Management's Discussion and Analysis – 1st Quarter

Net Revenues

Through the three months ended Dec. 31, 2000, BPA incurred net expenses of $642 million, compared with $129 million net revenues for the same period a year ago. The change of $771 million, is primarily the result of increased purchased power and the treatment of "bookouts" under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 133. "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133).

Operating Revenues

Revenues from the sales of electricity and transmission of $788 million were up $101 million compared to the same period of fiscal 1999. This represents an increase of 15 percent.

Revenues were up because market prices for discretionary power sales increased to an average of 63 mills from the previous year average of 27 mills.

Mark–to–market losses on derivative instruments of $293 million from Oct. 1 through Dec. 31 reduced the total operating revenues to $495 million for the quarter versus $687 million in the first quarter of fiscal 2000. Bookouts are common in the electric utility industry as a power scheduling convenience when two utilities happen to have offsetting transactions for the same delivery period – a sale and a purchase – at the same delivery location. SFAS 138 amends certain sections of SFAS 133 and specifically defines instruments subject to bookout as not qualifying for the normal purchase and normal sales exemption contained in SFAS 133. As a result, the instruments subject to bookout are accounted for using mark-to-market accounting through the income statement. While authoritative accounting guidance in this area continues to emerge, BPA management has elected to apply the guidance in SFAS 133 and SFAS 138 as currently stated.

Operating Expenses

Operations and maintenance cost through the first quarter of fiscal 2001 increased $17 million from the previous year. BPA, Bureau of Reclamation, and Energy Northwest's Columbia Generating Station nuclear power plant O&M costs increased.

BPA's cost for short-term purchased power was $434 million or eleven times higher than first quarter of the prior year. During the first quarter of fiscal 2001, BPA spent a little over half of the amount paid for purchased power in the fiscal year ended Sept. 30. 2000.

Looking forward, BPA has entered into Subscription power sales to serve load, which could prove to be 3,000 average megawatts more than the federal system produces on a firm-planning basis. These contracts run for as short as three and as long as 10 years from Oct. 1, 2001. BPA is in the process of setting rates to cover the additional costs of its Subscription obligations for fiscal years 2002 through 2006. BPA has already negotiated contracts to purchase some share of this projected shortfall, has contracted for some load reductions and is taking further actions to meet its contractual commitments in the most cost-efficient manner.

BPA also enters into purchase commitments to purchase power at future dates when BPA forecasts a shortage of generating capability and prices are favorable. Further, BPA enters into sales commitments to sell expected surplus generating capabilities at future dates. 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.

In total, operating expenses increased $416 million, or 88 percent.

Interest Expense

Net interest expense decreased $5 million, or 6 percent, compared to the same period in 1999. Interest income earned on BPA's cash account with the U.S. Treasury is netted against interest expense. As BPA's cash balance has increased over the past year, interest income has increased and is reflected in the decreased net interest expense.

Current Assets

Currents assets increased as prepaid expenses were up with a $80 million payment to Kaiser aluminum for a remarketing purchased power agreement.

Deferred Credits

Deferred credits increased as the result of a $455 million offset to the mark–to–market losses on derivative instrument transactions.

Forecast Financial Condition

The current forecast for fiscal 2001 year-end financial reserves – cash and deferred borrowing authority – is that year-end reserves will be $300 to $800 million, compared to $811 million, at Sept. 30, 2000.

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)
(Thousands of Dollars)

	December 31	
	2000	1999
ASSETS		
UTILITY PLANT:		
Completed plant	**$11,107,122**	$11,016,114
Accumulated depreciation	**(3,659,731)**	(3,534,560)
	7,447,391	7,481,554
Construction work in progress	**670,294**	563,970
Net utility plant	**8,117,685**	8,045,524
NON-FEDERAL PROJECTS	**6,407,799**	6,686,582
TROJAN DECOMMISSIONING COST	**78,307**	85,587
CONSERVATION, net of accumulated amortization	**486,350**	552,427
FISH AND WILDLIFE, net of accumulated amortizatio	**142,671**	145,572
CURRENT ASSETS	**1,288,190**	1,204,545
OTHER ASSETS	**188,972**	182,647
	$16,709,974	$16,902,884
CAPITALIZATION AND LIABILITIES		
ACCUMULATED NET REVENUES (EXPENSES)	**($509,152)**	$21,290
FEDERAL APPROPRIATIONS	**4,550,583**	4,505,697
CAPITALIZATION ADJUSTMENT	**2,311,344**	2,379,145
LONG-TERM DEBT	**2,513,200**	2,397,400
NON-FEDERAL PROJECTS DEBT	**6,052,211**	6,374,003
TROJAN DECOMMISSIONING RESERVE	**65,707**	62,987
CURRENT LIABILITIES	**792,763**	716,639
DEFERRED CREDITS	**933,318**	445,723
	$16,709,974	$16,902,884

Comparative Statements of Revenues and Expenses (Unaudited)
(Thousands of Dollars)

	Three months ended December 31		Twelve months ended December 31	
	2000	1999	**2000**	1999
Operating Revenues:				
Revenues	**$788,313**	$687,487	**$3,140,995**	$2,717,385
SFAS 133 mark-to-market loss	**(292,720)**	0	**(292,720)**	0
Operating Revenues	**495,593**	687,487	**2,848,275**	2,717,385
Operating Expenses:				
Operations and maintenance	**199,889**	183,092	**939,140**	861,946
Purchased power	**433,651**	39,549	**1,018,984**	253,102
Tenaska	**0**	0	**(26,817)**	0
Non-Federal projects	**162,550**	157,410	**565,739**	644,145
Residential exchange	**11,821**	15,818	**59,596**	66,895
Federal projects depreciation	**79,695**	75,682	**323,955**	313,922
Operating Expenses	**887,606**	471,551	**2,880,597**	2,140,010
Net operating revenues	**(392,013)**	215,936	**(32,322)**	577,375
Interest Expense	**81,459**	86,479	**329,630**	351,050
Net Income from Continuing Operations	**($473,472)**	$129,457	**($361,952)**	$226,325
Cumulative Effect of SFAS 133	**(168,490)**	0	**(168,490)**	0
NET REVENUES (EXPENSES)	**($641,962)**	$129,457	**($530,442)**	$226,325

Derivative Instruments and Hedging Activities

On the date of adoption (Oct. 1, 2000), BPA recorded a $168 million loss primarily attributable to the requirement to account for bookout transactions under SFAS 133. Going forward from the date of adoption, BPA estimates the impact of SFAS 133 to be immaterial on a long-term basis, as the effects of marking derivatives, including bookout transactions, to market will reverse and eliminate over the terms of the related contracts. However, SFAS 133 is expected to have significant effect in increasing volatility of earnings (losses) on a period to period basis.

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.

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.

Major Customers

During fiscal 2000, and 1999, no single customer represented 10% or more of the FCRPS's revenues.

SFAS 131 SEGMENT REPORTING
(Thousands of Dollars)

	Three months ended December 31			
2000	**Power**	**Transmission**	**Corporate**	**Total**
Unaffiliated Revenues	**$404,518**	**$91,075**	**$0**	**$495,593**
Intersegment Revenues	**16,636**	**48,682**	**(65,318)**	**-**
Operating Revenues	**$421,154**	**$139,757**	**($65,318)**	**$495,593**
Net Operating Margin	**$81,094**	**$73,275**	**$141,335**	**$295,704**
1999	Power	Transmission	Corporate	Total
Unaffiliated Revenues	$607,814	$79,673	$0	$687,487
Intersegment Revenues	15,739	60,951	(76,690)	-
Operating Revenues	$623,553	$140,624	($76,690)	$687,487
Net Operating Margin	$386,690	$80,494	$37,211	$504,395

	Twelve Months Ended December 31			
2000	**Power**	**Transmission**	**Corporate**	**Total**
Unaffiliated Revenues	**$2,471,260**	**$377,015**	**$0**	**$2,848,275**
Intersegment Revenues	**47,282**	**200,458**	**(247,740)**	**-**
Operating Revenues	**$2,518,542**	**$577,473**	**($247,740)**	**$2,848,275**
Net Operating Margin	**$1,002,224**	**$298,928**	**$607,983**	**$1,909,135**
1999	Power	Transmission	Corporate	Total
Unaffiliated Revenues	$2,417,658	$299,727	$0	$2,717,385
Intersegment Revenues	47,999	266,791	(314,790)	-
Operating Revenues	$2,465,657	$566,518	($314,790)	$2,717,385
Net Operating Margin	$1,395,314	$329,560	$130,565	$1,855,439