Management’s Discussion and Analysis – 1st Quarter

Net Revenues

Through the three months ended Dec. 31, 2001, BPA incurred net expenses of $76 million, compared with $642 million net expenses for the same period a year ago. The $566 million change is primarily the result of adoption during fiscal year 2001 of a new industry accounting standard, “Accounting for Derivative Instruments and Hedging Activities” (SFAS 133). The changes as a result of SFAS 133 reflect an accounting only adjustment with no corresponding cash impact. Excluding the SFAS 133 adjustments net expenses for the three months ended Dec. 31, 2001, were $28 million, compared with $181 million net expenses for the same period in 2000.

Operating Revenues

Revenues from the sales of electricity and transmission of $889 million were up $123 million compared to the same period of fiscal 2000. This represents an increase of 16 percent. Revenues were up because BPA increased power and transmission rates on Oct. 1, 2001. Revenues did not increase as much as projected in the rate case because market prices for discretionary power sales decreased to an average of 48 mills from the previous year average of 63 mills.

Mark–to–market losses on derivative instruments were $48 million from Oct. 1 through Dec. 31 or 84 percent less, compared to $293 million in the first quarter of fiscal 2001. BPA expects the volatility associated with SFAS 133 to be reduced during fiscal year 2002 and beyond because of the change in treatment of “bookout” transactions under the standard.

Operating Expenses

Operations and maintenance cost through the first quarter of fiscal 2002 increased $28 million from the previous year. Resource conservation management and fish & wildlife costs increased at BPA, and Energy Northwest’s Columbia Generating Station nuclear power plant O&M costs decreased.

Even though purchases increased by 1 million megawatt-hours from the first quarter in fiscal 2001, due to lower market prices BPA’s expense for purchased power was $7 million or two percent lower when compared to the first quarter a year ago. Federal generation decreased by 2.9 million megawatt-hours or 16 percent from the same period in the prior year due to reduced firm loads.

Nonfederal projects debt service expense decreased $76 million or 46 percent. Refinancing Energy Northwest bonds deferred some principal payments due in July of fiscal 2001 and 2002 into the future.

Settlement agreements with BPA’s investor owned utility (IOU) customers for settlement of the period running from July 1, 2001 through Sept. 30, 2001, resulted in residential exchange expense increasing $24 million or 199 percent. The agreements provide for both sales of power and cash payments to the IOUs.

In total, operating expenses decreased $31 million, or 3 percent.

Interest Expense

Net interest expense increased $6 million, or 7 percent, compared to the same period in 2000. Appropriated debt increased in fiscal 2001 with the revised cost allocation to power at Grand Coulee dam. Long-term debt increased as a result of borrowing for investment in utility plant. Interest income earned on BPA’s cash account with the U.S. Treasury is netted against interest expense. As BPA’s cash balance has decreased over the past year, interest income has decreased and is reflected in the increased net interest expense.

Utility Plant

As the investment in utility plant increased so increased the construction work in progress by $296 million or 44 percent over the balance at Dec. 31, 2000.

Deferred Credits

Deferred credits decreased $253 million or 27 percent. A reduction of the mark–to–market losses on derivative instrument transactions and different treatment of bookout transactions caused the decrease.

Forecast Financial Condition

The current forecast for fiscal 2002 year-end financial reserves – cash and deferred borrowing authority – is that year-end reserves will be $150 to $350 million, compared to $625 million, at Sept. 30, 2001.

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 this additional power in a highly volatile market, it is not possible to accurately forecast 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 will be calculated 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 a forecast of Accumulated Net Revenues falls below a threshold value for a particular year. The SN CRAC is designed to raise rates if a payment to Treasury or other creditor has been missed, or there is a 50 percent probability that such a payment may be missed in the then-current year.

For fiscal year 2002 substantial uncertainties make prediction of rate levels difficult. However, BPA believes that while it is likely that the LBCRAC will decline at the beginning of fiscal 2003, there is an increased likelihood that the FB CRAC will trigger. BPA's current expectation is that the overall rates will remain approximately at current levels.

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)
(Thousands of Dollars)

	December 31	
	2001	2000
Assets		
Utility Plant		
Completed plant	**$11,261,043**	$11,107,122
Accumulated depreciation	**(3,877,591)**	(3,659,731)
	7,383,452	7,447,391
Construction work in progress	**966,639**	670,294
Net utility plant	**8,350,091**	8,117,685
Nonfederal Projects	**6,170,380**	6,407,799
Trojan Decommissioning Cost	**69,221**	78,307
Conservation, net of accumulated amortization	**428,878**	486,350
Fish & Wildlife, net of accumulated amortization	**142,451**	142,671
Current Assets	**1,175,504**	1,288,190
Other Assets	**281,727**	188,972
	$16,618,252	$16,709,974
Capitalization and Liabilities		
Accumulated Net Expenses	**($296,848)**	($509,152)
Federal Appropriations	**4,671,078**	4,550,583
Capitalization Adjustment	**2,242,917**	2,311,344
Long-Term Debt	**2,542,542**	2,513,200
Nonfederal Projects Debt	**5,952,601**	6,052,211
Trojan Decommissioning Reserve	**57,221**	65,707
Current Liabilities	**768,281**	792,763
Deferred Credits	**680,460**	933,318
	$16,618,252	$16,709,974

The irrigation assistance distribution of $16,560 for fiscal 2001 is included in accumulated net expenses.

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

	Three months ended December 31		Twelve months ended December 31	
	2001	2000	**2001**	2000
Operating Revenues:				
Revenues	**$888,685**	$765,350	**$3,686,517**	$3,118,032
SFAS 133 mark-to-market (loss) gain	**(48,066)**	(292,720)	**292,531**	**(292,720)**
Other revenues	**6,707**	4,637	**68,972**	**22,963**
U.S. Treasury credits for fish	**20,937**	18,326	**603,319**	**0**
Operating Revenues	**868,263**	495,593	**4,651,339**	2,848,275
Operating Expenses:				
Operations and maintenance	**227,987**	199,889	**983,196**	939,140
Purchased power	**426,330**	433,651	**2,284,640**	1,018,984
Tenaska	**0**	0	**0**	(26,817)
Non-Federal projects	**87,014**	162,550	**401,679**	565,739
Residential exchange	**35,330**	11,821	**91,591**	59,596
Federal projects depreciation	**80,263**	79,695	**323,882**	323,955
Operating Expenses	**856,924**	887,606	**4,084,988**	2,880,597
Net operating revenues (expenses)	**11,339**	(392,013)	**566,351**	(32,322)
Interest Expense	**87,037**	81,459	**337,487**	329,630
Net (expenses) revenues before cumulative effect of SFAS 133	**($75,698)**	($473,472)	**$228,864**	($361,952)
Cumulative Effect of SFAS 133	**0**	(168,491)	**0**	(168,490)
Net (Expenses) Revenues	**($75,698)**	($641,963)	**$228,864**	($530,442)

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.

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

2001	**Power**	**Transmission**	**Corporate**	**Total**
Unaffiliated Revenues	**$729,625**	**$138,638**	**$0**	**$868,263**
Intersegment Revenues	**17,912**	**32,082**	**(49,994)**	**-**
Operating Revenues	**$747,537**	**$170,720**	**($49,994)**	**$868,263**
Net Operating Margin	**$177,227**	**$94,058**	**($30,210)**	**$241,075**

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	($17,922)	$136,447

Twelve Months Ended December 31

2001	**Power**	**Transmission**	**Corporate**	**Total**
Unaffiliated Revenues	**$4,149,765**	**$501,574**	**$0**	**$4,651,339**
Intersegment Revenues	**64,670**	**176,062**	**(240,732)**	**-**
Operating Revenues	**$4,214,435**	**$677,636**	**($240,732)**	**$4,651,339**
Net Operating Margin	**$276,923**	**$384,605**	**($173,875)**	**$487,653**

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	$1,003,307	$300,969	($121,405)	$1,182,871