Federal Columbia River Power System (FCRPS)

FY 2003 FIRST QUARTER REVIEW

Net Revenues and Reserves

Projection for FY 2003

February 2003

FY 2003
EXECUTIVE HIGHLIGHTS
February 2003

BPA faces serious financial challenges. Its financial reserves have declined by $600 million in the last two years due to the 2001 drought, volatile market prices and the West Coast energy crisis. The agency began this fiscal year with $188 million in financial reserves. Operating revenues for the first quarter of 2003 are 24 percent of the year-end agency target. Current drivers are negative:

- Due to poor water conditions, BPA's expectations for FY 2003 net secondary revenue has been reduced from previous forecasts.

- Short-term market prices for electricity remain low, such that BPA is reducing its forecasts for net secondary revenues through 2006.

BPA is taking immediate actions to improve its financial situation and restore its financial health.

1) *Cost actions.* BPA expects to cut or defer more than $350 million in costs through 2006. Due to cost actions to date, expenses (not including short-term power purchases or Energy Northwest debt refinancing) through the first quarter of this year are 21 percent of target.

2) *Raising rates*. The agency is triggering the Safety Net Cost Recovery Adjustment Clause in its power rates with new rates expected to be in place on or before October 1, 2003.

3) *Managing cash flow and preparing use of cash tools*. BPA is conserving cash and planning to use cash tools such as debt management to maintain positive cash balances into the next fiscal year when revenues from new rates should start to ease current constrained balances. The end-of-year financial reserves shown in line 4 (on the next page) now reflect the intended effect of these management actions. Previous financial reserve forecasts did not reflect management's intent to take action in order to assure a specific minimum reserve balance to carry over into the next fiscal year.

Note that net revenues shown on line 3 (on the next page) include $270 million of Energy Northwest refinancing proceeds booked as a reduction in BPA expense. The planned use of these proceeds is to retire a comparable amount of higher interest BPA debt issued to the U.S. Treasury. Absent these proceeds, FY 2003 net revenues range from ($60) million to $140 million.

FY 2003
EXECUTIVE HIGHLIGHTS
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($ in Millions)

	FY 2002	FY 2003										
		2002		Range of Current Expectations								
		Final Rate		*without*				*with*				
	Actuals 1/	*Proposal 1/*		*FAS 133 1/*				*FAS 133 2/*				
1. REVENUES	3,495.3	**2,989.2**	**3/**	**3,330.0**	**--**	**3,630.0**		**3,380.0**	**--**	**3,680.0**	
2. EXPENSES	3,524.3	**2,878.4**	**3/**	**3,220.0**	**--**	**3,320.0**		**3,220.0**	**--**	**3,320.0**	
3. NET REVENUES	(29.0)	**110.8**		**110.0**	**--**	**310.0**	5/ 6/	**160.0**	**--**	**360.0**	5/
4. END OF YEAR FINANCIAL RESERVES 4/	187.8	**1,228.0**		**100.0**	**--**	**200.0**		**100.0**	**--**	**200.0**	
5. BPA ACCRUED CAPITAL EXPENDITURES	390.5	**374.3**			**577.0**				**577.0**		

Footnotes

1/ Does not include mark-to-market adjustments required by SFAS 133.
Actual Net Revenues for FY 2002 with the mark-to-market adjustment were $9.5 million.
2/ Includes an "accounting only" (no cash impact) adjustment representing the mark-to-market (MTM) adjustment required by SFAS 133 for identified derivative instruments.
3/ Includes revenues and expenses from the proposed rate test in May 2000 Power Revenue Requirement Study because the June 2001 Power Supplemental Proposal only showed net revenues in the risk analysis and did not contain explicit revenues and expense forecasts.
Revenues and expenses do not include $19.8 million of reimbursable items.
4/ Financial reserves equal total cash plus deferred borrowing. See Executive Highlights for further discussion of this item.
5/ Financial forecasts are highly volatile and will change with market prices and water conditions.
6/ Includes $270 million of expense reductions due to refinancing Energy Northwest debt. Absent these expenses reductions, principally resulting from debt management actions, BPA's net revenues would range from ($160) million to $40 million.
Refinancing the Energy Northwest debt was not assumed in the 2002 Final Rate Proposal.

Accumulated Net Revenue - FBCRAC &DDC

Preliminary Unaudited/For Internal Use Only

Reporting Period December 31, 2002 — **$ in thousands** — **% of Year Lapsed = 25%**

	Actuals FY 2000	Actuals FY 2001	Actuals FY 2002	Accumulated Results	FY 2002 Trigger
Total Revenues	2,720,940	3,888,052	3,047,803	9,656,795	
Total Expenses	2,468,811	4,100,095	3,135,224	9,704,130	
Net Revenue (Expense) from Continuing Operations	252,130	(212,043)	(87,421)	(47,335)	
FAS 133: Accounting for Derivative Instruments and Hedging Activities		47,877	38,354	86,231	
Debt Service Energy Northwest per Accounting Record	525,441	445,148	264,168	1,234,757	
Debt Service Energy Northwest per Rate Case	607,118	603,001	528,865	1,738,984	
Adjusted Net Revenue	170,453	(417,773)	(390,472)	(637,793)	(407,500)

This report is reliant upon a forecast of projected end-of-year Accumulated Net Revenues (ANR) as adjusted per the rate filing (see below), and as of the reporting date. The report is published to determine if the Adjusted ANR (FB CRAC Adjusted ANR) forecast at the end of the current fiscal year is below the FB CRAC Threshold. This report is not an absolute prediction of future revenue or costs, nor does it reflect the actual ANR for the end of the fiscal year. This report should not be used for investment purposes, nor is it a guarantee that the actual ANR will be achieved as forecasted.

The ANR is defined in the 2002 Supplemental Appendix to the ROD as "generation function net revenues, as accumulated since 1999, at the end of each of the FY 2001-2005…confirmed by BPA's independent auditing firm." The FB CRAC Adjusted ANR is distinguished from the BPA ANR in two ways: the FB CRAC Adjusted ANR does not include the impact of SFAS 133 transactions (Accounting for Derivative Instruments and Hedging Activities); and secondly, the FB CRAC Adjusted ANR includes the Energy Northwest debt service expenses as forecasted in the WP-02 Final Studies, (instead of the actual Energy Northwest debt service expenses as used in calculating the BPA ANR.)

The Dividend Distribution Clause (DDC) is similarly reliant upon the forecasted ANR, and the Adjusted ANR.