
Management's Discussion and Analysis – 3rd Quarter

Net Revenues

Through the nine months ended June 30, 2002, BPA incurred net expenses of one million compared with \$95 million net expenses for the same period a year ago. The \$94 million change includes 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 six months ended June 30, 2002, were \$16 million compared with \$195 million net expenses for the same period ended in 2001. Revenues from sales of electricity and U.S. Treasury credits for fish decreased, however purchased power and non-Federal projects expense decreased more.

Operating Revenues

Revenues from the sales of electricity and transmission of \$2.502 billion were down \$222 million or 8 percent compared to the same period of fiscal 2001. Revenues were down even though 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 26 mills from the previous year average of 56 mills. For transmission products, projected sales in the short-term market did not materialize.

Mark-to-market gains on derivative instruments were \$15 million through June 30; compared to a \$206 million loss recorded the first 3 quarters 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.

Miscellaneous revenues decreased \$12 million. Other Transmission Business Line revenues and the U.S. Treasury credit for Colville decreased.

U.S. Treasury credits for fish decreased \$163 million as spot market prices for power decreased.

Operating Expenses

Operations and maintenance cost through the third quarter of fiscal 2002 increased \$71 million from the previous year. Conservation and renewables discount, fish & wildlife, marketing, and payments to the U.S. Treasury for underfunded Civil Service Retirement System costs increased at BPA.

BPA's expense for purchased power decreased \$531 million or 34 percent when compared to the period a year ago. The decreased expense was the result of lower market prices.

Nonfederal projects debt service expense decreased \$202 million or 53 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, 2011, resulted in residential exchange expense increasing \$54 million or 200 percent. The agreements provide for both sales of power and cash payments to the IOUs.

In total, operating expenses decreased \$602 million, or 21 percent.

Interest Expense

Net interest expense increased \$27 million, or 11 percent, compared to the same period in 2001. Appropriated debt increased in fiscal 2001 with the revised cost allocation to power at Grand Coulee dam. 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

Construction work in progress increased by \$238 million or 32 percent over the balance at June 30, 2001. The increase was due to BPA direct funding for capital improvements in addition to ongoing appropriated CWIP at Corps and Reclamation projects and an increase in BPA Transmission CWIP.

Forecast Financial Condition

The current forecast for fiscal 2002 year-end financial reserves – cash and deferred borrowing authority – are that year-end reserves will be \$109 million, compared to \$625 million, at Sept. 30, 2001.

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

	June 30	
	2002	2001
Assets		
Utility Plant		
Completed plant	\$11,389,226	\$11,122,061
Accumulated depreciation	(3,995,855)	(3,762,053)
	7,393,371	7,360,008
Construction work in progress	992,804	754,977
Net utility plant	8,386,175	8,114,985
Nonfederal Projects	6,178,583	6,434,014
Trojan Decommissioning Cost	79,361	72,258
Conservation, net of accumulated amortization	417,056	459,104
Fish & Wildlife, net of accumulated amortization	142,518	136,474
Current Assets	1,524,882	1,515,819
Other Assets	172,610	462,912
	\$16,901,185	\$17,195,566
Capitalization and Liabilities		
Accumulated Net Expenses	(\$222,138)	\$38,142
Federal Appropriations	4,659,165	4,530,523
Capitalization Adjustment	2,209,239	2,276,952
Long-Term Debt	2,682,542	2,723,200
Nonfederal Projects Debt	5,960,754	6,077,970
Trojan Decommissioning Reserve	67,361	59,658
Current Liabilities	1,001,658	933,083
Deferred Credits	542,604	556,038
	\$16,901,185	\$17,195,566

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)

	Nine months ended		Twelve months ended	
	June 30		June 30	
	2002	2001	2002	2001
Operating Revenues:				
Revenues	\$2,502,043	\$2,724,210	\$3,341,015	\$3,586,801
SFAS 133 mark-to-market gain (loss)	14,796	268,585	(205,912)	268,585
Other revenues	30,703	42,838	54,767	55,508
U.S. Treasury credits for fish	33,179	195,798	438,089	255,798
Operating Revenues	2,580,721	3,231,431	3,627,959	4,166,692
Operating Expenses:				
Operations and maintenance	742,141	670,903	1,026,336	919,462
Purchased power	1,035,907	1,566,490	1,761,378	1,995,786
Tenaska	0	0	0	(26,817)
Non-Federal projects	181,117	383,419	274,913	481,997
Residential exchange	105,182	51,018	122,246	67,097
Federal projects depreciation	244,151	239,071	328,394	328,629
Operating Expenses	2,308,498	2,910,901	3,513,267	3,766,154
Net operating revenues	272,223	320,530	114,692	400,538
Interest Expense	273,148	246,645	358,412	328,522
Net expenses before cumulative effect of SFAS 133	(925)	73,885	(243,720)	72,016
Cumulative Effect of SFAS 133	0	(168,491)	0	(168,491)
Net Expenses	(\$925)	(\$94,606)	(\$243,720)	(\$96,475)

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

SFAS 131 SEGMENT REPORTING

(Thousands of Dollars)

	Nine months ended			
	June 30			
2002				
	Power	Transmission	Corporate	Total
Unaffiliated Revenues	\$2,157,834	\$422,887	\$0	\$2,580,721
Intersegment Revenues	58,609	101,387	(159,996)	-
Operating Revenues	\$2,216,443	\$524,274	(\$159,996)	\$2,580,721
Net Operating Margin	\$627,463	\$269,701	(\$142,466)	\$754,698
2001				
	Power	Transmission	Corporate	Total
Unaffiliated Revenues	\$2,891,802	\$339,629	\$0	\$3,231,431
Intersegment Revenues	45,313	142,303	(187,616)	-
Operating Revenues	\$2,937,115	\$481,932	(\$187,616)	\$3,231,431
Net Operating Margin	\$343,379	\$285,178	(\$98,902)	\$529,655
	Twelve Months Ended			
	June 30			
2002				
	Power	Transmission	Corporate	Total
Unaffiliated Revenues	\$3,090,690	\$537,269	\$0	\$3,627,959
Intersegment Revenues	76,690	151,746	(228,436)	-
Operating Revenues	\$3,167,380	\$689,015	(\$228,436)	\$3,627,959
Net Operating Margin	\$464,874	\$348,345	(\$205,151)	\$608,068
2001				
	Power	Transmission	Corporate	Total
Unaffiliated Revenues	\$3,724,545	\$442,147	\$0	\$4,166,692
Intersegment Revenues	56,603	193,491	(250,094)	-
Operating Revenues	\$3,781,148	\$635,638	(\$250,094)	\$4,166,692
Net Operating Margin	\$601,515	\$354,425	(\$228,879)	\$727,061