Management's Discussion and Analysis – 2nd Quarter

Net Revenues

Through the six months ended March 31, 2003, BPA earned net revenues of $210 million, compared with $63 million net expenses for the same period a year ago. The BPA's Debt Optimization program has significantly increased net revenues. With that program, nonfederal projects expense decreased from $322 million in the first half of fiscal 2001 to $171 million the first half of fiscal 2002 to $113 million in the first half of fiscal 2003. Without the program, net revenues would be at break even in the current year-to-date. The $273 million net revenues improvement from the first half of fiscal 2002 is also the result of a $154 million decrease in purchased power expense from last year. Additionally, the SFAS 133 mark-to-market accrual resulted in a $21 million gain for the current period vs. a one million dollar gain in the first half last year. The changes as a result of SFAS 133 reflect an accounting only adjustment with no corresponding cash impact. Excluding the SFAS 133 adjustments net revenues for the six months ended March 31, 2003, were $189 million, compared with $65 million net expenses for the same period in 2002.

Operating Revenues

Revenues from electricity sales and transmission of $1,713 million were down $14 million or one percent compared to the same period of fiscal 2002. The average market price for surplus power sales was $33 per megawatt in 2003, and $48 per megawatt in 2002.

U.S. Treasury credits for fish increased $40 million as a result of an increase in the annual fish credit estimate due to below average water conditions and increased power purchases that accompany reduced hydro supply.

Operating Expenses

General & administrative and power marketing costs decreased at BPA, while Energy Northwest's Columbia Generating Station nuclear power plant O&M costs increased. In total, operations and maintenance cost through the second quarter of fiscal 2003 decreased $10 million or two percent from the previous year.

Even though purchases increased by 900,000 megawatt-hours from the first half in fiscal 2002, due to lower market prices BPA's expense for purchased power was $154 million or 21 percent lower when compared to the first half of fiscal 2002. Federal generation increased by 1.4 million megawatt-hours or 4 percent from the same period in the prior year.

Nonfederal projects debt service expense decreased $58 million or 34 percent. Refinancing Energy Northwest bonds deferred all principal payments due in fiscal 2003 into the future.

In total, operating expenses decreased $209 million, or 13 percent.

Interest Expense

Net interest expense decreased $14 million, or 8 percent, compared to the same period in 2002. Interest on appropriated funds decreased as a result of the BPA/ENW debt optimization program – extending Energy Northwest debt and accelerating appropriations and other federal debt repayment.

Utility Plant

Construction work in progress increased $293 million or 29 percent over the balance at March 31, 2002. Federal hydro projects increased $212 million and BPA transmission $81 million. The federal hydro increase was a combination of appropriated and direct funds for fish and power system reliability and improvement investments.

During the past decade, BPA minimized the construction of new transmission facilities, and instead emphasized the use of software system control investments where possible, to meet the demands of load growth and system congestion. Having reached the limit of system control improvements, BPA started in late 2001 investing in several new transmission lines and substations. The planned BPA transmission build-out will continue at least until 2006.

Deferred Credits

Deferred credits decreased $88 million or 15 percent. A reduction of the mark–to–market losses on derivative instrument transactions was the primary cause for the decrease. Reductions of deferred Civil Service Retirement System contributions and Golden Northwest Aluminum remarketing credits accounted for the rest of the decrease.

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 some portions of this 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 to reflect the change in prices in the fixed power purchase contracts and will be reset 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. BPA triggered the FB CRAC on Oct. 1, 2002. The SN CRAC is designed to raise rates if a payment to 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. For a complete presentation of the current rates use the second link below. BPA is currently conducting a rate proceeding, preparing to implement the SN CRAC.

For general information about BPA and access to agency press releases, refer to our external page at http://www.bpa.gov

For the most recent information on Power's Safety Net Cost Recovery Adjustment Clause expedited rate case, see the Power Business Line's Web page at
http://www.bpa.gov/Power/PSP/rates/RateCases/sn03/index.shtml

For current information on the Transmission Business Lines 2004 rate case settlement, go to the TBL Web page at
http://www2.transmission.bpa.gov/business/rates/default.cfm

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)
(Thousands of Dollars)

	March 31	
	2003	2002
Assets		
Utility Plant		
Completed plant	**$11,576,469**	$11,323,659
Accumulated depreciation	**(4,174,785)**	(3,940,073)
	7,401,684	7,383,586
Construction work in progress	**1,290,326**	996,716
Net utility plant	**8,692,010**	8,380,302
Nonfederal Projects	**6,204,572**	6,176,059
Trojan Decommissioning Cost	**73,726**	66,710
Conservation, net of accumulated amortization	**391,701**	413,710
Fish & Wildlife, net of accumulated amortization	**126,475**	141,426
Current Assets	**1,092,407**	1,307,215
Other Assets	**143,375**	201,819
	$16,724,266	$16,687,241
Capitalization and Liabilities		
Accumulated Net Expenses	**($1,906)**	($284,626)
Federal Appropriations	**4,596,506**	4,671,085
Capitalization Adjustment	**2,158,548**	2,226,078
Long-Term Debt	**2,663,141**	2,622,542
Nonfederal Projects Debt	**5,961,206**	5,958,230
Trojan Decommissioning Reserve	**63,726**	54,710
Current Liabilities	**801,497**	869,715
Deferred Credits	**481,548**	569,507
	$16,724,266	$16,687,241

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)

	Six months ended March 31		Twelve months ended March 31	
	2003	2002	**2003**	2002
Operating Revenues:				
Revenues	**$1,712,807**	$1,726,629	**$3,393,582**	$3,304,467
SFAS 133 mark-to-market (loss) gain	**21,230**	1,319	**58,265**	(3,119)
Other revenues	**20,789**	17,191	**53,169**	50,347
U.S. Treasury credits for fish	**66,264**	26,158	**78,506**	534,649
Operating Revenues	**1,821,090**	1,771,297	**3,583,522**	3,886,344
Operating Expenses:				
Operations and maintenance	**567,490**	577,068	**1,310,129**	1,150,221
Purchased power	**584,260**	738,704	**1,132,423**	1,896,945
Non-Federal projects	**112,993**	170,762	**172,406**	325,623
Federal projects depreciation	**173,721**	160,923	**348,003**	324,769
Operating Expenses	**1,438,464**	1,647,457	**2,962,961**	3,697,558
Net operating revenues (expenses)	**382,626**	123,840	**620,561**	188,786
Interest Expense	**172,856**	187,315	**337,841**	354,924
Net (Expenses) Revenues	**$209,770**	($63,475)	**$282,720**	($166,138)

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

Statements of Cash Flows (Unaudited)
(Thousands of Dollars)

	Fiscal Year to Date March 31	
	2003	2002
Cash from Operating Activities		
Net revenues (expenses)	**$209,770**	($63,475)
Expenses (income) not requiring cash:		
Depreciation	**131,888**	122,792
Amortization:		
Fish and wildlife	**41,833**	38,132
Nonfederal projects	**(3,028)**	2,565
Capitalization adjustment	**(33,852)**	(33,678)
AFUDC	**(14,714)**	(12,517)
(Increase) decrease in:		
Accounts receivable	**(99,080)**	22,440
Materials and supplies	**(1,042)**	124
Prepaid expenses	**135,936**	42,263
(Increase) decrease in:		
Accounts payable	**20,719**	(77,070)
Other	**(9,771)**	13,345
Cash from operating activities	**378,659**	54,921
Cash used for Investment Activities		
(Investment) decrease in:		
Utility plant	**(173,075)**	(145,083)
Conservation	**(13,004)**	27
Fish and wildlife	**(777)**	(2,919)
Slice	**(2,454)**	-
Cash used for investment activities	**(189,310)**	(147,975)
Cash from Borrowing and Appropriations		
Increase in federal construction appropriations	**591**	178
Increase in long-term debt	**30,000**	140,000
Increase in (payment) of nonfederal debt	**3,028**	(2,565)
Cash from borrowing and appropriations	**33,619**	137,613
Increase in cash	**222,968**	44,559
Beginning cash balance	**235,409**	667,306
Ending cash balance	**$458,377**	$711,865
Ending Bonneville Power Administration cash balance	**$372,887**	$667,624

Federal Columbia River Power System

SFAS 131 SEGMENT REPORTING
(Thousands of Dollars)

Six months ended March 31

2003

	Power	**Transmission**	**Corporate**	**Total**
Unaffiliated Revenues	**$1,543,398**	**$277,692**	**-**	**$1,821,090**
Intersegment Revenues	**39,586**	**41,774**	**($81,360)**	**-**
Operating Revenues	**$1,582,984**	**$319,466**	**($81,360)**	**$1,821,090**
Net Operating Margin	**$575,366**	**$168,427**	**($161,947)**	**$581,846**

2002

	Power	Transmission	Corporate	Total
Unaffiliated Revenues	$1,489,540	$281,757	-	$1,771,297
Intersegment Revenues	38,671	59,083	($97,754)	-
Operating Revenues	$1,528,211	$340,840	($97,754)	$1,771,297
Net Operating Margin	$407,113	$180,030	($159,095)	$428,048

Twelve Months Ended March 31

2003

	Power	**Transmission**	**Corporate**	**Total**
Unaffiliated Revenues	**$3,020,933**	**$562,589**	**-**	**$3,583,522**
Intersegment Revenues	**81,644**	**136,418**	**($218,062)**	**-**
Operating Revenues	**$3,102,577**	**$699,007**	**($218,062)**	**$3,583,522**
Net Operating Margin	**$1,095,314**	**$344,267**	**($435,382)**	**$1,004,199**

2002

	Power	Transmission	Corporate	Total
Unaffiliated Revenues	$3,361,211	$525,133	-	$3,886,344
Intersegment Revenues	70,200	152,833	($223,033)	-
Operating Revenues	$3,431,411	$677,966	($223,033)	$3,886,344
Net Operating Margin	$249,931	$365,175	($307,458)	$307,648

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 2002, and 2001, no single customer represented 10% or more of the FCRPS's revenues.