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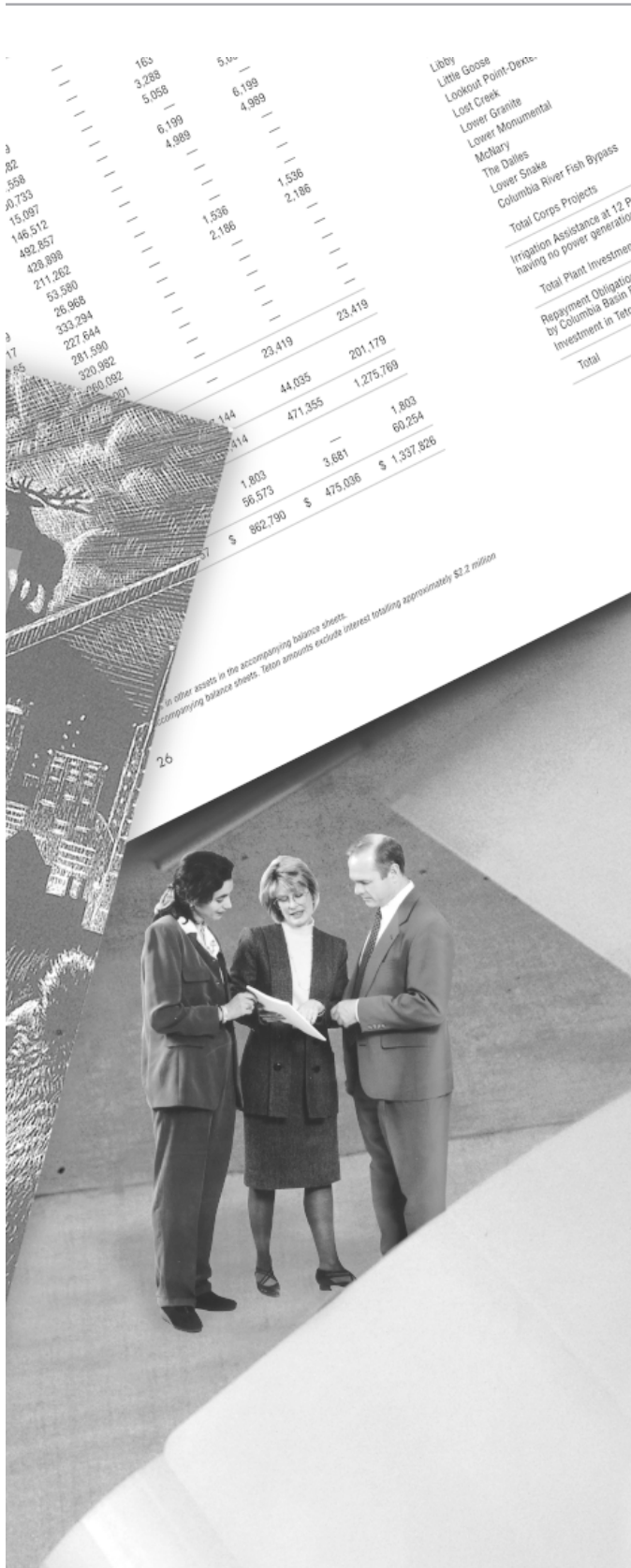
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DEAR MR. PRESIDENT:

Hydro operators are like farmers — always preoccupied with the weather. During the 1999 fiscal year, the Northwest’s farmers and hydro operators had a lot to occupy their attention.

Record snowpacks in both the American and Canadian portions of the Columbia Basin provided the Bonneville Power Administration with a supply of water more than adequate to provide flows for threatened and endangered species of salmon and steelhead, to meet its power supply commitments and to produce record gross revenues.

Like farmers, hydro operators can also find the dark cloud behind every silver lining, even when the cloud is small. The Northwest winter lasted so long that the snow didn’t melt until much later than normal. BPA was buying power during what would normally be spring runoff when the agency expects to be awash in excess power that it can use to generate more revenues. The kind of weather anomaly we experienced this year reminds us of why we build cash reserves — the weather and the entire business climate are unpredictable.

BPA managers and employees responded exceptionally well to the challenge presented by the eccentric weather, as well as to other business challenges, and turned FY 1999 into a very good economic year. Except for buying power, BPA kept its costs under control and turned the high water into record gross revenues of \$2.6 billion. Good water and creative management made it possible for the agency to realize net revenues of \$123 million.

BPA also made a major contribution to the U.S. Treasury. In FY 1999, BPA’s payment was \$628 million, of which \$421 million was interest on the government’s investment in the Federal Columbia River Power System.

And it was a good year on other fronts as well. Secretary of Energy Bill Richardson visited the agency in September to actively participate in a Y2K drill at the Dittmer Control Center and to view Columbia and Snake river dams. The secretary was impressed with BPA’s Y2K preparedness. That preparedness assured that, when the clocks rolled over to Jan.1, 2000, BPA’s power and transmission systems performed safely and reliably.

BPA continues to work with DOE, the Federal Energy Regulatory Commission and the administration to bring the benefits of open transmission access to the region. For example, BPA is in full compliance with the FERC guidelines on separation of the power merchant function from transmission. That separation is resulting in two separate rate cases. During FY 1999, BPA began a rate case to set its power rates for FYs 2002–2006 and in early FY 2000 will begin a separate rate case to set transmission rates.

The goal of the power rate case is to offer the region’s

preference customers rates that are equivalent to current rates, which would result in providing the region with 10 years of stable power rates. Not only does BPA want to keep its power rates low to help sustain the regional economy, but it is striving through its Subscription process to assure that its federal power is distributed equitably to all citizens in the region, including the residential and small farm consumers of investor-owned utilities and the direct service industries that supply thousands of family-wage jobs in the region.

The Transmission Business Line rate case is under way to set rates for FYs 2002–2003 and is expected to function as a bridge to the formation of a regional transmission organization. As BPA took the lead in separating its Power and Transmission business lines, so it is actively engaging in the regional discussion on RTO formation. BPA expects to respond to the Federal Energy Regulatory Commission Order 2000 calling for jurisdictional utilities to file their RTO plans by Oct. 15, 2000. BPA expects that its people and transmission assets will be the core of any RTO.

In order to assure that its transmission assets remain reliable and available for customer use, BPA upgraded facilities at over 400 project locations throughout the Northwest service area, including major improvements in transfer capability and reliability for the interconnection with Canada.

Generation reliability is being improved through the recent direct funding agreements with the U.S. Army Corps of Engineers and the Bureau of Reclamation. Direct funding assures that dollars are targeted to actions that substantially improve system generation performance and are covered by the evolving three-agency asset management strategy that addresses the entire infrastructure of the Federal Columbia River Power System.

The agency also completed the Canadian Entitlement Agreement to dispose of power to Canada in a way that saved the region's rate payers the cost of building a new transmission line to Canada. BPA also became a charter member of the Western Systems Coordinating Council's new Reliability Management System, the first with mandatory sanctions for failing to meet reliability standards.

BPA is responding to other challenges equally well. For example, BPA has joined with the administration and the other federal agencies in the Northwest to work on a unified federal fish plan to help recover threatened and endangered fish species. It's the federal effort to help the region develop a plan that balances everyone's needs with those of the fish. It is a difficult task because the fish and the decisions that affect them cross many boundaries — national, state, tribal, ecosystem and economic.

Part of that balancing act is continuing to make the agency

greener. The effort ranges from pioneering new ways to reduce the use of chemicals in vegetation control on rights-of-way to being the largest seller of certified green power on the West Coast. BPA has sold over 40 average megawatts of renewable energy from wind and environmentally preferred hydro projects in FY 1999. BPA was the primary sponsor of an international conference called "The Electric Revolution" that explored the use of fuel cells, microturbines and other forms of low- and nonpolluting generation that could benefit consumers and the environment. The agency isn't just talking; it is supporting the development and testing of up to 110 fuel cells.

BPA is a self-funded agency that defines its purpose as providing public benefits through commercially successful businesses. We are doing just that. When the Bonneville Project Act passed in 1937, the public interest was jobs and economic development to help lead the region and nation out of the depression. Today, the public interest is more broadly defined. Jobs are still important, but so is the environment that sustains us all. One of the public benefits BPA is focusing on is demonstrating that hydro power, the cleanest energy available, can co-exist with recovering salmon and steelhead runs, demonstrating that there can be a beneficial mix of economic and environmental concerns.

BPA closes out the 1990s as a vigorous, environmentally responsible, economically sound agency.

Respectfully,



Judith A. Johansen
Administrator and
Chief Executive Officer



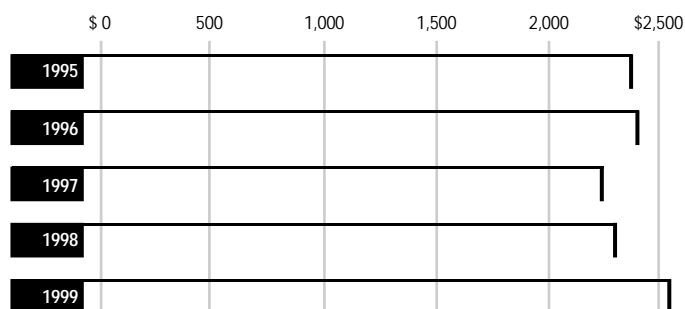
FINANCIAL HIGHLIGHTS

Federal Columbia River Power System
As of and for the periods ended Sept. 30, 1999 & 1998

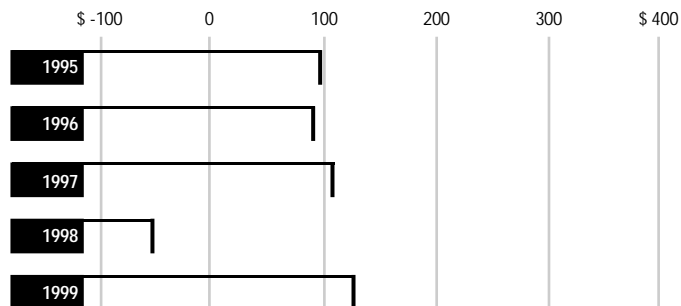
1999 1998

(thousands of dollars)

TOTAL OPERATING REVENUES (millions of dollars)



NET REVENUES (EXPENSES) (millions of dollars)



Operating Results

Total operating revenues	\$ 2,618,879	\$ 2,313,253
Total operating expenses	2,139,940	1,985,755
Net operating revenues	478,939	327,498
Net interest expense	355,653	375,952
Net revenues (expenses)	\$ 123,286	\$ (48,454)

End of Fiscal Year

Total assets		
(net of accumulated depreciation)	\$ 16,773,177	\$ 16,976,667
Total capitalization and liabilities:		
Accumulated net expenses	\$ (108,167)	\$ (231,453)
Federal appropriations	4,498,483	4,446,103
Capitalization adjustment	2,396,014	2,460,900
Long-term debt	2,515,200	2,499,000
Nonfederal projects debt	6,692,041	6,949,011
Other	779,606	853,106
	\$ 16,773,177	\$ 16,976,667

Employees (staff years)	2,727	2,768
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RESULTS OF OPERATIONS

1999 Compared to 1998

The Federal Columbia River Power System ended 1999 in a solid financial position, with the highest net revenues in eight years. In 1999, operating revenues increased by \$306 million from the previous year primarily because of an increase in short-term power sales. An above average water year resulted in the generation of more power than the previous year and allowed BPA to sell more short-term power in the winter. Operating expenses were up by \$154 million from 1998 because, even though BPA sold more short-term power in the winter, the agency had to purchase more power in the fall and spring because, weather conditions resulted in decreased streamflows. Nonfederal projects debt service also increased by \$106 million in 1999. BPA's year-end reserves, a combination of cash and deferred borrowing authority, were \$670 million, an increase of \$111 million over 1998.

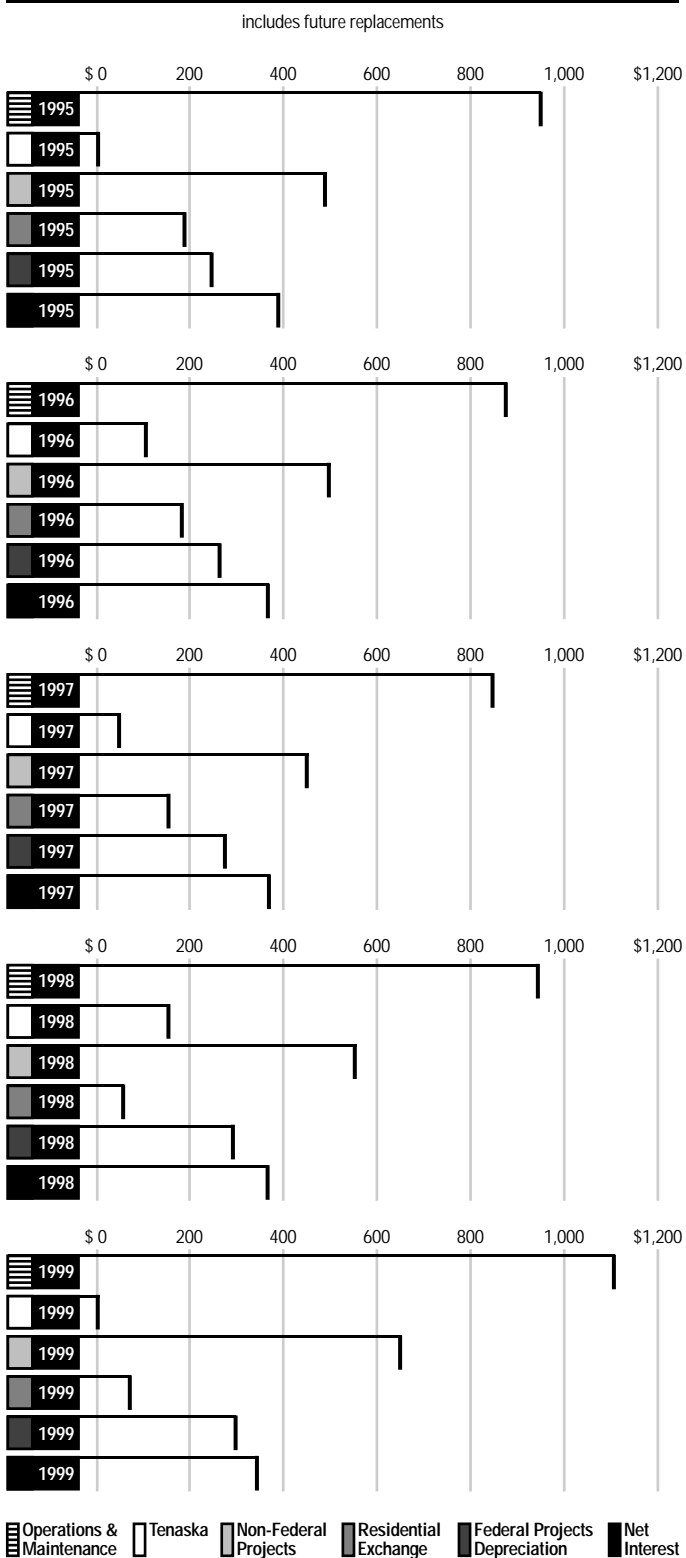
1998 Compared to 1997

In 1998, FCRPS operating revenues increased by \$41 million over 1997 due to an increase in sales and favorable market prices for surplus power. Operating expenses were up from 1997 in large part because of \$151 million for the final settlements related to the cancellation of the Tenaska gas-fired combustion turbine. An average water year, after two years of above normal water, also contributed to the increase in operating expenses because BPA had to purchase more short-term power compared to the previous two years. In 1998, nonfederal debt service expenses increased compared to 1997 because the construction fund cash for Energy Northwest's (formerly known as Washington Public Power Supply System) Nuclear Project 1 (WNP-1) was used to pay a portion of 1997 debt service. Total expenses in 1998 were up by \$206 million over the previous year. Total expenses exceeded revenues by \$48 million. BPA's year-end reserves in 1998, a combination of cash and deferred borrowing authority, were \$559 million, an increase of \$124 million over 1997.

MANAGEMENT'S DISCUSSION & ANALYSIS

EXPENSES

EXPENSES BY CATEGORY (millions of dollars)



Total FCRPS operating and net interest expenses increased by \$134 million in 1999 to \$2,496 million, an increase of 6 percent over the previous year. Operating expenses increased from last year because of an increase in short-term power purchases in the fall and spring, an increase in nonfederal projects debt service and an increase in depreciation expense as a result of a study performed in 1999 on estimated asset lives and cost to retire. In 1998, total FCRPS operating and net interest expenses were \$2,362 million, an increase of 10 percent compared to 1997.

Operation and maintenance costs for the FCRPS rose by \$179 million in 1999, an increase of 19 percent. The main reason for the rise in operations and maintenance costs was that expenses for short-term purchased power increased by \$128 million, or 93 percent, to \$265 million in 1999 because BPA had to purchase more power in the spring when colder than normal weather kept the snowpack from melting, resulting in a decrease in streamflows. In 1998, FCRPS operations and maintenance costs increased by \$93 million, or 11 percent, mainly because of a decrease in streamflows.

In 1999, debt service on nonfederal projects was \$651 million, an increase of \$106 million, or 19 percent, compared to 1998, primarily because bond refinancings in the early 1990s were structured to provide front-end savings that resulted in lower debt service in the early years following the refinancings. In 1998 debt service on nonfederal projects increased by \$81 million, or 18 percent, from \$464 million in 1997. The 1997 expense was lower than 1998, primarily because of the use of construction fund cash to pay debt service for WNP-1.

Net residential exchange expense was \$64 million in 1999, the same as 1998. BPA reached settlements with all residential exchange participants in 1998. The settlements satisfied BPA's obligation to participants through at least June 30, 2001, when current residential exchange contracts expire. Net residential exchange expense was \$161 million in 1997.

BPA performed a depreciation study in 1999 that resulted in a reduction of the average service life for transmission plant from 45 to 40 years and also increased the estimated cost to retire certain classes of plant. As a result, federal projects depreciation was \$309 million in 1999, an increase of \$21 million from 1998. Federal projects depreciation in 1998 was \$288 million, an increase of \$15 million compared to 1997.

Net interest expense was \$356 million in 1999, a decrease of \$20 million compared to 1998. The decrease was a result of lower interest expense on bonds because of refinancings completed in 1998. Net interest expense was \$376 million in 1998 and \$374 million in 1997.

FINANCIAL CONDITION

In 1999, BPA's year-end reserves — cash and deferred borrowing authority — were \$670 million. BPA ended 1998 with financial reserves of \$559 million and with financial reserves of \$430 million at the end of 1997.

BPA made its annual payment of \$628 million to the U.S. Treasury in 1999, making it the sixteenth consecutive year in which BPA has made its payment on time and in full. The payment consisted of \$191 million for principal, \$421 million for interest and \$16 million for operations and maintenance on the federal dams operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation. In 1998, BPA repaid \$852 million to the U.S. Treasury and repaid \$775 million in 1997.

The funding plan of the administration and Congress for financing BPA's fish and wildlife obligations continues to provide stability to the largest growth area of BPA's expenses through 2001. Five-year contracts with publicly owned customers have stabilized revenues for BPA's largest customer class.

BPA ended the year in a solid financial position because of an increase in surplus power sales from the previous year. BPA also increased revenues from its public utility and industrial customers.

Rates

In 1999, BPA's rates remained the same as the previous year because in 1997 rates were set for a five-year period. In 1997, BPA's priority firm power rates dropped by an average of 13 percent from 1996 rate levels, the most significant rate decrease in the agency's history. This rate reduction was made possible primarily through internal cost reductions and through the stabilization actions taken by Congress in BPA's fish and wildlife costs. To meet its planning targets for rates, BPA cut planned expenses for 1997–2001 by an average of \$600 million per year from the levels in the fiscal year 1995 congressional budget. The new rates were designed to maximize BPA revenues in an increasingly competitive wholesale power market.

Financing

To finance capital programs such as transmission system development, conservation, and fish and wildlife enhancement, BPA is authorized to borrow up to \$3.75 billion from the U.S. Treasury. At the end of 1999, BPA's debt in this category totaled \$2.5 billion — consistent with 1998 and 1997 levels.

BPA began directly funding operation, maintenance and replacement of U.S. Army Corps of Engineers generation facilities in 1999 and Bureau of Reclamation generation facilities in 1997 because of new legislation and agreements. For costs not directly funded, the Corps of Engineers and Bureau of Reclamation use federal appropriations for new construction and replacement investments at the dams they operate. These appropriations, like BPA's borrowings, are to be repaid to the U.S. Treasury by BPA. The total remaining to be paid at the end of 1999 was \$4.5 billion. The reduction of \$2.4 billion in 1997 was due to the restructuring of the appropriated debt with an equitable amount of debt bearing current market rates of interest. The capitalization adjustment of \$2.5 billion will be amortized, using the effective interest method, over the life of the appropriations.

In 1997, the U.S. Treasury approved BPA's implementation of the BPA Appropriations Refinancing Act. The act was included in the Federal Omnibus Appropriations Act signed by President Clinton in April 1996. The net effect of the refinancing act returns about \$100 million more to the U.S. Treasury in net present value than it would have received under BPA's old payment schedule. The act enhances BPA's long-term rate stability by mitigating the risk of higher interest costs that could have resulted from earlier repayment reform proposals.

BPA owes another \$6.7 billion to nonfederal sources for financing three Energy Northwest nuclear projects and several smaller generation and conservation investments. BPA backs bonds issued by others in the capital markets to finance these projects.

Three rating agencies continued to maintain high credit ratings for BPA-backed Energy Northwest bonds in 1999. Moody's Investors Service maintained a rating of Aa1, the second highest possible rating. Fitch Investors Service and Standard & Poor's maintained their AA- ratings. All three rating agencies cited BPA's strong financial position as a reason for the high ratings. They rated BPA's long-term outlook as "stable."

BPA's success depends in part on its ability to manage financial risks. BPA is affected by changes in interest rates and by price risks associated with natural gas and electricity commodities. Flat-rate, take-or-pay power sales contracts with aluminum and publicly owned utility customers expire in 2001. These contracts substantially reduce the risk to BPA of fluctuations in sales to those customers and lessen BPA's revenue risk associated with the price of aluminum.

Market Risk

As a result of short-term sales commitments, short-term purchase commitments and written call option contracts, BPA is exposed to market and credit risks resulting from adverse changes in commodity prices. Commodity market risk is a consequence of writing options to third parties (subject to variable supply risk), entering into fixed price sales and purchase commitments, and owning and operating generation facilities. BPA actively manages this risk on a portfolio basis to ensure compliance with BPA's risk management policies. At times, futures, swaps and options are used to alter BPA's exposure to these price fluctuations. BPA mitigates credit risk by insisting that counterparties and marketers are significant industry companies that are considered financially strong and establishing and following tailored credit limits for each company.

Management of the market risks associated with this portfolio of transactions is critical to the success of BPA. Risk management processes, policies and procedures have been established to monitor and control these market risks.

BPA manages market risk on a portfolio basis subject to parameters established by executive management and a risk management committee. Market risks are monitored by individuals who are separated from the group that creates and manages these risk exposures to ensure compliance with BPA's risk management policies.

BPA measures the market risk in its portfolio on a daily, weekly and monthly basis using mark to market (MTM), value at risk (VAR), Monte Carlo simulation and other methodologies. The quantification of market risk using these methods provides a consistent measure of risk across the energy market in which BPA sells and buys. The use of these methods requires a number of key assumptions including the selection of a confidence level for expected losses, the holding period for liquidation and the treatment of risks outside the methodology, including credit risk and event risk. The methods used represent an estimate of reasonably possible net losses in earnings that would be recognized on its portfolios assuming hypothetical movements in future market rates and is not necessarily indicative of actual results that may occur.

In addition to using market price risk measures, BPA performs regular scenario analyses to estimate the economic impact of a sudden change in supply. Because BPA is primarily selling surplus

inventory and not trading, the tests critical to trading organizations are considered less important than regular and rigorous testing for hydro supply conditions. The results of the hydro supply scenario analysis, along with the professional judgments of experienced business and risk managers, are used in conjunction with the market risk measures and to capture additional market-related risks, including credit and event risk.

BPA faces several other uncertainties over the next few years. The deregulated electricity industry market has brought uncertainty to market prices. National and state regulatory changes may lead to further restructuring in the industry, including separating transmission and generation.

Y2K

At BPA we were confident that the transition into the year 2000 (Y2K) would be a nonevent. And it was — as the lights stayed on throughout the Pacific Northwest.

After years of planning and hard work by hundreds of employees, BPA's goal was achieved when homes and businesses operated without disruption in their electric power service. When the clocks rolled over to January 1, 2000, BPA's power systems performed safely and reliably.

BPA has had an agencywide Y2K program under way since 1995. Experienced professional engineers, technicians and information technology experts methodically inventoried the systems throughout BPA, performed risk assessments and developed plans to replace, upgrade or discontinue those systems with Y2K problems. BPA met its completion date for Y2K readiness on March 31, 1999.

BPA's Y2K program included the development of comprehensive Y2K contingency plans for the power system. We put into place a rigorous review process to maintain Y2K readiness.

BPA's Y2K program and project approach complies with the standards and criteria established by Office of Management and Budget and Department of Energy. BPA successfully participated in the North American Reliability Council drills in April of 1999 and September of 1999. The Secretary of Energy joined BPA for the September drill.

BPA is committed and has continued to provide safe and reliable power to our customers. To that end, we work with our business partners including customers, generation suppliers and utility systems throughout the western United States and Canada.

PERFORMANCE MEASURES

PUBLIC RESPONSIBILITIES

The agency's goal is to provide public benefits from commercially successful businesses. The public responsibilities targets combine both elements.

BPA partially met its goal to have a final power rates record of decision by Dec. 15, 1999, that is expected to result in firm power rates that: (a) are at least 1.5 mills/kilowatt-hour below market rates; (b) result in no average rate increase; and (c) are in compliance with the fish funding principles endorsed by Vice President Al Gore. The agency met the criteria of (a), (b) and (c) but was unable to achieve a final record of decision by Dec. 15. The schedule was revised mid-year to reflect additional work needed to accommodate new concerns of BPA's customers, including direct service industries, investor-owned utilities and public utilities.

BPA met its goal to be on track to achieve federal consensus on a preferred alternative for the Unified Fish and Wildlife Plan that meets BPA's fish and wildlife obligations: (a) by establishing performance standards and other measures to be undertaken by the hydropower system; (b) by defining requirements for off-site mitigation for hydro impacts (e.g. hatchery, habitat and harvest programs); and (c) while preserving below-market, at-cost power.

The agency met its goal for high system reliability, availability and sufficiency in both transmission and generation.

A tribal satisfaction index of 6.5 surpassed the agency's goal of a satisfaction index equal to or greater than 6.3. BPA also surpassed its goal of a composite state/federal entities/constituent index greater than or equal to 6.9 when the agency achieved a 7.0 index in 1999.

FINANCE

BPA achieved its target of having agency net revenues of at least \$54 million in FY 1999. The net revenues for FY 1999 were

\$123 million. BPA also met its goal of paying the U.S. Treasury on time and in full.

HIGH-PERFORMANCE ORGANIZATION

BPA set a number of targets that focus on how the agency works as an organization.

BPA achieved one of the most important high-performance organization measures when the agency achieved Y2K readiness on its transmission system and business systems by the federal deadline of March 31, 1999.

BPA missed its target to have recordable injuries of no more than 2.4 per 100 employees working on BPA facilities. The actual rate of recordable injuries was 3.1 per 100 employees.

The agency failed to meet its FY 1999 target of increasing satisfaction levels in three areas of the work environment. When employees were surveyed, the agency found satisfaction did not improve in "freedom from turf issues," in workload distribution and in employees being recognized for their work both formally and informally. BPA is committed to improving the work environment by changing the way managers' performance is appraised. Managers are being required to focus more attention on employee issues in FY 2000.

CUSTOMER SATISFACTION

BPA met its target of having a customer satisfaction index of 7.5 in 1999. Overall, BPA's customer satisfaction index increased slightly over 1998. The Power Business Line customer satisfaction rating

increased by 1 percent and the Transmission Business Line rating increased by 4 percent over the previous year. BPA's energy efficiency ratings were up 13 percent over 1998.

BALANCE SHEETS

Federal Columbia River Power System
As of Sept. 30

ASSETS

	1999	1998
	(thousands of dollars)	
Utility Plant (Notes 1 and 3)		
Completed plant	\$ 10,986,446	\$ 10,887,884
Accumulated depreciation	(3,482,923)	(3,339,794)
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	7,503,523	7,548,090
Construction work in progress	558,006	507,144
	<hr/>	<hr/>
Net utility plant	8,061,529	8,055,234
Nonfederal Projects (Note 4)		
Conservation	56,496	60,276
Hydro	240,610	245,385
Nuclear	2,365,135	2,492,054
Terminated nuclear facilities	4,029,800	4,151,296
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Total nonfederal projects	6,692,041	6,949,011
Trojan Decommissioning Cost (Note 6)	85,587	107,284
Conservation , net of accumulated amortization of \$647,892 in 1999 and \$587,694 in 1998 (Notes 1 and 2)	565,278	612,992
Fish and Wildlife , net of accumulated amortization of \$88,643 in 1999 and \$72,937 in 1998 (Notes 1 and 2)	148,183	149,141
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Current Assets		
Cash	685,014	582,879
Accounts receivable	195,878	165,875
Accrued unbilled revenues	5,200	21,836
Materials and supplies, at average cost	71,077	74,707
Prepaid expenses	82,695	81,590
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Total current assets	1,039,864	926,887
Other Assets	180,695	176,118
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	\$ 16,773,177	\$ 16,976,667

The accompanying notes are an integral part of these statements.

CAPITALIZATION AND LIABILITIES

	1999	1998
	(thousands of dollars)	
Accumulated Net Expenses (Note 1)	\$ (108,167)	(231,453)
Federal Appropriations (Note 3)	4,476,258	4,405,119
Capitalization Adjustment (Note 3)	2,396,014	2,460,900
Long-Term Debt (Note 2)	2,357,400	2,359,000
Nonfederal Projects Debt (Note 4)	6,379,997	6,649,905
Trojan Decommissioning Reserve (Note 6)	62,987	77,254
Total capitalization and long-term liabilities	<u>15,564,489</u>	<u>15,720,725</u>
Commitments and Contingencies (Notes 6 and 7)		
Current Liabilities		
Current portion of federal appropriations	22,225	40,984
Current portion of long-term debt	157,800	140,000
Current portion of nonfederal projects debt	312,044	299,106
Current portion of Trojan decommissioning reserve	22,600	30,030
Accounts payable and other current liabilities	271,571	315,182
Total current liabilities	<u>786,240</u>	<u>825,302</u>
Deferred Credits (Note 1)	<u>422,448</u>	<u>430,640</u>
	<u>\$ 16,773,177</u>	<u>\$ 16,976,667</u>

STATEMENTS OF REVENUES AND EXPENSES

Federal Columbia River Power System
For the years ended Sept. 30

	1999	1998	1997
	(thousands of dollars)		
Operating Revenues	\$ 2,618,879	\$ 2,313,253	\$ 2,272,037
Operating Expenses			
Operations and maintenance	1,116,045	937,521	844,528
Tenaska (Note 7)	—	151,307	37,855
Nonfederal projects (Note 4)	651,093	545,366	463,922
Residential exchange (Note 5)	63,619	63,869	161,028
Federal projects depreciation	309,183	287,692	272,672
Total operating expenses	2,139,940	1,985,755	1,780,005
Net operating revenues	478,939	327,498	492,032
Interest Expense			
Interest on federal investment			
Appropriated funds (Note 3)	249,156	252,517	244,425
Long-term debt (Note 2)	130,916	148,242	156,155
Allowance for funds used during construction	(24,419)	(24,807)	(26,365)
Net interest expense	355,653	375,952	374,215
Net Revenues (Expenses)	123,286	(48,454)	117,817
Accumulated net expenses, Oct. 1	(231,453)	(182,999)	(275,673)
Irrigation assistance (Note 6)	—	—	(25,143)
Accumulated net expenses, Sept. 30	\$ (108,167)	\$ (231,453)	\$ (182,999)

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

Federal Columbia River Power System
For the years ended Sept. 30

	1999	1998	1997
	(thousands of dollars)		
Cash from Operating Activities			
Net revenues (expenses)	\$ 123,286	\$ (48,454)	\$ 117,817
Expenses (income) not requiring cash:			
Depreciation	233,279	213,799	201,368
Amortization of conservation and fish and wildlife	75,904	73,893	71,304
Amortization of nonfederal projects	145,185	105,227	101,865
Amortization of capitalization adjustment	(64,886)	(64,886)	(63,841)
AFUDC	(24,419)	(24,807)	(26,365)
(Increase) decrease in:			
Receivables and unbilled revenues	(13,367)	12,700	(409)
Materials and supplies	3,630	4,086	(9,383)
Prepaid expenses	(1,105)	20,648	47,386
Increase (decrease) in:			
Accounts payable	(43,611)	79,254	(10,685)
Other	(12,769)	54,007	45,702
Cash provided by operating activities	<u>421,127</u>	<u>425,467</u>	<u>474,759</u>
Cash from Investment Activities			
Investment in:			
Utility plant	(215,155)	(141,566)	(335,850)
Conservation	(12,484)	(14,154)	(20,336)
Fish and wildlife	(14,748)	(21,995)	(28,064)
Cash used for investment activities	<u>(242,387)</u>	<u>(177,715)</u>	<u>(384,250)</u>
Cash from Borrowing and Appropriations			
Increase in federal appropriations:			
Operations and maintenance	160,037	144,887	144,883
Construction	93,364	29,097	190,675
Repayment of federal appropriations:			
Operations and maintenance	(160,037)	(144,887)	(139,277)
Construction	(40,984)	(35,155)	(2,771)
Irrigation assistance	—	—	(25,143)
Increase in long-term debt	192,400	867,800	351,300
Repayment of long-term debt	(150,000)	(211,800)	(205,200)
Refinance of long-term debt	(26,200)	(655,900)	(103,300)
Payment of nonfederal debt	(145,185)	(105,227)	(101,865)
Cash provided by (used for) borrowing and appropriations	<u>(76,605)</u>	<u>(111,185)</u>	<u>109,302</u>
Increase in cash	<u>102,135</u>	<u>136,567</u>	<u>199,811</u>
Beginning cash balance	<u>582,879</u>	<u>446,312</u>	<u>246,501</u>
Ending cash balance	<u>\$ 685,014</u>	<u>\$ 582,879</u>	<u>\$ 446,312</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN CAPITALIZATION AND LONG-TERM LIABILITIES

Federal Columbia River Power System

	<i>Accumulated Net Expenses</i>	<i>Federal Appropriations</i>	<i>Long-Term Debt</i>	<i>Nonfederal Project Debt</i>	<i>Other</i>	<i>Total</i>
(thousands of dollars — including current portions)						
Balance at Sept. 30, 1997	\$ (182,999)	\$ 4,452,161	\$ 2,498,900	\$ 7,037,405	\$ 2,619,658	\$ 16,425,125
Increase (decrease) in federal appropriations:						
Operations & maintenance	—	144,887	—	—	—	144,887
Construction	—	29,097	—	—	—	29,097
Repayment of federal appropriations:						
Operations & maintenance	—	(144,887)	—	—	—	(144,887)
Construction	—	(35,155)	—	—	—	(35,155)
Capitalization adjustment amortization	—	—	—	—	(64,886)	(64,886)
Increase in long-term debt	—	—	867,800	—	—	867,800
Repayment of long-term debt	—	—	(211,800)	—	—	(211,800)
Refinance of long-term debt	—	—	(655,900)	—	—	(655,900)
Net increase in nonfederal projects debt	—	—	—	16,833	—	16,833
Repayment of nonfederal projects debt	—	—	—	(105,227)	—	(105,227)
Trojan decommissioning reserve	—	—	—	—	13,412	13,412
Net expenses	(48,454)	—	—	—	—	(48,454)
Balance at Sept. 30, 1998	\$ (231,453)	\$ 4,446,103	\$ 2,499,000	\$ 6,949,011	\$ 2,568,184	\$ 16,230,845
Increase (decrease) in federal appropriations:						
Operations & maintenance	—	160,037	—	—	—	160,037
Construction	—	93,364	—	—	—	93,364
Repayment of federal appropriations:						
Operations & maintenance	—	(160,037)	—	—	—	(160,037)
Construction	—	(40,984)	—	—	—	(40,984)
Capitalization adjustment amortization	—	—	—	—	(64,886)	(64,886)
Increase in long-term debt	—	—	192,400	—	—	192,400
Repayment of long-term debt	—	—	(150,000)	—	—	(150,000)
Refinance of long-term debt	—	—	(26,200)	—	—	(26,200)
Net decrease in nonfederal projects debt	—	—	—	(111,785)	—	(111,785)
Repayment of nonfederal projects debt	—	—	—	(145,185)	—	(145,185)
Trojan decommissioning reserve	—	—	—	—	(21,697)	(21,697)
Net revenues	123,286	—	—	—	—	123,286
Balance at Sept. 30, 1999	\$ (108,167)	\$ 4,498,483	\$ 2,515,200	\$ 6,692,041	\$ 2,481,601	\$ 16,079,158

The accompanying notes are an integral part of these statements.

1. SUMMARY OF GENERAL ACCOUNTING POLICIES

Principles of Combination

The Federal Columbia River Power System (FCRPS) includes the accounts of the Bonneville Power Administration (BPA), which purchases, transmits and markets power, and the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation) for which BPA is the power marketing agency. Each entity is separately managed and financed, but the facilities are operated as an integrated power system with the financial results combined under the FCRPS title. Costs of multipurpose Corps and Reclamation projects are assigned to specific purposes through a cost allocation process. Only the portion of total project costs allocated to power is included in these statements.

FCRPS accounts are maintained in accordance with generally accepted accounting principles and the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). FCRPS accounting policies also reflect specific legislation and executive directives issued by U.S. government departments. (BPA is a unit of the Department of Energy; Reclamation is part of the Department of the Interior; and the Corps is part of the Department of Defense.) FCRPS properties and income are tax-exempt. All material intercompany accounts and transactions have been eliminated from the combined financial statements.

Management 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 and 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.

Regulatory Authority

BPA's rates are established in accordance with several statutory directives. Rates proposed by BPA are subjected to an extensive formal review process, after which they are established by BPA and reviewed by FERC. FERC's review is limited to three standards set out in the Northwest Power Act and a standard set by the National Energy Policy Act. FERC reviews BPA's rates for all firm power, for nonfirm energy sold within the region, and for transmission service under such statutory standards that include a requirement that these rates be sufficient to assure repayment of the federal investment in the FCRPS over a reasonable number of years after first meeting BPA's other costs.

After final FERC approval, BPA's rates may be reviewed by the United States Court of Appeals for the Ninth Circuit. Action seeking such review must be filed within 90 days of the final FERC decision. FERC and the court of appeals may either confirm or reject a rate proposed by BPA. It is the opinion of BPA's general counsel that, if a rate were rejected, it would be remanded to BPA for reformulation. By contract, BPA has agreed that rates for the sale of power pursuant to its present contracts may not be revised on less than nine months' notice and may not be increased more than once in a 12-month period. FERC has approved BPA's rates for all fiscal years through Sept. 30, 2001.

Because of the regulatory environment in which BPA establishes rates, certain costs may be deferred and expensed in future periods under Statement of Financial Accounting Standards No. 71 (SFAS 71), Accounting for the Effects of Certain Types of Regulation.

In order to defer incurred costs under SFAS 71, a regulated entity must have the statutory authority to establish rates that recover all costs and rates so established must be charged to and collected from customers. Due to increasing competitive pressures, BPA may be required to seek alternative solutions in the future to avoid raising rates to a level that is no longer competitive. If BPA's rates should become market-based, SFAS 71 would no longer be applicable, and any costs deferred under that standard would be expensed in the Statement of Revenues and Expenses.

SFAS 71 ASSETS		
As of Sept. 30, 1999 & 1998		
	(thousands of dollars)	
	1999	1998
Nonfederal projects		
Conservation	\$ 56,496	\$ 60,276
Terminated nuclear facilities	4,029,800	4,151,296
Trojan decommissioning cost	85,587	107,284
Conservation	565,278	612,992
Fish and wildlife	148,183	149,141
Additional retirement		
contributions	36,621	18,100
Total	\$ 4,921,965	\$ 5,099,089

The SFAS 71 assets of \$4.9 billion, shown in the table above, reflect a decrease of \$177 million from the prior year. Amortization of these costs aggregating \$242 million in fiscal 1999, \$187 million in 1998 and \$184 million in fiscal 1997 is reflected in the Statements of Revenues and Expenses.

NOTES TO FINANCIAL STATEMENTS

Revenues and Net Revenues

Operating revenues are recorded on the basis of service rendered, which includes estimated unbilled revenues. BPA operates as two segments: Power Business Line and Transmission Business Line. The table in Note 8 reflects the revenues and expenses attributable to the business lines. Because BPA is a U.S. government power marketing agency, net revenues over time are committed to repayment of the U.S. government investment in the FCRPS and the payment of certain irrigation costs as discussed in Note 6.

Utility Plant

Utility plant is stated at original cost. Cost includes direct labor and materials; payments to contractors; indirect charges for engineering, supervision and similar overhead items; and an allowance for funds used during construction. The costs of additions, major replacements and betterments are capitalized. Repairs and minor replacements are charged to operating expense. In accordance with FERC requirements the cost of utility plant retired, together with removal costs and less salvage, is charged to accumulated depreciation when it is removed from service.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) constitutes interest on the funds used for utility plant under construction. AFUDC is capitalized as part of the cost of utility plant and results in a non-cash reduction of interest expense. While cash is not realized currently from this allowance, it is realized under the rate-making process over the service life of the related property through increased revenues resulting from higher plant in-service and higher depreciation expenses. AFUDC is based on the monthly construction work in progress (CWIP) balance. A portion of CWIP as stated on the balance sheets represents preliminary study and investigation costs to which AFUDC is not attributed.

AFUDC capitalization rates are stipulated in the congressional acts authorizing construction for certain generating projects (2.5 percent to 6.8 percent in 1999, 2.5 percent to 7.4 percent in 1998 and 2.5 percent to 7.5 percent in 1997). Capitalization rates for other construction approximate the cost of borrowing from the U.S. Treasury (6.66 percent in 1999, 6.625 percent in 1998 and 7.13 percent in 1997).

Depreciation and Amortization

Depreciation of original cost and estimated cost to retire utility plant is computed on the straight-line method based on estimated service lives of the various classes of property, which average

40 years for transmission plant and 75 years for generation plant. A depreciation study was performed in 1999. As a result of the study, the average service life for transmission plant was reduced from 45 to 40 years and the estimated cost to retire certain classes of plant was increased. Depreciation expense for 1999 was increased by \$20.5 million as a result of the changes in estimated lives and cost to retire. Amortization of capitalized conservation and fish and wildlife costs is computed on the straight-line method based on estimated service lives, which are 20 years for conservation and 15 years for fish and wildlife.

Retirement Benefits

FCRPS employees belong to either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FCRPS and employees contribute to the systems. Based on the statutory contribution rates, retirement benefit expense under CSRS is equivalent to 7 percent of eligible employee compensation and under FERS is variable based upon options chosen by the participant but does not exceed 24.2 percent of eligible employee compensation. Retirement benefits are payable by the U.S. Treasury and not by the FCRPS.

Beginning in fiscal 1998, and for the remainder of the rate period ending in 2001, FCRPS agreed to contribute additional amounts as a result of an underfunded status of the CSRS plan. These amounts will be calculated based on an estimate of FCRPS employees who participate in the plan as well as an estimate of FCRPS' share of the underfunded status. These contributions will be made over a period of years as shown in the following table. The payments, if made, will be directly to the U.S. Treasury.

BPA paid approximately \$4.1 million and \$2.2 million to the U.S. Treasury during fiscal 1999 and 1998, respectively.

SCHEDULED ADDITIONAL CSRS CONTRIBUTIONS		
As of Sept. 30, 1999		
(millions of dollars)		
2000	.....	\$ 6.0
2001	.....	8.0
2002	.....	55.2
2003	.....	35.1
2004	.....	30.9
2005	.....	26.5
2006	.....	23.2
2007	.....	21.1
Total	.....	\$ 206.0

NOTES TO FINANCIAL STATEMENTS

These amounts were recorded as expense when paid. BPA has accrued for \$36.6 million as of Sept. 30, 1999, which represents the additional deferred contribution for fiscal 1998 and 1999. This amount has been recorded as an SFAS 71 asset on the balance sheet in anticipation of recovery of the costs through rates in the next rate period beginning Oct. 1, 2001. The related liability is included in deferred credits in the accompanying balance sheets. At Sept. 30, 1999, BPA has scheduled additional payments totaling \$206 million over the next eight fiscal years (see chart on page 16).

BPA expects to recognize these amounts as expense in the years in which they are specifically recovered through rate revenues.

Cash

For purposes of reporting cash flows, cash includes cash in the BPA fund and unexpended appropriations of Reclamation and the Corps. Cash paid for interest was \$421 million in 1999, \$452 million in 1998 and \$444 million in 1997.

Non-cash transactions include changes in nonfederal projects and nonfederal projects' debt (other than amortization of nonfederal projects and payment of nonfederal projects' debt) of \$112 million in 1999, \$17 million in 1998 and \$34 million in 1997.

Concentration of Credit Risks

Financial instruments which potentially subject the FCRPS to concentrations of credit risk consist of available-for-sale investments held by Energy Northwest, BPA accounts receivable and BPA accrued unbilled revenues. Energy Northwest invests exclusively in U.S. Government securities and agencies. BPA's accounts receivable and accrued unbilled revenues are concentrated with customers who have purchased capacity, energy or other products and services. Generally, these customers are large and stable companies which BPA does not consider to be a significant credit risk. BPA performs a financial review of new customers and establishes credit limits based on the results of that review. In limited circumstances BPA uses letters of credit or similar security mechanisms for new customers or customers with a limited financial history. As a consequence of the above, FCRPS management considers the overall exposure due to concentration of credit risk to not be material.

Deferred Credits

Deferred credits primarily consist of \$155.5 million paid to BPA from participants under various AC intertie capacity agreements and load diversification fees of \$158.3 million paid to BPA by various customers (presented net of accumulated amortization). Diversification fees are payments by customers to BPA in consideration for a reduction

in their contractually obligated power purchases from BPA. Deferred AC intertie capacity payments are recognized as revenue over the estimated 40-year life of the related assets. Deferred diversification fees are recognized over the original contract terms, which generally correspond to the rate period ending Sept. 30, 2001.

Hedging Activities

BPA policy allows the use of financial instruments such as commodity futures, options and swaps to hedge the price of electricity and reduce BPA's exposure to market fluctuations.

In a pilot program started in fiscal 1996, BPA began using financial instruments in the form of Over-the-Counter (OTC) electricity swap agreements and NYMEX futures contracts to hedge anticipated production and marketing of hydroelectric energy. Under swap agreements, BPA makes or receives payments based on the differential between a specified fixed price and an index reference price of power. Under futures contracts, BPA either sells or buys NYMEX futures contracts to hedge anticipated future electricity sales and purchases. Recognition of gains or losses on the hedging instruments is deferred until the underlying physical transaction occurs. Swap transactions have maturities that extend out beyond one year, while futures and option transactions have maturities that are less than one year.

At Sept. 30, 1999 and 1998, outstanding notional megawatt-hours for each type of contract were as follows:

NOTIONAL MWHs		
As of Sept. 30, 1999 & 1998		
<i>Derivative Type</i>	1999	1998
Swap — BPA pays floating and receives fixed	269,184	340,000
Swap — BPA pays fixed and receives floating	48,384	—
NYMEX futures	51,840	138,368
NYMEX purchased options	17,280	66,240
NYMEX written options	25,920	103,040
OTC purchased options	129,600	—

The fixed and floating swap prices, the average futures prices and the strike prices for the options do not vary materially from estimated market prices at the various settlement dates.

At and for the years ended Sept. 30, 1999, 1998 and 1997, both the deferred and the realized gains and losses resulting from these transactions were not material to the consolidated FCRPS financial statements.

NOTES TO FINANCIAL STATEMENTS

Written Options

During fiscal year 1998 BPA began writing put and call options for the purchase and sale of electricity at certain points in the future. BPA's intention is to fulfill all call options exercised with its estimated surplus generating capability at these future dates. The megawatt-hour quantities that BPA sells and the premiums that BPA collects for the sales of these options are priced based on a mathematical model developed by BPA. This model makes certain assumptions based on historical and other statistical data. Actual future results could vary from estimates resulting in the requirement that BPA fulfill these sales obligations with power purchases at a cost in excess of the prices stated in the contracts. As of Sept. 30, 1999, written call options totaling 1.9 million megawatt-hours were outstanding with an average strike price of \$30.58 per megawatt-hour. These options expire at various times through 2000. Written put options totaling 1.8 million megawatt-hours were outstanding with an average strike price of \$21.75 per megawatt-hour. These options expire at various times through 2003. BPA records written options on a mark-to-market basis and includes gains and losses in operating revenues in the Statement of Revenues and Expenses. BPA recognized an immaterial mark-to-market loss during fiscal 1999 and an immaterial mark-to-market gain during fiscal 1998 as a result of the estimated position of outstanding written options.

BPA enters into sales commitments to sell expected surplus generating capabilities at future dates and purchase commitments to purchase power at future dates when BPA forecasts a shortage of generating capability and prices are favorable. As of Sept. 30, 1999, BPA had total sales commitments of approximately 10.8 million megawatt-hours at an average price of \$22.51 per megawatt-hour expiring at various times through June 2001. BPA also had total purchase commitments of approximately 2.4 million megawatt-hours at an average price of \$25.02 per megawatt-hour expiring at various times through September 2006. BPA enters into these contracts throughout the year to maximize its revenues on estimated surplus volumes. BPA records these sales and purchases in the month the underlying power is sold or purchased.

Financial Instruments

All significant financial instruments of the FCRPS were recognized in the Balance Sheet as of Sept. 30, 1999 and 1998. The carrying value reflected in the Balance Sheet approximates fair value for the FCRPS's financial assets and current liabilities. The fair values of long-term liabilities are discussed in the respective footnotes.

Adoption of Statement 133

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In May 1999, the FASB delayed the required implementation date by one year, making it effective for all fiscal quarters of fiscal years beginning after June 15, 2000 (Oct. 1, 2000 for the FCRPS). SFAS 133 requires all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The FCRPS has not yet determined the impact that the adoption of SFAS 133 will have on its net revenues or balance sheet.

Adoption of EITF 98-10

In Nov. 1998, the Emerging Issues Task Force (EITF) of the FASB reached a consensus related to the accounting for energy trading activities. In accordance with EITF 98-10, energy trading contracts must be marked to market with the gains and losses included in earnings and separately disclosed in the financial statements. The FCRPS will adopt EITF 98-10 on Oct. 1, 1999, as required, but has not yet determined the impact that adoption of this statement will have on its financial statements.

NOTES TO FINANCIAL STATEMENTS

2. LONG-TERM DEBT

To finance its capital programs, BPA is authorized by the Federal Columbia River Transmission System Act to issue to the U.S. Treasury up to \$3.75 billion of interest-bearing debt with terms and conditions comparable to debt issued by U.S. government corporations. A portion (\$1.25 billion) of the \$3.75 billion is reserved for conservation and renewable resource loans and grants. At Sept. 30, 1999, \$545.8 million of this reserved amount and \$1,969.4 million of other borrowings were

outstanding. The average interest rate of BPA's borrowings from the U.S. Treasury exceeds the rate that could be obtained currently. As a result, the fair value of the BPA long-term debt, based upon discounting future cash flows using rates offered by the U.S. Treasury as of Sept. 30, 1999, for similar maturities exceeds carrying value by approximately \$183 million, or 7 percent. BPA's policy is to refinance debt that is callable when associated benefits exceed costs. This table reflects the terms and amounts of long-term debt.

U.S. TREASURY BONDS						
Federal Columbia River Power System Long-Term Debt (a)	First Call Date	Maturity Date	Interest Rate	Construction and Fish & Wildlife	Conservation	Cumulative Total
August 1992	none	2000	6.60%	107,800	—	\$ 107,800
May 1997 (b)	none	2000	6.50%	50,000	—	157,800
September 1989	none	2002	8.65%	—	66,000	223,800
September 1999	none	2002	6.20%	40,000	—	263,800
January 1996	none	2003	5.90%	60,000	—	323,800
September 1999	none	2003	6.30%	20,000	—	343,800
January 1997	none	2004	6.80%	30,000	—	373,800
May 1999	none	2004	5.95%	26,200	—	400,000
September 1999	none	2004	6.40%	20,000	—	420,000
May 1997	none	2005	6.90%	80,000	—	500,000
August 1996	none	2006	7.05%	70,000	—	570,000
August 1997	none	2007	6.65%	111,300	—	681,300
February 1993	1998	2008	6.95%	20,000	—	701,300
April 1998	none	2008	6.00%	75,300	—	776,600
April 1998	none	2008	6.00%	25,000	—	801,600
August 1998	none	2008	5.75%	40,000	—	841,600
September 1998	none	2008	5.30%	—	104,300	945,900
July 1989	none	2009	8.55%	—	40,000	985,900
May 1998	none	2009	6.00%	72,700	—	1,058,600
May 1998	none	2009	6.00%	—	37,700	1,096,300
August 1995	2000	2010	7.20%	35,000	—	1,131,300
January 1996	2001	2011	6.70%	—	30,000	1,161,300
November 1996	2001	2011	6.95%	40,000	—	1,201,300
May 1998	none	2011	6.20%	40,000	—	1,241,300
August 1993	1998	2013	6.75%	—	40,000	1,281,300
January 1998	none	2013	6.10%	60,000	—	1,341,300
September 1998	none	2013	5.60%	—	52,800	1,394,100
January 1994	1999	2014	6.75%	—	50,000	1,444,100
February 1999	none	2014	5.90%	60,000	—	1,504,100
May 1995 (b)	2000	2015	7.50%	—	85,000	1,589,100
May 1995	2000	2015	7.50%	35,000	—	1,624,100
November 1996	2001	2016	7.20%	—	40,000	1,664,100
July 1995	2000	2025	7.70%	50,000	—	1,714,100
August 1995	2000	2025	7.70%	65,000	—	1,779,100
April 1998	2008	2028	6.65%	50,000	—	1,829,100
August 1998	none	2028	5.85%	106,500	—	1,935,600
August 1998	none	2028	5.85%	112,300	—	2,047,900
January 1990	2000	2030	9.25%	50,000	—	2,097,900
May 1998	2008	2032	6.70%	98,900	—	2,196,800
August 1993	1998	2033	6.95%	110,000	—	2,306,800
October 1993	1998	2033	6.85%	108,400	—	2,415,200
October 1993	1998	2033	6.85%	50,000	—	2,465,200
January 1994	1999	2034	7.05%	50,000	—	2,515,200
				\$ 1,969,400	\$ 545,800	\$ 2,515,200
Less current portion						(157,800)
						<u>\$ 2,357,400</u>

(a) The weighted average interest rate was 6.7 percent on outstanding long-term debt as of Sept. 30, 1999. All construction, conservation, fish and wildlife, and Corps/Reclamation direct funding bonds are term bonds.

(b) Corps/Reclamation direct funding.

NOTES TO FINANCIAL STATEMENTS

3. FEDERAL APPROPRIATIONS

The BPA Appropriations Refinancing Act, 16 U.S.C. 8381, required that the outstanding balance of the FCRPS federal appropriations, which Bonneville is obligated to set rates to recover, be reset and assigned prevailing market rates as of Sept. 30, 1996. The resulting principal amount of appropriations was determined to be equal to the present value of the principal and interest that would have been paid to Treasury in the absence of the act, plus \$100 million. The \$100 million was capitalized as part of the appropriations balance and will be amortized over the remaining repayment period using the effective interest method.

The amount of appropriations refinanced was \$6.6 billion. After refinancing, the appropriations outstanding was \$4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over the remaining period of repayment so that, except for the amortization of the \$100 million discussed above, interest expense is equal to that which would have been paid to the Treasury in the absence of the act.

The table at the right shows the term repayments on the remaining federal appropriations as of Sept. 30, 1999.

Interest on appropriated funds is net of amortization for the capitalization adjustment. Amortization of the capitalization adjustment was \$64.9 million for fiscal 1999 and 1998, and \$63.8 million for 1997. The weighted average interest rate was 7.1 in 1999, 1998 and 1997 prior to amortization of the capitalization adjustment.

Construction and replacement of Corps and Reclamation generating facilities have historically been financed through annual federal appropriations. Annual appropriations were also made for

FEDERAL APPROPRIATIONS	
Term repayments (a)	
(thousands of dollars)	
2000	\$ 22,225
2001	66,220
2002	23,913
2003	46,687
2004	73,484
2005+	4,265,954
Total	\$ 4,498,483

(a) Includes payments on historic replacements but excludes planned future replacements and irrigation assistance.

their operation and maintenance costs, although these are normally repaid by BPA to the U.S. Treasury by the end of each fiscal year. As a result of the National Energy Policy Act of 1992 BPA has begun directly funding operation, maintenance and replacement of Corps and Reclamation generating facilities.

Federal Generation and Transmission appropriations are repaid to the U.S. Treasury within 50 and 45 years, respectively, from the time each facility is placed in service.

If, in any given year, revenues are not sufficient to cover all cash needs, including interest, any deficiency becomes an unpaid annual expense. Interest is accrued on the unpaid annual expense until paid. This interest must be paid from subsequent years' revenues before any repayment of federal appropriations can be made.

4. NONFEDERAL PROJECTS

BPA has acquired all or part of the generating capability of five nuclear power plants. The contracts to acquire the generating capability of the projects, referred to as "net-billing agreements," require BPA to pay all or part of the annual projects' budgets, including operating expense and debt service, whether or not the projects are completed or operating. BPA has also acquired all of the output of the Idaho Falls, Cowlitz Falls and Wasco hydro projects. BPA has agreed to fund debt service on Eugene Water and Electric Board, Emerald, City of Tacoma and Conservation and Renewable Energy System bonds issued to finance conservation programs sponsored by BPA.

BPA recognizes expenses for these projects based upon total project cash funding requirements reflected in project budgets that are adopted by BPA and the project's owners.

Operating expense of \$200 million in fiscal 1999, \$180 million in fiscal 1998 and \$200 million in fiscal 1997 for the projects is included in operations and maintenance in the accompanying Statements of Revenues and Expenses. Debt service for the projects of \$651,093 million, \$543,368 million and \$463,922 million for fiscal 1999, 1998 and 1997, respectively, is reflected as nonfederal projects expense in the accompanying Statements of Revenues and Expenses.

NOTES TO FINANCIAL STATEMENTS

Following restoration of Energy Northwest's (formerly known as Washington Public Power Supply System) bond rating in late 1988, BPA and Energy Northwest developed a refunding plan to refinance outstanding high-interest-rate net-billed bonds. By the end of fiscal year 1999, 19 advance refunding sales have been completed. In total, \$10.2 billion of refunding bonds have been issued to refinance \$8.6 billion of previously outstanding bonds.

The recorded value of all Energy Northwest debt exceeds fair value by \$181 million or 3 percent based on discounting the future cash flows using interest rates for which similar debt could be issued at Sept. 30, 1999. All other nonfederal projects' debt approximates fair value as stated.

The table shows that future principal payments required for nonfederal projects total approximately \$6.7 billion.

NONFEDERAL PROJECTS		
Debt repayments		
(thousands of dollars)		
2000	.....	\$ 312,044
2001	.....	344,208
2002	.....	261,635
2003	.....	312,736
2004	.....	322,180
2005+	.....	5,139,238
Total	.....	\$ 6,692,041

5. RESIDENTIAL EXCHANGE

As provided for in the Pacific Northwest Electric Power Planning and Conservation Act of 1980, Section 5(c), BPA entered into residential exchange contracts with several electric utilities. These contracts result in payments to each utility, which must be passed through to its qualified residential and irrigation loads, based on the difference between each utility's average cost and BPA's priority firm power rate.

Congress passed legislation in November 1995 that required BPA to pay \$145 million in residential exchange benefits in fiscal 1997. The conference report prepared in connection with the legislation states that BPA and its customers, consistent with the Regional Review, should work together to gradually phase out the

residential exchange program by Oct. 1, 2001. Termination agreements have been signed by all actively exchanging Pacific Northwest utilities except The Montana Power Co. (which receives no benefits), whereby payments will be made by BPA for settlement of the period running from fiscal 1998 through June 30, 2001. Future benefits are fixed by the termination agreements. BPA capitalizes payments made and is amortizing them to expense through the period ending June 30, 2001. Capitalized amounts are included in other assets in the accompanying balance sheets. Without future legislation the residential exchange program will revert to the prior methodology on July 1, 2001.

6. COMMITMENTS AND CONTINGENCIES

Irrigation Assistance

As directed by legislation, during fiscal 1997 BPA made a cash distribution of \$25 million to the U.S. Treasury for original construction costs of certain Pacific Northwest irrigation projects that were determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation and are required to be made only if doing so does not result in an increase to power rates. Accordingly, these distributions are not considered to be regular operating costs of the power program and have been treated as distributions from accumulated net expense in the fiscal 1997 Statement of Revenues and Expenses and in the fiscal 1997 Statement of Changes

in Capitalization and Long-term Liabilities. The cumulative irrigation assistance payments ultimately could total approximately \$863 million and are scheduled to be made over a maximum of 66 years. BPA is required by Public Law 89-448 to demonstrate that reimbursable costs of the FCRPS will be returned to the U.S. Treasury from BPA net revenues within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects which are beyond the ability of the 22 irrigation water users to repay. These requirements are met by conducting power repayment studies which produce schedules of distributions at the proposed rates to demonstrate repayment of principal within the allowable repayment period.

NOTES TO FINANCIAL STATEMENTS

The table below shows that future irrigation assistance distributions ultimately could total approximately \$838 million.

IRRIGATION ASSISTANCE	
Distributions	
(thousands of dollars)	
2000	\$ —
2001	16,560
2002	—
2003	—
2004	739
2005+	820,348
Total	\$ 837,647

Net-Billing Agreements

BPA has agreed with Energy Northwest that, in the event any participant shall be unable for any reason, or shall 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, unless payment of such unpaid amount is made in a timely manner pursuant to the net-billing agreements.

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 types of insurance coverage purchased from NEIL by BPA include: 1) Primary Property and Decontamination Liability Insurance; 2) Decontamination Liability Decommissioning Liability and Excess Property Insurance; and 3) Business Interruption and/or Extra Expense Insurance.

Under each insurance policy BPA could be subject to an 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 Insurance policy is \$4.4 million. For the Decontamination Liability, Decommissioning Liability and Excess Property Insurance policy, the maximum assessment is \$3.5 million. For the Business Interruption and/or Extra Expense Insurance policy, the maximum assessment is \$3.5 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 \$200 million, BPA could

be subject to a retrospective assessment of \$83.9 million limited to an annual maximum of \$10 million.

Decommissioning and Restoration Costs

In March 1995, Energy Northwest submitted a site restoration plan to the state of Washington's Energy Facility Site Evaluation Committee (EFSEC) that complied with EFSEC's requirement to remove WNP-1 and -3 assets and restore the sites with minimal hazard to the public. EFSEC approved Energy Northwest's plan in June 1995. EFSEC's approval recognized that uncertainty still exists as to the exact details of the proposed plan; accordingly, EFSEC's conditional approval provided for additional reviews once the details of the plan are finalized. As part of submitting the restoration plan to EFSEC, Energy Northwest obtained outside estimates for site restoration of WNP-1 and WNP-3. BPA is required to fund site restoration for those projects. The cost of site restoration for WNP-1 is estimated to be \$60 million. In 1999 Energy Northwest successfully transferred assets and site restoration liability for WNP-3 to a consortium of local governments. The site restoration liability that Energy Northwest (and thus BPA) is required to fund for WNP-3 is \$10 million as of Sept. 30, 1999. Management believes that existing funds from the proceeds of previously issued bonds are adequate to cover all site restoration costs at WNP-1 and WNP-3. The estimated obligation is reflected as part of the nonfederal projects debt balances for WNP-1 and WNP-3 as of Sept. 30, 1999.

Decommissioning costs for WNP-2 are charged to operations over the operating life of the project. An external decommissioning sinking fund for costs is being funded monthly for WNP-2. The sinking fund is expected to provide for decommissioning at the end of the project's operating life in accordance with NRC requirements. Sinking fund requirements for WNP-2 are based on a Nuclear Regulatory Commission decommissioning cost estimate and assumes a 40-year operating life.

The estimated decommissioning sum of expenditures for WNP-2 is \$340 million (1998 dollars). Payments to the sinking fund for the years ended Sept. 30, 1999, 1998 and 1997 were approximately \$3 million per year. The sinking fund balance at Sept. 30, 1999, is \$62 million.

In January 1993, the Portland General Electric board of directors formally notified BPA of its intent to terminate the operation of the Trojan plant. PGE's rate filing in December 1997 with the Oregon Public Utility Commission included an estimated total decommissioning liability of \$424 million (in 1997 dollars). The current remaining estimate of \$346 million is based on site-specific studies less actual expenditures to date. As of Sept. 30, 1999, BPA's 30-percent share of this estimated remaining liability is \$104 million, which has been recorded net of the decommissioning trust fund

NOTES TO FINANCIAL STATEMENTS

balance of \$18 million in the accompanying Balance Sheet. The Trojan Decommissioning Plan calls for prompt decontamination with delayed demolition of non-radiological structures. Funding requirements will be greater in the early years of decommissioning and then will decrease significantly. These greater early funding requirements have altered the decommissioning trust fund contributions for 1997, 1998 and 1999. For the period 1995 through 2000, funding for the Trojan decommissioning trust fund is being applied directly to the decommissioning expenses. Contributions to the decommissioning trust fund are made pursuant to the net-billing agreement for the plant through 2023. Once prompt decontamination is completed, funding of the trust will resume at a lower contribution level to pay for the delayed demolition. The decision to terminate the plant is not expected to result in the acceleration of debt-service payments. BPA will continue to recover its share of Trojan's costs through rates. Decommissioning costs are included in operations and maintenance expense in the Statements of Revenues and Expenses.

Environmental Cleanup

There are sites where BPA has been or may be identified as a potential responsible party. Costs associated with cleanup are not expected to be material to the FCRPS financial statements.

Endangered Species Act

Actions related to the Endangered Species Act are included in BPA's costs and recovered through current rates.

Retirement Benefits

See Note 1 for discussion of additional civil service retirement system contributions scheduled for payment through 2007.

Purchase Commitments

BPA has commitments under billing credit agreements and other alternative energy programs whereby BPA provides a cost supplement to entities that are involved in alternative energy generation projects. BPA's aggregate cost of these commitments has approximated \$19 million, \$19 million and \$17 million for fiscal 1999, 1998 and 1997, respectively. BPA's continued cost of these commitments is expected to approximate \$20 million per year over the next five years. These commitments expire at various periods over the next 20 years.

7. LITIGATION

Involving the Tenaska Washington Partners, II L.P.

In fiscal 1995 the Tenaska Washington Partners, II L.P. (Tenaska) and Chase Manhattan Bank (Chase) filed suit against BPA for breach of contract and lost revenues. In June 1996, BPA and Chase reached a settlement that resulted in a payment of \$115 million by BPA to Chase. In 1997, BPA paid expenses of \$38 million which included some of the subcontractor claims. In fiscal 1998 BPA settled with Tenaska for \$158.6 million. BPA has now settled with all litigants of the Tenaska suit and no further exposure exists.

The FCRPS is party to various legal claims, actions and complaints, certain of which involve material amounts. Although the FCRPS is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, management currently believes that disposition of these matters will not have a materially adverse effect on the FCRPS's financial position or results of operations.

NOTES TO FINANCIAL STATEMENTS

8. SEGMENTS

Adoption of Statement 131

Effective Oct. 1, 1998, the FCRPS adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 establishes standards for the way public business enterprises report information about operating segments, and also requires certain disclosures about products and services, geographic areas of business and major customers. The adoption of SFAS 131 did not affect the FCRPS's financial position or results of operations, but did change business segment information previously reported.

Operating Segments

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

The FCRPS'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.

The FCRPS centrally manages all interest expense activity. Since the Bonneville Power Administration has one fund with the United States Department of Treasury, all cash and cash transactions are also centrally managed. Unaffiliated revenues below represent sales to external customers for each segment. Intersegment revenues are eliminated as shown.

SFAS 131 SEGMENT REPORTING

For the years ended Sept. 30, 1999, 1998 & 1997

(thousands of dollars)

1999	Power	Transmission	Corporate	Total
Unaffiliated Revenues	\$ 2,324,041	\$ 294,838	\$ —	\$ 2,618,879
Intersegment Revenues	42,381	257,296	(299,677)	—
Operating Revenues	2,366,422	552,134	(299,677)	2,618,879
Net Operating Margin	1,315,425	320,724	(133,315)	1,502,834
1998				
Unaffiliated Revenues	\$ 2,016,720	\$ 296,533	\$ —	\$ 2,313,253
Intersegment Revenues	44,030	243,392	(287,422)	—
Operating Revenues	2,060,750	539,925	(287,422)	2,313,253
Net Operating Margin	1,049,482	311,123	15,127	1,375,732
1997				
Unaffiliated Revenues	\$ 1,979,666	\$ 292,371	\$ —	\$ 2,272,037
Intersegment Revenues	16,773	210,846	(227,619)	—
Operating Revenues	1,996,439	503,217	(227,619)	2,272,037
Net Operating Margin	1,168,890	306,015	(47,396)	1,427,509

NOTES TO FINANCIAL STATEMENTS

FCRPS management evaluates the performance of the business lines based on Net Operating Margin (NOM) and does not track the separate balance sheets or net revenues on a business line level. NOM represents revenues generated from operations less operating and maintenance expenses of the segment's revenue-generating assets. On a consolidated basis, this amount represents \$1,503 million for fiscal 1999 (\$2,619 million Operating Revenues less

\$1,116 million Operations and Maintenance Expenses) as shown in the Statement of Revenues and Expenses.

Major Customers

During fiscal 1999, 1998 and 1997, no single customer represented 10 percent or more of the FCRPS's revenues.

SELECTED QUARTERLY INFORMATION

(unaudited)

3 months ended

(thousands of dollars)

1999	Dec. 31	March 31	June 30	Sept. 30	Total
Operating revenues	\$ 588,981	\$ 773,772	\$ 542,195	\$ 713,931	\$ 2,618,879
Operating expenses	471,481	523,726	522,650	622,083	2,139,940
Net interest expenses	91,082	92,250	91,901	80,420	355,653
Net revenues (expenses)	\$ 26,418	\$ 157,796	\$ (72,356)	\$ 11,428	\$ 123,286
1998					
Operating revenues	\$ 623,740	\$ 644,931	\$ 466,683	\$ 577,899	\$ 2,313,253
Operating expenses	415,382	447,680	432,639	690,054	1,985,755
Net interest expenses	95,311	94,518	100,717	85,406	375,952
Net revenues (expenses)	\$ 113,047	\$ 102,733	\$ (66,673)	\$ (197,561)	\$ (48,454)
1997					
Operating revenues	\$ 584,099	\$ 660,353	\$ 479,624	\$ 547,961	\$ 2,272,037
Operating expenses	433,092	416,703	452,759	477,451	1,780,005
Net interest expenses	95,401	93,385	91,401	94,028	374,215
Net revenues (expenses)	\$ 55,606	\$ 150,265	\$ (64,536)	\$ (23,518)	\$ 117,817

Note: BPA's net revenues are normally higher in the first and second quarters of the fiscal year than in the third and fourth. In fall and winter, loads grow to serve Northwest heating needs. In warmer weather, loads decline and BPA spends more in yearly maintenance.

SCHEDULE OF AMOUNT AND ALLOCATION OF PLANT INVESTMENT

Federal Columbia River Power System
As of Sept. 30, 1999

	<i>Commercial Power</i>			<i>Irrigation (unaudited)</i>			
	<i>Total Plant</i>	<i>Completed Plant</i>	<i>Construction Work in Progress</i>	<i>Total Commercial Power</i>	<i>Returnable from Commercial Power Revenues</i>	<i>Returnable from Other Sources</i>	<i>Total Irrigation</i>
(thousands of dollars)							
Bonneville Power Administration							
Transmission Facilities	\$ 4,969,342	\$ 4,874,350	\$ 94,992	\$ 4,969,342	\$ —	\$ —	\$ —
Bureau of Reclamation							
Boise	97,090	14,770	—	14,770	25,143	40,037	65,180
Columbia Basin	1,930,634	1,087,370	13,804	1,101,174	592,859	173,818	766,677
Hungry Horse	152,255	111,809	3,468	115,277	—	—	—
Minidoka-Palisades	382,956	105,155	—	105,155	16,637	62,442	79,079
Yakima	217,911	5,294	615	5,909	12,631	127,604	140,235
Total Bureau Projects	2,780,846	1,324,398	17,887	1,342,285	647,270	403,901	1,051,171
Corps of Engineers							
Albeni Falls	43,316	39,592	370	39,962	—	—	—
Bonneville	1,301,057	843,436	53,659	897,095	—	—	—
Chief Joseph	603,809	560,597	3,802	564,399	—	163	163
Cougar	62,514	20,306	13	20,319	—	3,288	3,288
Detroit-Big Cliff	68,150	41,095	887	41,982	—	5,058	5,058
Dworshak	370,565	314,472	86	314,558	—	—	—
Green Peter-Foster	90,878	49,826	907	50,733	—	6,199	6,199
Hills Creek	49,337	14,888	209	15,097	—	4,989	4,989
Ice Harbor	204,454	146,137	375	146,512	—	—	—
John Day	641,215	469,229	23,628	492,857	—	—	—
Libby	569,098	426,961	1,937	428,898	—	—	—
Little Goose	252,897	211,168	94	211,262	—	—	—
Lookout Point-Dexter	107,071	46,077	7,503	53,580	—	1,536	1,536
Lost Creek	149,709	26,919	49	26,968	—	2,186	2,186
Lower Granite	406,536	333,277	17	333,294	—	—	—
Lower Monumental	270,474	227,579	65	227,644	—	—	—
McNary	355,521	280,701	889	281,590	—	—	—
The Dalles	368,750	296,105	24,877	320,982	—	—	—
Lower Snake	262,571	253,362	6,730	260,092	—	—	—
Columbia River Fish Bypass	530,361	185,971	319,030	505,001	—	—	—
Total Corps Projects	6,708,283	4,787,698	445,127	5,232,825	—	23,419	23,419
Irrigation Assistance at 12 Projects having no power generation	201,179	—	—	—	157,144	44,035	201,179
Total Plant Investment	14,659,650	10,986,446	558,006	11,544,452	804,414	471,355	1,275,769
Repayment Obligation Retained by Columbia Basin Project	4,639	2,836	—	2,836	1,803	—	1,803
Investment in Teton Project (b)	79,107	—	7,269	7,269	56,573	3,681	60,254
Total	\$ 14,743,396	\$ 10,989,282	\$ 565,275	\$ 11,554,557	\$ 862,790	\$ 475,036	\$ 1,337,826

(a) Amount represents joint costs transferred to Bureau of Sports Fisheries and Wildlife. This is included in other assets in the accompanying balance sheets.

(b) The \$7,269,000 commercial power portion of the Teton project is included in other assets in the accompanying balance sheets. Teton amounts exclude interest totalling approximately \$2.2 million subsequent to June 1976 which was charged to expense.

	<i>Non-reimbursable (unaudited)</i>					<i>Percent Returnable from Commercial Power Revenues</i>
	<i>Navigation</i>	<i>Flood Control</i>	<i>Fish and Wildlife</i>	<i>Recreation</i>	<i>Other</i>	
	(thousands of dollars)					
Bonneville Power Administration						
Transmission Facilities	\$ —	\$ —	\$ —	\$ —	\$ —	100.00%
Bureau of Reclamation						
Boise	—	17,140	—	—	—	41.11%
Columbia Basin	1,000	52,104	6,073	3,053	553	87.74%
Hungry Horse	—	36,978	—	—	—	75.71%
Minidoka-Palisades	—	64,482	2,560	10,475	121,205	31.80%
Yakima	—	1,887	50,151	—	19,729	8.51%
Total Bureau Projects	1,000	172,591	58,784	13,528	141,487	71.54%
Corps of Engineers						
Albeni Falls	174	261	—	2,919	—	92.26%
Bonneville	400,611	—	—	1,289	2,062	68.95%
Chief Joseph	—	—	4,977	5,270	29,000	93.47%
Cougar	548	38,359	—	—	—	32.50%
Detroit-Big Cliff	220	20,890	—	—	—	61.60%
Dworshak	9,724	31,499	—	14,784	—	84.89%
Green Peter-Foster	365	30,267	—	1,644	1,670	55.83%
Hills Creek	680	28,571	—	—	—	30.60%
Ice Harbor	54,933	—	—	3,009	—	71.66%
John Day	91,790	18,352	—	11,807	26,409	76.86%
Libby	—	94,823	870	13,870	30,637	75.36%
Little Goose	34,998	—	—	4,033	2,604	83.54%
Lookout Point-Dexter	768	50,681	—	506	—	50.04%
Lost Creek	—	53,020	24,506	29,399	13,630	18.01%
Lower Granite	52,652	—	—	12,748	7,842	81.98%
Lower Monumental	39,572	—	—	2,841	417	84.16%
McNary	69,144	—	—	4,787	—	79.20%
The Dalles	45,679	—	—	2,067	22	87.05%
Lower Snake	2,479	—	—	—	—	99.06%
Columbia River Fish Bypass	25,360	—	—	—	—	95.22%
Total Corps Projects	829,697	366,723	30,353	110,973	114,293	78.01%
Irrigation Assistance at 12 Projects having no power generation	—	—	—	—	—	78.11%
Total Plant Investment	830,697	539,314	89,137	124,501	255,780	84.24%
Repayment Obligation Retained by Columbia Basin Project	—	—	—	—	—	100.00%
Investment in Teton Project (b)	—	9,151	—	2,433	—	80.70%
Total	\$ 830,697	\$ 548,465	\$ 89,137	\$ 126,934	\$ 255,780	84.22%



To the Administrator of the
Bonneville Power Administration,
United States Department of Energy

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses, of cash flows and of changes in capitalization and long-term liabilities present fairly, in all material respects, the financial position of the Federal Columbia River Power System (FCRPS) at September 30, 1999 and 1998, and the results of its operations, cash flows and changes in capitalization and long-term liabilities for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of FCRPS' management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Amount and Allocation of Plant Investment as of September 30, 1999 (Schedule A) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink, reading "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
December 15, 1999

FEDERAL REPAYMENT

Revenue Requirement Study

The revenue requirement study demonstrates repayment of federal investment, and it reflects revenues and costs consistent with the 1996 Wholesale Power and Transmission Rate Filing. The Federal Energy Regulatory Commission granted final approval for proposed rates on April 4, 1997, for fiscal years 1997 through 2001 (75 FERC 62,010).

Repayment Demonstration

BPA is required by Public Law 89-448 to demonstrate that reimbursable costs of the FCRPS will be returned to the U.S. Treasury from BPA net revenues within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects that are beyond the ability of the 22 irrigation water users to repay. These requirements are met by conducting power repayment studies that produce schedules of payments at the proposed rates to demonstrate repayment of principal within the allowable repayment period.

Since 1985, BPA has prepared separate repayment demonstrations for generation and transmission in accordance with an order issued by the Commission on Jan. 27, 1984 (26 FERC 61,096).

Repayment Policy

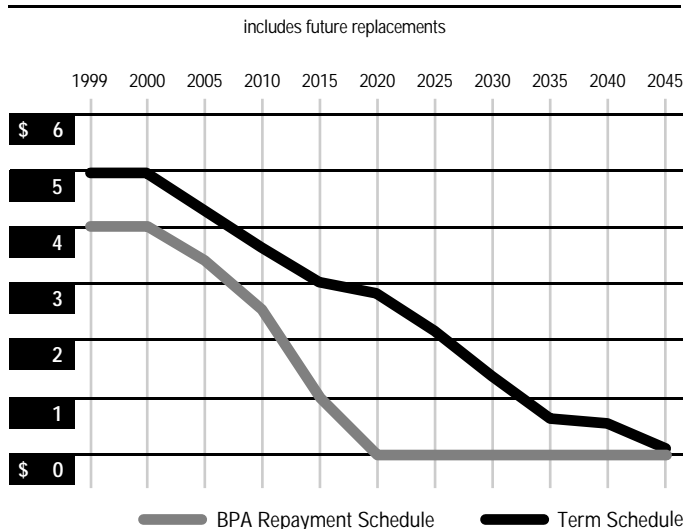
BPA's repayment policy is reflected in its revenue requirements and rate levels. This policy requires that FCRPS revenues be sufficient to:

1. Pay the cost of obtaining power through purchase and exchange agreements (nonfederal projects).
2. Pay the cost of operating and maintaining the power system including payments related to the under-funded status of the CSRS plan.

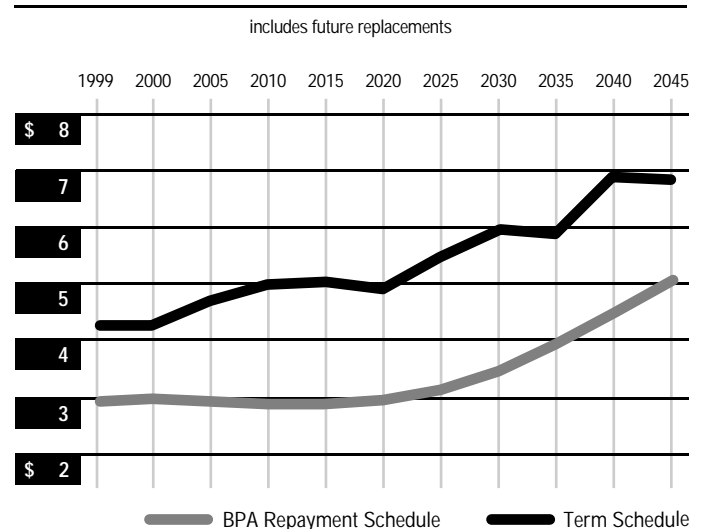
3. Pay interest on and repay outstanding bonds issued to the Treasury to finance transmission system construction, conservation, and fish and wildlife projects.
4. Pay interest on the unrepaid investment in power facilities financed with appropriated funds. (Federal hydroelectric projects were all financed with appropriated funds, as were BPA transmission facilities constructed before 1978. Most generation replacements are now direct-funded.)
5. Pay, with interest, any outstanding deferral.
6. Repay the power investment in each federal hydroelectric project within 50 years after going into service (except for the Chandler project, which has a legislated repayment period of 66 years).
7. Repay each increment of the investment in the BPA transmission system financed with appropriated funds within the average service life of the transmission plant (40 years).
8. Repay the investment in each replacement at a federal hydroelectric project within its service life.
9. Repay construction costs at federal reclamation projects that are beyond the ability of the irrigators to pay and are assigned for payment from commercial power net revenues within the same period available to the water users for making payments. These periods range from 40 to 66 years, with 50 years being applicable to most of the irrigation payment assistance.

Investments bearing the highest interest rate will be repaid first, to the extent possible, while still completing repayment of each increment of investment within its prescribed repayment period.

UNREPAID FEDERAL GENERATION INVESTMENT (billions of dollars)



UNREPAID FEDERAL TRANSMISSION INVESTMENT (billions of dollars)



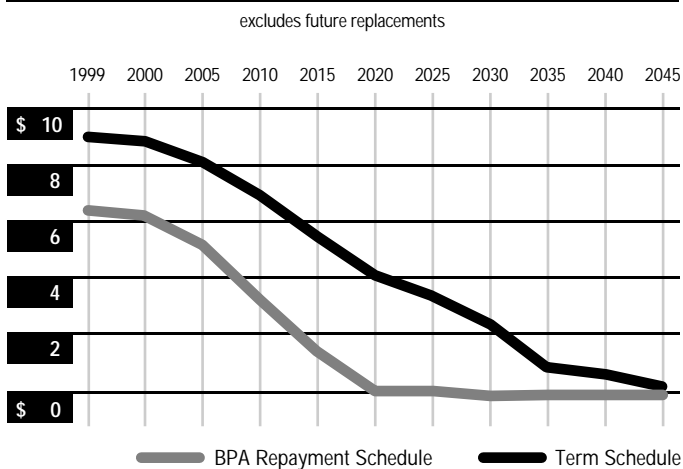
FEDERAL REPAYMENT

Repayment Obligation

BPA's rates must be designed to collect sufficient revenues to return the power and transmission costs of each FCRPS investment and each irrigation assistance obligation within the time prescribed by law. If existing rates are not likely to meet this requirement, BPA must reduce costs, adjust its rates, or both. However, total irrigation assistance payments cannot require an increase in the BPA power rate level. By comparing BPA's repayment schedule for the unrepaid capital appropriations and bonds with a "term schedule" it is demonstrated that the federal investment will be repaid within the time allowed. A term schedule represents a repayment schedule whereby each capitalized appropriation or bond would be repaid in the year it is due.

Reporting requirements of Public Law 89-448 are met so long as the unrepaid FCRPS investment and irrigation assistance resulting from BPA's repayment schedule are less than or equal to the allowable unrepaid investment in each year. While the comparison is illustrated by graphs representing total FCRPS generation and total FCRPS transmission investment, the actual comparison is performed on an investment-by-investment basis.

UNREPAID FEDERAL INVESTMENT (billions of dollars)



Repayment of FCRPS Investment

The graphs for Unrepaid Federal Generation and Transmission Investment on page 29 illustrate that unrepaid investment resulting from BPA's generation and transmission repayment schedules is less than the allowable unrepaid investment. This demonstrates that BPA's rates are sufficient to recover all FCRPS investment costs on or before their due dates.

The term schedule lines in the graphs show how much of the obligation can remain unpaid in accordance with the repayment period for the generation and transmission components of the FCRPS. The BPA repayment schedule lines show how much of the obligation remains to be repaid according to BPA's repayment schedules. In each year, BPA's repayment schedule is ahead of the term schedule. This occurs because BPA plans repayment both to comply with obligation due dates and to minimize costs over the 45- or 50-year repayment period. Costs are minimized by repaying highest interest-bearing investments first, to the extent possible. Consequently, some investments are repaid before their due dates while assuring that all other obligations are repaid by their due dates. These graphs include forecasts of future system replacements necessary to maintain the existing FCRPS generation and transmission facilities. The Unrepaid Federal Investment graph on this page displays the total planned unrepaid FCRPS obligations compared to allowable total unrepaid FCRPS investment omitting future system replacements. This demonstrates that the FCRPS investment expected through fiscal year 1999 is scheduled to be returned to the U.S. Treasury within the 45- or 50-year repayment period and ahead of due dates.

If, in any given year, revenues are not sufficient to cover all cash needs, including interest, any deficiency becomes an unpaid annual expense. Interest is accrued on the unpaid annual expense until paid. This must be paid from subsequent years' revenues before any repayment of federal appropriations can be made.

BPA EXECUTIVES & OFFICES

Corporate Executives

Judith A. Johansen
Administrator & Chief Executive Officer

Steve Hickok
Chief Operating Officer

Chuck Meyer, acting
Deputy Administrator

Harvey Spigal
Senior Vice President, General Counsel

Steve Wright
Senior Vice President, Corporate

Jim Curtis
Vice President & Chief Financial Officer,
Policy Management & Finance

Pam Marshall
Vice President, Strategic Planning

Randy Roach
Vice President, Deputy General Counsel

Alexandra Smith
Vice President, Environment, Fish & Wildlife

Lynda Stelzer
Vice President, Shared Services

Jeff Stier
Vice President, National Relations

BPA Offices

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Power Business Line Executives

Paul Norman
Senior Vice President, Power Business Line

Allen Burns
Vice President, Requirements Marketing

Greg Delwiche
Vice President, Generation Supply

Terry Esvelt
Vice President, Energy Efficiency

Steve Oliver
Vice President, Bulk Marketing &
Transmission Services

Power Business Line Customer Service Centers

Bend Customer Service Center
1011 S.W. Emkay Dr., Suite 211
Bend, OR 97702
(541) 318-1680

Burley Customer Service Center
2700 Overland
Burley, ID 83318
(208) 678-9481

Eastern Area Customer Service Center
707 W. Main St., Suite 500
Spokane, WA 99201
(509) 358-7409

Idaho Falls Customer Service Center
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(208) 524-8750

Missoula Customer Service Center
800 Kensington, Suite 204
Missoula, MT 59801
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Seattle Customer Service Center
1601 5th Ave., Suite 1000
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(206) 216-4272

Western Area Customer Service Center
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Transmission Business Line Executives

Mark Maher
Senior Vice President, Transmission Business Line

Alan Courts
Vice President, Engineering & Technical Services

Fred Johnson
Vice President, Transmission Field Services

Marg Nelson
Vice President, Business Line Management &
Services

Vickie VanZandt
Vice President, Operations & Planning

Brian Silverstein, acting
Vice President, Marketing & Sales

Transmission Business Line Regional Offices

Eugene Region
86000 Hwy. 99 S.
Eugene, OR 97405
(541) 465-6991

Idaho Falls Region
1350 Lindsay Blvd.
Idaho Falls, ID 83402
(208) 524-8770

Olympia Region
5240 Trosper St. S.W.
Olympia, WA 98512-5623
(360) 704-1600

Redmond Region
3655 W. Highway 126
Redmond, OR 97756
(541) 548-4015

Snohomish Region
914 Ave. D
Snohomish, WA 98290
(360) 568-4962

Spokane Region
707 W. Main, Suite 500
Spokane, WA 99201-0608
(509) 358-7358

Walla Walla Region
1520 Kelly Place
Walla Walla, WA 99362
(509) 527-6238

The Bonneville Power Administration is a federal agency under the Department of Energy. Based in the Pacific Northwest, the agency markets power from 29 federal dams and one nonfederal nuclear plant. BPA also operates and maintains about 80 percent of the region's high-voltage transmission.

BPA is a self-funding agency that covers its costs by selling its services wholesale to the region's public utilities, municipalities, investor-owned utilities and some large industries. BPA also sells or exchanges power with utilities in Canada and other parts of the western United States. Its service area includes Oregon, Washington, Idaho, western Montana and small parts of Wyoming, Nevada, Utah, California and eastern Montana.

BPA is dedicated to providing public service. In addition to keeping rates low by selling at cost, BPA also promotes energy efficiency, renewable energy and new technologies. The agency funds the region's efforts to protect and rebuild fish and wildlife populations in the Columbia River Basin, and works in partnership with others to ensure protection of the region's environment.