
Management's Discussion and Analysis – 1st Quarter

Net Revenues

Through the three months ended Dec. 31, 2002, BPA earned net revenues of \$160 million, compared with \$76 million net expenses for the same period a year ago. The \$236 million change is primarily the result of a \$132 million decrease in purchased power expense. Additionally, the SFAS 133 mark-to-market accrual resulted in \$47 million gain for the current period vs. a \$48 million loss in the first quarter 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 three months ended Dec. 31, 2002, were \$113 million, compared with \$28 million net expenses for the same period in 2001.

Operating Revenues

Revenues from electricity sales and transmission of \$874 million were down \$15 million or two percent compared to the same period of fiscal 2001. Revenues were nearly unchanged because, while BPA increased power and transmission rates on Oct. 1, 2001, the market prices for discretionary power sales decreased. The average was \$33 dollars per megawatt in 2002, \$48 dollars per megawatt in 2001, and \$63 dollars per megawatt the previous year.

Operating Expenses

General & administrative and fish & wildlife 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 first quarter of fiscal 2003 were unchanged from the previous year.

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 \$132 million or 31 percent lower when compared to the first quarter a year ago. Federal generation increased by 2.1 million megawatt-hours or 13 percent from the same period in the prior year.

Nonfederal projects debt service expense decreased \$32 million or 37 percent. Refinancing Energy Northwest bonds deferred some principal payments due in July of fiscal 2002 into the future.

In total, operating expenses decreased \$159 million, or 19 percent.

Interest Expense

Net interest expense increased \$1 million, or 1 percent, compared to the same period in 2001. 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

Construction work in progress increased \$259 million or 27 percent over the balance at Dec. 31, 2001. \$207 million of the increase was at federal hydro projects and the remaining \$52 million was for BPA transmission. 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 optimum efficiency, 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 \$218 million or 32 percent. A reduction of the mark-to-market losses on derivative instrument transactions was the primary cause for the decrease. Reductions of the Golden Northwest Aluminum remarketing credits and deferred Civil Service Retirement Service contributions 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 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 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.

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

For the most recent information on BPA's power rates and the regional discussion over the financial choices the agency must make, see the Power Business Line's Web page at <http://www.bpa.gov/power/psp/rates/announcements.shtml>

For current information on the regional dialogue on how BPA will market power and distribute the costs and benefits of the federal power system after 2002, see the Power Business Line's Web page at <http://www.bpa.gov/power/pl/regionaldialogue/index.shtml>

For current information on the Transmission Business Line's Programs in Review activities, go to http://www.transmission.bpa.gov/tblib/newsevents/Programs_In_Review.htm

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

	December 31	
	2002	2001
Assets		
Utility Plant		
Completed plant	\$11,549,642	\$11,261,043
Accumulated depreciation	(4,115,225)	(3,877,591)
	7,434,417	7,383,452
Construction work in progress	1,225,365	966,639
Net utility plant	8,659,782	8,350,091
Nonfederal Projects	6,200,082	6,170,380
Trojan Decommissioning Cost	73,861	69,221
Conservation, net of accumulated amortization	402,236	428,878
Fish & Wildlife, net of accumulated amortization	130,326	142,451
Current Assets	1,098,195	1,175,504
Other Assets	157,320	281,727
	\$16,721,802	\$16,618,252
Capitalization and Liabilities		
Accumulated Net Expenses	(\$51,784)	(\$296,848)
Federal Appropriations	4,603,532	4,671,078
Capitalization Adjustment	2,175,474	2,242,917
Long-Term Debt	2,653,141	2,542,542
Nonfederal Projects Debt	5,956,806	5,952,601
Trojan Decommissioning Reserve	63,861	57,221
Current Liabilities	857,737	768,281
Deferred Credits	463,035	680,460
	\$16,721,802	\$16,618,252

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		Twelve months ended	
	December 31		December 31	
	2002	2001	2002	2001
Operating Revenues:				
Revenues	\$873,723	\$888,685	\$3,392,442	\$3,686,517
SFAS 133 mark-to-market (loss) gain	47,134	(48,066)	133,554	292,531
Other revenues	10,029	6,707	52,893	68,972
U.S. Treasury credits for fish	14,996	20,937	32,459	603,319
Operating Revenues	945,882	868,263	3,611,348	4,651,339
Operating Expenses:				
Operations and maintenance	263,687	263,317	1,320,077	1,074,787
Purchased power	294,294	426,330	1,154,831	2,284,640
Non-Federal projects	55,204	87,014	198,365	401,679
Federal projects depreciation	85,094	80,263	340,036	323,882
Operating Expenses	698,279	856,924	3,013,309	4,084,988
Net operating revenues (expenses)	247,603	11,339	598,039	566,351
Interest Expense	87,712	87,037	352,975	337,487
Net (Expenses) Revenues	\$159,891	(\$75,698)	\$245,064	\$228,864

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)

	Three months ended December 31			
2002				
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$805,782	\$140,100	\$0	\$945,882
Intersegment Revenues	18,745	31,422	(50,167)	-
Operating Revenues	\$824,527	\$171,522	(\$50,167)	\$945,882
Net Operating Margin	\$294,871	\$101,521	(\$70,621)	\$325,771
2001				
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
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	(\$65,540)	\$205,745
	Twelve Months Ended December 31			
2002				
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$3,043,232	\$568,116	\$0	\$3,611,348
Intersegment Revenues	81,562	153,067	(234,629)	-
Operating Revenues	\$3,124,794	\$721,183	(\$234,629)	\$3,611,348
Net Operating Margin	\$1,044,705	\$363,333	(\$437,611)	\$970,427
2001				
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
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	(\$265,466)	\$396,062