Management's Discussion & Analysis

Net Revenues

For the nine months ended June 30, 2005, the Federal Columbia River Power System earned net revenues of $231 million, compared with $456 million for the same period a year ago. The $225 million decrease in net revenues from the first nine months of fiscal year 2004 is the result of several factors. Total operating revenues decreased $103 million, operations and maintenance increased $63 million, purchased power increased $18 million, nonfederal projects increased $43 million, federal projects depreciation increased $6 million and net interest decreased $8 million from last year.

Operating Revenues

Revenues from electricity and transmission sales for the nine months ended June 30, 2005, were nearly unchanged when compared to the comparable period a year earlier, increasing slightly less than $1 million. SFAS 133 mark-to-market gain decreased $106 million, other revenues increased $4 million, and U.S. Treasury credits for fish decreased $2 million resulting in total operating revenues dropping $103 million from the nine months ended June 30, 2004.

Sales and purchased power expenses for both nine month periods 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 $189 million and $149 million for the nine months ended June 30, 2005, and June 30, 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. Therefore both revenues and purchased power expense are reported on a gross basis for the first quarter of the twelve months ended June 30, 2004. 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.

Operating Expenses

Operations and maintenance increased $63 million, or 7 percent through the nine months ended June 30, 2005, from the comparable period a year earlier. The primary causes of this increase were higher net-billing requirements for operating costs at the Columbia Generating Station of $36 million, including $28 million nuclear fuel, and increased Investor Owned Utility exchange benefits of $15 million. Purchased power increased $18 million, or 4 percent compared to the nine months ended June 30, 2004. Nonfederal projects debt service expense increased $43 million, or 26 percent. The nine months ended June 30, 2004, 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. Federal projects depreciation increased $6 million, or 2 percent reflecting the energization of the Grand Coulee-Bell transmission line.

In total, operating expenses increased $130 million, or 8 percent.

Interest Expense

Net interest expense for the nine months ended June 30, 2005, decreased $8 million, or 4 percent, compared to the same period a year ago. Interest on appropriated funds decreased due to lower principal owed the U.S. Treasury after a repayment in the period ended June 30, 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. This 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.

The decreased interest expense was partially offset by decreased allowance for funds used during construction due to lower construction work in progress balances.

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 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

Federal Columbia River Power System

(thousands of dollars)

	Nine months ended June 30		Twelve months ended June 30	
	2005	2004	2005	2004
Net Revenues	**$ 231,206**	$ 456,370	**$ 279,251**	$ 589,041
SFAS 133 mark-to-market loss (gain)	**(8,128)**	(113,809)	**16,229**	(123,132)
Nonfederal debt management actions	**(209,456)**	(284,152)	**(273,940)**	(346,199)
Modified Net Revenues	**$ 13,622**	$ 58,409	**$ 21,540**	$ 119,710

Modified Net Revenues decreased $45 million from the nine months ended June 30, 2004, to the nine months ended June 30, 2005, primarily due to the increased operating expense for refueling at the Columbia Generating Station as mentioned above.

Decommissioning Reserve

As of June 30, 2005, the Asset Retirement Obligations for Washington Nuclear Project No.1, Columbia Generating Station and Trojan are $171 million. Revisions were made to the AROs for Columbia Generation Station and Trojan in fiscal years 2004 and 2005 respectively.

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.

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.

The Current portion of IOU Exchange Benefits recorded on the Balance Sheet at June 30, 2006, includes $95 million for the remainder of fiscal year 2005 and $274 million for the first three quarters of fiscal year 2006.

The amounts to be collected through future rates representing regulatory assets are included in IOU exchange benefits and current assets in the Balance Sheets.

Rates

BPA has three Cost Recovery Adjustment Clauses (CRACs) in its power rates that are designed to collect additional power 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 forecast 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. 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. The SN CRAC was set at zero for fiscal year 2005.

BPA will hold a workshop on Tuesday, Aug. 9, 2005, to present initial calculations for the Financial-Based Cost Recovery Adjustment Clause (FB CRAC) and the Safety Net Cost Recovery Adjustment Clause (SN CRAC) rate adjustments for fiscal year 2006. This workshop begins a public comment period that closes on Friday, Aug. 19, 2005. BPA expects to announce the final FB/SN CRAC rate adjustments for FY 2006 at a workshop planned to be held late in August 2005.

BPA is conducting rate case workshops in preparation of the FY 2007 Wholesale Power (WP-07) Rate Case. The first informal workshop was held on Tuesday, July 26 and the second will be the afternoon of Tuesday, Aug. 9 in the BPA Rates Hearing Room. BPA intends to release the Initial Power Rate Proposal in the fall of 2005 and announce the Final Record of Decision in the summer of 2006 for power rates taking effect in October 2006 and continuing through September of 2009.

Proposed transmission rates for FY 2006-2007 were filed with FERC on June 28, 2005. The rate proposal reflects a settlement entered into by BPA and most of its customers. The proposed rates include the following provisions:

- Rates will increase by an average of 12.5%
- Rates can be adjusted quarterly by a formula for PBL generation inputs and for generation-supplied reactive power
- BPA agreed to use $15 million/year of reserves to be used for capital projects instead of financing the projects through current revenues

Additional Information

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

To see the Third Quarter Review, which contains projections of the year-end financial results for the FCRPS and of the Power Business Line's year-end accumulated net revenue, go to www.bpa.gov/corporate/About_BPA/Finance/Q_Review

For information on the Transmission Business Line's efforts to improve its commercial business processes, including approaches to managing schedule constraints on the transmission system, go to http://www.transmission.bpa.gov/Business/Customer_Forums_and_Feedback/Scheduling_Automation

Federal Columbia River Power System

Consolidated Balance Sheets (Unaudited)

(thousands of dollars)

Assets

	June 30 2005	June 30 2004
Utility Plant		
Completed plant	**$ 12,456,287**	$ 12,062,014
Accumulated depreciation	**(4,516,085)**	(4,437,334)
	7,940,202	7,624,680
Construction work in progress	**1,378,617**	1,499,558
Net utility plant	**9,318,819**	9,124,238
Nonfederal Projects		
Conservation	**40,437**	43,760
Hydro	**146,210**	146,210
Nuclear	**2,313,710**	2,182,157
Terminated hydro facilities	**27,305**	28,090
Terminated nuclear facilities	**3,890,952**	3,899,207
Total nonfederal projects	**6,418,614**	6,299,424
Decommissioning Cost	**171,000**	129,549
IOU exchange benefits	**697,789**	–
Conservation, net of accumulated amortization	**309,874**	348,585
Fish & Wildlife, net of accumulated amortization	**111,249**	118,438
Current Assets		
Cash	**980,408**	1,104,388
Accounts receivable, net of allowance	**76,024**	80,275
Accrued unbilled revenues	**221,790**	227,716
Materials and supplies, at average cost	**77,616**	82,734
Prepaid expenses	**111,294**	114,897
IOU exchange benefits	**369,180**	–
Total current assets	**1,836,312**	1,610,010
Other Assets	**303,090**	430,120
	$ 19,166,747	$ 18,060,364

Capitalization and Liabilities

	June 30 2005	June 30 2004
Capitalization and Long-Term Liabilities		
Accumulated Net Revenues	**$ 1,078,654**	$ 800,142
Federal Appropriations	**4,342,973**	4,607,523
Capitalization Adjustment	**2,007,452**	2,074,006
Bonds issued to U.S. Treasury	**2,531,800**	2,281,800
Nonfederal Projects Debt	**6,304,232**	6,154,196
Decommissioning Reserve	**171,000**	129,549
IOU exchange benefits	**718,283**	41,751
Accrued plant removal costs	**114,798**	102,351
Total capitalization and long-term liabilities	**17,269,192**	16,191,318
Current Liabilities		
Current portion of federal appropriations	**104,673**	–
Current portion of bonds issued to U.S. Treasury	**175,000**	488,500
Current portion of nonfederal projects debt	**233,968**	264,814
Current portion of IOU exchange benefits	**369,180**	–
Accounts payable and other current liabilities	**498,557**	462,993
Total current liabilities	**1,381,378**	1,216,307
Deferred Credits	**516,177**	652,739
	$ 19,166,747	$ 18,060,364

Federal Columbia River Power System

Consolidated Statements of Revenues and Expenses (Unaudited)

(thousands of dollars)

	Nine months ended June 30		Twelve months ended June 30	
	2005	2004	**2005**	2004
Operating Revenues				
Revenues	**$ 2,178,657**	$ 2,177,715	**$ 2,974,438**	$ 3,069,136
SFAS 133 mark-to-market gain (loss)	**8,128**	113,809	**(16,229)**	123,132
Other revenues	**48,830**	44,584	**62,209**	62,357
U.S. Treasury credits for fish	**56,861**	59,266	**74,595**	146,818
Total operating revenues	**2,292,476**	2,395,374	**3,095,013**	3,401,443
Operating Expenses				
Operations and maintenance	**932,214**	869,476	**1,274,540**	1,236,664
Purchased power	**438,193**	419,711	**600,611**	666,911
Non-Federal projects	**205,426**	162,807	**291,094**	242,156
Federal projects depreciation	**275,807**	269,764	**372,282**	358,236
Total operating expenses	**1,851,640**	1,721,758	**2,538,527**	2,503,967
Net operating revenues	**440,836**	673,616	**556,486**	897,476
Interest Expense				
Interest on federal investment				
Appropriated funds	**147,253**	154,046	**206,248**	202,922
Bonds issued to U.S. Treasury	**79,254**	86,526	**102,979**	139,721
Allowance for funds used during construction	**(16,877)**	(23,326)	**(31,992)**	(34,208)
Net interest expense	**209,630**	217,246	**277,235**	308,435
Net Revenues	**$ 231,206**	$ 456,370	**$ 279,251**	$ 589,041

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 June 30	
	2005	2004
Cash from Operating Activities		
Net revenues	**$ 231,206**	$ 456,370
Expenses (income) not requiring cash:		
Depreciation	**275,807**	215,915
Amortization of conservation and fish & wildlife	**53,382**	53,849
Amortization of capitalization adjustment	**(48,679)**	(50,691)
(Increase) decrease in:		
Receivables and unbilled revenues	**(48,161)**	29,194
Materials and supplies	**3,630**	1,573
Prepaid expenses	**220,089**	173,170
Increase (decrease) in:		
Accounts payable and other current liabilities	**159,691**	134,923
Other	**(12,156)**	(177,126)
Cash from operating activities	**834,809**	837,177
Cash used for Investment Activities		
Investment in:		
Utility plant (including AFUDC)	**(297,118)**	(336,440)
Nonfederal projects	**(84,371)**	(12,831)
Conservation	**(12,686)**	(15,000)
Fish and wildlife	**(7,517)**	(3,093)
Cash used for investment activities	**(401,692)**	(367,364)
Cash from Borrowing and Appropriations		
Increase (decrease) in:		
Federal construction appropriations	**3,709**	(73,413)
Bonds issued to U.S. Treasury	**(193,500)**	72,546
Nonfederal debt	**82,840**	132,416
Cash from borrowing and appropriations	**(106,951)**	131,549
Increase in cash	**326,166**	601,362
Beginning cash balance	**654,242**	503,026
Ending cash balance	**$ 980,408**	$ 1,104,388

Federal Columbia River Power System

SFAS 131 Segment Reporting (Unaudited)

(thousands of dollars)

Nine months ended June 30

2005

	Power	Transmission	Other	FCRPS
Unaffiliated revenues	**$ 1,894,152**	**$ 398,324**	**$ -**	**$ 2,292,476**
Intersegment revenues	**54,876**	**78,701**	**(133,577)**	**-**
Total operating revenues	**1,949,028**	**477,025**	**(133,577)**	**2,292,476**
Unaffiliated expenses	**1,506,913**	**190,724**	**(121,804)**	**1,575,833**
Depreciation	**132,953**	**142,854**	**-**	**275,807**
Intersegment expenses	**78,242**	**54,876**	**(133,118)**	**-**
Total operating expenses	**1,718,108**	**388,454**	**(254,922)**	**1,851,640**
Net operating revenues	**230,920**	**88,571**	**121,345**	**440,836**
Interest expense	**126,430**	**102,261**	**(19,061)**	**209,630**
Net revenues (expenses)	**$ 104,490**	**$ (13,690)**	**$ 140,406**	**$ 231,206**

2004

	Power	Transmission	Other	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	(138,921)	1,451,994
Depreciation	132,166	137,598	-	269,764
Intersegment expenses	79,816	58,014	(137,830)	-
Total operating expenses	1,621,794	376,715	(276,751)	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

Federal Columbia River Power System

SFAS 131 Segment Reporting (Unaudited)

(thousands of dollars)

	Power	Transmission	Other	FCRPS
		Twelve Months Ended June 30 2005		
Unaffiliated Revenues	**$ 2,568,624**	**$ 526,389**	**$ -**	**$ 3,095,013**
Intersegment Revenues	**73,785**	**106,794**	**(180,579)**	**-**
Total Operating Revenues	**2,642,409**	**633,183**	**(180,579)**	**3,095,013**
Unaffiliated expenses	**2,068,721**	**262,359**	**(164,835)**	**2,166,245**
Depreciation	**178,084**	**194,198**	**-**	**372,282**
Intersegment expenses	**106,620**	**73,620**	**(180,240)**	**-**
Total operating expenses	**2,353,425**	**530,177**	**(345,075)**	**2,538,527**
Net operating revenues	**288,984**	**103,006**	**164,496**	**556,486**
Interest expense	**166,187**	**133,920**	**(22,872)**	**277,235**
Net revenues (expenses)	**$ 122,797**	**$ (30,914)**	**$ 187,368**	**$ 279,251**

	Power	Transmission	Other	FCRPS
		2004		
Unaffiliated Revenues	$ 2,860,923	$ 540,520	$ -	$ 3,401,443
Intersegment Revenues	82,878	113,178	(196,056)	-
Operating Revenues	2,943,801	653,698	(196,056)	3,401,443
Unaffiliated expenses	2,185,012	249,665	(288,947)	2,145,730
Depreciation	175,985	182,252	-	358,237
Intersegment expenses	112,575	83,230	(195,805)	-
Total operating expenses	2,473,572	515,147	(484,752)	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 (expenses)	$ 309,449	$ (20,640)	$ 300,232	$ 589,041

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, "Other" 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 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.