

Management's Discussion & Analysis

General

The Federal Columbia River Power System (FCRPS) combines the accounts of the Bonneville Power Administration (BPA), the accounts of generating facilities of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation) and the operation and maintenance costs of the U.S. Fish and Wildlife Service (Fish and Wildlife) for the Lower Snake River Compensation Plan Facilities.

BPA was created by an act of Congress in 1937 to market electric power from the Bonneville Dam located on the Columbia River and to construct facilities necessary to transmit such power. Congress has designated BPA to be the marketing agent for power from all of the federally-owned hydroelectric projects in the Pacific Northwest. In addition, BPA also has a statutory obligation to serve the net requirements of preference customers and investor owned utilities that request service from BPA. BPA, whose headquarters are located in Portland, Oregon, is one of four regional federal power marketing administrations within the U.S. Department of Energy. Many of BPA's statutory authorities are vested in the Secretary of Energy, who appoints, and acts by and through, the BPA Administrator. Some other authorities are vested directly in the BPA Administrator.

BPA's primary customer service area is the Pacific Northwest region (Pacific Northwest or Region) of the United States, encompassing the states of Idaho, Oregon, Washington, parts of western Montana, and small parts of western Wyoming, northern Nevada and northern California. BPA estimates that the population of the 300,000 square-mile service area is approximately eleven million people. Electric power sold by BPA accounts for about 40 percent of the electric power consumed within the Region. BPA markets the majority of this power to over 100 publicly owned and cooperatively-owned utilities for resale to consumers in the Region. BPA also has contracts to sell power for direct consumption to a small number of companies (Direct Service Industries or DSIs) located in the Region.

The Federal Columbia River Transmission System Act of 1974 (Transmission System Act) placed BPA on a self-financing basis, meaning that BPA pays its costs from revenues it receives from the sale of power and the provision of transmission and other services, which BPA provides at rates that seek to produce revenues that recover BPA's costs, including certain payments to the U.S. Treasury. BPA's rates for the foregoing services are subject to approval by the Federal Energy Regulatory Commission (FERC) on the basis that, among other things, they recover BPA's costs. BPA issues and sells bonds to the U.S. Treasury and uses the proceeds thereof to fund certain activities authorized under federal law.

BPA's cash receipts from all sources, including from both its transmission and power marketing business lines, must be deposited in the BPA Fund, which is a revolving fund account of the U.S. Treasury and which is available to pay BPA's costs. In accordance with the Transmission System Act,

BPA must make expenditures from the BPA Fund as “shall have been included in annual budgets submitted to Congress, without further appropriation and without fiscal year limitation, but within such specific directives or limitations as may be included in appropriation acts, for any purpose necessary or appropriate to carry out the duties imposed upon [BPA] pursuant to law...”

BPA is required to establish rates to assure repayment of the U.S. Treasury over a reasonable number of years. This results in BPA scheduling to make certain annual payments to the U.S. Treasury. These payments are subject to the availability of net proceeds, which are gross cash receipts remaining in the BPA Fund after deducting all of the costs paid by BPA to operate and maintain the FCRPS other than those used to make payments to the U.S. Treasury for the repayment of the federal investment in certain transmission facilities and the power generating facilities at federally-owned hydroelectric projects in the Pacific Northwest, debt service on bonds issued by BPA and sold to the U.S. Treasury, repayments of appropriated amounts to the Corps and Reclamation for certain costs allocated to power generation at federally-owned hydroelectric projects in the Pacific Northwest, and costs allocated to irrigation projects as are required by law to be recovered from power sales.

Rates

BPA has three Cost Recovery Adjustment Clauses (CRACs) in its power rates that are designed to collect additional power revenues to ensure that BPA has sufficient funds to meet its obligations, including repayment to the U.S. Treasury during the rate period from fiscal year 2002 to 2006. The three CRACs include a Load-Based (LB) CRAC, a Financial-Based (FB) CRAC, and a Safety-Net (SN) CRAC.

The LB CRAC is a percentage rate adjustment and is based on BPA's costs to purchase power to meet load obligations. Because BPA acquires 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 is reset every six months to recover the anticipated augmentation costs to meet load that cannot be recovered with the base rates. The LB CRAC has been in effect for both fiscal years 2005 and 2006.

The FB CRAC triggers when forecast accumulated net revenues falls below a threshold value for a particular year. The FB CRAC has been in effect for both fiscal years 2005 and 2006.

The SN CRAC is designed to raise rates if a payment to the U.S. Treasury or other creditor has been missed, or if the administrator projects a 50 percent probability that such a payment may be missed in the then-current fiscal year. The SN CRAC increase in rates is zero and 1.75 percent for fiscal years 2005 and 2006, respectively.

Customers

BPA sells power and related services to four main types of customers: Northwest publicly owned utilities, DSIs, Northwest IOUs and other regional and extra regional customers. BPA also sells relatively small amounts of power to several federal agencies within the region. The revenue derived from these customers provides BPA with a large portion of the funds needed to pay its costs. BPA sells transmission and related services under open access tariffs to a broad variety of power generators, including wind generators, marketers and power purchasers. The Revenues table at the end of this section includes the following classifications.

Sales within the Northwest Region

Northwest Publicly Owned Utilities

Qualifying public utility districts, municipalities and consumer-owned electric cooperatives within the Region are entitled to a statutory preference and priority in the purchase of available FCRPS power. These customers have what is referred to as “public preference.” They are eligible to purchase power at BPA’s priority firm rate for most of their loads. As a group, these “Preference Customers” constitute BPA’s largest customer base in terms of number, megawatt sales and revenues.

Direct-Service Industries

BPA is not required to do so, but may offer to sell power for direct consumption to a limited number of existing DSIs within the region.

Northwest Investor-Owned Utilities

BPA provides some firm power to Northwest IOUs. This is power not sold under the public preference priority rate. BPA also sells substantial amounts of peaking capacity to Northwest IOUs during cold periods. As part of its Subscription Strategy, BPA entered into certain agreements, as amended, with the Northwest IOUs in settlement of the statutory obligation that BPA has to provide benefits under the Residential Exchange Program for specified periods that began Oct. 1, 2001.

Discretionary power sales revenues from Northwest IOUs fluctuate with stream-flows in the Columbia River Basin. Stream-flows directly impact the amount of surplus energy available for sale, the costs of generating power with alternative fuels, and ultimately the price BPA can obtain for these sales.

Sales outside the Northwest Region

BPA sells power that is in excess of what is needed to serve firm load obligations in the Region as secondary power to various buyers. Revenue from sales outside the Northwest are highly dependent upon stream-flows in the Columbia River Basin which affect the amount of secondary energy available for sale, and upon the costs of generating power with alternative fuels, which affect

the price BPA can obtain for its exported non-firm energy and surplus firm power. As is the case with revenues from Northwest IOUs, revenues from Sales outside the Northwest Region fluctuate with stream-flows in the Columbia River Basin.

Bookouts

BPA's total operating expenses and revenues from electricity sales reflect Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) guidance (referred to herein as "EITF 03-11"). Both revenues and expenses associated with non-trading energy activities that are "booked out" (settled other than by the physical delivery of power) are reported on a "net" basis in both operating revenues and purchased power expense. The accounting treatment under EITF 03-11 has no effect on net revenue, cash flows or margins.

Transmission

BPA receives revenues by providing transmission and other related services. Transmission revenues fluctuate with weather conditions within the Region and outside of the Region, hydro conditions related to secondary power sales and outage requests for construction and maintenance purposes. Over the past few years, secondary sales of transmission service have grown. Customers with excess capacity are able to sell that capacity to other users at a rate below BPA's rate for short-term, non-firm transmission service. BPA is required to provide transmission service to generators and marketers under the same open access tariffs it uses to charge the PBL and other transmission customers.

Other Revenues

Other miscellaneous revenues are included in this category.

U.S. Treasury Credits for Fish

The Northwest Power Act obligates the BPA Administrator to make expenditures for fish and wildlife protection, mitigation and enhancement for power, and for non-power purposes on a reimbursement basis. The Northwest Power Act also specified that consumers of electric power, through their rates for power services "shall bear the costs of measures designed to deal with adverse impacts caused by the development and operation of electric power facilities and programs only." Section 4(h)(10)(C) of the Northwest Power Act was designed to ensure that the costs of mitigating these impacts are properly accounted for among the various purposes of the hydroelectric projects. BPA reduces its cash payments to the U.S. Treasury by an amount equal to the mitigation measures funded on behalf of the non-power purposes.

The Revenues table below summarizes revenues of electric power by customer, transmission, SFAS 133 derivative mark-to-market, other revenues, and U.S. Treasury credits for fish for the 3 months ended March 31, 2006, and 2005.

Revenues

Federal Columbia River Power System
For the quarters ended March 31 — thousands of dollars

	2006	2005
Sales of electric power:		
Sales within the Northwest region		
Northwest publicly owned utilities	\$ 491,510	\$ 455,748
Direct-service industries	21,323	19,995
Northwest investor-owned utilities	137,190	98,958
Sales outside the Northwest region	174,145	122,154
Bookouts	(74,429)	(58,614)
Total sales of electric power	749,739	638,241
Transmission	157,033	135,028
SFAS 133 derivative mark-to-market	(22,888)	15,040
Other revenues	11,389	10,059
U. S. Treasury credits for fish	14,716	22,449
Total operating revenues	\$ 909,989	\$ 820,817

Results of Operations

Net Revenues

The Federal Columbia River Power System earned net revenues of \$209 million for the three months ended March 31, 2006, as reported in the Combined Statements of Revenues and Expenses below. By comparison, net revenues were \$128 million for the three months ended March 31, 2005. Overall, operating revenues increased \$89 million, operating expenses increased \$12 million, and net interest expense decreased \$4 million from last year. The change in net revenues from the 2nd quarter of fiscal year 2005 is the result of several factors.

Operating Revenues

In total, operating revenues increased \$89 million, or 11 percent from the three months ended March 31, 2005.

Sales, revenues from electricity and transmission, for the three months ended March 31, 2006, were up \$136 million, or 18 percent when compared to the comparable period a year earlier. Both Power Business Line and Transmission Business Line revenues increased as reported in the Segment Reporting statements.

Power Business Line revenues increased mainly due to higher market prices for sales of discretionary surplus power in the current year.

On Oct. 1, 2005, Transmission Business Line rates increased 12 percent leading to higher revenues for the current year.

U.S. Treasury credits for fish decreased \$8 million, or 34 percent as a result of improved water conditions.

Operating Expenses

In total, operating expenses increased \$12 million, or 2 percent from the second quarter of fiscal year 2005.

Operations and maintenance increased \$16 million, or 5 percent for the three months ended March 31, 2006, from the comparable period a year earlier. The increase was primarily a result of direct funding for Corps incurred in the quarter. However, Corps direct funding for the six months ended March 31, 2006, is approximately the same as the six months ended March 31, 2005. The main driver behind the year-to-date operations and maintenance increase is the \$15 million Clark Public Utility Residential Exchange Settlement.

Purchased power decreased \$6 million, or 4 percent compared to the three months ended March 31, 2005. Market prices for power were considerably higher in the beginning of fiscal year 2006 from levels in fiscal year 2005, but power purchases were about 1,100,000 MWH lower over the same three month period. Due to expiring augmentation contracts and higher hydro generation BPA's amount and cost of power purchases was lower.

Nonfederal projects debt service expense increased \$8 million, or 11 percent primarily due to higher debt service expense for Energy Northwest's Nuclear Project No. 1. The increase is the result of planned payment scheduling for nonfederal debt within the total FCRPS debt portfolio. The overall objective of the debt management actions is to achieve the optimal total debt portfolio. The portfolio includes Federal appropriations, bonds issued to the U. S. Treasury, and nonfederal projects debt. Portfolio management causes nonfederal debt to fluctuate between years.

Federal projects depreciation decreased \$6 million, or 6 percent reflecting new depreciation rates effective Oct. 1, 2005.

Interest Expense

Net interest expense for the three months ended March 31, 2006, decreased \$4 million, or 5 percent, compared to the same period a year ago.

Interest on appropriated funds decreased due to lower principal owed the U.S. Treasury and reduced weighted average interest rates.

Interest on bonds issued to the U.S. Treasury decreased as the weighted average interest rate declined from 4.9 percent at the beginning of fiscal year 2005 to 4.8 percent at the beginning of fiscal year 2006. This interest expense also decreased as the income earned on BPA's cash account at the U.S. Treasury increased with higher cash balances. BPA reports interest expense on bonds issued to the U.S. Treasury net of the interest income earned.

Lower interest expense was mostly offset by decreased allowance for funds used during construction as a result of the completion of the Schultz Wautoma transmission line in 2006.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities of the FCRPS increased \$198 million to \$716 million for the six months ended March 31, 2006, compared to \$517 million for the six months ended March 31, 2005.

The change in operating cash flow primarily reflects the changes in net revenues, in deferred asset derivatives and differences in the timing of collecting receivables and payments of accounts payable and accrued liabilities.

Investment Activities

Cash used for investment activities of the FCRPS increased \$28 million to \$175 million for the six months ended March 31, 2006, primarily from higher capital expenditures for federal utility plant, when compared to the six months ended March 31, 2005. Capital expenditures for federal utility plant totaled \$178 million for the six months ended March 31, 2006, compared to \$146 million for the six months ended March 31, 2005.

Financing Activities

Cash provided by financing activities of the FCRPS was \$39 million for the six months ended March 31, 2006, compared to \$116 million cash used for financing activities for the six months ended March 31, 2005. The \$155 million change was primarily the result of repaying \$5 million compared to \$123 million net bonds issued to the U.S. Treasury in the six months ended March 31, 2006 and 2005, respectively.

Modified Net Revenues

Modified net revenues are net revenues after removing the effects of SFAS 133 derivative mark-to-market and nonfederal debt management actions that differ from rate case assumptions. The debt optimization program and other debt management actions have contributed significantly to net revenues for a fifth year. Management has determined that modified net revenues are a better representation of the outcomes of normal operations during periods of debt management actions and fluctuations in derivative market prices.

Modified net revenues were \$114 million higher for the three months ended March 31, 2006, compared to the three months ended March 31, 2005. As discussed above, net revenues were over \$80 million higher, SFAS 133 derivative mark-to-market declined \$38 million and nonfederal debt management actions increased \$4 million.

The table below demonstrates the calculation for modified net revenues.

Modified Net Revenues

*Federal Columbia River Power System
For the quarters ended March 31 — thousands of dollars*

	2006	2005
Net Revenues	\$ 208,628	\$ 128,055
SFAS 133 derivative mark-to-market	22,888	(15,040)
Nonfederal debt management actions	(67,625)	(63,476)
Modified net revenues	\$ 163,891	\$ 49,539

Additional Information

To see BPA's most recent annual report including audited financial statements, go to www.bpa.gov/corporate/finance/a_report

To see BPA's most recent press releases, go to www.onlinepressroom.net/bonneville

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

For information about hydro power or current hydrological information, go to www.bpa.gov/power/pg/hydrspl.shtml

For information on the Power Business Lines 2007 Wholesale Power (WP-07) Rate Case, go to www.bpa.gov/power/pfr/rates/ratecases/wp07

For information on the Transmission Business Line, go to www.transmission.bpa.gov

Federal Columbia River Power System

Combined Balance Sheets

(Unaudited)

March 31,
2006

September 30,
2005

(thousands of dollars)

<u>Assets</u>		
Federal utility plant		
Completed plant	\$ 12,928,212	\$ 12,722,386
Accumulated depreciation	(4,573,651)	(4,453,745)
	<u>8,354,561</u>	<u>8,268,641</u>
Construction work in progress	1,105,373	1,152,978
Net federal utility plant	<u>9,459,934</u>	<u>9,421,619</u>
Nonfederal generation	<u>2,385,745</u>	<u>2,389,445</u>
Current assets		
Cash	1,231,762	651,740
Accounts receivable, net of allowance	112,499	88,184
Accrued unbilled revenues	259,241	208,801
Materials and supplies, at average cost	74,586	75,073
Prepaid expenses	140,208	321,032
Total current assets	<u>1,818,296</u>	<u>1,344,830</u>
Other assets		
Regulatory assets	5,895,762	5,509,596
Nonfederal nuclear decommissioning trusts	129,008	125,509
Deferred charges and other	156,390	234,773
Total other assets	<u>6,181,160</u>	<u>5,869,878</u>
Total assets	<u>\$ 19,845,135</u>	<u>\$ 19,025,772</u>
<u>Capitalization and Liabilities</u>		
Capitalization and long-term liabilities		
Accumulated net revenues	\$ 1,675,179	\$ 1,334,294
Federal appropriations	4,325,699	4,272,662
Bonds issued to U.S. Treasury	2,171,800	2,211,800
Nonfederal projects debt	6,277,664	6,286,559
Total capitalization and long-term liabilities	<u>14,450,342</u>	<u>14,105,315</u>
Commitments and contingencies (See Note 7 to annual financial statements)		
Current liabilities		
Federal appropriations	68,939	68,939
Bonds issued to U.S. Treasury	600,000	565,000
Nonfederal projects debt	208,675	207,490
Accounts payable and other current liabilities	367,192	322,497
Total current liabilities	<u>1,244,806</u>	<u>1,163,926</u>
Other Liabilities		
Regulatory liabilities	2,100,871	2,129,660
IOU exchange benefits	1,404,501	984,187
Nonfederal nuclear asset retirement obligations	161,900	160,600
Deferred credits	482,715	482,084
Total other liabilities	<u>4,149,987</u>	<u>3,756,531</u>
Total capitalization and liabilities	<u>\$ 19,845,135</u>	<u>\$ 19,025,772</u>

Federal Columbia River Power System
Combined Statements of Revenues and Expenses

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(thousands of dollars)			
Operating revenues				
Sales	\$ 902,991	\$ 767,235	\$ 1,721,922	\$ 1,514,786
SFAS 133 derivative mark-to-market	(22,888)	15,040	(55,857)	6,214
Miscellaneous revenues	15,170	16,093	26,239	28,010
U.S. Treasury credits for fish	14,716	22,449	36,181	39,787
Total operating revenues	909,989	820,817	1,728,485	1,588,797
Operating expenses				
Operations and maintenance	324,491	308,772	614,966	588,651
Purchased power	139,596	145,630	295,879	278,934
Nonfederal projects	82,966	74,736	165,577	158,723
Federal projects depreciation and amortization	87,292	92,927	173,907	182,773
Total operating expenses	634,345	622,065	1,250,329	1,209,081
Net operating revenues	275,644	198,752	478,156	379,716
Interest expense				
Interest on federal investment				
Appropriated funds	47,893	49,084	95,945	98,168
Bonds issued to U.S. Treasury	23,698	26,767	50,642	55,772
Allowance for funds used during construction	(4,575)	(5,154)	(9,316)	(11,752)
Net interest expense	67,016	70,697	137,271	142,188
Net revenues	\$ 208,628	\$ 128,055	\$ 340,885	\$ 237,528

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
Combined Statements of Cash Flows
(Unaudited)

	<u>2006</u>	Six Months Ended March 31,	<u>2005</u>
		(thousands of dollars)	
Cash provided by operating activities			
Net revenues	\$ 340,885		\$ 237,528
Non-cash items:			
Depreciation	140,110		147,590
Amortization	33,797		35,183
Amortization of capitalization adjustment	(32,452)		(32,452)
(Increase) decrease in:			
Receivables and unbilled revenues	(74,755)		(78,247)
Materials and supplies	486		1,315
Prepaid expenses	180,824		186,212
Decrease (increase) in:			
Accounts payable and other	44,695		67,776
Other	82,301		(47,298)
Cash provided by operating activities	715,891		517,607
Cash used for investment activities			
Investment in:			
Federal utility plant (including AFUDC)	(178,425)		(146,488)
Nonfederal projects	3,700		(621)
Cash used for investment activities	(174,725)		(147,109)
Cash provided by and used for financing activities			
Increase (repayment):			
Federal construction appropriations	53,035		8,045
Bonds issued to U.S. Treasury	(5,000)		(123,500)
Nonfederal debt	(9,179)		(910)
Cash provided by (used for) financing activities	38,856		(116,365)
Increase in cash	580,022		254,133
Beginning cash balance	651,740		654,242
Ending cash balance	\$ 1,231,762		\$ 908,375

Federal Columbia River Power System

Segment Reporting

(Unaudited)

Three Months Ended

March 31,

2006

	<u>Power</u>	<u>Transmission</u>	<u>Other</u>	<u>FCRPS</u>
	(thousands of dollars)			
Unaffiliated revenues	\$ 752,956	\$ 157,033	\$ -	\$ 909,989
Intersegment revenues	18,246	31,855	(50,101)	-
Total operating revenues	<u>771,202</u>	<u>188,888</u>	<u>(50,101)</u>	<u>909,989</u>
Unaffiliated expenses	522,330	73,513	(48,790)	547,053
Depreciation	44,610	42,682	-	87,292
Intersegment expenses	31,706	18,246	(49,952)	-
Total operating expenses	<u>598,646</u>	<u>134,441</u>	<u>(98,742)</u>	<u>634,345</u>
Net operating revenues	<u>172,556</u>	<u>54,447</u>	<u>48,641</u>	<u>275,644</u>
Interest expense	40,645	34,745	(8,374)	67,016
Net revenues	<u>\$ 131,911</u>	<u>\$ 19,702</u>	<u>\$ 57,015</u>	<u>\$ 208,628</u>

2005

	<u>Power</u>	<u>Transmission</u>	<u>Other</u>	<u>FCRPS</u>
	(thousands of dollars)			
Unaffiliated Revenues	\$ 685,789	\$ 135,028	\$ -	\$ 820,817
Intersegment Revenues	18,616	26,507	(45,123)	-
Total operating revenues	<u>704,405</u>	<u>161,535</u>	<u>(45,123)</u>	<u>820,817</u>
Unaffiliated expenses	505,788	65,693	(42,344)	529,137
Depreciation	44,160	48,768	-	92,928
Intersegment expenses	26,353	18,616	(44,969)	-
Total operating expenses	<u>576,301</u>	<u>133,077</u>	<u>(87,313)</u>	<u>622,065</u>
Net operating revenues	<u>128,104</u>	<u>28,458</u>	<u>42,190</u>	<u>198,752</u>
Interest expense	42,250	34,743	(6,296)	70,697
Net revenues (expenses)	<u>\$ 85,854</u>	<u>\$ (6,285)</u>	<u>\$ 48,486</u>	<u>\$ 128,055</u>

Federal Columbia River Power System Segment Reporting

(Unaudited)

Six Months Ended
March 31,
2006

	<u>Power</u>	<u>Transmission</u>	<u>Other</u>	<u>FCRPS</u>
	(thousands of dollars)			
Unaffiliated Revenues	\$ 1,419,522	\$ 308,963	\$ -	\$ 1,728,485
Intersegment Revenues	36,327	60,262	(96,589)	-
Total operating revenues	<u>1,455,849</u>	<u>369,225</u>	<u>(96,589)</u>	<u>1,728,485</u>
Unaffiliated expenses	1,022,253	141,613	(87,444)	1,076,422
Depreciation	88,609	85,298	-	173,907
Intersegment expenses	60,113	36,327	(96,440)	-
Total operating expenses	<u>1,170,975</u>	<u>263,238</u>	<u>(183,884)</u>	<u>1,250,329</u>
Net operating revenues	<u>284,874</u>	<u>105,987</u>	<u>87,295</u>	<u>478,156</u>
Interest expense	84,374	69,622	(16,725)	137,271
Net revenues	<u>\$ 200,500</u>	<u>\$ 36,365</u>	<u>\$ 104,020</u>	<u>\$ 340,885</u>

2005

	<u>Power</u>	<u>Transmission</u>	<u>Other</u>	<u>FCRPS</u>
	(thousands of dollars)			
Unaffiliated Revenues	\$ 1,323,731	\$ 265,066	\$ -	\$ 1,588,797
Intersegment Revenues	37,795	49,221	(87,016)	-
Total operating revenues	<u>1,361,526</u>	<u>314,287</u>	<u>(87,016)</u>	<u>1,588,797</u>
Unaffiliated expenses	984,236	123,658	(81,586)	1,026,308
Depreciation	87,863	94,910	-	182,773
Intersegment expenses	49,061	37,795	(86,856)	-
Total operating expenses	<u>1,121,160</u>	<u>256,363</u>	<u>(168,442)</u>	<u>1,209,081</u>
Net operating revenues	<u>240,366</u>	<u>57,924</u>	<u>81,426</u>	<u>379,716</u>
Interest expense	86,406	68,545	(12,763)	142,188
Net revenues (expenses)	<u>\$ 153,960</u>	<u>\$ (10,621)</u>	<u>\$ 94,189</u>	<u>\$ 237,528</u>

Operating Segments

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

The FCRPS' major operating segments are defined by the utility functions of generation and transmission. The Power Business Line represents the operations of the generation function, while the Transmission Business Line represents the operations of the transmission function. The business lines are not separate legal entities. Where applicable, "Other" represents items that are necessary to reconcile to the financial statements, which generally include shared activity and eliminations. Each FCRPS segment operates predominantly in one industry and geographic region: the generation and transmission for electric power in the Pacific Northwest.

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

Major Customers

During fiscal 2006, and 2005, no single customer represented 10% or more of the FCRPS' revenues.