# Quarterly Financial Report

1st Quarter 2004

## Management's Discussion and Analysis

### Net Revenues

Through the three months ended Dec. 31, 2003, BPA earned net revenues of $170 million, compared with $160 million for the same period a year ago. The $10 million increase in net revenues from the first three months of fiscal 2003 is the result of several factors. Total operating revenues decreased $124 million, operations and maintenance decreased $37 million, purchased power decreased $96 million, nonfederal projects increased $9 million, federal projects depreciation increased $4 million and net interest decreased $13 million from last year. Excluding the SFAS 133 adjustments net revenues for the three months ended Dec. 31, 2003, were $171 million, compared with $113 million net revenues for the same period a year earlier. For a third year, BPA's Debt Optimization program and other debt management actions have contributed significantly to increased net revenues. With those events nonfederal projects debt service decreased $80 million in the first quarter from rate case estimates. Taking this reduction into account, modified net revenue is $90 million ($170 million reported less $80 million nonfederal projects debt service reduction).

### Operating Revenues

Revenues of $790 million from electricity sales and transmission were down $84 million or 10 percent compared to the prior years first quarter. Decreased revenue in the Power Business Line accounted for $80 million and Transmission Business Line $4 million of the decrease. During fiscal 2003 PBL negotiated the termination of several purchase power and sales commitments for fiscal 2004 and subsequent periods.

The SFAS 133 mark-to-market accrual resulted in a $1 million loss for the current period versus a $47 million dollar gain in the first quarter last year. The changes in SFAS 133 results reflect an accounting only adjustment with no corresponding cash impact.

### Operating Expenses

Operating costs decreased $17 million at BPA during the first quarter of fiscal 2004, while O&M costs decreased $16 million at Energy Northwest's Columbia Generating Station nuclear power plant and $4 million at the Corps of Engineers. In total, operations and maintenance cost through the first quarter of fiscal 2004 decreased $37 million or 14 percent from the first quarter a year earlier.

BPA's expense for purchased power was $96 million or 33 percent lower when compared to the first quarter of fiscal 2003. During fiscal 2003 PBL negotiated the termination of several purchase power and sales commitments for fiscal 2004 and subsequent periods.

Nonfederal projects debt service expense increased $9 million or 17 percent. Refinancing Energy Northwest bonds deferred all principal payments due in fiscal 2003 into the future.

In total, operating expenses decreased $121 million, or 17 percent.

## Interest Expense

Net interest expense decreased $13 million, or 11 percent, compared to the same period in 2003. The weighted average interest rate was 5.3 percent on outstanding long-term debt with the U.S. Treasury as of Sept. 30, 2003 vs. 6.0 percent as of Sept. 30, 2002. This decrease lowered interest expense on long-term debt owed to the U.S. Treasury. Interest on appropriated funds decreased primarily due to lower U.S. Treasury rates for construction work in progress at the Corps of Engineers federal generating projects. Interest expense also decreased as the income earned on BPA's cash account at the U.S. Treasury increased with higher cash balances. BPA reports interest expense on long-term debt net of the interest income earned.

## Utility Plant

Construction work in progress at the end of the first quarter of fiscal 2004 increased $134 million, or 11 percent, over the balance at Dec. 31, 2003. Federal hydro projects increased $68 million, and BPA transmission $66 million year over year. The federal hydro increase was a combination of appropriated and direct funds for fish and power system reliability and improvement investments.

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

## Decommissioning Cost

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

## Other Assets

Other assets at the end of the first quarter of fiscal 2004 increased $73 million, or 47 percent, over the balance one year earlier. The amount increased, as BPA booked a SFAS No. 71 asset related to the Enron settlement reached during fiscal 2003. This asset will be reduced as BPA recovers the cost of the settlement through rates.

## Cash

BPA's cash balance at the end of the first quarter is $583 million compared to $239 million a year ago. A combination of late spring precipitation and higher prices for secondary sales in fiscal 2003 resulted in the improvement.

## Looking Forward

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

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

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

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

To reach information about the proposed settlement of the public power litigation against BPA over the distribution of benefits to the residential and small-farm customer of the region's investor-owned utilities, go to http://www.bpa.gov/power/lp/settlement/index.shtml

To reach a news release on the successful completion of the Kangley-Echo Lake line just in time to keep power flowing to Seattle as a winter storm hit, go to http://www.bpa.gov/corporate/BPAnews/2004/NewsRelease.cfm?ReleaseNo=445

## Federal Columbia River Power System

### Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

| | December 31 | |
|---|---|---|
| | **2003** | 2002 |
| **Assets** | | |
| **Utility Plant** | | |
| Completed plant | **$11,920,309** | $11,549,642 |
| Accumulated depreciation | **(4,343,015)** | (4,115,225) |
| | **7,577,294** | 7,434,417 |
| Construction work in progress | **1,359,880** | 1,225,365 |
| Net utility plant | **8,937,174** | 8,659,782 |
| **Nonfederal Projects** | **6,285,218** | 6,200,082 |
| **Decommissioning Cost** | **123,788** | 73,861 |
| **Conservation,** net of accumulated amortization | **369,724** | 402,236 |
| **Fish & Wildlife,** net of accumulated amortization | **122,526** | 130,326 |
| **Current Assets** | **1,359,219** | 1,098,195 |
| **Other Assets** | **230,636** | 157,320 |
| | **$17,428,285** | $16,721,802 |
| **Capitalization and Liabilities** | | |
| **Accumulated Net Revenues (Expenses)** | **$513,533** | ($51,762) |
| **Federal Appropriations** | **4,615,558** | 4,603,510 |
| **Capitalization Adjustment** | **2,107,800** | 2,175,474 |
| **Long-Term Debt** | **2,521,554** | 2,653,141 |
| **Nonfederal Projects Debt** | **6,044,877** | 5,956,806 |
| **Decommissioning Reserve** | **123,789** | 63,861 |
| **Current Liabilities** | **891,993** | 857,737 |
| **Deferred Credits** | **609,182** | 463,035 |
| | **$17,428,286** | $16,721,802 |

### Comparative Statements of Revenues and Expenses (Unaudited)

(Thousands of Dollars)

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| **Operating Revenues:** | | | | |
| Revenues | **$789,633** | $873,723 | **$3,244,187** | $3,392,442 |
| SFAS 133 mark-to-market (loss) gain | **(1,210)** | 47,134 | **6,921** | 133,554 |
| Other revenues | **13,994** | 10,029 | **57,643** | 52,893 |
| U.S. Treasury credits for fish | **19,654** | 14,996 | **179,542** | 32,459 |
| **Total Operating Revenues** | **822,071** | 945,882 | **3,488,293** | 3,611,348 |
| **Operating Expenses:** | | | | |
| Operations and maintenance | **226,477** | 263,687 | **1,161,311** | 1,320,077 |
| Purchased power | **198,099** | 294,294 | **946,814** | 1,154,831 |
| Non-Federal projects | **64,322** | 55,204 | **128,652** | 198,365 |
| Federal projects depreciation | **88,836** | 85,094 | **353,767** | 340,036 |
| **Total Operating Expenses** | **577,734** | 698,279 | **2,590,544** | 3,013,309 |
| Net operating revenues (expenses) | **244,337** | 247,603 | **897,749** | 598,039 |
| **Interest Expense** | **74,576** | 87,713 | **332,454** | 352,975 |
| **Net Revenues** | **$169,761** | $159,890 | **$565,295** | $245,064 |

**Derivative Instruments and Hedging Activities**

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

## Federal Columbia River Power System

**Statements of Cash Flows (Unaudited)**
(Thousands of Dollars)

| | Fiscal Year to Date December 31 | |
|---|---|---|
| | **2003** | 2002 |
| **Cash from Operating Activities** | | |
| **Net revenues** | **$169,761** | $159,890 |
| **Expenses (income) not requiring cash:** | | |
| **Depreciation** | **71,322** | 65,614 |
| **Amortization:** | | |
| **Fish and wildlife** | **17,514** | 19,480 |
| **Capitalization adjustment** | **(16,897)** | (16,926) |
| **AFUDC** | **(7,823)** | (7,039) |
| **(Increase) decrease in:** | | |
| **Receivables and unbilled revenues** | **(31,901)** | (123,274) |
| **Materials and supplies** | **244** | 132 |
| **Prepaid expenses** | **74,062** | 18,859 |
| **(Increase) decrease in:** | | |
| **Accounts payable and other current liabilities** | **32,147** | 7,049 |
| **Other** | **(21,200)** | (42,229) |
| **Cash from operating activities** | **287,229** | 81,556 |
| **Cash used for Investment Activities** | | |
| **(Investment) decrease in:** | | |
| **Utility plant** | **(99,311)** | (82,249) |
| **Conservation** | **(8,507)** | (7,960) |
| **Fish and wildlife** | **1,525** | (307) |
| **Other** | **(2)** | - |
| **Cash used for investment activities** | **(106,295)** | (90,516) |
| **Cash from Borrowing and Appropriations** | | |
| **Increase in federal construction appropriations** | **8,106** | 7,625 |
| **Increase in long-term debt** | **0** | 90,000 |
| **Cash from borrowing and appropriations** | **8,106** | 97,625 |
| **Increase in cash** | **189,040** | 88,665 |
| **Beginning cash balance** | **503,026** | 235,409 |
| **Ending cash balance** | **$692,066** | $324,074 |
| **Ending Bonneville Power Administration cash balance** | **$583,622** | $239,587 |

## Federal Columbia River Power System

**SFAS 131 SEGMENT REPORTING**
(Thousands of Dollars)

| | Three months ended December 31 **2003** | | | | |
|---|---|---|---|---|---|
| | **Power** | **Transmission** | **Corporate** | **Consolidated** | **FCRPS** |
| **Unaffiliated revenues** | **$684,347** | **$137,724** | **-** | **-** | **$822,071** |
| **Intersegment revenues** | **19,037** | **25,514** | **-** | **(44,551)** | **-** |
| **Total operating revenues** | **703,384** | **163,238** | **-** | **(44,551)** | **822,071** |
| | | | | | |
| **Unaffiliated expenses** | **481,569** | **52,989** | **(45,660)** | **-** | **488,898** |
| **Depreciation** | **43,403** | **45,433** | **-** | **-** | **88,836** |
| **Intersegment expenses** | **25,503** | **19,037** | **11** | **(44,551)** | **-** |
| **Total operating expenses** | **550,475** | **117,459** | **(45,649)** | **(44,551)** | **577,734** |
| | | | | | |
| **Net operating revenues** | **152,909** | **45,779** | **45,649** | **-** | **244,337** |
| | | | | | |
| **Interest expense** | **42,900** | **35,579** | **(3,903)** | **-** | **74,576** |
| | | | | | |
| **Net revenues** | **$110,009** | **$10,200** | **$49,552** | **$0** | **$169,761** |

| | 2002 | | | | |
|---|---|---|---|---|---|
| | Power | Transmission | Corporate | Consolidated | FCRPS |
| Unaffiliated Revenues | $805,782 | $140,100 | $0 | $0 | $945,882 |
| Intersegment Revenues | 18,746 | 31,422 | - | (50,168) | - |
| Total Operating Revenues | 824,528 | 171,522 | - | (50,168) | 945,882 |
| | | | | | |
| Unaffiliated expenses | 613,061 | 51,372 | (51,248) | - | 613,185 |
| Depreciation | 43,583 | 41,511 | - | - | 85,094 |
| Intersegment expenses | 31,404 | 18,745 | 19 | (50,168) | - |
| Total operating expenses | 688,048 | 111,628 | (51,229) | (50,168) | 698,279 |
| | | | | | |
| Net operating revenues | 136,480 | 59,894 | 51,229 | - | 247,603 |
| | | | | | |
| Interest expense | 47,210 | 40,544 | (41) | - | 87,713 |
| | | | | | |
| Net revenues | $89,270 | $19,350 | $51,270 | $0 | $159,890 |

| | | | Twelve Months Ended<br>December 31<br>2003 | | |
|---|---|---|---|---|---|
| | **Power** | **Transmission** | **Corporate** | **Consolidated** | **FCRPS** |
| **Unaffiliated Revenues** | **$2,937,951** | **$550,342** | **$0** | **$0** | **$3,488,293** |
| **Intersegment Revenues** | **85,716** | **104,976** | **-** | **(190,692)** | **-** |
| **Total Operating Revenues** | **3,023,667** | **655,318** | **-** | **(190,692)** | **3,488,293** |
| **Unaffiliated expenses** | **2,304,431** | **242,077** | **(309,732)** | **-** | **2,236,776** |
| **Depreciation** | **178,716** | **175,052** | **-** | **-** | **353,768** |
| **Intersegment expenses** | **104,500** | **86,080** | **112** | **(190,692)** | **-** |
| **Total operating expenses** | **2,587,647** | **503,209** | **(309,620)** | **(190,692)** | **2,590,544** |
| **Net operating revenues** | **436,020** | **152,109** | **309,620** | **-** | **897,749** |
| **Interest expense** | **172,285** | **164,031** | **(3,862)** | **-** | **332,454** |
| **Net revenues** | **$263,735** | **($11,922)** | **$313,482** | **$0** | **$565,295** |
| **Total Assets** | **$7,115,805** | **$701,612** | **$14,839,354** | **($5,228,486)** | **$17,428,285** |

| | | | 2002 | | |
|---|---|---|---|---|---|
| | Power | Transmission | Corporate | Consolidated | FCRPS |
| Unaffiliated Revenues | $3,043,240 | $568,116 | ($11) | $0 | $3,611,345 |
| Intersegment Revenues | 81,556 | 153,068 | - | (234,621) | 3 |
| Operating Revenues | 3,124,796 | 721,184 | (11) | (234,621) | 3,611,348 |
| Unaffiliated expenses | 2,496,214 | 276,427 | (99,368) | - | 2,673,273 |
| Depreciation | 176,641 | 163,395 | - | - | 340,036 |
| Intersegment expenses | 152,953 | 81,552 | 116 | (234,621) | - |
| Total operating expenses | 2,825,808 | 521,374 | (99,252) | (234,621) | 3,013,309 |
| Net operating revenues | 298,988 | 199,810 | 99,241 | - | 598,039 |
| Interest expense | 203,060 | 149,918 | (3) | - | 352,975 |
| Net revenues | $95,928 | $49,892 | $99,244 | $0 | $245,064 |
| Total Assets | $6,649,040 | $368,688 | $15,101,423 | ($5,228,486) | $16,890,665 |

**Operating Segments**

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

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

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 represent sales to external customers for each segment. Intersegment revenues are eliminated as shown.

Prior to fiscal 2004, FCRPS management evaluated the performance of the business lines based on Net Operating Margin (NOM) and did 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.

Beginning with fiscal 2004, FCRPS management discontinued evaluating the performance of the business lines based on Net Operating Margin (NOM).

**Major Customers**

During fiscal 2003, and 2002, no single customer represented 10% or more of the FCRPS's revenues.