
Administrator's Message – 1st Quarter

Preventing the Y2K bug from attacking the transmission system was a great way to end the first quarter of fiscal 2000. The painstaking work of hundreds of BPA employees over the last two years was rewarded when the clock struck midnight on New Year's Eve and the power system worked smoothly.

The Y2K efforts reflect the kind of contribution BPA makes to the Northwest. When I arrived at BPA in June 1998, I said that I wanted BPA to deliver value to the region as the region defines it. The region values reliable transmission.

And it values Columbia River hydropower. We are continuing to provide that. During the first quarter, the hydro system was still benefiting from the high flows of the 1999-water year, and, in addition, market prices for surplus power were running surprisingly high. That combination made for revenues of \$687 million dollars for the quarter.

The water prospects for the rest of the year look good. The latest forecast calls for flows of about 105 million acre-feet, approximately average, in the Columbia River. We will have water to work with this year.

In June 1998, I proposed three initiatives to assure that BPA would deliver the region value as the region defines it: (1) provide cost-based power, (2) work with others to develop a unified fish plan and (3) make BPA's assets and people a major part of a regional transmission organization.

BPA's near-term efforts to maintain regional value from Columbia River hydropower are centered on continuing to bring low-cost power to the region by finishing the power rate case this fiscal year and beginning the first-ever Transmission Business Line rate case. We expect to have the final record of decision on the power rate case signed in April. By September, we expect to have our power subscribed in a way that spreads the benefits of low-cost federal power across the region.

Also in the near term, we are working diligently with the other federal agencies in the region that are active on the issue to create a unified plan for recovering threatened and endangered fish. Our goal is for all nine agencies to agree on an approach to managing the Federal Columbia River Power System that will lead to the recovery of listed salmon and steelhead, as well as of listed resident fish and other aquatic animals. A major early product of this effort is the "All-H" paper that expands the discussion of fish recovery efforts to include hatcheries, habitat and harvest as well as hydro. A recovery plan must also include the states, tribes and interest groups in the region, but gaining accord among the federal agencies is a solid start on the larger effort.

We also are entering the emerging regional discussion about a regional transmission organization. A recent Federal Energy Regulatory Commission order encourages public utilities to create and join RTOs. While the order does not make RTO membership mandatory, some sort of RTO probably is inevitable, as a way of assuring that regional transmission is reliable and nondiscriminatory. Many issues must be resolved to make it possible for BPA to participate, but we will be in the discussion as it takes place.

Amid the deregulation turmoil, BPA has focused on its traditional core value: providing reliable low-cost power to all sectors of the regional economy consistent with BPA's statutory requirements. The agency expects to participate fully in the discussions surrounding regional responses to national energy deregulation. BPA will play a pivotal role in balancing the delivery of regional benefits with assurances that the U.S. Treasury will be paid in full on time and bondholders will face no increased risk.

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



Judith A. Johansen
Administrator and Chief Executive Officer

Management's Discussion and Analysis – 1st Quarter

Net Revenues

Net revenues through the quarter ended December 31, 1999, were \$129 million, compared with \$26 million for the same period a year ago. The increase of \$103 million, or 390 percent, was the result of increased discretionary sales at higher prices.

Operating Revenues

Total operating revenues of \$687 million were up \$99 million compared to the same period of Fiscal 1998. This represents an increase of 17 percent.

Revenues from sales to publicly owned utilities increased \$34 million, or 16 percent.

Revenues from Aluminum industry customers increased \$5 million or 6 percent.

Revenues from sales to investor-owned utilities increased \$30 million, or 18 percent.

Revenues from sales to federal agencies and other industries increased \$1 million, or 7 percent.

Revenues from extra-regional customers increased \$16 million, or 58 percent.

Transmission and other operating revenues increased \$12 million, or 13 percent.

Operating Expenses

Operations and maintenance cost through the quarter decreased \$1 million from the previous year.

In Fiscal 1995 the Tenaska Washington Partners, II L.P. (Tenaska) and Chase Manhattan Bank (Chase) filed suit against BPA for breach of contract and lost revenues. In June 1996, BPA and Chase reached a settlement that resulted in a payment of \$115 million by BPA to Chase. In 1997, BPA paid expenses of \$38 million, which included some of the subcontractor claims. In Fiscal 1998 BPA settled with Tenaska for \$158.6 million. BPA has now settled with all litigants of the Tenaska suit and no further exposure exists. Settlement expenses were \$17 million in the first three quarters of 1998.

Non-federal projects debt service was down \$7 million, or 4 percent.

Residential exchange costs increased \$7 million, or 26 percent.

Federal project depreciation increased \$5 million or 7 percent.

Total operating expenses were \$472 million, flat compared to the same period of fiscal 1998.

Interest Expense

Net interest expense decreased \$5 million, or 5 percent, over the comparable period of Fiscal 1998.

Forecast Financial Condition

The current forecast for Fiscal 2000 year-end financial reserves -- cash and deferred borrowing authority -- is approximately \$717 million, up \$47 million, or 7 percent, from Sept. 30, 1999.

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

	December 31	
	1999	1998
ASSETS		
UTILITY PLANT:		
Completed plant	\$11,016,114	\$10,951,560
Accumulated depreciation	(3,534,560)	(3,385,188)
	7,481,554	7,566,372
Construction work in progress	563,970	472,327
Net utility plant	8,045,524	8,038,699
NON-FEDERAL PROJECTS	6,686,582	6,948,283
TROJAN DECOMMISSIONING COST	85,587	107,284
CONSERVATION, net of accumulated amortization	552,427	599,894
FISH AND WILDLIFE, net of accumulated amortization	145,572	146,249
CURRENT ASSETS	1,204,545	933,173
OTHER ASSETS	182,647	172,570
	\$16,902,884	\$16,946,152
CAPITALIZATION AND LIABILITIES		
ACCUMULATED NET (EXPENSES) REVENUES	\$21,290	(\$205,035)
FEDERAL APPROPRIATIONS	4,505,697	4,466,388
CAPITALIZATION ADJUSTMENT	2,379,145	2,444,678
LONG-TERM DEBT	2,397,400	2,359,000
NON-FEDERAL PROJECTS DEBT	6,374,003	6,648,913
TROJAN DECOMMISSIONING RESERVE	62,987	77,254
CURRENT LIABILITIES	716,639	696,170
DEFERRED CREDITS	445,723	458,784
	\$16,902,884	\$16,946,152

Comparative Statements of Revenues and Expenses (Unaudited)

(Thousands of Dollars)

	Three months ended		Twelve months ended	
	December 31		December 31	
	1999	1998	1999	1998
Operating Revenues	\$687,487	\$588,981	\$2,717,385	\$2,278,494
Operating Expenses	471,551	471,481	2,140,010	2,041,854
Net operating revenues	215,936	117,500	577,375	236,640
Interest Expense	86,479	91,082	351,050	371,723
NET REVENUES (EXPENSES)	\$129,457	\$26,418	\$226,325	(\$135,083)

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 central 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 1999, and 1998, no single customer represented 10% or more of the FCRPS's revenues.

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(Thousands of Dollars)

	Three months ended December 31			
1999				
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
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	(\$2,338)	\$464,846
1998				
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$514,198	\$74,783	\$0	\$588,981
Intersegment Revenues	10,121	51,456	(61,577)	-
Operating Revenues	\$524,319	\$126,239	(\$61,577)	\$588,981
Net Operating Margin	\$305,009	\$71,658	(\$11,324)	\$365,343
	Twelve Months Ended December 31			
1999				
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
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	(\$122,537)	\$1,602,337
1998				
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$1,982,567	\$295,927	\$0	\$2,278,494
Intersegment Revenues	49,622	250,276	(299,898)	-
Operating Revenues	\$2,032,189	\$546,203	(\$299,898)	\$2,278,494
Net Operating Margin	\$1,006,672	\$310,477	(\$4,024)	\$1,313,125