Management's Discussion and Analysis – 2nd Quarter

Net Revenues

Through the six months ended March 31, 2001, BPA incurred net expenses of $235 million, compared with $325 million net revenues for the same period a year ago. The primary factors causing the decrease of $560 million, were 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 $2.1 billion were up $635 million compared to the same period of fiscal 2000. This represents an increase of 43 percent. Revenues were up because market prices for discretionary power sales increased to an average of 86 mills from the previous year average of 26 mills.

Mark–to–market gains on derivative instruments of $52 million from Oct. 1 through March 31 increased the change in total operating revenues to $688 million from the year earlier period. 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 second quarter of fiscal 2001 increased $8 million, or 2 percent from the previous year. BPA and Energy Northwest's Columbia Generating Station nuclear power plant O&M costs increased.

BPA's cost for short-term purchased power was $1.1 billion or nineteen times higher than first half of the prior year. During the first half of fiscal 2001, BPA spent over 80 percent more than the amount paid for purchased power in the entire fiscal year ended Sept. 30. 2000. Federal generation declined by 11 million megawatt-hours or 24 percent from the same period in the prior year, due to low streamflows. The forecast January through July volume runoff is the 2nd lowest since 1928. The average cost of power purchased increased from about $30 per megawatt-hour during the first 6 months of fiscal 2000 to about $125 per megawatt-hour for the corresponding period in fiscal 2001. The combination of higher market prices and reduced hydro generation is the cause of the increased purchased power expense.

Looking forward, BPA has entered into Subscription power sales to serve load, which could prove to be up to 3,400 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 about 1,200 to 1,500 average megawatts 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 stabilize its revenues from estimated surplus volumes. BPA records these sales and purchases in the month the underlying power is sold or purchased.

In total, operating expenses through March 31st increased $1.1 billion or 111 percent over the comparable period a year earlier.

Interest Expense

Net interest expense decreased $6 million, or 4 percent, compared to the same period in 2000. 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 $116 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)

	March 31	
	2001	2000
ASSETS		
UTILITY PLANT:		
Completed plant	**$11,120,899**	$11,054,517
Accumulated depreciation	**(3,713,204)**	(3,592,367)
	7,407,695	7,462,150
Construction work in progress	**703,200**	577,431
Net utility plant	**8,110,895**	8,039,581
NON-FEDERAL PROJECTS	**6,399,694**	6,683,162
TROJAN DECOMMISSIONING COST	**73,414**	82,778
CONSERVATION, net of accumulated amortization	**474,888**	538,336
FISH AND WILDLIFE, net of accumulated amortizatio	**140,076**	144,984
CURRENT ASSETS	**1,461,249**	1,440,686
OTHER ASSETS	**426,364**	188,412
	$17,086,580	$17,117,939
CAPITALIZATION AND LIABILITIES		
ACCUMULATED NET REVENUES (EXPENSES)	**($101,928)**	$216,639
FEDERAL APPROPRIATIONS	**4,549,419**	4,508,290
CAPITALIZATION ADJUSTMENT	**2,294,148**	2,362,277
LONG-TERM DEBT	**2,648,200**	2,400,900
NON-FEDERAL PROJECTS DEBT	**6,043,650**	6,370,543
TROJAN DECOMMISSIONING RESERVE	**60,814**	60,178
CURRENT LIABILITIES	**979,544**	757,858
DEFERRED CREDITS	**612,733**	441,254
	$17,086,580	$17,117,939

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

	Six months ended March 31		Twelve months ended March 31	
	2001	2000	**2001**	2000
Operating Revenues:				
Revenues	**$2,111,307**	$1,475,893	**$3,675,583**	$2,732,019
SFAS 133 mark-to-market gain	**52,315**	0	**52,315**	0
Operating Revenues	**2,163,622**	1,475,893	**3,727,898**	2,732,019
Operating Expenses:				
Operations and maintenance	**426,380**	418,308	**930,415**	879,132
Purchased power	**1,133,720**	59,293	**1,699,309**	220,942
Tenaska	**0**	0	**(26,817)**	0
Non-Federal projects	**322,354**	318,196	**564,757**	642,638
Residential exchange	**23,647**	31,670	**55,570**	63,547
Federal projects depreciation	**159,468**	153,239	**326,171**	319,180
Operating Expenses	**2,065,569**	980,706	**3,549,405**	2,125,439
Net operating revenues	**98,053**	495,187	**178,493**	606,580
Interest Expense	**164,300**	170,381	**328,569**	342,702
Net Income from Continuing Operations	**($66,247)**	$324,806	**($150,076)**	$263,878
Cumulative Effect of SFAS 133	**(168,491)**	0	**(168,491)**	0
NET REVENUES (EXPENSES)	**($234,738)**	$324,806	**($318,567)**	$263,878

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 2001, and 2000, no single customer represented 10% or more of the FCRPS's revenues.

SFAS 131 SEGMENT REPORTING

(Thousands of Dollars)

	Six months ended March 31			
2001	**Power**	**Transmission**	**Corporate**	**Total**
Unaffiliated Revenues	**$1,952,987**	**$210,635**	**$0**	**$2,163,622**
Intersegment Revenues	**31,865**	**98,912**	**(130,777)**	**-**
Operating Revenues	**$1,984,852**	**$309,547**	**($130,777)**	**$2,163,622**
Net Operating Margin	**$337,972**	**$178,677**	**$86,873**	**$603,522**
2000	Power	Transmission	Corporate	Total
Unaffiliated Revenues	$1,310,807	$165,086	$0	$1,475,893
Intersegment Revenues	22,479	110,234	(132,713)	-
Operating Revenues	$1,333,286	$275,320	($132,713)	$1,475,893
Net Operating Margin	$859,951	$160,023	($21,682)	$998,292

	Twelve Months Ended March 31			
2001	**Power**	**Transmission**	**Corporate**	**Total**
Unaffiliated Revenues	**$3,316,736**	**$411,162**	**$0**	**$3,727,898**
Intersegment Revenues	**55,771**	**201,406**	**(257,177)**	**-**
Operating Revenues	**$3,372,507**	**$612,568**	**($257,177)**	**$3,727,898**
Net Operating Margin	**$741,024**	**$361,950**	**($4,800)**	**$1,098,174**
2000	Power	Transmission	Corporate	Total
Unaffiliated Revenues	$2,414,230	$317,789	$0	$2,732,019
Intersegment Revenues	56,168	251,964	(308,132)	-
Operating Revenues	$2,470,398	$569,753	($308,132)	$2,732,019
Net Operating Margin	$1,410,412	$321,180	($99,647)	$1,631,945