Management's Discussion & Analysis

General

The Federal Columbia River Power System (FCRPS) combines the accounts of the Bonneville Power Administration (BPA), the accounts of the Pacific Northwest 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 for the Lower Snake River Compensation Plan Facilities. Northwest Infrastructure Financing Corporations (NIFCs) are "Special Purpose Corporations," that are consolidated with BPA.

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 since designated BPA to be the marketing agent for power from all of the federally owned hydroelectric projects in the Pacific Northwest. 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 additional authorities are vested directly in the BPA administrator.

BPA's primary customer service area is the Pacific Northwest region of the United States, encompassing the states of Idaho, Oregon, Washington, western Montana, and small parts of eastern Montana, western Wyoming, northern Nevada, Utah and northern California. BPA estimates the population of the 300,000 square mile service area is approximately 12 million people. Electric power sold by BPA accounts for about 35 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 had contracts to sell power for direct consumption to a small number of companies (direct-service industries or DSIs) located in the region through fiscal year 2006. The contracted amount of service BPA provided to DSIs diminished substantially relative to levels during the 1940s through the 1990s. With current rates in October 2006, BPA began providing monetary payments to help the DSIs purchase power from their local electric providers. BPA is required by law to exchange power with qualifying utilities to meet their residential and small farm electric power loads within the region. The operation of this program, referred to as the "Residential Exchange Program," may result in payments by BPA to the exchanging utilities if the applicable power rates for FCRPS power are lower than the utilities' respective average system cost of meeting their residential and small farm power loads. The primary participants in the Residential Exchange Program historically have been investor-owned utilities (IOUs) in the region.

The Transmission System Act placed BPA on a self financing basis, meaning BPA pays its costs from revenues it receives from the sale of power and the provision of transmission and other services. BPA sets rates at levels to ensure revenues 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 to fund certain activities established under federal law.

Although BPA is a non-jurisdictional utility, it voluntarily provides open access, non-discriminatory transmission service to all requestors under a tariff approved by the FERC. In addition, BPA conforms to FERC standards of conduct to ensure its transmission function does not discriminatorily advantage its merchant power function.

BPA's cash receipts from all sources, including from both its transmission and power marketing businesses, 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 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 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.

Nonfederal Generation

BPA has acquired all of the generating capability of Energy Northwest's Columbia Generating Station (CGS) nuclear power plant. The contract to acquire the generating capability of the project requires BPA to pay all or part of the annual project budget, including operating expenses and debt service. BPA also has acquired all of the output of the Cowlitz Falls hydro project and pays all operating expenses and debt service. BPA recognizes expenses for these projects based upon total project cash funding requirements. The nonfederal generation assets in the Combined Balance Sheets are amortized as the principal on the outstanding bonds is repaid.

Rate Adjustment Tools

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

The LB CRAC was a percentage rate adjustment and was 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 was not possible to forecast accurately the cost of purchasing this power over the entire five-year rate period. Accordingly, the LB CRAC was designed to be responsive to changes in the market price of power and to reflect the change in prices in the power purchase contracts. It was reset every six months to recover the anticipated augmentation costs to meet load which could not be recovered with the base rates, followed by true-ups to the actual costs. The FB CRAC triggered if forecast accumulated modified net revenues for power fell below a threshold value for a particular year. The SN CRAC was designed to raise rates if a payment to the U.S. Treasury or other creditor was missed, or if the administrator projected a 50 percent probability that such a payment might be missed in the then-current fiscal year.

Under BPA's proposed rates effective Oct. 1, 2006, these CRACs were replaced with a single CRAC which can raise additional revenues up to $300 million when forecast accumulated power net revenues fall below a threshold value for a particular year. The "National Marine Fisheries Service FCRPS Biological Opinion (NFB) Adjustment" increases the CRAC ceiling for qualifying costs and the addition of the NFB Emergency Surcharge allows immediate within-year adjustment for qualifying costs. The Dividend Distribution Clause is continued.

Customers

BPA sells power (energy and capacity) and related services to four main types of customers: Northwest publicly owned utilities, Direct-Service Industries, Northwest Investor-Owned Utilities, 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.

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. By law, 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, publicly owned utilities constitute BPA’s largest customer base in terms of number, megawatt-hour 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. Beginning with the current rate period that began Oct. 1, 2006, BPA no longer delivers power to the DSIs but instead provides the DSIs monetary benefits to be used for their power purchases.

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 peaking capacity to one Northwest IOU. As part of its Subscription strategy, BPA entered into certain agreements, as amended, with the Northwest IOUs to settle BPA’s statutory obligation to provide benefits under the Residential Exchange Program for specified periods that began Oct. 1, 2001. Although the amended agreements settled disputes with the IOUs concerning the levels of exchange benefits, in May 2007 based on lawsuits presented to the Ninth Circuit Court of Appeals, the Court ruled these agreements were inconsistent with the requirements established in the Northwest Power Act. In addition, in a related lawsuit filed with the Court, the Court ruled that BPA did not allocate the cost of the amended agreements appropriately and remanded rates to BPA. As a result of the Court ruling, in May 2007 BPA suspended IOU payments under these agreements of approximately $28 million per month. BPA did not file a petition for rehearing either of the two lawsuits. BPA’s IOU customers filed petitions for rehearing both lawsuits in July 2007. The parties await a decision by the Court.

The Residential Exchange Program continues to be a requirement of the Northwest Power Act. Efforts are underway to develop a within region solution to issues restoring appropriate benefits under the Program. BPA expects any proposed solution to require implementation through a formal rate setting process. Until the uncertainty about the level of the future BPA obligations under the Residential Exchange Program is reduced, BPA financial statements will continue to reflect the obligations at levels associated with the settlement agreements.

Revenues from other power sales to Northwest IOUs fluctuate with stream flows in the Columbia River Basin. Stream flows directly impact the amount of secondary 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 some secondary energy to various extra-regional buyers and in-region marketers when it is in excess of what is needed to serve firm load obligations in the region. Revenue from these sales fluctuates with stream flows in the Columbia River Basin. Stream flows directly impact the amount of surplus power available for sale, the costs of generating power with alternative fuels and ultimately the price BPA can obtain for these sales.

Bookouts

BPA's revenues from electricity sales 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 has no effect on net revenue, cash flows or margins.

Transmission

Transmission revenues are primarily earned from long-term take-or-pay contracts but can fluctuate based upon a number of factors, including the amount of unused transmission line capacity available to sell as well as weather and hydro conditions. BPA's Transmission Services is required to provide transmission service to generators and marketers under the same open access tariffs it uses to serve BPA's Power Services and other Transmission Services customers.

Other Revenues

Derivative mark-to-market accounting adjustments and other power miscellaneous revenues are included in this category.

U.S. Treasury Credits for Fish

The Northwest Electric Power Planning and Conservation Act obligated BPA to make expenditures for fish and wildlife protection, mitigation, and enhancement for both power and 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. In the early 1990s, BPA, the U.S. Treasury and the Office of Management and Budget agreed to a crediting mechanism whereby 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 by Customer Class table below summarizes revenues of electric power by customer, transmission, other revenues (including SFAS 133 derivative mark-to-market), and U.S. Treasury credits for fish for the 3 months ended June 30, 2007, and 2006.

Revenues by Customer Class

Federal Columbia River Power System
For the quarters ended June 30 — thousands of dollars

	2007	2006
Sales of electric power:		
Sales within the Northwest region		
Northwest publicly owned utilities	**$ 384,247**	$ 386,651
Direct-service industries	**—**	15,268
Northwest investor-owned utilities	**89,454**	125,544
Sales outside the Northwest region	**195,821**	211,904
Bookouts	**(25,472)**	(58,192)
Total sales of electric power	**644,050**	681,175
Transmission	**171,490**	166,937
Other revenues	**(2,219)**	(11,409)
U. S. Treasury credits for fish	**17,585**	19,096
Total operating revenues	**$ 830,906**	$ 855,799

Results of Operations

Net Revenues

The Federal Columbia River Power System earned net revenues of $186 million for the three months ended June 30, 2007, as reported below in the Combined Statements of Revenues and Expenses. By comparison, net revenues were $193 million for the three months ended June 30, 2006. The decline in net revenues from the 3rd quarter of fiscal year 2006 is the result of $25 million decreased operating revenues partially offset by a reduction of $12 million operating expenses and net interest expense decreasing $6 million from last year.

Operating Revenues

Sales, revenues from electricity and transmission, for the three months ended June 30, 2007, were down $23 million, or 3 percent from the same quarter last year.

Power revenues decreased $37 million. Reduced stream flows and shutdown of the CGS nuclear plant for scheduled maintenance drove down generation therefore less secondary energy was available for sale. This lowered revenue from secondary energy sales to IOUs by approximately $21 million and sales outside the Northwest region by approximately $16 million.

Under the proposed rates during fiscal year 2007 BPA is providing monetary benefits rather than power to the DSIs. Under settlement agreements BPA is providing monetary benefits rather than power for residential load to the IOUs. Coincidentally, these revenue reductions were offset by reduced bookouts.

Transmission revenues increased $14 million mainly due to increased sales under long-term point-to-point network and short-term intertie contracts. Load based sales also increased due to greater than anticipated load growth. Part of the increase is associated with revenues from Ancillary Services, which are bundled with the sale of transmission capacity needed to ensure efficient and reliable service.

Operating Expenses

In total, operating expenses decreased $12 million, or 2 percent from the 3rd quarter of fiscal year 2006.

Operations and maintenance increased $70 million, or 21 percent for the three months ended June 30, 2007, from the comparable period a year earlier. The increase was primarily a result of IOU Exchange Benefits payments. Through fiscal year 2006, IOU exchange benefits were mostly made to purchase back power to meet other firm power sales obligations and were allocated to augmentation power purchases. These augmentation power purchases were included in purchased power. In the current rate period beginning on Oct. 1, 2006, the IOU exchange benefits settlements are mostly monetary payments pursuant to agreements intended to settle Residential Exchange Program benefits provided by the Northwest Power Act as discussed above in Northwest Investor-Owned Utilities. These current payments are included in operations and maintenance expenses. Although the nature of the payments has changed the total is approximately the same.

Also increasing O&M costs, although to a lesser extent, were increased Annual Budget Funding Requirements for operating the CGS nuclear plant. CGS nuclear plant budget requirements are higher than last year as both a maintenance outage and nuclear refueling are scheduled. A settlement with Southern California Edison for $13 million for BPA’s adjustment of the FPS-96 rate schedule to establish a posted rate for a capacity product SCE could purchase as part of an option feature of a power sales agreement also contributed to higher O&M costs for the third quarter of the current fiscal year.

Purchased power decreased $46 million, or 48 percent compared to the three months ended June 30, 2006. The decrease would have been larger but for a significant reduction in bookouts. The decrease was due to expiring load reduction payments to Pacificorp and Puget Sound Energy. The decrease resulting from load reduction payments was partially offset by increased purchases in the spring this year that were due to reduced stream flow and the scheduled CGS maintenance.

Nonfederal projects decreased $39 million or 46 percent due to lower debt service expense for Energy Northwest. The decrease is the result of amended Energy Northwest budgets for its fiscal year ended June 30, 2007, which applied excess working cash balances as a reduction of debt service funding required for Energy Northwest's terminated Nuclear Projects No. 1 and No. 3.

Federal projects depreciation and amortization increased $3 million, or 3 percent reflecting increases to depreciation for BPA transmission for completion of the Schultz Wautoma transmission line energized in 2006, depreciation for Reclamation operated federal-hydro generating facilities at Columbia Basin, and amortization for Columbia River Fish Mitigation measures beginning Oct. 1, 2006.

Interest Expense

Net interest expense for the three months ended June 30, 2007, decreased $6 million, or 9 percent, compared to the same period a year ago.

Interest on bonds issued to the U.S. Treasury decreased $5 million. Income earned on BPA's cash account at the U.S. Treasury increased $4 million with higher cash balances. BPA reports interest expense on bonds issued to the U.S. Treasury net of the interest income earned. Interest expense on bonds decreased $1 million with lower balances of bonds outstanding.

Lower interest expense was partially offset by a slight decrease in allowance for funds used during construction as a result of the completion of a large BPA transmission project, the Schultz Wautoma transmission line in 2006.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities of the FCRPS decreased $274 million to $901 million for the fiscal year-to-date ended June 30, 2007, compared to $1.175 billion for the fiscal year-to-date ended June 30, 2006.

The change in operating cash flow primarily reflects the changes in net revenues and differences in the timing of collecting receivables and payments of accounts payable and accrued liabilities. Cash flows from the change to prepaid expenses for 2006 reflected a change to direct payments by BPA for Energy Northwest costs. Beginning the 3rd quarter of 2006 receipts from participating BPA utility customers flow to BPA rather than Energy Northwest.

Investment Activities

Cash used for investment activities of the FCRPS decreased $34 million to $290 million for the fiscal year-to-date ended June 30, 2007, primarily because of a transfer to BPA from the Spectrum Relocation Fund (SRF), when compared to the fiscal year-to-date ended June 30, 2006.

The National Telecommunications and Information Administration Organization Act provided for reallocation from federal use to nonfederal use of specific telecommunications frequencies. BPA had invested in telecommunications equipment using frequencies specified in the Act during the course of constructing and operating the FCRPS generation and transmission facilities. The Commercial Spectrum Enhancement Act created the SRF to provide a centralized and streamlined funding mechanism through which federal agencies are permitted to offset costs associated with relocating their radio communications systems from displaced spectrum bands. During the 2nd quarter of fiscal year 2007, BPA received approximately $49 million for this purpose. These funds are expected to be used for construction and replacement of telecommunications facilities and equipment over the next several years. As such the receipts are reflected as a source of investing cash.

Financing Activities

Cash provided by financing activities of the FCRPS was $55 million for the fiscal year-to-date ended June 30, 2007, compared to $39 million for the fiscal year-to-date ended June 30, 2006.

The change was the result of a $50 million decrease in repayment of bonds issued to the U.S. Treasury, new Federal construction appropriations declining to $63 million for the fiscal year-to-date ended June 30, 2007, compared to $80 million for the fiscal year-to-date ended June 30, 2006, and a $17 million change in nonfederal debt.

Cash Balances

At June 30, 2007, the FCRPS ending cash balance on the Combined Balance Sheet was $1.892 billion. The Corps and Reclamation combined cash balances were $151 million.

BPA’s ending cash, excluding $47 million remaining cash transferred from the SRF and $56 million IOU benefits scheduled but not paid during the quarter, was $1.638 billion.

Modified Net Revenues

Modified net revenues are net revenues after removing the effects of SFAS 133 and nonfederal debt management actions that differ from rate case assumptions. Management has determined 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.

The primary change in modified net revenues for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, is due to decreased nonfederal projects debt service expense for Energy Northwest as described above under Operating Expenses.

The table below demonstrates the calculation for modified net revenues.

Modified Net Revenues

Federal Columbia River Power System
For the quarters ended June 30 — thousands of dollars

	2007	2006
Net Revenues	**$ 185,509**	$ 192,713
SFAS 133 derivative mark-to-market	**10,509**	19,833
Nonfederal debt management actions	**(101,600)**	(45,794)
Modified net revenues	**$ 94,418**	$ 166,752

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 on Power Services, go to www.bpa.gov/power

For information about hydro power or current hydrological information, go to www.bpa.gov/power/pgf/hydrology/weekly.shtml

For information on Transmission Services, go to www.transmission.bpa.gov

Federal Columbia River Power System

Combined Balance Sheets

(Unaudited)

	June 30, 2007	September 30, 2006
	(thousands of dollars)	
Assets		
Federal utility plant		
Completed plant	**$ 13,180,955**	$ 13,056,815
Accumulated depreciation	**(4,779,935)**	(4,652,107)
	8,401,020	8,404,708
Construction work in progress	**839,736**	795,151
Net federal utility plant	**9,240,756**	9,199,859
Nonfederal generation	**2,469,510**	2,435,065
Current assets		
Cash	**1,891,543**	1,225,075
Accounts receivable, net of allowance	**110,226**	137,179
Accrued unbilled revenues	**202,959**	247,418
Materials and supplies, at average cost	**75,153**	71,765
Prepaid expenses	**32,544**	21,453
Total current assets	**2,312,425**	1,702,890
Other assets		
Regulatory assets	**6,001,509**	6,217,712
Nonfederal nuclear decommissioning trusts	**157,027**	140,896
Deferred charges and other	**130,561**	101,024
Total other assets	**6,289,097**	6,459,632
Total assets	**$ 20,311,788**	$ 19,797,446
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 2,423,880**	$ 1,945,357
Federal appropriations	**4,353,509**	4,290,035
Bonds issued to U.S. Treasury	**1,905,200**	1,925,500
Nonfederal projects debt	**6,496,094**	6,284,379
Total capitalization and long-term liabilities	**15,178,683**	14,445,271
Commitments and contingencies (See Note 7 to annual financial statements)		
Current liabilities		
Federal appropriations	**33,694**	33,694
Bonds issued to U.S. Treasury	**556,600**	556,300
Nonfederal projects debt	**30,773**	230,879
Accounts payable and other current liabilities	**484,768**	369,597
Total current liabilities	**1,105,835**	1,190,470
Other Liabilities		
Regulatory liabilities	**2,062,779**	2,072,362
IOU exchange benefits	**981,656**	1,224,198
Nonfederal nuclear asset retirement obligations	**175,000**	169,300
Deferred credits	**807,835**	695,845
Total other liabilities	**4,027,270**	4,161,705
Total capitalization and liabilities	**$ 20,311,788**	$ 19,797,446

Federal Columbia River Power System

Combined Statements of Revenues and Expenses

(Unaudited)

	Three Months Ended June 30, **2007**	Three Months Ended June 30, 2006	Fiscal Year-to-Date Ended June 30, **2007**	Fiscal Year-to-Date Ended June 30, 2006
			(thousands of dollars)	
Operating revenues				
Sales	**$ 806,945**	$ 830,017	**$ 2,424,548**	$ 2,551,939
SFAS 133 derivative mark-to-market	**(10,509)**	(19,833)	**1,774**	(75,690)
Miscellaneous revenues	**16,885**	26,519	**49,051**	52,759
U.S. Treasury credits for fish	**17,585**	19,096	**55,133**	55,277
Total operating revenues	**830,906**	855,799	**2,530,506**	2,584,285
Operating expenses				
Operations and maintenance	**401,322**	331,070	**1,148,219**	946,036
Purchased power	**50,567**	96,599	**229,769**	392,478
Nonfederal projects	**45,395**	84,203	**220,861**	249,781
Federal projects depreciation and amortization	**88,311**	85,576	**267,118**	259,483
Total operating expenses	**585,595**	597,448	**1,865,967**	1,847,778
Net operating revenues	**245,311**	258,351	**664,539**	736,507
Interest expense				
Interest on federal investment				
Appropriated funds	**50,341**	51,283	**149,348**	147,227
Bonds issued to U.S. Treasury	**13,240**	18,565	**46,997**	69,206
Allowance for funds used during construction	**(3,779)**	(4,210)	**(10,329)**	(13,525)
Net interest expense	**59,802**	65,638	**186,016**	202,908
Net revenues	**$ 185,509**	$ 192,713	**$ 478,523**	$ 533,599

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)

	Fiscal Year-to-Date Ended June 30,	
	2007	2006
	(thousands of dollars)	
Cash provided by operating activities		
Net revenues	**$ 478,523**	$ 533,599
Non-cash items:		
Federal projects depreciation and amortization	**267,118**	259,483
Amortization of capitalization adjustment	**(48,679)**	(48,679)
(Increase) decrease in:		
Receivables and unbilled revenues	**71,413**	(107,872)
Materials and supplies	**(3,388)**	2,183
Prepaid expenses	**(11,091)**	296,442
Decrease (increase) in:		
Accounts payable and other	**115,171**	102,321
Other	**31,916**	137,923
Cash provided by operating activities	**900,983**	1,175,400
Cash used for investment activities		
Investment in:		
Federal utility plant (including AFUDC)	**(303,779)**	(278,260)
Nonfederal projects	**(34,445)**	(45,620)
Transfer from Spectrum Relocation Fund	**48,627**	-
Cash used for investment activities	**(289,597)**	(323,880)
Cash provided by and used for financing activities		
Increase (repayment):		
Federal construction appropriations	**63,473**	79,667
Bonds issued to U.S. Treasury	**(20,000)**	(70,000)
Nonfederal debt	**11,609**	28,870
Cash provided by financing activities	**55,082**	38,537
Increase in cash	**666,468**	890,057
Beginning cash balance	**1,225,075**	651,740
Ending cash balance	**$ 1,891,543**	$ 1,541,797

Federal Columbia River Power System

Segment Reporting

(Unaudited)

Three Months Ended
June 30,
2007

		Power		Transmission		Other		FCRPS
		(thousands of dollars)						
Unaffiliated revenues	**$**	**659,417**	**$**	**171,489**	**$**	**-**	**$**	**830,906**
Intersegment revenues		**19,531**		**36,658**		**(56,189)**		**-**
Total operating revenues		**678,948**		**208,147**		**(56,189)**		**830,906**
Unaffiliated expenses		**462,072**		**74,090**		**(38,878)**		**497,284**
Depreciation		**43,730**		**44,581**		**-**		**88,311**
Intersegment expenses		**36,658**		**19,531**		**(56,189)**		**-**
Total operating expenses		**542,460**		**138,202**		**(95,067)**		**585,595**
Net operating revenues		**136,488**		**69,945**		**38,878**		**245,311**
Interest expense		**36,970**		**33,645**		**(10,813)**		**59,802**
Net revenues	**$**	**99,518**	**$**	**36,300**	**$**	**49,691**	**$**	**185,509**

2006

		Power		Transmission		Other		FCRPS
		(thousands of dollars)						
Unaffiliated Revenues	$	688,862	$	166,937	**$**	**-**	$	855,799
Intersegment Revenues		18,918		46,318		(65,236)		-
Total operating revenues		707,780		213,255		(65,236)		855,799
Unaffiliated expenses		484,559		75,861		(48,548)		511,872
Depreciation		42,080		43,496		-		85,576
Intersegment expenses		46,051		18,918		(64,969)		-
Total operating expenses		572,690		138,275		(113,517)		597,448
Net operating revenues		135,090		74,980		48,281		258,351
Interest expense		39,564		34,461		(8,387)		65,638
Net revenues	$	95,526	$	40,519	$	56,668	$	192,713

Federal Columbia River Power System

Segment Reporting

(Unaudited)

Fiscal Year-to-Date Ended
June 30,
2007

		Power		Transmission		Other		FCRPS
				(thousands of dollars)				
Unaffiliated Revenues	**$**	**2,020,254**	**$**	**510,252**	**$**	**-**	**$**	**2,530,506**
Intersegment Revenues		**58,417**		**92,079**		**(150,496)**		**-**
Total operating revenues		**2,078,671**		**602,331**		**(150,496)**		**2,530,506**
Unaffiliated expenses		**1,507,906**		**207,731**		**(116,788)**		**1,598,849**
Depreciation		**133,022**		**134,096**		**-**		**267,118**
Intersegment expenses		**91,982**		**58,416**		**(150,398)**		**-**
Total operating expenses		**1,732,910**		**400,243**		**(267,186)**		**1,865,967**
Net operating revenues		**345,761**		**202,088**		**116,690**		**664,539**
Interest expense		**116,630**		**101,730**		**(32,344)**		**186,016**
Net revenues	**$**	**229,131**	**$**	**100,358**	**$**	**149,034**	**$**	**478,523**

2006

		Power		Transmission		Other		FCRPS
				(thousands of dollars)				
Unaffiliated Revenues	$	2,108,384	$	475,901	$	-	$	2,584,285
Intersegment Revenues		55,246		106,580		(161,826)		-
Total operating revenues		2,163,630		582,481		(161,826)		2,584,285
Unaffiliated expenses		1,506,813		217,474		(135,993)		1,588,294
Depreciation		130,690		128,794		-		259,484
Intersegment expenses		106,163		55,246		(161,409)		-
Total operating expenses		1,743,666		401,514		(297,402)		1,847,778
Net operating revenues		419,964		180,967		135,576		736,507
Interest expense		123,937		104,083		(25,112)		202,908
Net revenues	$	296,027	$	76,884	$	160,688	$	533,599

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. Power Services represents the operations of the generation function, while the Transmission Services represents the operations of the transmission function. Power and Transmission Services 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 2007, and 2006, no single customer represented 10% or more of the FCRPS' revenues.