
Management's Discussion and Analysis – 2nd Quarter

Net Revenues

Net revenues through the six months ended March 31, 2000, were \$325 million, compared with \$184 million for the same period a year ago. The increase of \$141 million, or 76 percent, was primarily the result of increased discretionary power sales at higher prices.

Operating Revenues

Total operating revenues of \$1,476 million were up \$113 million compared to the same period of Fiscal 1999. This represents an increase of 8 percent.

Revenues increased primarily from increased revenues for power sales to extra-regional customers and increased transmission and other operating revenues.

Revenues from extra-regional customers increased \$72 million, or 46 percent reflecting the strong market for discretionary sales resulting from high market prices.

Transmission and other operating revenues increased \$46 million or 27 percent as transmission revenue from out of region sales and US Treasury allowances for fish recovery costs increased.

Operating Expenses

Operations and maintenance cost through the first half of Fiscal 2000 decreased \$16 million from the previous year. BPA's costs for short-term purchased power were lower than the prior year. These savings were partially offset by increased BPA power marketing costs and nuclear fuel purchases for Energy Northwest's WNP-2 nuclear power plant.

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

Residential exchange costs was unchanged at \$32 million.

Federal project depreciation increased \$10 million or 7 percent. BPA performed a depreciation study in 1999 that resulted in a reduction of the average service life for transmission plant from 45 to 40 years and also increased the estimated cost to retire certain classes of plant. The depreciation study results increased annual depreciation expense by approximately \$21 million.

Total operating expenses decreased \$10 million or 1 percent.

For the twelve months ended March 31, 1999, BPA had a loss of \$80 million. 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 for 1999 and future years.

Interest Expense

Net interest expense decreased \$13 million, or 7 percent, over the comparable period of 1999. Interest income earned on BPA's cash account with the US 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.

Forecast Financial Condition

The current forecast for Fiscal 2000 year-end financial reserves -- cash and deferred borrowing authority -- is approximately \$789 million, up \$119 million, or 18 percent, from Sept. 30, 1999.

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

Information on specific activities of interest can be found at the following locations:

Regional Transmission Organization activity:

http://www.bpa.gov/Corporate/KC/regionalization/draft_rto_principles.shtml

The Transmission Business Line rate case:

<http://www.transmission.bpa.gov/tblib/RateCase/default.cfm>

The Power Business Line rate case: <http://www.bpa.gov/Power/psp/rates/ratespl.shtml>

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

	March 31	
	2000	1999
ASSETS		
UTILITY PLANT:		
Completed plant	\$11,054,517	\$11,007,418
Accumulated depreciation	(3,592,367)	(3,430,758)
	7,462,150	7,576,660
Construction work in progress	577,431	440,753
Net utility plant	8,039,581	8,017,413
NON-FEDERAL PROJECTS	6,683,162	6,954,056
TROJAN DECOMMISSIONING COST	82,778	107,284
CONSERVATION, net of accumulated amortization	538,336	587,852
FISH AND WILDLIFE, net of accumulated amortization	144,984	147,643
CURRENT ASSETS	1,440,686	1,249,093
OTHER ASSETS	188,412	173,751
	\$17,117,939	\$17,237,092
CAPITALIZATION AND LIABILITIES		
ACCUMULATED NET REVENUES (EXPENSES)	\$216,639	(\$47,239)
FEDERAL APPROPRIATIONS	4,508,247	4,474,977
CAPITALIZATION ADJUSTMENT	2,362,277	2,428,457
LONG-TERM DEBT	2,400,900	2,419,000
NON-FEDERAL PROJECTS DEBT	6,370,543	6,654,646
TROJAN DECOMMISSIONING RESERVE	60,178	77,254
CURRENT LIABILITIES	757,858	775,375
DEFERRED CREDITS	441,254	454,622
	\$17,117,896	\$17,237,092

Comparative Statements of Revenues and Expenses (Unaudited)

(Thousands of Dollars)

	Six months ended		Twelve months ended	
	March 31		March 31	
	2000	1999	2000	1999
Operating Revenues	\$1,475,893	\$1,362,753	\$2,732,019	\$2,407,335
Operating Expenses	980,706	995,207	2,125,439	2,117,900
Net operating revenues	495,187	367,546	606,580	289,435
Interest Expense	170,381	183,332	342,702	369,455
NET REVENUES (EXPENSES)	\$324,806	\$184,214	\$263,878	(\$80,020)

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 financial statements which generally include shared activity and eliminations. Each FCRPS segment operates predominantly in the Pacific Northwest.

The FCRPS centrally manages all interest expense activity. Since the Bonneville Power Administration has one fund with the 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 balance sheets or net revenues on a business line level. NOM represents revenues generated from operations less operating 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)

Six months ended

March 31

2000

	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$1,274,807	\$165,086	\$0	\$1,439,893
Intersegment Revenues	22,479	110,234	(96,713)	36,000
Operating Revenues	\$1,297,286	\$275,320	(\$96,713)	\$1,475,893
Net Operating Margin	\$859,951	\$160,023	(\$21,682)	\$998,292

1999

	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$1,208,853	\$142,234	\$0	\$1,351,087
Intersegment Revenues	8,692	115,567	(112,593)	11,666
Operating Revenues	\$1,217,545	\$257,801	(\$112,593)	\$1,362,753
Net Operating Margin	\$763,171	\$159,568	(\$53,558)	\$869,181

Twelve Months Ended

March 31

2000

	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$2,363,649	\$317,690	\$0	\$2,681,339
Intersegment Revenues	56,168	251,963	(257,451)	50,680
Operating Revenues	\$2,419,817	\$569,653	(\$257,451)	\$2,732,019
Net Operating Margin	\$1,410,412	\$321,180	(\$99,647)	\$1,631,945

1999

	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$2,134,580	\$291,153	\$0	\$2,425,733
Intersegment Revenues	28,356	241,589	(288,343)	(18,398)
Operating Revenues	\$2,162,936	\$532,742	(\$288,343)	\$2,407,335
Net Operating Margin	\$1,093,068	\$319,026	(\$30,835)	\$1,381,259