Management’s Discussion and Analysis

Rates

BPA has three Cost Recovery Adjustment Clauses (CRACs) that are designed to collect additional revenues to ensure that BPA has sufficient funds to meet its obligations, including repayment to the U.S. Treasury during the rate period from fiscal year 2002 to 2006. The three CRACs include a Load-Based (LB) CRAC, a Financial-Based (FB) CRAC, and a Safety Net (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 for fiscal year 2003. The FB CRAC has remained in effect for both fiscal years 2004 and 2005. The SN CRAC is designed to raise rates if a payment to the U.S. 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 year 2003, requiring an expedited rate case and resulting in rates that were in effect fiscal year 2004. The SN CRAC was set at zero for fiscal year 2005.

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 year 2004 as it was “Revenues Subject to Refund” under the structure of the Public/IOU Settlement that was offered in October 2003. Therefore the amount was classified as a liability as of Dec. 31, 2003. With the collapse of the Settlement in January 2004, these amounts were recognized as revenue in the second quarter of fiscal year 2004. For a complete presentation of the current rates use the second link below.

Modified Net Revenues

Modified net revenues are net revenues after removing the effects of FASB Statement No. 133, “Accounting for Certain Derivative Instruments and Certain Hedging Activities,” and nonfederal debt management actions that differ from rate case assumptions. The debt optimization program and other debt management actions have contributed significantly to net revenues for a fourth year. 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 CRACs – FB CRAC and SN CRAC. The table below demonstrates the calculation for modified net revenues.

Modified Net Revenues

Federal Columbia River Power System

(thousands of dollars)

	Six months ended March 31		Twelve months ended March 31	
	2005	2004	2005	2004
Net Revenues	**$ 237,528**	$ 347,478	**$ 394,465**	$ 693,132
SFAS 133 mark-to-market loss (gain)	**(6,214)**	(28,413)	**(67,253)**	(62,448)
Nonfederal debt management actions	**(117,947)**	(169,943)	**(296,640)**	(452,871)
Modified Net Revenues	**$ 113,367**	$ 149,122	**$ 30,572**	$ 177,813

Net Revenues

Through the six months ended March 31, 2005, the Federal Columbia River Power System (FCRPS) earned net revenues of $238 million, compared with $347 million for the same period a year ago. The $110 million decrease in net revenues from the first six months of fiscal year 2004 is the result of several factors. Total operating revenues decreased $18 million, operations and maintenance increased $77 million, purchased power decreased $13 million, nonfederal projects increased $31 million, federal projects depreciation increased $4 million and net interest decreased $8 million from last year.

Operating Revenues

Revenues from electricity and transmission sales were unchanged compared to the prior years second quarter.

Sales and purchased power expenses for both quarters reflect the Oct. 1, 2003, adoption of Emerging Issues Task Force Issue No. EITF 03-11 (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 (i.e. bookouts), be reported on a net basis. As a result of the adoption of EITF 03-11, sales and purchased power expenses decreased by $108 million and $98 million for the six months ended March 31, 2005, and March 31, 2004, respectively. Prior to Oct. 1, 2003, such settlements were recorded on a gross basis in both 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.

The second quarter SFAS 133 mark-to-market gain decreased $22 million from the second quarter a year ago while U.S. Treasury credits for fish increased $3 million resulting in total operating revenues dropping $18 million from the second quarter of fiscal year 2004 to the second quarter of fiscal year 2005.

Operating Expenses

Operations and maintenance increased $77 million, or 15 percent through the second quarter of fiscal year 2005, from the second quarter a year earlier. The primary causes of this increase were higher net-billing requirements for operating costs, including nuclear fuel at the Columbia Generating Station of approximately $28 million and fish and wildlife costs at Bonneville Power Administration (BPA) of approximately $13 million.

Purchased power decreased $13 million, or 4 percent lower when compared to the second quarter of fiscal year 2004.

Nonfederal projects debt service expense increased $31 million, or 24 percent. The second quarter of last year was lower because the Energy Northwest fiscal year 2004 operating budgets included reserve free-ups of approximately $77 million, which were used to reduce net-billing requirements for nonfederal projects debt service.

In total, operating expenses increased $99 million, or 9 percent.

Interest Expense

Net interest expense for the second quarter decreased $8 million, or 5 percent, compared to the same period in fiscal year 2004. Interest on appropriated funds decreased due to lower principal owed the U.S. Treasury after a repayment in January 2004. Interest on bonds issued to the U.S. Treasury decreased as the weighted average interest rate declined from 5.3 percent at the beginning of fiscal year 2004 to 4.9 percent at the beginning of fiscal year 2005. 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.

Decommissioning Reserve

As of March 31, 2005, the Asset Retirement Obligations for Washington Nuclear Project No.1, Columbia Generating Station and Trojan are $167 million. A revision was made in fiscal year 2004 adjusting the accretion rate from the original model and calculation. A corresponding amount representing a regulatory asset is included in Decommissioning Cost in the Balance Sheet.

IOU Exchange Benefits

As provided for in the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. 839, Section 5(c), beginning in 1982 BPA entered into residential exchange contracts with most of its electric utility customers. These contracts resulted in payments to the utilities if a utility’s average system cost exceeded BPA’s priority firm power rate on the “exchanged” power. These payments were required to be passed through to their qualified residential and small-farm customers.

Subsequently, contract termination agreements were signed by all actively exchanging Pacific Northwest utilities except Northwestern Energy (formerly the Montana Power Co.), which had not been receiving benefits. BPA made payments to settle the utilities’ and BPA’s rights and obligations under the residential exchange program through June 30, 2001, and in some cases, through June 30, 2011.

In October 2000, BPA's investor-owned utility (IOU) customers signed Subscription settlement agreements, under which BPA was to provide monetary and power benefits in place of residential exchange benefits for the period July 1, 2001, through Sept. 30, 2011. These agreements provide for both sales of power and monetary benefit payments to the IOUs, and also allow the power to be converted to cash payments.

Amendments to the October 2000 contracts allowed payment of a portion of the fiscal year 2003 IOU Subscription settlement benefits to be deferred and paid in the fiscal year 2007 through 2011 period, except when they were reduced through credits to offset the SN CRAC.

IOU Exchange Benefit amounts for fiscal years 2005 and 2006 could range from $382 million for fiscal year 2005 to $747 million for the two years combined depending on the level of SN CRAC in fiscal year 2006. These estimates include $20 million assumed annual benefits to Portland General Electric from its 258-aMW power purchase. As the SN CRAC percentage has been set at zero percent for fiscal year 2005, an estimate for fiscal year 2005 IOU Exchange Benefits has been recorded as a current liability on the Balance Sheet.

In May 2004, BPA signed new contracts and amendments with all six IOU customers entitled "Agreements Regarding Payment of Residential Exchange Program Settlement Benefits During Fiscal Years 2007-2011." These latest agreements established a method for calculating the IOUs' Monetary Benefits for the fiscal years 2007 through 2011 period including an annual floor of $100 million and an annual cap of $300 million for the six IOUs in total, and all parties agreed that BPA would have no obligation to provide power to the IOUs during that period. The new agreements also eliminated $100 million of a $200 million risk contingency payment owed to two IOUs that have load reduction payments, and deferred the remaining $100 million payment and related interest to the fiscal year 2007 through 2011 period.

IOU Exchange Benefit amounts for the fiscal year 2007 through 2011 period cannot yet be calculated, however the annual floor of $100 million has been recorded as a liability on the Balance Sheets (for total floor of $500 million for this time period). In addition, the IOU Risk Contingency Payment amounts that were deferred in fiscal year 2004 will be repaid $20 million per year (plus interest) during the fiscal year 2007 through 2011 period and have been recorded as a liability on the Balance Sheets.

Financial benefits beyond fiscal year 2011 cannot currently be quantified. The amounts to be collected through future rates representing regulatory assets are included in IOU exchange benefits and current assets in the Balance Sheets.

Additional Information

For general information about BPA, refer to BPA's Home page at *http://www.bpa.gov*

For information on the Power Business Line's Power Function Review, which is providing interested parties with opportunities to examine, understand and provide input on the cost projections that will form the basis for the FY 2007 wholesale power (WP-07) rate case, go to *http://www.bpa.gov/power/pl/review*

For information on the Transmission Business Line's regional efforts to integrate wind power into the transmission system, go to *http://www.transmission.bpa.gov/planproj/wind*

Federal Columbia River Power System

Consolidated Balance Sheets (Unaudited)

(thousands of dollars)

Assets

	March 31 **2005**	2004
Utility Plant		
Completed plant	**$ 12,459,535**	$ 12,058,593
Accumulated depreciation	**(4,485,325)**	(4,408,844)
	7,974,210	7,649,749
Construction work in progress	**1,318,057**	1,410,943
Net utility plant	**9,292,267**	9,060,692
Nonfederal Projects		
Conservation	**40,437**	43,761
Hydro	**146,210**	146,210
Nuclear	**2,220,775**	2,181,772
Terminated hydro facilities	**27,305**	28,090
Terminated nuclear facilities	**3,900,137**	3,889,847
Total nonfederal projects	**6,334,864**	6,289,680
Decommissioning Cost	**166,738**	123,935
IOU exchange benefits	**971,539**	–
Conservation, net of accumulated amortization	**318,330**	357,365
Fish & Wildlife, net of accumulated amortization	**114,263**	124,681
Current Assets		
Cash	**908,375**	969,776
Accounts receivable, net of allowance	**105,391**	108,395
Accrued unbilled revenues	**222,508**	209,167
Materials and supplies, at average cost	**79,931**	83,678
Prepaid expenses	**145,171**	118,666
IOU exchange benefits	**190,860**	–
Total current assets	**1,652,236**	1,489,682
Other Assets	**402,245**	275,274
	$ 19,252,482	$ 17,721,309

Capitalization and Liabilities

	2005	2004
Capitalization and Long-Term Liabilities		
Accumulated Net Revenues	**$ 1,084,976**	$ 691,250
Federal Appropriations	**4,347,309**	4,607,706
Capitalization Adjustment	**2,023,679**	2,090,903
Bonds issued to U.S. Treasury	**2,486,800**	2,481,385
Nonfederal Projects Debt	**6,215,757**	6,024,866
Decommissioning Reserve	**166,738**	123,935
IOU exchange benefits	**991,828**	41,751
Accrued plant removal costs	**110,658**	99,461
Total capitalization and long-term liabilities	**17,427,745**	16,161,257
Current Liabilities		
Current portion of federal appropriations	**104,673**	–
Current portion of bonds issued to U.S. Treasury	**290,000**	384,700
Current portion of nonfederal projects debt	**238,692**	264,814
Current portion of IOU exchange benefits	**190,860**	–
Accounts payable and other current liabilities	**406,643**	375,432
Total current liabilities	**1,230,868**	1,024,946
Deferred Credits	**593,869**	535,106
	$ 19,252,482	$ 17,721,309

Federal Columbia River Power System

Consolidated Statements of Revenues and Expenses (Unaudited)

(thousands of dollars)

	Six months ended March 31		Twelve months ended March 31	
	2005	2004	**2005**	2004
Operating Revenues				
Revenues	**$ 1,514,786**	$ 1,514,616	**$ 2,973,666**	$ 3,130,086
SFAS 133 mark-to-market gain	**6,214**	28,413	**67,253**	62,448
Other revenues	**28,010**	27,598	**58,375**	60,487
U.S. Treasury credits for fish	**39,787**	36,504	**80,283**	145,124
Total operating revenues	**1,588,797**	1,607,131	**3,179,577**	3,398,145
Operating Expenses				
Operations and maintenance	**588,651**	511,472	**1,288,981**	1,142,503
Purchased power	**278,934**	291,557	**569,506**	750,306
Non-Federal projects	**158,723**	128,024	**279,174**	134,565
Federal projects depreciation	**182,773**	178,855	**370,157**	355,159
Total operating expenses	**1,209,081**	1,109,908	**2,507,818**	2,382,533
Net operating revenues	**379,716**	497,223	**671,759**	1,015,612
Interest Expense				
Interest on federal investment				
Appropriated funds	**55,772**	103,293	**165,520**	206,674
Bonds issued to U.S. Treasury	**98,168**	62,342	**146,077**	150,380
Allowance for funds used during construction	**(11,752)**	(15,890)	**(34,303)**	(34,574)
Net interest expense	**142,188**	149,745	**277,294**	322,480
Net Revenues	**$ 237,528**	$ 347,478	**$ 394,465**	$ 693,132

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

Consolidated Statements of Cash Flows (Unaudited)

(thousands of dollars)

	Fiscal Year to Date March 31	
	2005	2004
Cash from Operating Activities		
Net revenues	**$ 237,528**	$ 347,478
Expenses (income) not requiring cash:		
Depreciation	**182,773**	143,232
Amortization of conservation and fish & wildlife	**35,183**	35,623
Amortization of capitalization adjustment	**(32,452)**	(33,794)
(Increase) decrease in:		
Receivables and unbilled revenues	**(78,247)**	19,623
Materials and supplies	**1,315**	628
Prepaid expenses	**186,212**	169,400
Increase (decrease) in:		
Accounts payable and other current liabilities	**67,776**	5,611
Other	**(33,811)**	(98,163)
Cash from operating activities	**566,277**	589,638
Cash used for Investment Activities		
Investment in:		
Utility plant (including AFUDC)	**(181,671)**	(203,251)
Nonfederal projects	**(621)**	(3,087)
Conservation	**(7,384)**	(9,734)
Fish and wildlife	**(6,103)**	(5,004)
Cash used for investment activities	**(195,779)**	(221,076)
Cash from Borrowing and Appropriations		
Increase in federal construction appropriations	**8,045**	(73,230)
Increase in bonds issued to U.S. Treasury	**(123,500)**	168,331
Increase in nonfederal debt	**(910)**	3,087
Cash from borrowing and appropriations	**(116,365)**	98,188
Increase in cash	**254,133**	466,750
Beginning cash balance	**654,242**	503,026
Ending cash balance	**$ 908,375**	$ 969,776

Federal Columbia River Power System

SFAS 131 Segment Reporting (Unaudited)

(thousands of dollars)

	Six months ended March 31 2005				
	Power	**Transmission**	**Corporate**	**Consolidating**	**FCRPS**
Unaffiliated revenues	**$ 1,323,731**	**$ 265,066**	**$ -**	**$ -**	**$ 1,588,797**
Intersegment revenues	**37,795**	**49,221**	**-**	**(87,016)**	**-**
Total operating revenues	**1,361,526**	**314,287**	**-**	**(87,016)**	**1,588,797**
Unaffiliated expenses	**984,236**	**123,658**	**(81,586)**	**-**	**1,026,308**
Depreciation	**87,863**	**94,910**	**-**	**-**	**182,773**
Intersegment expenses	**49,061**	**37,795**	**160**	**(87,016)**	**-**
Total operating expenses	**1,121,160**	**256,363**	**(81,426)**	**(87,016)**	**1,209,081**
Net operating revenues	**240,366**	**57,924**	**81,426**	**-**	**379,716**
Interest expense	**86,406**	**68,545**	**(12,763)**	**-**	**142,188**
Net revenues (expenses)	**$ 153,960**	**$ (10,621)**	**$ 94,189**	**$ -**	**$ 237,528**

	2004				
	Power	Transmission	Corporate	Consolidating	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

Federal Columbia River Power System

SFAS 131 Segment Reporting (Unaudited)

(thousands of dollars)

Twelve Months Ended March 31

2005

		Power		Transmission		Corporate		Consolidating		FCRPS
Unaffiliated Revenues	**$**	**2,658,763**	**$**	**520,814**	**$**	**-**	**$**	**-**	**$**	**3,179,577**
Intersegment Revenues		**75,466**		**107,229**		**-**		**(182,695)**		**-**
Total Operating Revenues		**2,734,229**		**628,043**		**-**		**(182,695)**		**3,179,577**
Unaffiliated expenses		**2,048,538**		**260,948**		**(171,825)**		**-**		**2,137,661**
Depreciation		**177,546**		**192,611**		**-**		**-**		**370,157**
Intersegment expenses		**107,167**		**75,301**		**227**		**(182,695)**		**-**
Total operating expenses		**2,333,251**		**528,860**		**(171,598)**		**(182,695)**		**2,507,818**
Net operating revenues		**400,978**		**99,183**		**171,598**		**-**		**671,759**
Interest expense		**164,759**		**132,984**		**(20,449)**		**-**		**277,294**
Net revenues (expenses)	**$**	**236,219**	**$**	**(33,801)**	**$**	**192,047**	**$**	**-**	**$**	**394,465**

2004

		Power		Transmission		Corporate		Consolidating		FCRPS
Unaffiliated Revenues	$	2,842,931	$	555,214	$	-	$	-	$	3,398,145
Intersegment Revenues		85,090		119,225		-		(204,315)		-
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 (expenses)	$	387,565	$	2,314	$	303,253	$	-	$	693,132

Operating Segments

In fiscal year 1997 BPA opted to implement FERC's open-access rulemaking and standards of conduct. FERC requires that transmission activities are functionally separate from wholesale power merchant functions and that transmission is provided in a nondiscriminatory open-access manner.

The FCRP'S major operating segments are defined by the utility functions of generation and transmission. The Power Business Line represents the operations of the generation function, while the Transmission Business Line represents the operations of the transmission function. The business lines are not separate legal entities. Where applicable, "Corporate" and "Consolidating" represent 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 for electric power in the Pacific Northwest.

The FCRPS centrally manages all interest expense activity. Since BPA has one fund with the U.S. Treasury, all cash and cash transactions are also centrally managed. Unaffiliated revenues represent sales to external customers for each segment. Intersegment revenues are eliminated.

Major Customers

During fiscal 2005, and 2004, no single customer represented 10% or more of the FCRPS' revenues.