
Management's Discussion and Analysis – 3rd Quarter

Net Revenues

BPA's Debt Optimization program and other debt management actions contributed significantly to the increased net revenues. With those events nonfederal projects debt service decreased over the last two years, from \$383 million in the first nine months of fiscal 2001 to \$181 million the first nine months of fiscal 2002, and then to \$40 million in the first nine months of fiscal 2003. Without the program, net revenues would be less than \$80 million in the current year-to-date.

Through the nine months ended June 30, 2003, BPA earned net revenues of \$423 million, compared with \$1 million net expenses for the same period a year ago. The \$424 million increase in net revenues from the first nine months of fiscal 2002 is the result of several factors. Total operating revenues increased \$25 million, purchased power decreased \$240 million, nonfederal projects decreased \$141 million and net interest decreased \$19 million from last year. Excluding the SFAS 133 adjustments net revenues for the nine months ended June 30, 2003, were \$377 million, compared with \$16 million net expenses for the same period in 2002.

Operating Revenues

Revenues of \$2,437 million from electricity sales and transmission were down \$65 million or 3 percent compared to the same period of fiscal 2002. The average market price for secondary power sales was \$34 per megawatt-hour in 2003, as opposed to \$48 per megawatt-hour in 2002.

The SFAS 133 mark-to-market accrual resulted in a \$46 million gain for the current period versus a \$15 million dollar gain in the first nine months last year. The changes as a result of SFAS 133 reflect an accounting only adjustment with no corresponding cash impact.

U.S. Treasury credits for fish mitigation increased \$54 million due to an increase in the estimated annual fish credit resulting from below-average water conditions and increased power purchases that accompany reduced hydro supply.

Operating Expenses

General & administrative and power marketing costs decreased at BPA during the first 3 quarters of fiscal 2003, while Energy Northwest's Columbia Generating Station nuclear power plant O&M costs increased. In total, operations and maintenance cost through the third quarter of fiscal 2003 decreased \$16 million or 2 percent from the previous year.

Purchases in the first nine months of fiscal 2003 decreased by 3.6 million megawatt-hours from those in the comparable portion of fiscal 2002, and BPA's expense for purchased power was \$240 million or 23 percent lower when compared to the first nine months of fiscal 2002. Federal generation decreased by 1.2 million megawatt-hours or 2 percent from the same period in the prior year.

Nonfederal projects debt service expense decreased \$141 million or 78 percent. Refinancing Energy Northwest bonds deferred all principal payments due in fiscal 2003 into the future.

In total, operating expenses decreased \$380 million, or 16 percent.

Interest Expense

Net interest expense decreased \$19 million, or 7 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 at the end of the third quarter of fiscal 2003 increased \$286 million, or 29 percent, over the balance at June 30, 2002. Federal hydro projects increased \$224 million, and BPA

transmission \$62 million year over year. 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, in late 2001 BPA started investing in several new transmission lines and substations. The planned BPA transmission build-out will continue until at least 2006.

Cash

BPA's cash balance at the end of the third quarter is \$817 million compared to \$915 million a year ago. While cash decreased \$98 million from last year, this balance represents a considerable improvement from forecasts earlier this year. A combination of late Spring precipitation and higher prices for secondary sales resulted in the improvement. At this time BPA expects the fourth quarter Treasury payments to approximate \$850 million compared to \$926 million in the year ago period. Total payments to the Treasury will approximate \$1,063 million slightly higher than the \$1,056 million paid last fiscal year.

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 forecast accurately 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 forecasted 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 currently is 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>

To reach the administrator's final record of decision on the Power Business Line's Safety Net Cost Recovery Adjustment Clause expedited rate case, go to

<http://www.bpa.gov/power/psp/rates/ratecases/sn03/index.shtml>

For information on the Transmission Business Line's non-construction alternatives to transmission, go to the TBL's Web site at

<http://www2.transmission.bpa.gov/projects/nonwire/roundtable.cfm>

Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

	June 30	
	2003	2002
Assets		
Utility Plant		
Completed plant	\$11,707,365	\$11,389,226
Accumulated depreciation	(4,250,727)	(3,995,855)
	7,456,638	7,393,371
Construction work in progress	1,278,634	992,804
Net utility plant	8,735,272	8,386,175
Nonfederal Projects	6,212,400	6,178,583
Trojan Decommissioning Cost	69,947	79,361
Conservation, net of accumulated amortization	383,226	417,056
Fish & Wildlife, net of accumulated amortization	127,042	142,518
Current Assets	1,498,387	1,524,882
Other Assets	138,914	172,610
	\$17,165,188	\$16,901,185
Capitalization and Liabilities		
Accumulated Net Revenues (Expenses)	\$211,015	(\$222,138)
Federal Appropriations	4,595,974	4,659,165
Capitalization Adjustment	2,141,623	2,209,239
Long-Term Debt	2,731,941	2,682,542
Nonfederal Projects Debt	5,969,214	5,960,754
Trojan Decommissioning Reserve	59,947	67,361
Current Liabilities	895,899	1,001,658
Deferred Credits	559,575	542,604
	\$17,165,188	\$16,901,185

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	
	2003	2002	2003	2002
Operating Revenues:				
Revenues	\$2,436,856	\$2,502,043	\$3,342,217	\$3,341,015
SFAS 133 mark-to-market (loss) gain	45,942	14,796	69,500	(205,912)
Other revenues	35,905	30,703	54,773	54,767
U.S. Treasury credits for fish	87,332	33,179	92,553	438,089
Operating Revenues	2,606,035	2,580,721	3,559,043	3,627,959
Operating Expenses:				
Operations and maintenance	831,333	847,323	1,303,717	1,148,582
Purchased power	795,809	1,035,907	1,046,769	1,761,378
Non-Federal projects	40,185	181,117	89,243	274,913
Federal projects depreciation	261,553	244,151	352,607	328,394
Operating Expenses	1,928,880	2,308,498	2,792,336	3,513,267
Net operating revenues (expenses)	677,155	272,223	766,707	114,692
Interest Expense	254,402	273,148	333,554	358,412
Net Revenues (Expenses)	\$422,753	(\$925)	\$433,153	(\$243,720)

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	
	2003	2002
	June 30	
Cash from Operating Activities		
Net revenues (expenses)	\$422,753	(\$925)
Expenses (income) not requiring cash:		
Depreciation	199,427	185,497
Amortization:		
Fish and wildlife	62,126	57,156
Nonfederal projects	(10,856)	(6,634)
Capitalization adjustment	(50,777)	(50,517)
AFUDC	(22,516)	(18,741)
(Increase) decrease in:		
Accounts receivable	18,949	55,094
Materials and supplies	(1,491)	(2,462)
Prepaid expenses	56,342	82,597
(Increase) decrease in:		
Accounts payable	79,102	14,873
Other	72,718	15,652
Cash from operating activities	825,777	331,590
Cash used for Investment Activities		
(Investment) decrease in:		
Utility plant	(276,075)	(207,436)
Conservation	(20,601)	(18,461)
Fish and wildlife	(5,562)	(7,894)
Slice	(2,456)	-
Cash used for investment activities	(304,694)	(233,791)
Cash from Borrowing and Appropriations		
Increase in federal construction appropriations	(4)	(11,820)
Increase in long-term debt	135,000	240,000
Increase in (payment) of nonfederal debt	10,856	6,634
Cash from borrowing and appropriations	145,852	234,814
Increase in cash	666,935	332,613
Beginning cash balance	235,409	667,294
Ending cash balance	\$902,344	\$999,907
Ending Bonneville Power Administration cash balance	\$817,678	\$915,247

Federal Columbia River Power System

SFAS 131 SEGMENT REPORTING

(Thousands of Dollars)

	Nine months ended			
	June 30			
	2003			
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$2,185,966	\$420,069	-	\$2,606,035
Intersegment Revenues	60,562	77,735	(\$138,297)	-
Operating Revenues	\$2,246,528	\$497,804	(\$138,297)	\$2,606,035
Net Operating Margin	\$829,077	\$265,338	(\$248,796)	\$845,619
	2002			
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$2,157,834	\$422,887	-	\$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	(\$247,648)	\$649,516
	Twelve Months Ended			
	June 30			
	2003			
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$2,995,207	\$563,836	-	\$3,559,043
Intersegment Revenues	82,682	130,075	(\$212,757)	-
Operating Revenues	\$3,077,889	\$693,911	(\$212,757)	\$3,559,043
Net Operating Margin	\$1,128,675	\$351,507	(\$433,678)	\$1,046,504
	2002			
	<u>Power</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Unaffiliated Revenues	\$3,090,690	\$537,269	-	\$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	(\$327,397)	\$485,822

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.