 3rd quarter 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 through the 3rd quarter both decreased by $149 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 $273 million through the 3rd quarter of fiscal 2004 from rate case estimates. Nonetheless, nonfederal projects debt service expense increased $123 million or 305 percent from the 3rd quarter of fiscal 2003. Fiscal 2003 expense was inordinately low because Energy Northwest purchased surety bonds to release all the remaining bond reserve funds and took other one-time actions, which significantly reduced nonfederal debt service.

In total, operating expenses decreased $207 million, or 11 percent.

Interest Expense

Net interest expense decreased $37 million, or 15 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. The decreased weighted average interest rate was primarily due to two factors: the debt optimization program and the low interest rate environment. Through the debt optimization program BPA paid relatively high coupon Treasury debt and new debt issued carried very low interest rates. 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 3rd quarter of fiscal 2004 increased $221 million, or 17 percent, over the balance at June 30, 2003. BPA transmission increased $162 million and Federal hydro projects $59 million, year over year.

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. The federal hydro increase was a combination of appropriated and direct funds for fish and power system reliability and improvement investments.

Decommissioning Cost

BPA's liability for decommissioning cost at the end of the 3rd quarter of fiscal 2004 increased $60 million, or 85 percent, over the balance at June 30, 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 3rd quarter of fiscal 2004 increased $132 million, or 9 percent, over the balance one year earlier. This increase was the result of higher cash and accrued unbilled revenues balances partially offset by decreases in accounts receivable, materials and supplies and prepaid expenses.

$41 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 line, associated with a new 60-mile long 500-kV transmission line.

Other Assets

Other assets at the end of the 3rd quarter of fiscal 2004 increased $271 million, or 170 percent, over the balance one year earlier. The increase is the un-amortized SFAS 71 assets related to the Investor Owned Utility Risk Discount and Enron settlements, change in the fair value of certain derivative instruments, 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 3rd quarter of fiscal 2004 decreased $450 million, or 16 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.

Current Liabilities

Current liabilities at the end of the 3rd quarter of fiscal 2004 increased $372 million, or 42 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 3rd quarter of fiscal 2004 increased $93 million, or 17 percent, over the balance one year earlier. This increase was primarily the Enron settlement balance due to the Judgment Fund 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 related to the regional discussion on how BPA will market power and distribute the costs and benefits of the Federal Columbia River Power System in the Pacific Northwest after 2006, go to http://www.bpa.gov/power/pl/regionaldialogue

For the latest information on the Transmission Business Line's Programs in Review discussion with the region, go to http://www.transmission.bpa.gov/Business/Customer_Forums_and_Feedback/Programs_in_Review/pir2004.cfm

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

Assets

	June 30 2004	June 30 2003
Utility Plant		
Completed plant	**$ 11,959,663**	$ 11,707,365
Accumulated depreciation	**(4,437,334)**	(4,250,727)
	7,522,329	7,456,638
Construction work in progress	**1,499,558**	1,278,634
Net utility plant	**9,021,887**	8,735,272
Nonfederal Projects		
Conservation	**43,760**	46,038
Hydro	**146,210**	163,215
Nuclear	**2,182,157**	2,130,295
Terminated hydro facilities	**28,090**	28,840
Terminated nuclear facilities	**3,899,207**	3,844,012
Total nonfederal projects	**6,299,424**	6,212,400
Decommissioning Cost	**129,549**	69,947
Conservation, net of accumulated amortization	**348,585**	383,226
Fish & Wildlife, net of accumulated amortization	**118,438**	127,042
Current Assets		
Cash	**1,104,388**	902,343
Accounts receivable, net of allowance	**80,275**	87,323
Accrued unbilled revenues	**227,716**	192,767
Materials and supplies, at average cost	**82,734**	86,599
Prepaid expenses	**114,897**	209,023
Total current assets	**1,610,010**	1,478,055
Other Assets	**430,120**	159,245
	$ 17,958,013	$ 17,165,187

Capitalization and Liabilities

	June 30 2004	June 30 2003
Capitalization and Long-Term Liabilities		
Accumulated Net Revenues (Expenses)	**$ 800,142**	$ 211,101
Federal Appropriations	**4,607,523**	4,595,887
Capitalization Adjustment	**2,074,006**	2,141,623
Long-Term Debt	**2,281,800**	2,731,941
Nonfederal Projects Debt	**6,154,196**	5,969,214
Decommissioning Reserve	**129,549**	69,947
Total capitalization and long-term liabilities	**16,047,216**	15,719,713
Current Liabilities		
Current portion of federal appropriations	**-**	46,687
Current portion of long-term debt	**488,500**	173,500
Current portion of nonfederal projects debt	**264,814**	243,185
Accounts payable and other current liabilities	**504,744**	422,527
Total current liabilities	**1,258,058**	885,899
Deferred Credits	**652,739**	559,575
	$ 17,958,013	$ 17,165,187

Federal Columbia River Power System

Comparative Statements of Revenues and Expenses (Unaudited)

(Thousands of Dollars)

	Nine months ended June 30		Twelve months ended June 30	
	2004	2003	**2004**	2003
Operating Revenues				
Revenues	**$ 2,177,715**	$ 2,436,856	**$ 3,069,136**	$ 3,342,217
SFAS 133 mark-to-market gain	**113,809**	45,942	**123,132**	69,500
Other revenues	**44,584**	35,905	**62,357**	54,773
U.S. Treasury credits for fish	**59,266**	87,332	**146,818**	92,553
Total operating revenues	**2,395,374**	2,606,035	**3,401,443**	3,559,043
Operating Expenses				
Operations and maintenance	**869,476**	831,333	**1,236,664**	1,303,717
Purchased power	**419,711**	795,809	**666,911**	1,046,769
Non-Federal projects	**162,807**	40,185	**242,156**	89,243
Federal projects depreciation	**269,764**	261,553	**358,236**	352,607
Total operating expenses	**1,721,758**	1,928,880	**2,503,967**	2,792,336
Net operating revenues	**673,616**	677,155	**897,476**	766,707
Interest Expense				
Interest on federal investment				
Appropriated funds	**154,046**	163,515	**202,922**	239,016
Long-term debt	**86,526**	113,403	**139,721**	156,205
Allowance for funds used during construction	**(23,326)**	(22,516)	**(34,208)**	(61,667)
Net interest expense	**217,246**	254,402	**308,435**	333,554
Net Revenues	**$ 456,370**	$ 422,753	**$ 589,041**	$ 433,153

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 June 30	
	2004	2003
Cash from Operating Activities		
Net revenues	**$ 456,370**	$ 422,753
Expenses (income) not requiring cash:		
Depreciation	**215,915**	201,883
Amortization of conservation and fish & wildlife	**53,849**	59,670
Amortization of capitalization adjustment	**(50,691)**	(50,777)
AFUDC	**(23,326)**	(22,516)
(Increase) decrease in:		
Receivables and unbilled revenues	**29,194**	18,949
Materials and supplies	**1,573**	(1,491)
Prepaid expenses	**173,170**	76,673
(Increase) decrease in:		
Accounts payable and other current liabilities	**134,923**	79,102
Other	**(177,126)**	52,387
Cash from operating activities	**813,851**	836,633
Cash used for Investment Activities		
Investment in:		
Utility plant	**(313,114)**	(278,531)
Nonfederal projects	**(12,831)**	(10,856)
Conservation	**(15,000)**	(20,601)
Fish and wildlife	**(3,093)**	(5,562)
Cash used for investment activities	**(344,038)**	(315,550)
Cash from Borrowing and Appropriations		
Increase in federal construction appropriations	**(73,413)**	(4)
Increase in long-term debt	**72,546**	135,000
Increase in nonfederal debt	**132,416**	10,856
Cash from borrowing and appropriations	**131,549**	145,852
Increase in cash	**601,362**	666,935
Beginning cash balance	**503,026**	235,409
Ending cash balance	**$ 1,104,388**	$ 902,344

Federal Columbia River Power System

SFAS 131 Segment Reporting (Unaudited)

(Thousands of Dollars)

Nine months ended June 30

2004

	Power	Transmission	Corporate	Consolidated	FCRPS
Unaffiliated revenues	**$ 1,987,503**	**$ 407,871**	**$ -**	**$ -**	**$ 2,395,374**
Intersegment revenues	**58,014**	**80,030**	**-**	**(138,044)**	**-**
Total operating revenues	**2,045,517**	**487,901**	**-**	**(138,044)**	**2,395,374**
Unaffiliated expenses	**1,409,812**	**181,103**	**(138,780)**	**-**	**1,452,135**
Depreciation	**132,166**	**137,598**	**-**	**-**	**269,764**
Intersegment expenses	**79,816**	**58,014**	**73**	**(138,044)**	**(141)**
Total operating expenses	**1,621,794**	**376,715**	**(138,707)**	**(138,044)**	**1,721,758**
Net operating revenues	**423,723**	**111,186**	**138,707**	**-**	**673,616**
Interest expense	**122,774**	**106,164**	**(11,692)**	**-**	**217,246**
Net revenues	**$ 300,949**	**$ 5,022**	**$ 150,399**	**$ -**	**$ 456,370**

2003

	Power	Transmission	Corporate	Consolidated	FCRPS
Unaffiliated Revenues	$ 2,185,965	$ 420,069	**$** -	$ -	$ 2,606,034
Intersegment Revenues	60,562	77,736	-	(138,297)	1
Total Operating Revenues	2,246,527	497,805	-	(138,297)	2,606,035
Unaffiliated expenses	1,660,723	171,898	(165,294)	-	1,667,327
Depreciation	135,077	126,476	-	-	261,553
Intersegment expenses	77,642	60,572	83	(138,297)	-
Total operating expenses	1,873,442	358,946	(165,211)	(138,297)	1,928,880
Net operating revenues	373,085	138,859	165,211	-	677,155
Interest expense	138,589	115,969	(156)	-	254,402
Net revenues	$ 234,496	$ 22,890	$ 165,367	$ -	$ 422,753

Federal Columbia River Power System

SFAS 131 Segment Reporting (Unaudited)

(Thousands of Dollars)

	Twelve Months Ended June 30 2004				
	Power	**Transmission**	**Corporate**	**Consolidated**	**FCRPS**
Unaffiliated Revenues	**$ 2,860,923**	**$ 540,520**	**$ -**	**$ -**	**$ 3,401,443**
Intersegment Revenues	**82,878**	**113,178**	**-**	**(196,056)**	**-**
Total Operating Revenues	**2,943,801**	**653,698**	**-**	**(196,056)**	**3,401,443**
Unaffiliated expenses	**2,185,012**	**249,665**	**(288,806)**	**-**	**2,145,871**
Depreciation	**175,985**	**182,252**	**-**	**-**	**358,237**
Intersegment expenses	**112,575**	**83,230**	**110**	**(196,056)**	**(141)**
Total operating expenses	**2,473,572**	**515,147**	**(288,696)**	**(196,056)**	**2,503,967**
Net operating revenues	**470,229**	**138,551**	**288,696**	**-**	**897,476**
Interest expense	**160,780**	**159,191**	**(11,536)**	**-**	**308,435**
Net revenues	**$ 309,449**	**$ (20,640)**	**$ 300,232**	**$ -**	**$ 589,041**
Total Assets	**$ 7,268,103**	**$ 819,116**	**$ 15,099,280**	**$ (5,228,486)**	**$ 17,958,013**

	2003				
	Power	Transmission	Corporate	Consolidated	FCRPS
Unaffiliated Revenues	$ 2,995,207	$ 563,836	$ -	$ -	$ 3,559,043
Intersegment Revenues	82,682	130,076	-	(212,758)	-
Operating Revenues	3,077,889	693,912	-	(212,758)	3,559,043
Unaffiliated expenses	2,401,041	259,123	(220,435)	-	2,439,729
Depreciation	184,419	168,188	-	-	352,607
Intersegment expenses	129,948	82,691	119	(212,758)	-
Total operating expenses	2,715,408	510,002	(220,316)	(212,758)	2,792,336
Net operating revenues	362,481	183,910	220,316	-	766,707
Interest expense	178,990	154,840	(276)	-	333,554
Net revenues	$ 183,491	$ 29,070	$ 220,592	$ -	$ 433,153
Total Assets	$ 6,772,813	$ 363,463	$ 15,257,397	$ (5,228,486)	$ 17,165,187

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.