# ENERGY NORTHWEST

2020 Annual Report

## Contents



## Energy Northwest Facts

**Headquarters**

Richland, Wash.

**Employment Figures**

Approximately 1,100 full-time employees

**Projects and Services**

- Four power generation projects
- Environmental and analytical services
- Operations and maintenance services
- Equipment calibration services
- Power system solutions
- Project development
- Demand-side management services

**To learn more visit our website:**

www.energy-northwest.com

**and our blog:**

www.northwestcleanenergy.com

## Management Report On Responsibility For Financial Reporting

Energy Northwest management is responsible for preparing the accompanying financial statements and for their integrity. They were prepared in accordance with Generally Accepted Accounting Principles (GAAP) (applied on a consistent basis, and include amounts that are based on management's best estimates and judgments).

The financial statements have been audited by Baker Tilly Virchow Krause, LLP, Energy Northwest's independent auditors. Management has made available to Baker Tilly Virchow Krause, LLP all financial records and related data, and believes that all representations made to Baker Tilly Virchow Krause, LLP during its audit were valid and appropriate.

Management has established and maintains internal control procedures that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. These control procedures provide appropriate division of responsibility and are documented by written policies and procedures.

Energy Northwest maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, Baker Tilly Virchow Krause, LLP has considered the internal control structure in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and Baker Tilly Virchow Krause, LLP concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 2020, internal control procedures are adequate.

**Bradley J. Sawatzke**
Chief Executive Officer

**Cristina M. Reyff**
Vice President, Chief Financial Officer/Chief Risk Officer

## Audit, Legal And Finance Committee Chair's Letter

The executive board's Audit, Legal and Finance Committee (committee) is composed of 11 independent directors. Members of the committee are:

July 1, 2019 - August 22, 2019: Chair John Saven, Arie Callaghan, Marc Daudon, Linda Gott, Jack Janda, Jim Malinowski, Sid Morrison, Jim Moss, Skip Orser, Will Purser and Tim Sheldon.

August 23, 2019 - June 30, 2020: Chair Jack Janda, Arie Callaghan, Marc Daudon, Linda Gott, Jack Janda, Sid Morrison, Jim Moss, Skip Orser, Will Purser, John Saven and Tim Sheldon.

The committee held seven meetings during the fiscal year ended June 30, 2020.

The committee oversees Energy Northwest's financial reporting process on behalf of the executive board. In fulfilling its responsibilities, the committee discussed with the performance auditors and the independent auditors the overall scope and specific plans for their respective audits, and reviewed Energy Northwest's financial statements and the adequacy of Energy Northwest's internal controls.

The committee met regularly with Energy Northwest's performance auditors and convened periodic meetings with the independent auditors to discuss the results of their audit, their evaluations of Energy Northwest's internal controls, and the overall quality of Energy Northwest's financial reporting. The meetings were designed to facilitate any private communications with the committee desired by the performance auditors or independent auditors.

**Jack Janda**
Chair,
Audit, Legal and Finance Committee

INDEPENDENT AUDITORS' REPORT

To the Executive Board of
Energy Northwest
Richland, Washington

***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities of Energy Northwest, as of and for the years ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Energy Northwest's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Energy Northwest's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Energy Northwest's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Energy Northwest as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Madison, Wisconsin
September 24, 2020

Energy Northwest is a municipal corporation and joint operating agency of the state of Washington. Each Energy Northwest business unit is financed and accounted for separately from all other current or future business assets. The following discussion and analysis is organized by business unit. The management discussion and analysis of the financial performance and activity is provided as an introduction and to aid in comparing the basic financial statements for the fiscal year (FY) ended June 30, 2020, with the basic financial statements for the FY ended June 30, 2019.

Energy Northwest has adopted accounting policies and principles that are in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. Energy Northwest's records are maintained as prescribed by the Governmental Accounting Standards Board (GASB). (See Note 1 to the Financial Statements.)

Because each business unit is financed and accounted for separately, the following section on financial performance is discussed by business unit to aid in analysis of assessing the financial position of each individual business unit. For comparative purposes only, the table on the following page represents a memorandum only total for Energy Northwest, as a whole, for FY 2020 and FY 2019.

The Financial Statements for Energy Northwest include the Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows for each of the business units, and Notes to Financial Statements.

The Statements of Net Position present the financial position of each business unit on an accrual basis. The Statements of Net Position report financial information about construction work in progress, the amount of resources and obligations, restricted accounts and due to/from balances for each business unit. (See Note 1 to the Financial Statements.)

The Statements of Revenues, Expenses, and Changes in Net Position provide financial information relating to all expenses, revenues and equity that reflect the results of each business unit and its related activities over the course of the fiscal year. The financial information provided aids in benchmarking activities, conducting comparisons to evaluate progress, and determining whether the business unit has successfully recovered its costs.

The Statements of Cash Flows reflect cash receipts and disbursements and net changes resulting from operating, financing and investing activities. The Statements of Cash Flows provide insight into what generates cash, where the cash comes from, and purpose of cash activity.

The Notes to Financial Statements present disclosures that contribute to the understanding of the material presented in the financial statements. This includes, but is not limited to, Schedule of Outstanding Long-Term Debt and Debt Service Requirements (See Note 4 to the Financial Statements), accounting policies, significant balances and activities, material risks, commitments and obligations, and subsequent events, if applicable.

The basic Financial Statements of each business unit along with the Notes to the Financial Statements and Management Discussion and Analysis should be used to provide an overview of Energy Northwest's financial performance. The following discussion provides comparative financial information for the years ended June 30, 2020 and 2019. Questions concerning any of the information provided in this report should be addressed to Energy Northwest at PO Box 968, Richland, WA, 99352.

## Combined Financial Information - June 30, 2020 and 2019 (Dollars in thousands)

| | 2019 | 2020 | Change |
|---|---|---|---|
| Assets | | | |
| Current Assets | $ 761,930 | $ 319,243 | $ (442,687) |
| Restricted Assets | | | |
| Special Funds | 2,175 | 2,427 | 252 |
| Debt Service Funds | 431,023 | 376,135 | (54,888) |
| Net Plant | 1,708,148 | 1,676,026 | (32,122) |
| Nuclear Fuel | 730,710 | 468,994 | (261,716) |
| Long-Term Receivables | - | 136 | 136 |
| Other Charges | 3,667,265 | 3,829,227 | 161,962 |
| TOTAL ASSETS | 7,301,251 | 6,672,188 | (629,063) |
| DEFERRED OUTFLOWS OF RESOURCES | 659,008 | 645,300 | (13,708) |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | $ 7,960,259 | $ 7,317,488 | $ (642,771) |
| | | | |
| Current Liabilities | $ 807,154 | $ 249,914 | $ (557,240) |
| Restricted Liabilities | | | |
| Special Funds | - | - | - |
| Debt Service Funds | 120,765 | 118,259 | (2,506) |
| Long-Term Debt | 5,438,062 | 5,338,001 | (100,061) |
| Other Long-Term Liabilities | 1,559,891 | 1,559,763 | (128) |
| Other Credits | 7,218 | 7,792 | 574 |
| Net Position | | | |
| Invested in capital assets, net of related debt | (36,470) | (26,643) | 9,827 |
| Restricted, net | 19,671 | 20,262 | 591 |
| Unrestricted, net | 10,364 | 6,231 | (4,133) |
| TOTAL LIABILITIES AND NET POSITION | 7,926,655 | 7,273,579 | (653,076) |
| DEFERRED INFLOWS OF RESOURCES | 33,604 | 43,909 | 10,305 |
| TOTAL LIABILITIES, NET POSITION AND DEFERRED INFLOWS | $ 7,960,259 | $ 7,317,488 | $ (642,771) |
| | | | |
| Operating Revenues | $ 515,166 | $ 448,926 | $ (66,240) |
| Operating Expenses | 441,624 | 408,525 | (33,099) |
| Net Operating Revenues | 73,542 | 40,401 | (33,141) |
| Other Income and Expenses | (68,133) | (34,986) | 33,147 |
| Capital Contribution | 540 | 870 | 330 |
| Beginning Net Position | (12,384) | (6,435) | 5,949 |
| ENDING NET POSITION | $ (6,435) | $ (150) | $ 6,285 |

## Columbia Generating Station

Columbia Generating Station (Columbia) is wholly owned by Energy Northwest and its participants and operated by Energy Northwest. The plant is a 1,174-megawatt electric (MWe, Design Electric Rating, net) boiling water nuclear power plant located on the Department of Energy's (DOE) Hanford Site north of Richland, Washington.

Columbia produced 10,017 gigawatt-hours (GWh), with inclusion of credits for economic dispatch, of electricity in FY 2020, as compared to 8,873 GWh of electricity in FY 2019 which included 34 GWh of coast down credit that was approved by the Executive Board (coast down credit is a prudent utility practice to optimize fuel efficiency as part of General Electric's fuel design). The generation for FY 2020 represented the highest fiscal year generation on record for Columbia. FY 2020 generation included 462 GWh of economic dispatch granted by the Bonneville Power Administration (BPA). The request by BPA is for grid reliability and supply and, in Columbia's instance, was a result of high spring river runoff. BPA did not grant any economic dispatch to Columbia in FY 2019 nor did BPA grant credit to overall generation as a result of management directed coast down decisions.

Columbia continues to benefit from the MWe gained because of the Leading Edge Flow Meter Project and valve work completed in the FY 2015 refueling outage (R-22) and additional work completed in the FY 2017 refueling outage (R-23) and the latest outage in May of 2019 (R-24). Columbia, because of the past three refueling outages work completed, is able to deliver an additional ~25 MWe to the grid. These improvements were key to Columbia setting a new fiscal year generation record.

Columbia's cost performance is measured by the cost of power indicator. The cost of power for FY 2020 was 3.26 cents per kilowatt-hour (kWh) as compared with 4.76 cents per kWh in FY 2019. The generating cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. The FY 2020 cost of power decrease of 31.5% was due to the record generation established by Columbia for FY 2020, as well as, the decreased generation levels due to the planned refueling outage (R-24) in FY 2019. FY 2020 cost of power was 3.3% below budget reflecting a 1.5% decrease in expected costs combined with the increase of 1.9% in generation versus projections.

### Assets, Liabilities, and Net Position Analysis

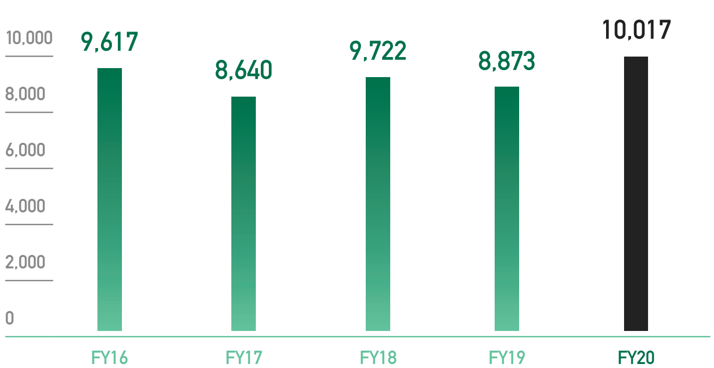
The net decrease to Utility Plant (plant) and Construction Work In Progress (CWIP) from FY 2019 to FY 2020 (excluding nuclear fuel) was $33.1 million. The changes to plant and CWIP were comprised of additions to plant of $30.4 million and an increase to CWIP of $28.9 million. Remaining change was the period effect of depreciation of $92.4 million.

The FY 2020 CWIP balance of $79.7 million consisted of nine major projects of at least $2.0 million: Reactor water cleanup heat exchanger replacement, License renewal implementation, Plant fire detection upgrade, ISFSI storage pad expansion, Dehalogenation chemical feed, Low-pressure turbine rotor replacement, 125 and 250 Voltage DC battery replacement, and Reactor recirculation pump replacement. These projects over $2.0 million result in 81% of the current CWIP balance. The remaining 19% of CWIP is comprised of 46 separate projects.

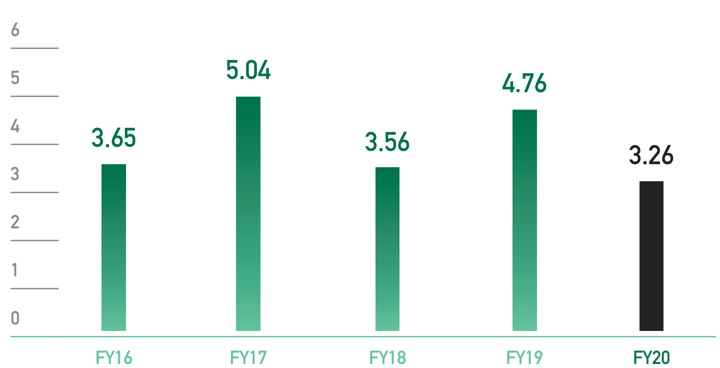
Nuclear fuel, net of accumulated amortization, decreased $261.7 million from FY 2019 to $469.0 million in FY 2020. During FY 2020 Columbia incurred $50.2 million in capitalized fuel/reload activity. A decrease to spent fuel of $90.2 million reflects the original cost of fuel assemblies removed from R-24 and past the required six-month cooling period per the Federal Energy Regulatory Commission (FERC) guidelines. A decrease of $221.7 million occurred related to TVA fuel activity (See Note 11).

Current assets decreased $444.9 million in FY 2020 to $252.5 million. Major driver to change was repayment of $457.4

Columbia Generating Station
**Net Generation - GWhrs**




Columbia Generating Station
**Cost of Power - Cents/kWh**



million of all current operating activity loans (operations and maintenance and Tennessee Valley Authority fuel bridge). The remaining impacts to current assets consisted mostly of increases to materials and supplies ($8.2 million) and prepayment, receivables and cash impacts of to current assets of $4.3 million.

Restricted assets decreased $54.8 million to $311.9 million in FY 2020 due to the FY 2020 bond funding activities and bond restructuring associated with the regional cooperation debt program.

Other charges increased $194.1 million in FY 2020 from $1,709.7 million to $1,903.8 million. The decrease was Costs in Excess of Billings related to the net effect of payment of current maturities and refunding activity associated with the regional cooperation debt program.

Deferred outflows decreased $13.0 million in FY 2020 from $649.4 million to $636.4 million. The changes were a decrease of $0.8 million due to the recognition of a deferred pension outflow in accordance with GASB No. 68 (See Note 6) and decreases of $1.6 million to unamortized loss on refunding associated with the 2020 bond activity and $10.6 million asset retirement adjustment ($10.5 million- Columbia, $0.1 million - ISFSI) due to requirements of GASB No. 83. (See Note 9).

Current liabilities decreased $564.1 million in FY 2020 to $198.9 million. The major reason for the decrease was from the repayment of previous short term operating loans ($457.4 million) offset by the utilization of a current line of credit ($10.0 million). Current maturities of long-term debt decreased $85.8 million per the maturity schedule for bonds. Other changes were decreases to accounts payable and accrued expense of $15.8 million and due to other business units of $10.0 million, both a timing result of year-end obligations. Other changes from timing of due to participants resulted in a decrease of $5.1 million.

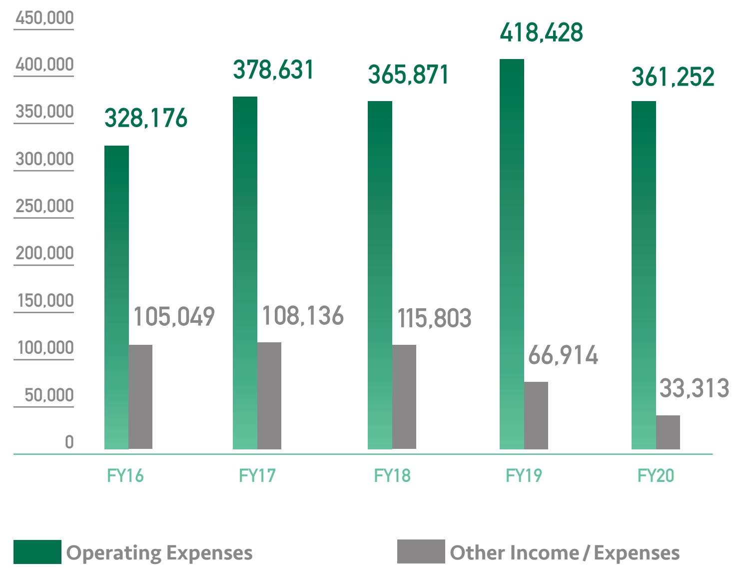
Restricted liabilities decreased $2.4 million in FY 2020 to $74.2 million reflecting the changes in accrued interest on various bond series.

Long-term debt (Bonds Payable) decreased $46.7 million in FY 2020 from $3,407.1 million to $3,360.4 million due to the FY 2020 bond restructuring and funding activities associated with the regional cooperation debt program.

Other long-term liabilities decreased $3.7 million in FY 2020 to $1.527 billion. The major driver were impacts to the asset retirement obligation due to GASB No. 83. Decommissioning liability increased $14.6 million due to required yearly indexing of the obligation. Columbia accounted for $14.5 million of the increase and ISFSI accounted for $0.1 million of the increase. Pension liability decreased $18.4 million in accordance with GASB No. 68.

Costs associated with cask activity are no longer being recorded as a long-term liability as all costs have been deemed reimbursable under the agreement with DOE and

Columbia Generating Station
**Total Operating Costs (Dollars in thousands)**




reimbursements, per each approved submittal, will be offset against costs incurred (See Note 11).

Deferred inflows increased $3.5 million from $32.0 million in FY 2019 to $35.6 million in FY 2020. An increase of $1.4 million was recognized to deferred pension inflow in accordance with GASB No. 68. An increase to bond refunding inflows of $2.1 million was due to the FY 2020 bond restructuring and funding activities associated with the regional cooperation debt program. Deferred credits for FY 2020 consisted of unclaimed bearer bonds and remained at the same level as FY 2019.

**Revenue and Expenses Analysis**

Columbia is a net-billed project. Energy Northwest recognizes revenues equal to expenses for each period on net-billed projects. No net revenue or loss is recognized and no net position is accumulated.

Operating expenses decreased $57.2 million from FY 2019 costs of $418.4 million to $361.2 million in FY 2020. The decrease in costs were due to FY 2019 being a planned refueling year (R-24) as compared to FY 2020 being a non-refueling year. The decreases in FY 2020 were mostly in the operations and maintenance area ($46.6 million) due to the non-refueling year. Other major decreases were due to administrative and general expenses in the stores overhead of $10.7 million and pension expenses of $19.0 related to GASB No. 68. Other administrative and general expenses increases of $1.3 million resulted in the overall change in administrative and general decrease of $28.4 million. Due to the increased generation, nuclear fuel and generation taxes increased $11.6 million and $0.6 million respectively. Decommissioning increased $1.4 million due to annual indexing requirements of the obligation related to GASB No. 83 and increases of $4.2 million for depreciation and amortization were due to changes in plant assets.

Other Income and Expenses decreased $33.6 million from FY 2019 to $33.39 million net expenses in FY 2020. A gain of $9.4 million was recognized in FY 2020 on the spent fuel litigation settlement from the DOE, which was $8.5 million less than FY 2019. The cask costs were never an intended cost for the facility and only resulted from a failure to perform from the Department of Energy (See Note 10). Fuel disposal is no longer being recognized as part of the DOE settlement for this reason and any future recoveries from the DOE will be recorded in similar fashion. Another component of the change was a gain on the scheduled Separative Work Units (SWU) sale related to the TVA fuel contract (See Note 11). The FY 2020 gain on SWU sale was $75.9 million, an increase of $37.0 million over the FY 2019 SWU sale gain. Bond interest expenses and amortization costs of $126.3 million were incurred as part of the FY 2020 planned and approved regional cooperation debt program, however, these were lower in FY 2020 by $5.6 million as compared to FY 2019. The remaining change of $0.7 million was due to decreases in investment income for FY 2020 as compared to FY 2019.

Columbia's total operating revenue decreased from $485.3 million in FY 2019 to $394.6 million in FY 2020. The decrease of $90.8 million was due to the off cycle year of the two year refueling plan and the related effect of the net billing agreement on total revenue (See Note 5).

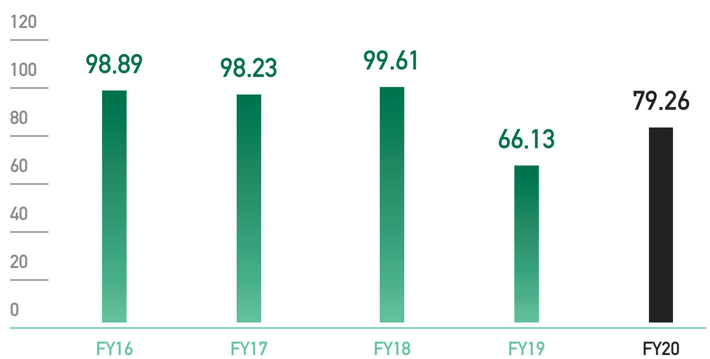
## Packwood Lake Hydroelectric Project

The Packwood Lake Hydroelectric Project (Packwood) is wholly owned and operated by Energy Northwest. Packwood consists of a diversion structure at Packwood Lake and a powerhouse located near the town of Packwood, Washington. The water is carried from the lake to the powerhouse through a five-mile long buried tunnel and drops nearly 1,800 feet in elevation. Packwood produced 79.26 GWh of electricity in FY 2020 versus 66.13 GWh in FY 2019. The generation increase of 19.8% was mostly due to FY 2019 being the fifth lowest generation year on record. Packwood continued with lower than anticipated lake levels for FY 2020; generation is FY 2020 was the 10th lowest generation year on record. Because of the continued low lake levels, generation for FY 2020 was significantly below the life to date average per year of 93.96 GWh.

Packwood had been operating under a fifty-year license issued by FERC, which expired on February 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on February 22, 2008. On March 4, 2010, FERC issued a one-year extension to operate under the original license, which indefinitely extended for continued operations until a formal decision was issued by FERC and a new operating license granted. On March 21, 2018, the National Oceanic and Atmospheric Administration/National Marine Fisheries Service (NOAA/NMFS) filed to the FERC the Biological Opinion (BiOp) of the Endangered Species Act for the relicensing of Packwood. On October 11, 2018 FERC issued the forty-year operating license effective October 1, 2018 (See Note 1 to the Financial Statements). The relicensing cost of $3.7 million incurred in previous years was transferred to intangible plant in FY 2019 and is being amortized over the forty-year license issued October 2018.

Packwood's cost performance is measured by the cost of power indicator. The cost of power for FY 2020 was $3.42 cents per kWh as compared to $3.64 cents per kWh in FY 2019. The cost of power fluctuates year-to-year depending on various factors such as outage, maintenance, generation, and other operating costs. The decrease (6.0%) in the FY 2020 cost of power was driven by the increase in generation noted above; however, the increased operation and maintenance activities and license mitigation activities limited some of the realizable impacts to reducing cost of power from the generation increase.

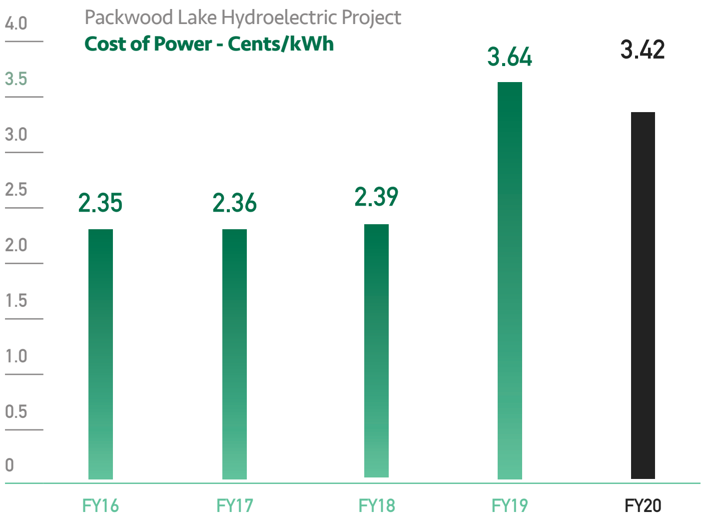
Packwood Lake Hydroelectric Project
**Net Generation - GWhrs**

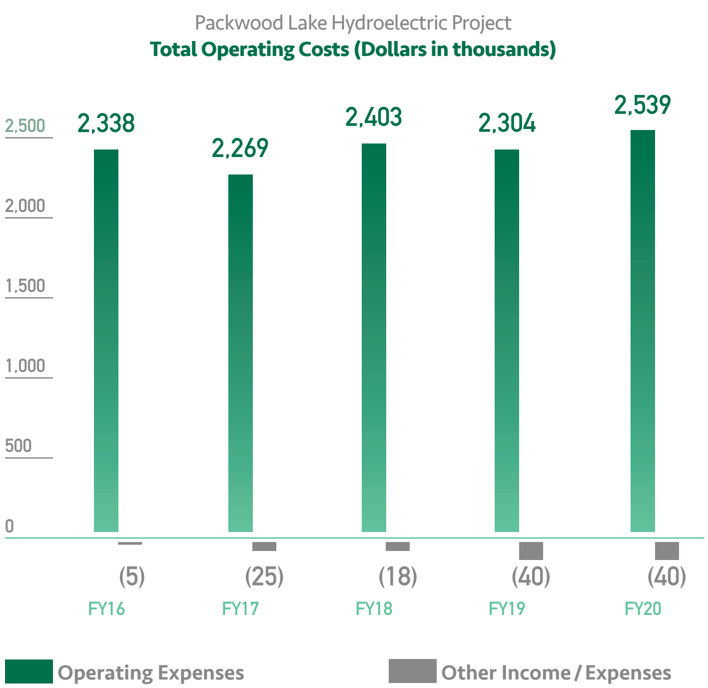



**Assets, Liabilities, and Net Position Analysis**

Total assets and deferred outflows increased $0.3 million in FY 2020. The net increase to Plant from FY 2019 to FY 2020 was $0.7 million. The increase to plant was offset by the period effect of depreciation of $0.2 million. Current assets decreased $0.4 million due to timing of cash and investments activity and a $4 thousand decrease to deferred pension outflow as part of the requirements of GASB No. 68 (See Note 6).

There was an increase to other credits of $0.6 million related to billings in excess of costs. Current liabilities decreased $0.2 million, pension liability decreased $0.1 million and there was an increase to deferred pension inflow of $7 thousand. Pension deferrals and pension liability are recognized in accordance with GASB No. 68.




**Revenue and Expenses Analysis**

The agreement with Packwood participants obligates them to pay annual costs and to receive excess revenues. (See Note 1 to the Financial Statements.) Accordingly, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized and no net position is accumulated. Operating expenses increased $0.4 million in FY 2020 as compared to FY 2019.

The increase in overall operating expenses was due to $0.3 million incurred for forced outage and fish mitigation activities, site and building improvements, increased insurance costs and unscheduled excavation services. These costs were offset slightly by a reduction of $30 thousand in pension expense related to GASB No. 68.

Other Income and Expense, comprised mostly of investment returns, remained steady from the previous year at $40 thousand for FY 2020.

Packwood participants are obligated to pay annual costs of the project (including any applicable debt service), whether or not the project is operable. The Packwood participants also share project revenue to the extent that the amounts exceed costs. These funds can be returned to the participants or kept within the project. As of June 30, 2020 there is $7.3 million recorded as other credits that are deferred billing in excess of costs being kept within the project. Packwood participants are currently taking 100% of the project generation; there are no additional agreements for power sales.

## Nuclear Project No. 1

Energy Northwest wholly owns Nuclear Project No. 1, a 1,250-MWe plant, which was placed in extended construction delay status in 1982, when it was 65% complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution terminating Nuclear Project No. 1. All funding requirements are net-billed obligations of Nuclear Project No. 1. Termination expenses and debt service costs comprise the activity of Nuclear Project No. 1 and are net-billed (See Notes 5 and 10).

**Assets, Liabilities, and Net Position Analysis**

Total Assets and deferred outflows decreased $10.3 million from $930.8 million in FY 2019 to $920.5 million in FY 2020. The change was due to a decrease of $11.9 million in costs in excess offset by increases of $0.4 million in debt service from bond activity, $0.5 million increase in cash and investment activity and $0.7 million in due from other business units. There were no major changes in balances for deferred outflows of resources.

Long-term debt decreased $16.0 million from $794.3 million in FY 2019 to $778.3 million in FY 2020 along with a decrease related to debt discounts/premiums of $7.2 million. The overall change in Long-term debt was due to debt activity associated with the prior years planned and approved regional cooperation debt program. Current liabilities increased $1.4 million due to $0.4 million of current maturities of debt and increases to accounts payables and accrued expenses of $1.0 million. Total long-term liabilities increased $4.6 million and consisted of an increase to decommissioning liability of $4.7 million for the asset retirement obligation per GASB No. 83 (See Note 9), offset by a decrease of $0.1 million in pension liability per GASB No. 68 (See Note 6). There were no major changes in balances for deferred credit or deferred inflows of resources.

**Revenue and Expenses Analysis**

Other Income and Expenses showed a net increase to expenses of $7.8 million from $24.9 million in FY 2019 to $32.7 million in FY 2020. Main drivers for the change was an increase to the decommissioning estimate of $7.4 million. The decommissioning change in estimate was per GASB No. 83 (See Note 9). The other changes included an increase to bond related interest expense and amortization of $0.5 million and a decrease to pension expense of $0.1 million related to GASB No. 68 (See Note 6).

## Nuclear Project No. 3

Nuclear Project No. 3, a 1,240-MWe plant, was placed in extended construction delay status in 1983, when it was 75% complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution terminating Nuclear Project No. 3. Energy Northwest is no longer responsible for any site restoration costs as they were transferred with the assets to the Satsop Redevelopment Project. The debt service related activities remain the responsibility of Energy Northwest and are net-billed (See Notes 5 and 10).

**Assets, Liabilities, and Net Position Analysis**

Long-term debt decreased $0.7 million from $912.7 million in FY 2019 to $912.0 million in FY 2020 along with a decrease related to debt discounts/premiums on debt activity during the year of $19.5 million. The overall change in Long-term debt was due to debt activity associated with the prior years planned and approved regional cooperation debt program. Current debt per the debt maturity schedule decreased $0.6 million from $1.3 million to $0.6 million in FY 2020 per the planned and approved regional cooperation debt program.

**Revenue and Expenses Analysis**

Overall expenses and revenues increased slightly by $0.1 million in FY 2020 due to increased treasury, legal and investment advisor expenses.

## Business Development Fund

Energy Northwest was created to enable Washington public power utilities and municipalities to build and operate generation projects. The Business Development Fund (BDF) was created by Executive Board Resolution No. 1006 in April 1997, for the purpose of holding, administering, disbursing, and accounting for Energy Northwest costs and revenues generated from engaging in new business opportunities.

The BDF is managed as an enterprise fund. Four business sectors have been created within the fund: Business Services, Facilities and Leasing, Generation and Technology Development, and Professional Services. A separate line of activity is used as general Business Unit Support. Each line may have one or more programs that are managed as a unique business line activity.

**Assets, Liabilities, and Net Position Analysis**

Total assets and deferred outflows increased $3.5 million from $13.0 million in FY 2019 to $16.5 million in FY 2020. There was an increase to total capital (net plant) of $3.9 million and an increase to long term receivables of $0.1 million. The increases were offset by a decrease to current assets of $0.5 million. There were no changes to deferred pension outflow in accordance with GASB No. 68 (See Note 6). There was a corresponding increase to liabilities, net position and deferred inflows of $3.5 million. Current liabilities increased $0.8 million from FY 2019 due to timing of year-end outstanding items. Long-term liabilities decreased $0.1 million due to net pension liability in accordance with GASB No. 68. Deferred inflows increased $60 thousand to account for the change in net pension liability. The change in net position of $3.4 million from operations in FY 2020 reflects the activities described below and continuing margin achievement on business sector activity.

**Revenue and Expenses Analysis**

Operating Revenues in FY 2020 totaled $12.7 million as compared to FY 2019 revenues of $9.3 million, an increase of $3.4 million (36.6%). Various projects and timing of work were drivers for the increase in overall revenue for the BDF and the four business sectors.

- The Business Services sector revenues remained relatively steady FY 2020, with a slight decrease from $6.0 million in FY 2019 to $5.9 million. The sector continues strong performance with continuing agreements for Calibration Services and Environmental Laboratory Services.

- The Facilities Leasing sector has similar volume in activity between FY 2019 and FY 2020. Revenue for FY 2020 was $4 thousand as compared to $6 thousand in FY 2019, which reflected continued lower activity at the Industrial Development Complex.

- The Generation and Tech Development sector revenues decreased $38 thousand in FY 2020 from $118 thousand in FY 2019 to $82 thousand, a decrease of 32.2%. This sector was impacted by various decisions on going forward with projects as well as existing delays in planning and construction.

  The termination of the Neoen Solar lease option agreement resulted in a decrease of $13 thousand in revenues for FY 2020 as compared to FY 2019. Neoen had entered a lease option agreement with Energy Northwest in April 2017, for the purpose of developing a solar project on undeveloped land located approximately 3 miles north of Richland. The lease option agreement included the option of leasing up to 150 acres of the unused land for future development. This land is part of 300 acres Energy

Northwest purchased from Tri-City Development Council (TRIDEC) in 2016 for future development. While Neoen ceased development of the project prior to June 30, 2019, the lease option agreement was terminated in August 2019. Energy Northwest continues to own the 300 acre property, and is actively researching potential developments for the site, to include other solar developers.

Energy Northwest entered into a teaming agreement with NuScale Power and Utah Associated Municipal Power Systems (UAMPS) as part of the Western Initiative for Nuclear project collaboration to promote a commercial, small modular reactor (SMR) in the western United States. Energy Northwest holds first right of offer to operate the project. NuScale Power, located in Corvallis, Oregon is poised to supply the facility for the Carbon-Free Power Project (CFPP). NuScale is working with UAMPS to site the CFPP at the Idaho National Laboratory in Idaho Falls, Idaho. UAMPS located in Salt Lake City, Utah is looking at the CFPP as a replacement option for generation in their service territory. Application for construction and operating license to the Nuclear Regulatory Commission is expected in 2020 with the first module operational by 2026, followed by the full 12-module 720-MWh SMR plant by 2027. Revenues for the CFPP declined $42 thousand from $59 thousand in FY 2019 to $17 thousand in FY 2020, reflecting less than anticipated results and delays. UAMPS continues to be slated for further development as the Modular Nuclear concept grows and agreements are developed towards the planned 2020 application and 2026 operational dates.

Revenues also declined because of decreased activity from projections in the Demand Voltage Reduction Initiatives/Demand Side Management Operations (DVRI/DS) ($8 thousand). This decrease and the UAMPS and Neoen described above were partially offset by increased revenue of $25 thousand in the Information Technology (IT) and Cyber Security Services from $35 thousand in FY 2019 to $60 thousand in FY 2020, an increase of 72.3%. IT and cyber security services continues to be a viable technology development for customers and is expected to continue in the out years.

Energy Northwest received a grant award in 2018 from the Washington State Department of Transportation for the Electric Vehicle Infrastructure Transportation Alliance Project (EVITA). Energy Northwest received $405 thousand in grant monies to develop EVITA 1 and EVITA 2 ($149 thousand in FY 2019 and $256 thousand in FY 2018). The grant proceeds were based on $1.1 million in eligible costs towards the purchase and installation of nine electric vehicle-charging stations located on previously underserved highway corridors in Washington State. As of June 30, 2020, all nine stations have been installed and are operational. Energy Northwest continues to seek and apply for grant funding to install electric vehicle charging stations as well as support electric utilities in the Pacific Northwest in their efforts to install electric vehicle charging stations and advance electric vehicle adoption. There were no grant expenditures or revenues incurred for FY 2020. Two grants have been awarded from Pacific Power to install stations in Washington; however, development and grant reimbursement will occur in FY 2021. In addition to the EVITA grant revenues recorded for the EVITA project, Energy Northwest received $15 thousand in FY 2019 and $77 thousand in FY 2018 from EVITA participants. Energy Northwest did not receive any contributions in FY 2020 from EVITA participants.

Energy Northwest was the recipient of a Washington State Department of Commerce (Commerce) grant in 2015. The Commerce grant amount, finalized in 2017, was for development of the Horn Rapids Solar Storage and Training (HRSST) project and was an award up to $3.0 million under the Washington Clean Energy Funds' Grid Modernization Grant Program. The grant was for development of a 4 MWdc photovoltaic solar project coupled with a 1MW/4 MWh basic lithium ion battery storage. Energy Northwest collaborated and came to agreement with the City of Richland for the Battery Energy Storage System (BESS) storage portion of the HRSST. The Energy Northwest Board of Directors approved the project and The City of Richland signed a participant agreement in October of 2018. Construction of the BESS was initiated in FY 2020 and is scheduled for solar energization in September of 2020 (Energy Northwest does not own the solar portion of the project) and battery energization, or BESS, in October of 2020. The battery energization will complete the project; estimated costs are $6.3 million with approximately $4.9 million incurred as of June 30, 2020. Energy Northwest reported a $0.9 million increase in contributed capital and $2.2 million in revenue for FY 2020 as compared to $0.5 million in contributed capital and $0 in revenue for FY 2019.

- The Professional Services business sector supports public power in the areas of operations and maintenance of generating facilities and electric utility automation. Revenues from the Professional Services business sector increased from $1.1 million in FY 2019 to $3.9 million in FY 2020, an increase of 39.3%.

Work at the Portland Hydro Project remained steady from previous year with revenues at $1.4 million for both FY 2020 and FY 2019. Portland Hydro is a five-year agreement for operating and maintaining two powerhouses on the Bull Run River for the City of Portland, the agreement runs through FY 2023. The Tieton Hydroelectric Project revenues increased due to a large work request from the

City of Burbank to replace the Unit #2 turbine runner. Revenues increased $1.1 million for FY 2020 to $2.4 million as compared to $1.3 million for FY 2019. The Tieton project is a year to year agreement for operating and maintaining the 25 MW project located at Rimrock Lake in Yakima County, Washington owned by City of Burbank.

Energy Northwest entered into an agreement with Eugene Water and Electric Board (EWEB) to operate and maintain the Stone Creek Hydro project located on the Oak Grove Fork of the Clackamas River. The agreement is for a five year period to maintain the 12 MWe project for EWEB and was signed in May of 2020. Revenues for FY 2020 were $65 thousand. Estimated revenues for the project are $300 thousand for each year of the project.

The Professional Services business sector is continuing to explore new developments and possibilities going forward for these services.

Operating costs increased $2.0 million from $8.3 million in FY 2019 to $10.3 million in FY 2020. The 13.8% increase in overall operating costs for the Business Development Fund was a result of the increased outage costs incurred because of the Tieton Hydro Project and costs incurred for the BESS project. The operating costs for Operations and Maintenance increased $2.3 million (25.0%) from $9.1 million in FY 2019 to $11.4 million in FY 2020. These costs correlate with the increase in project related revenues. Increased operating costs were offset by a decrease to pension expense of $0.1 million related to GASB No. 68 and a decrease to overall administrative and general expense allocations of $0.2 million.

Other Income and Expenses decreased $75 thousand in FY 2020 to $132 thousand. The overall decrease was due to lower amounts of grant revenue ($149 thousand) and increased investment returns of $74 thousand.

The Business Development Fund receives contributions from the Internal Service Fund to cover cash needs during startup periods. Initial startup costs are not expected to be paid back and are shown as contributions. As an operating business unit, requests can be made to fund incurred operating expenses. There were no contributions (transfers) in FY 2020 or FY 2019.

## Nine Canyon Wind Project

The Nine Canyon Wind Project (Nine Canyon) is wholly owned and operated by Energy Northwest. Nine Canyon is located in the Horse Heaven Hills area southwest of Kennewick, Washington. Electricity generated by Nine Canyon is purchased by Pacific Northwest Public Utility Districts (purchasers). Each of the purchasers of Phase I, Phase II, and Phase III have signed a power purchase agreement which are part of the 2nd Amended and Restated Nine Canyon Wind Project Power Purchase Agreement which now has an end date of 2030. Nine Canyon is connected to the BPA transmission grid via a substation and transmission lines constructed by Benton County Public Utility District.

Phase I of Nine Canyon, which began commercial operation in September 2002, consists of 37 wind turbines, each with a maximum generating capacity of approximately 1.3 MW, for an aggregate generating capacity of 48.1 MW. Phase II of Nine Canyon, which was declared operational in December 2003, includes 12 wind turbines, each with a maximum generating capacity of 1.3 MW, for an aggregate generating capacity of approximately 15.6 MW. Phase III of Nine Canyon, which was declared operational in May 2008, includes 14 wind turbines, each with a maximum generating capacity of 2.3 MW, for an aggregate generating capacity of 32.2 MW. The total Nine Canyon generating capability is 95.9 MW, enough energy for approximately 39,000 average homes.

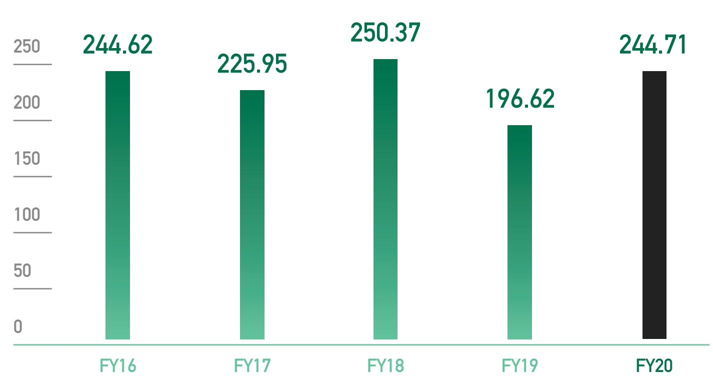
Nine Canyon produced 244.71 GWh of electricity in FY 2020 versus 196.62 GWh in FY 2019. The increase of 24.5% for generation was a direct result of a higher average wind speed of 16.9% (15.2 miles per hour) versus FY 2019 (12.96 miles per hour) and an increased average monthly capacity factor of 30.06% for FY 2020 versus 24.13% for FY 2019 (increase of 24.6%). Generation for FY 2020 was above the average gross generation, while FY 2019 was the third lowest net generation year for the project.

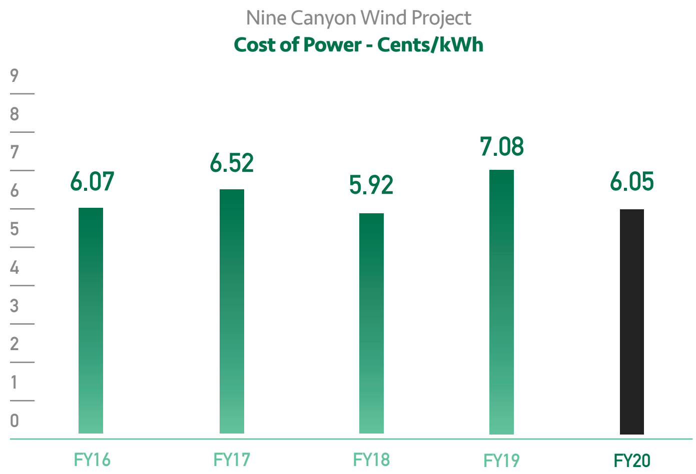
Nine Canyon's cost performance is measured by the cost of power indicator. The cost of power for FY 2020 was $6.05 cents per kWh as compared to $7.08 cents per kWh in FY 2019. The cost of power fluctuates year to year depending on various factors such as wind conditions and unplanned maintenance and is distinctly different than revenue billed cost of power discussed below in revenue and expense analysis. The decrease of 14.5% in cost of power for FY 2020 was attributable to the more favorable average wind speeds and capacity factor; increases of $0.8 million to operating expenses negated some of the overall cost of power decrease from favorable FY 2020 wind conditions.

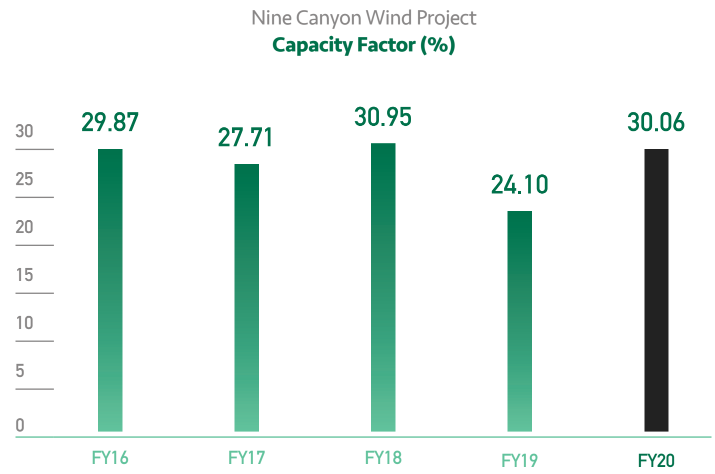
### Assets, Liabilities, and Net Position Analysis

Nine Canyon Wind Project

**Net Generation - GWhrs**






Total assets and deferred outflows decreased $6.7 million from $84.7 million in FY 2019 to $78.0 million in FY 2020. The major driver for the change in assets was a decrease of $6.8 million in net plant due to accumulated depreciation. The remaining changes consisted of increases to restricted (special and debt service funds) of $0.4 million and an increase of $0.4 million in amounts due from other business units. There were no changes to deferred pension outflow as part of the requirements of GASB No. 68 (See Note 6). Unamortized debt expense decreased $0.2 million, and a decrease to deferred outflows related to the asset retirement obligation of $0.5 million due to the requirements of GASB No. 83 (See Note 9).

There was an overall decrease to liabilities, net position and deferred inflows of $6.7 million. Changes were a decrease to long term debt (including unamortized bond discount/premium) of $10.0 million, increase to current maturities of debt of $0.4 million, and a decrease of $0.2 million accrued debt service interest. Other long-term liability changes were decreases of $0.2 million for pension liability and an increase of $0.2 million to the decommissioning liability as a result of indexing requirements in accordance with GASB No. 83 (See Note 9). There were no changes to the deferred pension inflow. Pension liability and deferrals are recognized in accordance with GASB No. 68 (See Note 6). The change in net position from operations decreased from $4.0 million in FY 2019 to $3.1 million in FY 2020. Although a decrease in the year to year operations, FY 2020 positive results continue to reflect the results of the debt financing efforts and cost reduction/stabilization efforts.

In previous years Energy Northwest has accrued, as income (contribution) from the Department of Energy, Renewable Energy Production Incentive (REPI) payments that enable Nine Canyon to receive funds based on generation as it applies to the REPI legislation. REPI was created to promote increases in the generation and utilization of electricity from renewable energy sources and to further the advances of renewable energy technologies. This program, authorized under Section 1212 of the Energy Policy Act of 1992, provides financial incentive payments for electricity produced and sold by new qualifying renewable energy generation facilities. The payment stream from Nine Canyon participants and the REPI receipts was projected to cover the total costs over the purchase agreement. Continued shortfalls in REPI funding for the Nine Canyon project led to a revised rate plan to incorporate the impact of this shortfall over the life of the project (2030 proposed end date) in FY 2008. Results of operations, debt refundings and generation affect the yearly rate plan. In FY 2017 Nine Canyon Participants of all three phases realized a 3% decrease in rates driven by debt refinancing efforts and cost reduction/stabilization efforts. The current rate plan remains in effect; going forward the increase or decrease in rates will be based on cash requirements of debt repayment and the cost of operations.

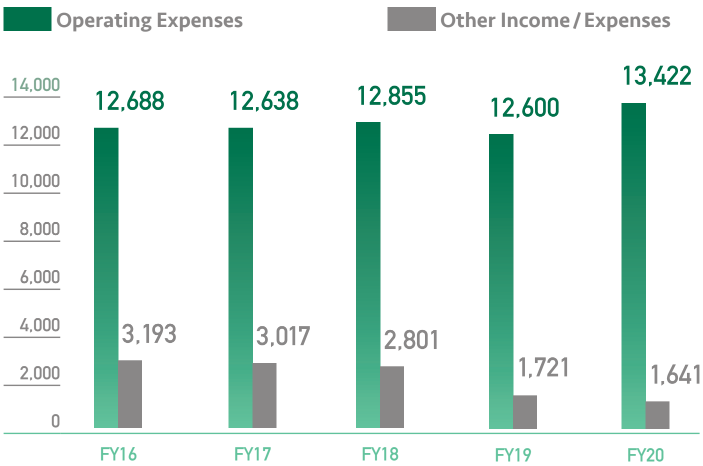
### Revenues and Expenses Analysis

Operating revenues remained relatively steady from FY 2019 amounts increasing $0.1 million to $18.4 million in FY 2020. The project received revenue from the billing of the purchasers at an average rate of $78.04 per MWh for FY 2020 as compared to $79.01 per MWh for FY 2019. The decrease in the billed rates reflects the more favorable wind conditions and planned recovery of operating costs. The stabilization of revenue continues to reflect the implementation of the current rate plan account for costs of operations over the remaining life of the project, taking into account the REPI shortfalls in the early years of the project.

Operating expenses increased $1.0 million from $12.6 million in FY 2019 to $13.6 million in FY 2020. The increase (6.3%) was due to two main bearing change outs ($0.7 million) and replacement of five new climb assists ($0.3 million). There were no changes to the pension expense related to GASB No. 68 (See Note 6). The increase in operating costs offset some of the reduction of cost of power due to favorable wind conditions.

Other income and expenses decreased $0.1 million from

Nine Canyon Wind Project
**Total Operating Costs (Dollars in thousands)**




$1.7 million in net expenses in FY 2019 to $1.6 million in FY 2020. Bond interest expense and changes in amortized bond expenses decreased $0.3 million, investment income decreased $0.3 million and property disposal gains increased $0.1 million. Net income or change in net position of $3.3 million for FY 2020 was a direct result of the planned rate structure with projected treasury savings due to refunding and lower than budgeted operating costs.

The original plan anticipated operating at a loss in the early years and gradually increasing the rate charged to the purchasers to avoid a large rate increase after the REPI expires. The REPI incentive expires 10 years from the initial operation startup date for each phase. Reserves that were established are used to facilitate this plan. The rate plan in FY 2008 was revised to account for the shortfall experienced in the REPI funding and to provide a new rate scenario out to the 2030 project end date. Energy Northwest did not receive REPI funding in FY 2020 and is not anticipating receiving any future REPI incentives. The rate plan was revised In FY 2017 to reflect positive cash requirement coverage and remains in effect. Future rate adjustments may be necessary to cover the estimated costs incurred for the eventual decommissioning of the Nine Canyon Project.

The Internal Service Fund (ISF) (formerly the General Fund) was established in May 1957. The ISF provides services to the other funds. This fund accounts for the central procurement of certain common goods and services for the business units on a cost reimbursement basis. (See Note 1).

**Assets, Liabilities, and Net Position Analysis**

Total assets and deferred outflows increased $0.8 from $55.0 million in FY 2019 to $55.8 million in FY 2020. There were increases in net plant in service of $3.2 million, mostly related to purchases of data processing equipment. Remaining major changes were increases to designated assets and current cash and investments of $2.2 million, increase of $0.5 million in prepaid and other assets offset by a decrease of $5.1 million in due from other business units.

The net decrease in net position and liabilities is due to increases in due to other units of $1.0 million. Net position remained relatively unchanged with a slight decrease of $0.2 million.

**Revenues and Expenses Analysis**

Overall results of operations resulted in a decrease from $106 thousand gain in FY 2019 to a $204 thousand loss in net income for FY 2020. A residual increase in overall expenses resulted in the slight increase of cost of operations.

## Internal Service Fund
## Current Debt Ratings **(Unaudited)**

| Energy Northwest (Long-Term) | Net-Billed Rating | Nine Canyon Rating |
|---|---|---|
| Fitch, Inc. | AA | A |
| Moodys Investors Service, Inc. (Moodys) | Aa2 | A1 |
| Standard and Poor's Ratings Services (S & P) | AA- | NR |

## Statement of Net Position As of June 30, 2020 (Dollars in thousands)

| | Columbia Generating Station | Packwood Lake Hydroelectric Project | Nuclear Project No. 1 | Nuclear Project No. 3 | Business Development Fund | Nine Canyon Wind Project | Subtotal | Internal Service Fund | 2020 Combined Total |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | |
| Cash | $ 62,289 | $ 836 | $ 4,046 | $ 3,177 | $ 3,392 | $ 9,254 | $ 82,994 | $ 11,994 | $ 94,988 |
| Investments | - | 660 | - | - | 2,998 | 5,566 | 9,224 | 19,632 | 28,856 |
| Accounts and other receivables | 21,603 | 158 | - | - | 3,073 | 125 | 24,959 | 61 | 25,020 |
| Due from other business units | - | 66 | 812 | 138 | - | 408 | 1,424 | (1,424) | - |
| Materials and supplies | 165,373 | - | - | - | - | - | 165,373 | - | 165,373 |
| Prepayments and other | 3,290 | 30 | 4 | 4 | 19 | 23 | 3,370 | 1,636 | 5,006 |
| TOTAL CURRENT ASSETS | 252,555 | 1,750 | 4,862 | 3,319 | 9,482 | 15,376 | 287,344 | 31,899 | 319,243 |
| RESTRICTED ASSETS (NOTE 1) | | | | | | | | | |
| Special funds | | | | | | | | | |
| Cash | - | - | - | - | - | - | - | - | - |
| Investments | 2,427 | - | - | - | - | - | 2,427 | - | 2,427 |
| Accounts and other receivables | - | - | - | - | - | - | - | - | - |
| Debt service funds | | | | | | | | | |
| Cash | 242,724 | - | 21,392 | 23,377 | - | 10,514 | 298,007 | - | 298,007 |
| Investments | 66,614 | - | - | - | - | 11,389 | 78,003 | - | 78,003 |
| Accounts and other receivables | 118 | - | - | - | - | 7 | 125 | - | 125 |
| TOTAL RESTRICTED ASSETS | 311,883 | - | 21,392 | 23,377 | - | 21,910 | 378,562 | - | 378,562 |
| NON CURRENT ASSETS | | | | | | | | | |
| UTILITY PLANT (NOTE 2) | | | | | | | | | |
| In service | 4,639,644 | 20,719 | - | - | 4,527 | 133,873 | 4,798,763 | 44,211 | 4,842,974 |
| Not in service | - | - | - | - | - | - | - | - | - |
| Construction work in progress | 79,721 | - | - | - | 4,460 | - | 84,181 | - | 84,181 |
| Accumulated depreciation | (3,097,203) | (13,653) | - | - | (2,788) | (101,202) | (3,214,846) | (36,283) | (3,251,129) |
| Net Utility Plant | 1,622,162 | 7,066 | - | - | 6,199 | 32,671 | 1,668,098 | 7,928 | 1,676,026 |
| Nuclear fuel, net of accumulated depreciation | 468,994 | - | - | - | - | - | 468,994 | - | 468,994 |
| LONG TERM RECEIVABLES | - | - | - | - | 128 | - | 128 | 8 | 136 |
| TOTAL NONCURRENT ASSETS | 2,091,156 | 7,066 | - | - | 6,327 | 32,671 | 2,137,220 | 7,936 | 2,145,156 |
| OTHER CHARGES | | | | | | | | | |
| Cost in excess of billings | 1,903,742 | - | 894,209 | 1,031,276 | - | - | 3,829,227 | - | 3,829,227 |
| Other | - | - | - | - | - | - | - | - | - |
| TOTAL OTHER CHARGES | 1,903,742 | - | 894,209 | 1,031,276 | - | - | 3,829,227 | - | 3,829,227 |
| TOTAL ASSETS | 4,559,336 | 8,816 | 920,463 | 1,057,972 | 15,809 | 69,957 | 6,632,353 | 39,835 | 6,672,188 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | | |
| Deferred outflows - unamortized loss on bond refunding | 6,599 | - | - | - | - | 960 | 7,559 | - | 7,559 |
| Deferred pension outflows | 21,786 | 74 | 62 | - | 659 | 193 | 22,774 | - | 22,774 |
| Deferred decom outflows | 608,056 | | | | | 6,911 | 614,967 | | 614,967 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 636,441 | 74 | 62 | - | 659 | 8,064 | 645,300 | - | 645,300 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | $ 5,195,777 | $ 8,890 | $ 920,525 | $ 1,057,972 | $ 16,468 | $ 78,021 | $ 7,277,653 | $ 39,835 | $ 7,317,488 |

The accompanying notes are an integral part of these combined financial statements.

## Statement of Net Position As of June 30, 2020 (Dollars in thousands)

| | Columbia Generating Station | Packwood Lake Hydroelectric Project | Nuclear Project No. 1 | Nuclear Project No. 3 | Business Development Fund | Nine Canyon Wind Project | Subtotal | Internal Service Fund | 2020 Combined Total |
|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES AND NET POSITION** | | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | | |
| Current maturities of long-term debt | $ 109,660 | $ - | $ 1,635 | $ 740 | $ - | $ 8,835 | $ 120,870 | $ - | $ 120,870 |
| Current notes payable | 10,000 | - | - | - | - | - | 10,000 | - | 10,000 |
| Accounts payable and accrued expenses | 38,018 | 309 | 1,377 | 15 | 1,047 | 435 | 41,201 | 49,948 | 91,149 |
| Due to participants | 26,885 | 1,010 | - | - | - | - | 27,895 | - | 27,895 |
| Due to other business units | 14,337 | - | - | - | 201 | - | 14,538 | (14,538) | - |
| TOTAL CURRENT LIABILITIES | 198,900 | 1,319 | 3,012 | 755 | 1,248 | 9,270 | 214,504 | 35,410 | 249,914 |
| LIABILITIES-PAYABLE FROM RESTRICTED ASSETS (NOTE 1) | | | | | | | | | |
| Special funds | | | | | | | | | |
| Other Liabilities | - | - | - | - | - | - | - | - | - |
| Debt service funds | | | | | | | | | |
| Accrued interest payable | 74,150 | - | 19,824 | 22,637 | - | 1,648 | 118,259 | - | 118,259 |
| TOTAL RESTRICTED LIABILITIES | 74,150 | - | 19,824 | 22,637 | - | 1,648 | 118,259 | - | 118,259 |
| LONG-TERM DEBT (NOTE 5) | | | | | | | | | |
| Revenue bonds payable | 3,040,490 | - | 778,350 | 911,965 | - | 61,270 | 4,792,075 | - | 4,792,075 |
| Unamortized (discount)/premium on bonds - net | 319,887 | - | 99,249 | 122,413 | - | 4,377 | 545,926 | - | 545,926 |
| TOTAL LONG-TERM DEBT | 3,360,377 | - | 877,599 | 1,034,378 | - | 65,647 | 5,338,001 | - | 5,338,001 |
| OTHER LONG-TERM LIABILITIES | | | | | | | | | |
| Pension liability | 50,210 | 133 | 113 | - | 1,305 | 428 | 52,189 | - | 52,189 |
| Decommissioning liability | 1,476,315 | - | 13,002 | - | - | 18,133 | 1,507,450 | | 1,507,450 |
| Other | 88 | - | - | - | 32 | - | 120 | 4 | 124 |
| TOTAL OTHER LONG-TERM LIABILITIES | 1,526,613 | 133 | 13,115 | - | 1,337 | 18,561 | 1,559,759 | 4 | 1,559,763 |
| OTHER CREDITS | | | | | | | | | |
| Advances from members and others | - | 7,324 | - | - | - | - | 7,324 | - | 7,324 |
| Other | 160 | - | 154 | 154 | - | - | 468 | - | 468 |
| TOTAL OTHER CREDITS | 160 | 7,324 | 154 | 154 | - | - | 7,792 | - | 7,792 |
| TOTAL LIABILITIES | 5,160,200 | 8,776 | 913,704 | 1,057,924 | 2,585 | 95,126 | 7,238,315 | 35,414 | 7,273,729 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | | |
| Deferred inflows - unamortized gain on bond refunding | 3,322 | - | 6,723 | 48 | - | 55 | 10,148 | - | 10,148 |
| Deferred pension inflows | 32,255 | 114 | 98 | - | 1,006 | 288 | 33,761 | - | 33,761 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 35,577 | 114 | 6,821 | 48 | 1,006 | 343 | 43,909 | - | 43,909 |
| NET POSITION | | | | | | | | | |
| Net investment in capital assets | - | - | - | - | 6,327 | (40,906) | (34,579) | 7,936 | (26,643) |
| Restricted for debt service | - | - | - | - | - | 20,262 | 20,262 | - | 20,262 |
| Unrestricted | - | - | - | - | 6,550 | 3,196 | 9,746 | (3,515) | 6,231 |
| NET POSITION | - | - | - | - | 12,877 | (17,448) | (4,571) | 4,421 | (150) |
| TOTAL LIABILITIES, NET POSITION, AND DEFERRED INFLOWS | $ 5,195,777 | $ 8,890 | $ 920,525 | $ 1,057,972 | $ 16,468 | $ 78,021 | $ 7,277,653 | $ 39,835 | $ 7,317,488 |

The accompanying notes are an integral part of these combined financial statements.

## Statements of Revenues, Expenses, and Changes in Net Position As of June 30, 2020 (Dollars in thousands)

| | Columbia Generating Station | Packwood Lake Hydroelectric Project | Nuclear Project No. 1 | Nuclear Project No. 3 | Business Development Fund | Nine Canyon Wind Project | Subtotal | Internal Service Fund | 2020 Combined Total |
|---|---|---|---|---|---|---|---|---|---|
| Operating Revenues | $ 415,225 | $ 2,615 | $ - | $ - | $ 12,718 | $ 18,368 | $ 448,926 | $ - | $ 448,926 |
| Grant Revenues | - | - | - | - | | - | - | - | - |
| OPERATING REVENUES | 415,225 | 2,615 | - | - | 12,718 | 18,368 | 448,926 | - | 448,926 |
| OPERATING EXPENSES | | | | | | | | | |
| Services to other business units | - | - | - | - | - | - | - | - | - |
| Nuclear fuel, net | 63,975 | - | - | - | - | - | 63,975 | - | 63,975 |
| Decommissioning | 25,253 | - | - | - | - | 673 | 25,926 | - | 25,926 |
| Depreciation and amortization | 93,776 | 234 | - | - | 292 | 6,820 | 101,122 | - | 101,122 |
| Operations and maintenance | 188,335 | 2,483 | - | - | 11,422 | 6,206 | 208,446 | - | 208,446 |
| Administrative & general | 4,858 | (79) | - | - | (1,381) | (125) | 3,272 | - | 3,272 |
| Generation tax | 5,715 | 17 | - | - | - | 52 | 5,784 | - | 5,784 |
| Total operating expenses | 381,912 | 2,655 | - | - | 10,333 | 13,625 | 408,525 | - | 408,525 |
| OPERATING INCOME (LOSS) | 33,313 | (40) | - | - | 2,385 | 4,743 | 40,401 | - | 40,401 |
| OTHER INCOME & EXPENSE | | | | | | | | | |
| Other | 81,739 | - | 32,811 | 26,017 | 1 | 13 | 140,581 | (204) | 140,377 |
| Grant Revenue Non Operating | - | - | - | - | - | - | - | - | - |
| Gain on DOE Settlement | 9,376 | - | - | - | - | - | 9,376 | - | 9,376 |
| Investment income | 1,851 | 40 | 76 | 63 | 131 | 676 | 2,837 | - | 2,837 |
| Interest expense and debt amortization | (126,279) | - | (24,735) | (25,779) | - | (2,330) | (179,123) | - | (179,123) |
| Plant preservation and termination costs | - | - | (591) | (301) | - | - | (892) | - | (892) |
| Depreciation and amortization | - | - | (1) | - | - | - | (1) | - | (1) |
| Decommissioning | - | - | (7,560) | - | - | - | (7,560) | - | (7,560) |
| Services to other business units | - | - | - | - | - | - | - | - | - |
| TOTAL OTHER INCOME & EXPENSE | (33,313) | 40 | - | - | 132 | (1,641) | (34,782) | (204) | (34,986) |
| NET INCOME (LOSS) BEFORE CONTRIBUTIONS | - | - | - | - | 2,517 | 3,102 | 5,619 | (204) | 5,415 |
| CAPITAL CONTRIBUTIONS | - | - | - | - | 870 | - | 870 | - | 870 |
| NET INCOME (LOSS) AFTER CONTRIBUTIONS | - | - | - | - | 3,387 | 3,102 | 6,489 | (204) | 6,285 |
| TOTAL NET POSITION, BEGINNING OF YEAR | - | - | - | - | 9,490 | (20,550) | (11,060) | 4,625 | (6,435) |
| TOTAL NET POSITION, END OF YEAR | $ - | $ - | $ - | $ - | $ 12,877 | $ (17,448) | $ (4,571) | $4,421 | $ (150) |

The accompanying notes are an integral part of these combined financial statements.

## Statements of Cash Flows As of June 30, 2020 (Dollars in thousands)

| | Columbia Generating Station | Packwood Lake Hydroelectric Project | Nuclear Project No. 1 | Nuclear Project No. 3 | Business Development Fund | Nine Canyon Wind Project | Internal Service Fund | 2020 Combined Total |
|---|---|---|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | |
| Operating revenue receipts | $ 664,363 | $ 2,884 | $ - | $ - | $ 6,956 | $ 18,374 | $ - | $ 692,577 |
| Cash payments for operating expenses | (251,181) | (2,462) | - | - | (6,006) | (6,669) | - | (266,318) |
| DOE Cash settlement | 17,833 | - | - | - | - | - | - | 17,833 |
| Cash received from TVA fuel activities | 297,980 | - | - | - | - | - | - | 297,980 |
| Grant Received Non Operating | - | - | - | - | 84 | - | - | 84 |
| Cash payments for services net of cash received from other units | - | - | - | - | - | - | (5,998) | (5,998) |
| Net cash provided/(used) by operating activities | 728,995 | 422 | - | - | 1,034 | 11,705 | (5,998) | 736,158 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | | | |
| Proceeds from bond refundings | 95,455 | - | 394 | - | - | - | - | 95,849 |
| Principal paid on revenue bond maturities | (195,485) | - | (1,280) | (1,350) | - | (8,425) | - | (206,540) |
| Payment for bond issuance and financing costs | (3,244) | (14) | (615) | (293) | (25) | (39) | - | (4,230) |
| Interest paid on bonds | (149,918) | - | (39,364) | (45,285) | - | (3,500) | - | (238,067) |
| Payment for capital items | (64,584) | (828) | - | - | (4,163) | (52) | (3,914) | (73,541) |
| Reimbursement for capital items | | | | | | | 11,155 | 11,155 |
| Capital Grant Received | - | - | - | - | 870 | - | - | 870 |
| Nuclear fuel acquisitions | (14,081) | - | - | - | - | - | - | (14,081) |
| Payments received from BPA for terminated nuclear projects | - | - | 41,666 | 46,286 | - | - | - | 87,952 |
| Net cash provided/(used) by capital and related financing activities | (331,857) | (842) | 801 | (642) | (3,318) | (12,016) | 7,241 | (340,633) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | | | | | | |
| Proceeds from notes payable | 10,000 | - | - | - | - | - | - | 10,000 |
| Payment for notes payable | (457,420) | - | - | - | - | - | - | (457,420) |
| Interest paid on notes | (6,101) | - | - | - | - | - | - | (6,101) |
| Net cash provided/(used) by non-capital finance activities | (453,521) | - | - | - | - | - | - | (453,521) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | |
| Purchases of investment securities | (503,703) | (1,001) | (4,999) | (1,000) | (9,720) | (18,588) | (5,458) | (544,469) |
| Sales of investment securities | 524,473 | 850 | 5,001 | 3,500 | 12,250 | 23,329 | 11,508 | 580,911 |
| Interest on investments | 862 | 30 | 73 | 25 | 150 | 459 | 623 | 2,222 |
| Net cash provided/(used) by investing activities | 21,632 | (121) | 75 | 2,525 | 2,680 | 5,200 | 6,673 | 38,664 |
| NET INCREASE(DECREASE) IN CASH | (34,751) | (541) | 876 | 1,883 | 396 | 4,889 | 7,916 | (19,332) |
| CASH AT JUNE 30, 2019 | 339,764 | 1,377 | 24,562 | 24,671 | 2,996 | 14,879 | 4,078 | 412,327 |
| CASH AT JUNE 30, 2020 (NOTE H) | $ 305,013 | $ 836 | $ 25,438 | $ 26,554 | $ 3,392 | $ 19,768 | $ 11,994 | $ 392,995 |
| RECONCILIATION OF DIRECT CASH FLOW TO STATEMENT OF NET POSITION | | | | | | | | |
| Cash unrestricted | $ 62,289 | $ 836 | $ 4,046 | $ 3,177 | $ 3,392 | $ 9,254 | $ 11,994 | $ 94,988 |
| Cash restricted special funds | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Cash restricted debt service funds | $ 242,724 | $ - | $ 21,392 | $ 23,377 | $ - | $ 10,514 | $ - | $ 298,007 |
| Total Statement of Net Position cash | $ 305,013 | $ 836 | $ 25,438 | $ 26,554 | $ 3,392 | $ 19,768 | $ 11,994 | $ 392,995 |

The accompanying notes are an integral part of these combined financial statements.

## Statements of Cash Flows As of June 30, 2019 (Dollars in thousands)

| | Columbia Generating Station | Packwood Lake Hydroelectric Project | Nuclear Project No. 1 | Nuclear Project No. 3 | Business Development Fund | Nine Canyon Wind Project | Internal Service Fund | 2020 Combined Total |
|---|---|---|---|---|---|---|---|---|
| RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES | | | | | | | | |
| Net income/loss from operations | $ 33,313 | $ (40) | $ - | $ - | $ 2,386 | $ 4,742 | $ - | $ 40,401 |
| Adjustments to reconcile net operating revenues to cash provided by operating activities: | | | | | | | | |
| Depreciation and amortization | 151,348 | 234 | - | - | 292 | 6,820 | - | 158,694 |
| Decommissioning | 25,253 | - | - | - | - | 673 | - | 25,926 |
| Non-operating revenues | - | - | - | - | - | (13) | (204) | (217) |
| Non-operating Grant Revenues | - | - | - | - | 149 | - | - | 149 |
| Other | 85,773 | (90) | - | - | (177) | 504 | (10,776) | 75,234 |
| Change in operating assets and liabilities: | | | | | | | | |
| Costs in excess of billings | 25,988 | 279 | - | - | - | - | - | 26,267 |
| Accounts receivable | 453,242 | 14 | - | - | (1,828) | (444) | (539) | 450,445 |
| Materials and supplies | (8,202) | - | - | - | - | - | - | (8,202) |
| Prepaid and other assets | (630) | (12) | - | - | (15) | 15 | (496) | (1,138) |
| Due from/to other business units | (5,108) | (6) | - | - | 300 | (557) | 6,067 | 696 |
| Change in net pension liability and deferrals | (16,323) | (92) | - | - | (707) | (162) | - | (17,284) |
| Due from/to participants | - | - | - | - | - | - | - | - |
| Accounts payable | (15,659) | 135 | - | - | 634 | 127 | (50) | (14,813) |
| Net cash provided/(used) by operating activities | $ 728,995 | $ 422 | $ - | $ - | $ 1,034 | $ 11,705 | $ (5,998) | $ 736,158 |
| Non-cash activities | | | | | | | | |
| Capitalized interest | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Bond refunding | $ 386,505 | $ - | $ 67,863 | $ - | $ - | $ - | $ - | $ 454,368 |
| Decommissioning liability adjustment | $ 14,617 | $ - | $ 4,684 | $ - | $ - | $ 180 | $ - | $ 19,481 |
| Excise tax on nuclear fuel acquisitions | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

The accompanying notes are an integral part of these combined financial statements.

## Notes To Financial Statements

**NOTE 1 - Summary of Operations and Significant Accounting Policies**

Energy Northwest, a municipal corporation and joint operating agency of the state of Washington, was organized in 1957 to finance, acquire, construct and operate facilities for the generation and transmission of electric power.

Membership consists of 22 public utility districts and 5 municipalities. All members own and operate electric systems within the state of Washington.

Energy Northwest is exempt from federal income tax and has no taxing authority.

Energy Northwest maintains seven business units. Each unit is financed and accounted for separately from all other current or future business units, and is accounted for as a major fund for governmental accounting purposes.

All electrical energy produced by Energy Northwest's net-billed business units is ultimately delivered to electrical distribution facilities owned and operated by Bonneville Power Administration (BPA) as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electric utility systems throughout the Northwest, including participants in Energy Northwest's business units, for ultimate distribution to consumers. Participants in Energy Northwest's net-billed business units consist of public utilities and rural electric cooperatives located in the western United States who have entered into net-billing agreements with Energy Northwest and BPA for participation in one or more of Energy Northwest's business units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources, as well as BPA's other costs (See Note 5).

Energy Northwest operates the Columbia Generating Station (Columbia), a 1,174-MWe (Design Electric Rating, net) generating plant completed in 1984. Energy Northwest has obtained all permits and licenses required to operate Columbia. Columbia was issued a standard 40-year operating license by the Nuclear Regulatory Commission (NRC) in 1983. On January 19, 2010 Energy Northwest submitted an application to the NRC to renew the license for an additional 20 years, thus continuing operations to 2043. A renewal license was granted by the NRC on May 22, 2012 for continued operation of Columbia to December 31, 2043.

Energy Northwest also operates the Packwood Lake Hydroelectric Project (Packwood), a 27.5-MWe generating plant completed in 1964. Packwood has been operating under a 50-year license issued by the Federal Energy Regulatory Commission (FERC), which expired on February 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on February 22, 2008. On October 11, 2018, FERC issued forty-year operating license effective October 1, 2018.

The electric power produced by Packwood is sold to 12 project participant utilities which pay the costs of Packwood. The Packwood participants are obligated to pay annual costs of Packwood including debt service, whether or not Packwood is operable. The participants also share Packwood revenue (See Note 5).

Nuclear Project No. 1, a 1,250-MWe plant, was placed in extended construction delay status in 1982, when it was 65 percent complete. Nuclear Project No. 3, a 1,240-MWe plant, was placed in extended construction delay status in 1983, when it was 75 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. All funding requirements remain as net-billed obligations of Nuclear Projects Nos. 1 and 3. Energy Northwest is no longer responsible for site restoration costs for Nuclear Project No. 3. (See Note 10)

The Business Development Fund was established in April 1997 to pursue and develop new energy related business opportunities. There are four main business lines associated with this business unit: General Services and Facilities, Generation, Professional Services, and Business Unit Support.

Through the Business Development Fund, Energy Northwest entered into the Horn Rapids Solar, Storage, and Training Participant Agreement with the City of Richland. The agreement was executed on October 29, 2018 and provides for the development of the Battery Energy Storage System (BESS) associated with the Horn Rapids Project. The BESS is expected to be funded by grant proceeds of up to $3 million from the Washington State Clean Energy Fund along with revenues from the City of Richland.

The Nine Canyon Wind Project (Nine Canyon) was established in January 2001 for the purpose of exploring and establishing a wind energy project. Phase I of the project was completed in FY 2003 and Phase II was completed in FY 2004. Phase I and II combined capacity is approximately 63.7 MWe. Phase III was completed in FY 2008 adding an additional 14 wind turbines to Nine Canyon and adding an aggregate capacity of 32.2 MWe. The total number of turbines at Nine Canyon is 63 and the total capacity is 95.9 MWe.

The Internal Service Fund was established in May 1957. It is currently used to account for the central procurement of certain common goods and services for the business units on a cost reimbursement basis.

Energy Northwest's fiscal year (FY) begins on July 1 and ends on June 30. In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through September 24, 2020, the date of audit opinion issuance.

The following is a summary of the significant accounting policies:

**A) Basis of Accounting and Presentation:** The accounting policies of Energy Northwest conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles this includes all GASB implementation guides, GASB technical Bulletins, and guidance from the American Institute of Certified Public Accountants (AICPA) that is cleared by GASB. The accounting and reporting policies of Energy Northwest are regulated by the Washington State Auditor's Office and are based on the Uniform System of Accounts prescribed for public utilities and licensees by FERC. Energy Northwest uses an accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenues and expenses related to Energy Northwest's operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing and investing activities are considered to be other income and expenses. Separate funds and books of accounts are maintained for each business unit. Payment of the obligations of one business unit with funds of another business unit is prohibited, and would constitute violation of bond resolution covenants (See Note 4).

Energy Northwest maintains an Internal Service Fund for centralized control and accounting of certain capital assets such as data processing equipment, and for payment and accounting of internal services, payroll, benefits, administrative and general expenses, and certain contracted services on a cost reimbursement basis. Certain assets in the Internal Service Fund are also owned by this Fund and operated for the benefit of other projects. Depreciation relating to capital assets is charged to the appropriate business units based upon assets held by each project.

Liabilities of the Internal Service Fund represent accrued payroll, vacation pay, employee benefits, such as pensions and other post-retirement benefits, and common accounts payable which have been charged directly or indirectly to business units and will be funded by the business units when paid. Net amounts owed to, or from, Energy Northwest business units are recorded as Current Liabilities–Due to other business units, or as Current Assets–Due from other business units on the Internal Service Fund Statement of Net Position.

The combined total column on the financial statements is for presentation only as each Energy Northwest business unit is financed and accounted for separately from all other current and future business units. The Combined Total includes eliminations for transactions between business units as required in GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments".

**Issued but not Adopted Guidance:**

GASB Statement No. 84, "Fiduciary Activities." The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 is effective for Energy Northwest in fiscal year 2021. Energy Northwest is currently evaluating the full impact of this statement.

GASB Statement No. 87, "Leases." The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement is effective for Energy Northwest in fiscal year 2022. Energy Northwest is currently implementing this standard in fiscal year 2021.

GASB Statement No. 91, "Conduit Debt Obligations." The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement is effective for Energy Northwest in fiscal year 2023. Energy Northwest is currently evaluating the full impact of this statement.

GASB Statement No. 92, "Omnibus 2020." The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement is effective for Energy Northwest in fiscal year 2021. Energy Northwest is currently evaluating the full impact of this statement.

GASB Statement No. 93, "Replacement of Interbank Offered Rates." The objective of this statement is to remove payment agreements that depend on LIBOR. The statement also provides more guidance of hedges and lease provisions. This statement is effective for Energy Northwest in fiscal year 2022. Energy Northwest is currently evaluating the full impact of this statement.

GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." The objective of this statement is to provide guidance for reporting relationships where nonfinancial exchanges are made and how they should be reported. This statement is effective for Energy Northwest in fiscal year 2023. Energy Northwest is currently evaluating the full impact of this statement.

GASB Statement No. 96, "Subscription-Based Information Technology Arrangements." This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This statement is effective for Energy Northwest in fiscal year 2023. Energy Northwest is currently evaluating the full impact of this statement.

GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and supersession of GASB Statement No. 32. This statement is effective for Energy Northwest in fiscal year 2022. Energy Northwest will implement this statement with GASB Statement No. 84 In fiscal year 2021.

**B) Utility Plant and Depreciation:** Utility plant is recorded at original cost which includes both direct costs of construction or acquisition and indirect costs.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Buildings and Improvements | 20 - 60 years |
| Generation Plant | 40 years |
| Transportation Equipment | 6 - 10 years |
| General Plant and Equipment | 5 - 15 years |

Group rates are used for assets and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

The utility plant and net position of Nuclear Projects Nos. 1 and 3 have been reduced to their estimated net realizable values due to termination. A write-down of Nuclear Projects Nos. 1 and 3 was recorded in FY 1995 and included in Cost in Excess of Billings. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 1 and 3 have been charged to other income and expense (See Note 10).

**C) Capital Contributions:** Energy Northwest (EN) is involved in various grants. EN is receiving monies from the Washington State Department of Commerce for a new solar project that will utilize an energy storage battery for on demand power. This award totaled $3.0 million with $1.3 million remaining.

**D) Nuclear Fuel:** Energy Northwest has various agreements for uranium concentrates, conversion, and enrichment to provide for short-term enriched uranium product and long-term enrichment services. All expenditures related to the initial purchase of nuclear fuel for Columbia are carried at cost.

**E) Decommissioning Liability:** Energy Northwest has adopted GASB Statement No. 83 "Certain Asset Retirement Obligations". GASB No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Legal obligations exist for Energy Northwest to perform future asset retirement activities related to certain tangible assets. Accordingly GASB No. 83 requires recognizing a liability for this obligation. (See Note 9)

**F) Decommissioning and Site Restoration:** Energy Northwest established decommissioning and site restoration funds for Columbia and monies are being deposited each year in accordance with an established funding plan (See Note 9).

**G) Restricted Assets:** In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, construction, capital additions and fuel purchases. They are classified as current or non-current assets as appropriate.

When both restricted and unrestricted resources are available for use, it is Energy Northwest's policy to use restricted resources first, then unrestricted resources as they are needed.

**H) Cash and Investments:** For purposes of the Statement of Cash Flows, cash includes unrestricted and restricted cash balances and each business unit maintains its cash and investments. Short-term highly liquid investments are not considered to be cash equivalents; and are stated at fair value with unrealized gains and losses reported in investment income (See Note 3). Energy Northwest resolutions and investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association and Federal Home Loan Banks. Safe keeping agents, custodians, or trustees hold all investments for the benefit of the individual Energy Northwest business units.

**I) Accounts Receivable:** The percentage of sales method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a yearly basis. Accounts receivable specific to each business unit are recorded in the residing business unit. In FY 2020 the evaluation of current accounts receivable resulted in no allowance for uncollectible accounts being recorded. The total balance for uncollectible receivables is zero.

**J) Other Receivables:** Other receivables include amounts related to the Internal Service Fund from miscellaneous outstanding receivables from other business units which have not yet been collected. The amounts due to each business unit are reflected in Due To/From other business units. Other receivables specific to each business unit are recorded in the residing business unit. No allowances were deemed necessary at the end of the fiscal year. Payments made by members in advance of expenses incurred are included as advances from members in the Statement of Net Position.

**K) Materials and Supplies:** Materials and supplies are valued at cost using the weighted average cost method.

**L) Leases:** Consist of separate operating lease agreements. The total of these leases by business unit and their respective amounts paid per year are listed in the table below (in thousands):

## Projects Operating Lease Costs (Dollars in thousands)

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026-2030 |
|---|---|---|---|---|---|---|
| Columbia | $ 460 | $ 460 | $ 460 | $ 460 | $ 460 | $ 2,300 |
| Nuclear Project No. 1 | 60 | 60 | 68 | 68 | 68 | 360 |
| Nine Canyon Wind Project | 692 | 692 | 692 | 692 | 692 | 3,460 |
| Business Development Fund | 12 | 12 | 12 | 12 | 12 | 60 |
| Internal Service Fund | 65 | 65 | 65 | 65 | 65 | 325 |
| Packwood Lake Hydroelectric Project | 79 | 79 | 79 | 79 | 79 | 395 |
| Total | $ 1,368 | $ 1,368 | $ 1,376 | $ 1,376 | $ 1,376 | $ 6,900 |

## Long-Term Liabilities (Dollars in thousands)

| | Balance 6/30/2019 | Increase | Decrease | Balance 6/30/2020 |
|---|---|---|---|---|
| **Columbia** | | | | |
| Revenue bonds payable | $ 3,138,015 | $ 303,390 | $ 400,915 | $ 3,040,490 |
| Unamortized (discount)/premium on bonds - net | 269,071 | 83,166 | 32,350 | 319,887 |
| Current maturities of long-term debt | 195,485 | 109,660 | 195,485 | 109,660 |
| Other noncurrent liabilities | 79 | 9 | - | 88 |
| | $ 3,602,650 | $ 496,225 | $ 628,750 | $ 3,470,125 |
| **Nuclear Project No.1** | | | | |
| Revenue bonds payable | $ 794,300 | $ 53,155 | $ 69,105 | $ 778,350 |
| Unamortized (discount)/premium on bonds - net | 106,433 | 14,710 | 21,894 | 99,249 |
| Current maturities of long-term debt | 1,280 | 1,635 | 1,280 | 1,635 |
| | $ 902,013 | $ 69,500 | $ 92,279 | $ 879,234 |
| **Nuclear Project No.3** | | | | |
| Revenue bonds payable | $ 912,705 | $ - | $ 740 | $ 911,965 |
| Unamortized (discount)/premium on bonds - net | 141,913 | - | 19,500 | 122,413 |
| Current maturities of long-term debt | 1,350 | 740 | 1,350 | 740 |
| | $ 1,055,968 | $ 740 | $ 21,590 | $ 1,035,118 |
| **Nine Canyon Wind Project** | | | | |
| Revenue bonds payable | $ 70,105 | $ - | $ 8,835 | $ 61,270 |
| Unamortized (discount)/premium on bonds - net | 5,520 | - | 1,143 | 4,377 |
| Current maturities of long-term debt | 8,425 | 8,835 | 8,425 | 8,835 |
| | $ 84,050 | $ 8,835 | $ 18,403 | $ 74,482 |
| **Business Development Fund** | | | | |
| Other noncurrent liabilities | $ 63 | $ 1 | $ 32 | $ 32 |
| | $ 63 | $ 1 | $ 32 | $ 32 |
| **Internal Service Fund** | | | | |
| Other noncurrent liabilities | $ 3 | $ 1 | $ - | $ 4 |
| | $ 3 | $ 1 | $ - | $ 4 |

**M) Long-Term Liabilities:** Consist of obligations related to bonds payable and the associated premiums/discounts and gains/losses. Other noncurrent liabilities are pension liabilities recognized according to GASB Statement No. 68 (See Note 6), asset retirement obligations (See Note 9), and other immaterial liabilities. The table above summarizes activities for all long-term liabilities excluding pension and decommissioning liabilities.

**N) Debt Premium, Discount and Expense:** Original issue and reacquired bond premiums, discounts relating to the bonds are amortized over the terms of the respective bond issues using the bonds outstanding method which approximates the effective interest method. In accordance with GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", gains and losses on debt refundings have been deferred and amortized as a component of interest expense over the shorter of the remaining life of the old or new debt. Expenses related to debt issuance are expensed as incurred.

Senior Lien Bonds (Bearer Bonds) were issued for Project 1, Columbia, Project 3, and Packwood. At the time of issuance there were no registration requirements on the bonds. While the amount of the bearer bonds outstanding is unknown, Energy Northwest recognizes there is a contingency related to this debt that may be redeemed in the future. An estimated amount of cash required for the unpresented bonds was calculated and the Energy Northwest Custodial Account Tracking is done by US Bank. The bank holds an estimate of cash required to pay claims on these bonds. Once the bond has matured the cash is released to Energy Northwest. Once identified by the bank the designated maturity requirements have been met, the cash is provided to Energy Northwest. These escheated funds are then returned to Bonneville Power Administration. Energy Northwest maintains a $500 thousand liability on the balance sheet for the unclaimed bearer bonds and related cash to pay for claims as necessary and annually replenishes the funds through a contract with Bonneville Power Administration.

**O) Revenue and Expenses:** Energy Northwest accounts for expenses and revenues on an accrual basis, and recovers, through various agreements, actual cash requirements for operations and debt service for Columbia, Packwood, Nuclear Project No. 1 and Nuclear Project No. 3. For these business units, Energy Northwest recognizes revenues equal to expenses for each period. Revenues of Nuclear Project No.1 and Nuclear Project No.3 are recorded under other income and expense, as these two business units are terminated nuclear projects. No net revenue or loss is recognized, and no net position is accumulated. The difference between cumulative billings received and cumulative expenses is recorded as either billings in excess of costs (other credits) or as costs in excess of billings (other charges), as appropriate. Such amounts will be settled during future operating periods (See Note 5).

The difference between cumulative revenues and cumulative expenses for Packwood Hydroelectric, Nine Canyon and Business Development is recognized as net income or loss and included in Net Position for each period.

Energy Northwest distinguishes operating revenues and expenses from other income and expense items. Operating revenues and expenses generally result from the Net Billing agreements stated above or from services provided by EN's principle operations. Operating expenses for Energy Northwest include the costs of operating the generation producing facility, related administrative fees, and depreciation on utility plant. All revenues and expenses not meeting this definition are reported as other income or expense.

**P) Compensated Absences:** Employees earn leave in accordance with length of service. Energy Northwest accrues the cost of personal leave in the year when earned. The liability for unpaid leave benefits and related payroll taxes was $23.5 million at the end of this fiscal year and is recorded as an accounts payable and accrued expenses on the Statement of Net Position.

**Q) Use of Estimates:** The preparation of Energy Northwest financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Certain incurred expenses and revenues are allocated to the business units based on specific allocation methods that management considers to be reasonable.

**R) Deferred Inflows and Outflows:** Deferred outflows of resources are defined as the consumption of net assets by Energy Northwest that are applicable to a future reporting period, and are reported in the statement of net position in a separate section following assets. Deferred inflows of resources are defined as acquisitions of net assets by Energy Northwest that is applicable to a future reporting period, and are reported in the statement of net position in a separate section following liabilities.

These amounts consist of losses and gains on bond refundings, subsequent contributions, difference between projected and actual investment income, decommissioning costs and other pension related costs (See Note 6) as labeled on the Statement of Net Position.

**S) Short-Term Debt:** One non-revolving loan was established for Columbia in fiscal year 2019 and subsequently paid in full during fiscal year 2020. The loan entered into in January 2019 for up to $227.0 million (all of which was drawn and outstanding) for Columbia was paid in full in June 2020. In addition, the loan entered into in January 2019 allowed for the principal to be increased by $230.4 million which was drawn in June 2019 and subsequently paid in full in August 2019. Two new revolving loan agreements were established in fiscal year 2020 for up to $300.0 million in total associated with Columbia, Project 1, and Project 3; agreements not to exceed $150.0 million (Electric Revenue Bond Anticipation Note, 2020A/B) and $150.0 million (Electric Revenue Bond Anticipation Note, 2020C/D) to fund operations and maintenance expense and debt service for Columbia as well as a portion of debt service for Project 1 and Project 3. On June 30, 2020, $10.0 million had been drawn for Columbia on the Electric Revenue Bond Anticipation Note, 2020D (Taxable). The Electric Revenue Bond Anticipation Note, 2020A/B for up to $150.0 million has a maturity of April 29, 2022.The Electric Revenue Bond Anticipation Note, 2020C/D for up to $150.0 million has a maturity of April 30, 2021. These balances are included in current notes payable in the Statement of Net Position.

No assets were directly pledged as collateral for the above mentioned loan agreements. The loan agreements are supported by the Net Billing Agreements with the Bonneville Power Administration and the Project Participants. The covenants and events of default for the Electric Revenue Bond Anticipation Note, 2020A/B and the Electric Revenue Bond Anticipation Note, 2020C/D (Notes) are substantially the same. Both Notes are secured by revenues of the Columbia Generating Station; no assets secure the Notes. A portion of the Electric Revenue Bond Anticipation Note, 2020A/B is secured by revenues of Project 1 and Project 3. The covenants include covenants to (1) comply with laws and relevant resolutions, (2) maintain the facilities comprising and obtain insurance on Columbia, (3) collect sufficient rates and charges to repay the Notes and all other obligations of Columbia, and (4) not to rescind or amend the project related documents or authorizing documents in any material way. Events of default include failure to repay the Notes or any Columbia, Project 1, or Project 3 bonds when due, any representation is materially incorrect, covenant defaults, invalidity, insolvency, and a judgment in excess of $15 million that is not satisfied or appealed. Remedies upon an event of default include (1) the Notes will bear interest at a default rate, (2) acceleration, but only if the Parity Bonds have been accelerated and such acceleration does not violate state law or the Columbia, Project 1, or Project 3 bond resolutions, and revenues will be turned over to the trustee for the Columbia, Project 1, or Project 3 bonds.

**T) Pensions:** For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred Inflows of resources related to pensions, and pension expense, Information about the fiduciary net position of the Washington State Public Employees Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

## NOTE 2 - Utility Plant

### Short-term Liabilities (Dollars in thousands)

| | Balance Outstanding at 6/30/2019 | Increases | Decreases | Balance Outstanding 6/30/2020 |
|---|---|---|---|---|
| **Columbia** | | | | |
| Non-Revolving Loan | $ 457,420 | $ 10,000 | $ 457,420 | $ 10,000 |
| **Nuclear Project No.1** | | | | |
| Non-Revolving Loan | - | - | - | - |
| **Nuclear Project No.3** | | | | |
| Non-Revolving Loan | - | - | - | - |
| **Nine Canyon** | | | | |
| Short-term debt | - | - | - | - |
| **Packwood** | | | | |
| Short-term debt | - | - | - | - |
| **Business Development** | | | | |
| Short-term debt | - | - | - | - |
| Total | $ 457,420 | $ 10,000 | $ 457,420 | $ 10,000 |

Utility plant activity for the year ended June 30, 2020 was as follows:

| | Balance 06/30/2019 | Capital Acquisitions | Sale or Other Dispositions | Balance 06/30/2020 |
|---|---|---|---|---|
| **Columbia** | | | | |
| Generation | $ 4,609,248 | $ 9,879 | $ (950) | $ 4,618,177 |
| Intangible Plant | - | 21,467 | - | 21,467 |
| Construction Work in Progress | 50,797 | 60,270 | (31,346) | 79,721 |
| Accumulated Depreciation | (3,004,789) | (93,075) | 661 | (3,097,203) |
| Utility Plant net* | $ 1,655,256 | $ (1,459) | $ (31,635) | $ 1,622,162 |
| **Packwood** | | | | |
| Generation | $ 16,081 | $ 902 | - | $ 16,982 |
| Intangible Plant | 3,737 | - | - | 3,737 |
| Construction Work in Progress | - | 902 | (902) | - |
| Accumulated Depreciation | (13,423) | (230) | - | (13,653) |
| Utility Plant net | $ 6,395 | $ 1,574 | (902) | $ 7,066 |
| **Business Development** | | | | |
| Generation | $ 4,144 | $ 383 | $ - | $ 4,527 |
| Construction Work in Progress | 659 | 4,171 | (371) | 4,460 |
| Accumulated Depreciation | (2,501) | (287) | - | (2,788) |
| Utility Plant net | $ 2,302 | $ 4,267 | $ (371) | $ 6,199 |
| **Nine Canyon** | | | | |
| Generation | $ 133,856 | $ 52 | $ (35) | $ 133,873 |
| Construction Work in Progress | - | 52 | (52) | - |
| Accumulated Depreciation | (94,427) | (6,810) | 35 | (101,202) |
| Utility Plant, net* | $ 39,429 | $ (6,707) | $ (52) | $ 32,671 |
| **Internal Service Fund** | | | | |
| Generation | $ 40,329 | $ 3,882 | $ - | $ 44,211 |
| Construction Work in Progress | - | 3,882 | (3,882) | - |
| Accumulated Depreciation | (35,562) | (721) | - | (36,283) |
| Utility Plant net | $ 4,767 | $ 7,043 | $ (3,882) | $ 7,928 |

* Does not include Nuclear Fuel, net of amortization

## NOTE 3 - Investments

**Interest rate risk:** In accordance with its investment policy, Energy Northwest manages its exposure to declines in fair values by limiting investments to those with maturities as designated in specific bond resolutions to coincide with expected use of the funds.

**Credit risk:** Energy Northwest's investment policy restricts investments to debt securities and obligations of the U.S. Treasury, U.S. government agencies Federal National Mortgage Association and the Federal Home Loan Banks, certificates of deposit and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), and general obligation debt of state and local governments and public authorities recognized with one of the three highest credit ratings (AAA, AA+, AA, or equivalent). This investment policy is more restrictive than the state law.

**Concentration of credit risk:** Energy Northwest's investment policy has restrictions on concentration of credit risk. No limits of concentration are set on U.S. Treasury related to securities or cash holdings. Excluding the exceptions noted, no more than 50% of the entity's total Investment portfolio will be invested in a single security type or with a single financial Institution.

**Custodial credit risk, deposits:** For a deposit, this is the risk that in the event of bank failure, Energy Northwest's deposits may not be returned to it. Energy Northwest's demand deposit interest bearing accounts and certificates of deposits are covered up to $250,000 by Federal Depository Insurance (FDIC) while time and savings deposit non-interest bearing accounts are covered up to an additional $250,000 by FDIC. All interest and non-interest bearing deposits are covered by collateral held in a multiple financial institution collateral pool administered by the Washington state Treasurer's Local

Government Investment Pool (PDPC). Under state law, public depositories under the PDPC may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. All deposits are insured by collateral held in the multiple financial institution collateral pool. State law requires deposits may only be made with institutions that are approved by the PDPC.

Custodial credit risk, investments: For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, Energy Northwest will not be able to recover the value of its investments or collateral securities in possession of an outside party. Energy Northwest's investment policy addresses this risk. All securities owned by Energy Northwest are held by a third party custodian, acting as an agent for Energy Northwest under the terms of a custody agreement.

**Fair Value:** Energy Northwest investments have been adjusted to reflect available fair value as of June 30, 2020 obtained from available financial industry valuation sources. Investments are valued using Bloomberg Investor Service by taking the information available on the last business day of each month. Energy Northwest categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All Energy Northwest fair market measurements are quoted at Level 2.

## Investments (Dollars in thousands)

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value (1) (2) |
|---|---|---|---|---|
| Columbia | $ 69,024 | $ 17 | $ - | $ 69,041 |
| Packwood | 650 | 10 | - | 660 |
| Nuclear Project No. 1 | - | - | - | - |
| Nuclear Project No. 3 | - | - | - | - |
| Business Development Fund | 2,998 | - | - | 2,998 |
| Internal Service Fund | 19,088 | 544 | - | 19,632 |
| Nine Canyon Wind | 16,718 | 237 | - | 16,955 |

(1) All investments are in U.S. Government backed securities including U.S. Government Agencies and Treasury Bills.

(2) The majority of investments have maturities of less than 1 year. Approximately $13.8 million have a maturity beyond 1 year with the longest maturity being June 9th, 2023.

| Investment Type | Rating | June 30, 2020 |
|---|---|---|
| Federal Home Loan Bank | AA+ | 44% |
| Federal National Mortgage Assn. | AA+ | 0% |
| U.S. Treasury | AA+ | 56% |
| | | 100% |

## NOTE 4 - Long-Term Debt

Each Energy Northwest business unit is financed separately. The resolutions of Energy Northwest authorizing issuance of revenue bonds for each business unit provide that such bonds are payable from the revenues of that business unit. All bonds issued under resolutions Nos. 769, 775 and 640 for Nuclear Projects Nos. 1, 3 and Columbia, respectively, have the same priority of payment within the business unit (the "prior lien bonds"). No prior lien bonds remain outstanding related to Columbia authorized under resolution No. 640. No prior lien bonds remain outstanding related to Project 1 authorized under resolution No. 769. No prior lien bonds remain outstanding related to Project 3 authorized under resolution No. 775. All bonds issued under resolutions Nos. 835, 838 and 1042 (the "electric revenue bonds") for Nuclear Projects Nos. 1, 3 and Columbia, respectively, are subordinate to the prior lien bonds and have the same subordinated priority of payment within the business unit. Nine Canyon's bonds were authorized by the following resolutions: Resolution No. 1214 (2001 Bonds), Resolution No. 1299 (2003 Bonds), Resolution No. 1376 (2005 Bonds), Resolution No.1482 (2006 Bonds), Resolution No. 1722 (2012 Bonds), Resolution No. 1789 (2014 Bonds), and Resolution No. 1824 (2015 Bonds). No 2001, 2003, 2005, or 2006 Nine Canyon bonds remained outstanding as of June 30, 2020 under Resolution Nos. 1214, 1299, 1376, and 1482 respectively.

During the year ended June 30, 2020, Energy Northwest issued, for Project 1 and Columbia 2020-A and 2020-B fixed-rate bonds. Coupon interest rates of 1.15 to 5.00 percent were issued for both Project 1 and Columbia.

The Series 2020-A bonds issued for Project 1 and Columbia are tax-exempt fixed-rate bonds. Series 2020-B bonds issued for Project 1 and Columbia are taxable fixed-rate bonds. The 2020-A and 2020-B bonds were issued in majority to refund prior Project 1 and Columbia bonds along with the issuance of $72.3 million to fund fiscal year 2021 capital related expenses at Columbia. The 2020-A, and 2020-B refunding bonds resulted in a combined economic gain of $18.6 million for Project 1 and $12.4 million for Columbia.

Energy Northwest also defeased certain revenue bonds by placing the net proceeds from the refunding bonds in irrevocable trusts to provide for all required future debt service payments on the refunded bonds until the dates of redemption. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the financial statement. In FY 2020 total defeasements included $67.5 million for Project 1 and $291.1 million for Columbia.

The Weighted Average Coupon Interest Rates and Total Defeased Bonds for Columbia 2020-A and 2020-B are presented in the following tables:

### Weighted Average Coupon Interest Rate for Refunded Bonds

| | 2020A | 2020B |
|---|---|---|
| Project 1 | 5.00% | N/A |
| CGS | 4.70% | 4.51% |
| Total | 4.76% | 4.51% |

### Weighted Average Coupon Interest Rate for New Bonds

| | 2020A | 2020B |
|---|---|---|
| Project 1 | 5.00% | 1.15% |
| CGS | 4.93% | 2.31% |
| Total | 4.94% | 2.28% |

### Total Defeased (Dollars in thousands)

| | 2020A | 2020B | Total |
|---|---|---|---|
| Project 1 | $ 67,470 | N/A | $ 67,470 |
| CGS | $ 277,960 | $ 13,140 | $ 291,100 |
| Total | $ 345,430 | $ 13,140 | $ 358,570 |

### 2020 Refunding Results

Outstanding principal on revenue and refunding bonds as of June 30, 2020, and future debt service requirements for these bonds are presented in the following tables:

| 2020-A (Tax-Exempt) Transaction | Columbia | Project 1 |
|---|---|---|
| Cash flow difference | | |
| Old debt service cash flows | $ 295,519 | $ 92,585 |
| New debt service cash flows | 381,029 | 72,496 |
| Net cash flow savings (dissavings) | $ (85,510) | $ 20,089 |
| Economic gain / loss | | |
| Present value of old debt service cash flows | $ 284,412 | $ 85,642 |
| Present value of new debt service cash flows | 272,050 | 67,081 |
| Economic Gain (Loss) | $ 12,362 | $ 18,561 |

| 2020-B (Taxable) Transaction | Columbia | Project 1 |
|---|---|---|
| Cash Flow Difference | | |
| Old debt service cash flows | $ 13,140 | $ - |
| New debt service cash flows | 17,125 | - |
| Net Cash Flow Savings (Dissavings) | $ (3,985) | $ - |
| Economic Gain / Loss | | |
| Present value of old debt service cash flows | $ 13,122 | $ - |
| Present value of new debt service cash flows | 13,144 | - |
| Economic Gain (Loss) | $ (22) | $ - |

### Columbia Generating Revenue and Refunding Bonds (Dollars in thousands)

| Series | Coupon Rate (%) | Serial or Term Maturities | Original Issue Amount | Amount Outstanding |
|---|---|---|---|---|
| 2006D | 5.80 | 7-1-2023 | 3,425 | 3,425 |
| 2007B | 5.33 | 7-1-2021 | 10,665 | 1,810 |
| 2008B | 5.95 | 7-1-20/2021 | 14,850 | 5,560 |
| 2009B | 6.80 | 7-1-23/2024 | 18,515 | 9,780 |
| 2010C | 4.67-5.12 | 7-1-21/2024 | 75,770 | 61,555 |
| 2010D | 5.61-5.71 | 7-1-23/2024 | 155,805 | 155,805 |
| 2011A | 4.00-5.00 | 7-1-21/2023 | 311,245 | 262,760 |
| 2012A | 5.00 | 7-1-20/2021 | 441,240 | 98,375 |
| 2012D | 4.00-5.00 | 7-1-25/2044 | 34,140 | 34,140 |
| 2012E | 2.65-4.14 | 7-1-20/2037 | 748,515 | 356,100 |
| 2014A | 4.00-5.00 | 7-1-21/2040 | 517,720 | 342,705 |
| 2014B | 4.05 | 7-1-2030 | 90,520 | 41,515 |
| 2015A | 4.00-5.00 | 7-1-21/2038 | 330,460 | 299,515 |
| 2015B | 2.81-3.84 | 7-1-21/2038 | 329,175 | 53,705 |
| 2015C | 5.00 | 7-1-30/2031 | 38,525 | 38,525 |
| 2016A | 5.00 | 7-1-21/2032 | 89,055 | 85,690 |
| 2016B | 3.20 | 7-1-2028 | 4,085 | 1,985 |
| 2017A | 4.00-5.00 | 7-1-21/2035 | 188,130 | 180,405 |
| 2017B | 3.39 | 7-1-2029 | 3,795 | 3,285 |
| 2018A | 3.00-5.00 | 7-1-21/2034 | 320,510 | 320,510 |
| 2018B | 2.85 | 7-1-2021 | 1,410 | 1,410 |
| 2018C | 5.00 | 7-1-21/2034 | 229,025 | 229,025 |
| 2018D | 3.03 | 7-1-2021 | 2,865 | 2,865 |
| 2019A | 5.00 | 7-1-21/2038 | 251,575 | 238,185 |
| 2019B | 2.40-3.46 | 7-1-20/2035 | 18,300 | 18,125 |
| 2020A | 4.00-5.00 | 7-1-21/2039 | 288,560 | 288,560 |
| 2020B | 1.15-2.45 | 7-1-22/2032 | 14,830 | 14,830 |
| Revenue bonds payable | | | | $ 3,150,150 |

### Nuclear Project No. 1 Refunding Revenue Bonds (Dollars in thousands)

| Series | Coupon Rate (%) | Maturities | Amount | Outstanding |
|---|---|---|---|---|
| 2014C | 5.00 | 7-1-25/2027 | 197,110 | 197,110 |
| 2015A | 5.00 | 7-1-27/2028 | 117,815 | 50,345 |
| 2015C | 3.00-5.00 | 7-1-2025 | 44,005 | 44,005 |
| 2016A | 5.00 | 7-1-25/2026 | 195,525 | 195,525 |
| 2017A | 5.00 | 7-1-26/2028 | 237,685 | 237,685 |
| 2017B | 1.90-2.94 | 7-1-20/2025 | 2,160 | 2,160 |
| 2020A | 5.00 | 7-1-27/2028 | 52,760 | 52,760 |
| 2020B | 1.15 | 7-1-2022 | 395 | 395 |
| Revenue bonds payable | | | | $ 779,985 |

## Nuclear Project No. 3 Refunding Revenue Bonds
(Dollars in thousands)

| Series | Coupon Rate (%) | Serial or Term Maturities | Original Issue Amount | Amount Outstanding |
|---|---|---|---|---|
| 2014C | 5.00 | 7-1-2028 | 72,305 | 72,305 |
| 2015A | 5.00 | 7-1-25/2026 | 79,040 | 74,585 |
| 2015C | 5.00 | 7-1-2026 | 26,675 | 26,675 |
| 2016A | 5.00 | 7-1-26/2027 | 198,535 | 190,110 |
| 2016B | 3.05 | 7-1-2027 | 5,420 | 4,070 |
| 2017A | 5.00 | 7-1-25/2028 | 154,435 | 141,780 |
| 2017B | 1.90-2.94 | 7-1-20/2025 | 1,645 | 1,645 |
| 2018C | 4.00-5.00 | 7-1-23/2028 | 399,155 | 399,155 |
| 2018D | 3.03 | 7-1-2021 | 2,380 | 2,380 |
| Revenue bonds payable | | | | $ 912,705 |

(A) Compound Interest Bonds

## Nine Canyon Wind Project Revenue and Refunding Bonds
(Dollars in thousands)

| Series | Coupon Rate (%) | Serial or Term Maturities | Original Issue Amount | Amount Outstanding |
|---|---|---|---|---|
| 2012 | 4.00-5.00 | 7-1-20/2023 | 13,750 | 5,785 |
| 2014 | 5.00 | 7-1-20/2023 | 36,750 | 18,300 |
| 2015 | 4.00-5.00 | 7-1-20/2030 | 54,895 | 46,020 |
| Revenue bonds payable | | | | $ 70,105 |

## Debt Service Requirements As of June 30, 2020 (Dollars in thousands)

### COLUMBIA GENERATING STATION

| FISCAL YEAR* | PRINCIPAL | INTEREST | TOTAL |
|---|---|---|---|
| 6/30/2020 Balance:** | $ 109,505 | $ 74,150 | $ 183,655 |
| 2021 | 351,180 | 144,514 | 495,694 |
| 2022 | 354,260 | 129,461 | 483,721 |
| 2023 | 298,480 | 113,647 | 412,127 |
| 2024 | 315,905 | 98,950 | 414,855 |
| 2025 | 16,800 | 82,714 | 99,514 |
| 2026-2030 | 354,950 | 395,940 | 750,890 |
| 2031-2035 | 810,720 | 245,235 | 1,055,955 |
| 2036-2040 | 527,430 | 64,364 | 591,794 |
| 2041-2044 | 10,920 | 1,162 | 12,082 |
| | $ 3,150,150 | $ 1,350,137 | $ 4,500,287 |

* Fiscal year for this report indicates the cash funding requirement year.
** Principal and Interest due July 1, 2020.

### NUCLEAR PROJECT NO. 1

| FISCAL YEAR* | PRINCIPAL | INTEREST | TOTAL |
|---|---|---|---|
| 6/30/2020 Balance:** | $ 1,635 | $ 19,824 | $ 21,459 |
| 2021 | 0 | 38,591 | 38,591 |
| 2022 | 395 | 38,591 | 38,986 |
| 2023 | 0 | 38,587 | 38,587 |
| 2024 | 0 | 38,587 | 38,587 |
| 2025 | 236,965 | 38,587 | 275,552 |
| 2026-2028 | 540,990 | 51,417 | 592,407 |
| | $ 779,985 | $ 264,184 | $ 1,044,169 |

* Fiscal year for this report indicates the cash funding requirement year.
** Principal and Interest due July 1, 2020.

### NUCLEAR PROJECT NO. 3

| FISCAL YEAR* | PRINCIPAL | INTEREST | TOTAL |
|---|---|---|---|
| 6/30/2020 Balance:** | $ 740 | $ 22,637 | $ 23,377 |
| 2021 | 2,380 | 45,260 | 47,640 |
| 2022 | 0 | 45,187 | 45,187 |
| 2023 | 68,275 | 45,188 | 113,463 |
| 2024 | 63,290 | 41,904 | 105,194 |
| 2025 | 120,440 | 38,773 | 159,213 |
| 2026-2028 | 657,580 | 72,214 | 729,794 |
| | $ 912,705 | $ 311,163 | $ 1,223,868 |

* Fiscal year for this report indicates the cash funding requirement year.
** Principal and Interest due July 1, 2020.

### NINE CANYON WIND PROJECT

| FISCAL YEAR* | PRINCIPAL | INTEREST | TOTAL |
|---|---|---|---|
| 6/30/2020 Balance:** | $ 8,835 | $ 1,648 | $ 10,483 |
| 2021 | 9,295 | 2,855 | 12,150 |
| 2022 | 9,755 | 2,404 | 12,159 |
| 2023 | 10,255 | 1,916 | 12,171 |
| 2024 | 3,960 | 1,404 | 5,364 |
| 2025 | 4,160 | 1,205 | 5,365 |
| 2026-2030 | 23,845 | 2,983 | 26,828 |
| | $ 70,105 | $ 14,415 | $ 84,520 |

* Fiscal year for this report indicates the cash funding requirement year.
** Principal and Interest due July 1, 2020.

## NOTE 5 - Net Billing

### Security - Nuclear Projects Nos. 1 and 3 and Columbia

The participants have purchased all of the capability of Nuclear Projects Nos. 1 and 3 and Columbia. BPA has in turn acquired the entire capability from the participants under contracts referred to as net-billing agreements. Under the net-billing agreements for each of the business units, participants are obligated to pay Energy Northwest a pro-rata share of the total annual costs of the respective projects, including debt service on bonds relating to each business unit. BPA is then obligated to reduce amounts from participants under BPA power sales agreements by the same amount. The net-billing agreements provide that participants and BPA are obligated to make such payments whether or not the projects are completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output.

On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. The Nuclear Projects Nos. 1 and 3 project agreements and the net-billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations under the net-billing agreements, ended upon termination of the projects. Energy Northwest previously entered into an agreement with BPA to provide for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement among Energy Northwest and private companies was terminated in FY 1999 (See Note 10).

### Security - Packwood Lake Hydroelectric Project

Power produced by Packwood is provided to the 12 member utilities. The member utilities pay the annual costs, including any debt service, of Packwood and are obligated to pay these annual costs whether or not Packwood is operational. The Packwood participants also share project revenue to the extent that the amounts exceed project costs.

## NOTE 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans as of and for the fiscal year ended June 30, 2020 (in thousands):

| | | |
|---|---|---|
| Pension Liabilities | $ | 52,189 |
| Pension Assets | $ | - |
| Deferred Outflows of Resources | $ | 22,774 |
| Deferred Inflows of Resources | $ | 33,761 |
| Pension Expense | $ | (22) |

**State Sponsored Pension Plans** - Substantially all of Energy Northwest's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov

### Public Employees Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments, and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** - provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) were as follows for the fiscal year ended June 30, 2020:

| PERS Plan 1 Actual Contribution Rates | Employer | Employee |
|---|---|---|
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.76% | |
| Administrative Fee | 0.18% | |
| Total | 12.86% | 6.00% |

Energy Northwest's actual contributions to the plan were $6,441 thousand for the fiscal year ended June 30, 2020.

**PERS Plan 2/3** - provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3% for each year before age 65, or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** - defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of 6 options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

**Contributions** - The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows fiscal year ended June 30, 2020:

| PERS Plan 2/3 Actual Contribution Rates | Employer 2/3 | Employee 2 | Employee 3 |
|---|---|---|---|
| PERS Plan 2/3 | 7.92% | 7.90% | Varies |
| PERS Plan 1 UAAL | 4.76% | | |
| Administrative Fee | 0.18% | | |
| Total | 12.86% | 7.90% | Varies |

Energy Northwest's actual contributions to the plan were $10,657 thousand for the fiscal year ended June 30, 2020.

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the actuarial valuation completed in 2019, with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018 to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions in 2019 since the 2018 valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.

- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

### Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Best estimates as of June 30, 2019:

| Asset Class | Target Allocation | Percent Long-Term Expected Real Rate of Return Arithmetic |
|---|---|---|
| Fixed Income | 20% | 2.20% |
| Tangible Assets | 7% | 5.10% |
| Real Estate | 18% | 5.80% |
| Global Equity | 32% | 6.30% |
| Private Equity | 23% | 9.30% |
| Total | 100% | |

### Sensitivity of NPL

The table below presents Energy Northwest's proportionate share of the net pension liability calculated using the discount rate of 7.4%, as well as what Energy Northwest's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate (in thousands).

| | 1% Decrease (6.4%) | Current Discount Rate (7.4%) | 1% Increase (8.4%) |
|---|---|---|---|
| PERS 1 | $ 49,289 | $ 39,358 | $ 30,742 |
| PERS 2/3 | 98,414 | 12,831 | (57,394) |

The pension liability has been allocated to the business units based on the percentages listed in Note 1. The total pension liability for each unit as of June 30, 2020 is as follow (in thousands):

| | Energy Northwest's proportionate share of the PERS Plan 1 net pension liability: | Energy Northwest's proportionate share of the PERS Plan 2/3 net pension liability: | Total |
|---|---|---|---|
| Packwood | $ 100 | $ 33 | $ 133 |
| Business Development | 985 | 320 | 1,305 |
| Nuclear Project No. 1 | 85 | 28 | 113 |
| Nine Canyon | 323 | 105 | 428 |
| Columbia | 37,865 | 12,345 | 50,210 |
| Total | $ 39,358 | $ 12,831 | $ 52,189 |

## Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

## Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020 Energy Northwest reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2019 in thousands):

| | |
|---|---|
| PERS 1 | $ 39,358 |
| PERS 2/3 | 12,831 |
| Total | $ 52,189 |

Energy Northwest's proportionate share of the collective net pension liabilities was as follows:

| | Proportionate Share 6/30/18 | Proportionate Share 6/30/19 | Change in Proportion |
|---|---|---|---|
| PERS 1 | 1.08% | 1.02% | -0.06% |
| PERS 2/3 | 1.38% | 1.32% | -0.06% |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

## Pension Expense

For the fiscal year ended June 30, 2020, Energy Northwest's recognized pension expense as follows (in thousands):

| | |
|---|---|
| PERS 1 | $ (781) |
| PERS 2/3 | 517 |
| Expenses | 242 |
| Total | $ (22) |

## Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2020, Energy Northwest reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| **PERS 1:** | | |
| Differences between expected and actual economic experience | $ - | $ - |
| Changes in actuarial assumptions | - | - |
| Net difference between projected and actual investment earnings | - | 2,629 |
| Changes in proportion and differences between contriputions and proportionate share of contributions | - | - |
| Contributions paid to PERS subsequent to the measurement date | 6,441 | - |
| Total | $ 6,441 | $ 2,629 |
| **PERS 2/3:** | | |
| Differences between expected and actual economic experience | $ 3,676 | $ 2,759 |
| Changes in actuarial assumptions | 329 | $5,384 |
| Net difference between projected and actual investment earnings | - | 18,678 |
| Changes in proportion and differences between contriputions and proportionate share of contributions | 1,671 | 4,311 |
| Contributions paid to PERS subsequent to the measurement date | 10,657 | - |
| Total | $ 16,333 | $ 31,132 |
| Total All Plans | $ 22,774 | $ 33,761 |

Deferred outflows of resources related to pensions resulting from Energy Northwest's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended June 30 | PERS 1 | PERS 2/3 |
|---|---|---|
| 2021 | $ (580) | $ (6,456) |
| 2022 | (1,375) | (9,898) |
| 2023 | (491) | (4,563) |
| 2024 | (183) | (2,587) |
| 2025 | - | (1,640) |
| Thereafter | - | (312) |
| Total | (2,629) | (25,456) |

**NOTE 7 - Deferred Compensation Plans**

Energy Northwest provides a 401(k) deferred compensation plan (401(k) plan), and a 457 deferred compensation plan. Both plans are defined contribution plans that were established to provide a means for investing savings by employees for retirement purposes. All permanent, full-time employees are eligible to enroll in the plans. Participants are immediately vested in their contributions and direct the investment of their contribution. Each participant may elect to contribute pre-tax annual compensation, subject to current Internal Revenue Service limitations.

For the 401(k) plan, Energy Northwest may elect to make an employer matching contribution for each of its employees who is a participant during the plan year. The amount of such an employer match shall be 50 percent of the maximum salary deferral percentage. During FY 2020 Energy Northwest contributed $3.7 million in employer matching funds while employees contributed $11.8 million.

**NOTE 8 - Nuclear Licensing and Insurance**

**Nuclear Licensing**

Energy Northwest is a licensee of the Nuclear Regulatory Commission ("NRC") and is subject to routine licensing and user fees. Additionally, Energy Northwest may be subject to license modification, suspension, revocation, or civil penalties in the event regulatory or license requirements are violated.

**Nuclear Insurance**

Nuclear insurance includes liability coverage, property damage, decontamination and premature decommissioning coverage and accidental outage and/or extra expense coverage. The liability coverage is governed by the Price-Anderson Act (Act), while the property damage, decontamination and premature decommissioning coverage are defined by the Code of Federal Regulations. Energy Northwest continues to maintain all regulatory required limits as defined by the NRC, Code of Federal Regulations and the Act. The NRC requires Energy Northwest to certify nuclear insurance limits on an annual basis. Energy Northwest intends to maintain insurance against nuclear risks to the extent such insurance is available on reasonable terms and in an amount and form consistent with customary practice. Energy Northwest is self-insured to the extent that losses (i) are within the policy deductibles, (ii) are not covered per policy exclusions, terms and limitations, (iii) exceed the amount of insurance maintained, or (iv) are not covered due to lack of insurance availability. Such losses could have an effect on Energy Northwest's results of operations and cash flows. All dollar figures noted below are as of June 30, 2020.

American Nuclear Insurance (ANI) Coverage: The Act provides financial protection for the public in the event of a significant nuclear generation plant incident. The Act sets the statutory limit of public liability for a single nuclear incident at $13.348 billion. Energy Northwest addresses this requirement through a combination of private insurance and an industry-wide retrospective payment program called Secondary Financial Protection (SFP). Energy Northwest has $450 million of liability insurance as the first layer of protection. If any US nuclear generation plant has a significant event which exceeds the plant's first layer of protection, every operating licensed reactor in the US is subject to an assessment up to $137.61 million. Assessments are limited to $20.496 million per reactor, per year, per incident, excluding tax. The SFP is adjusted at least every 5 years to account for inflation and any changes in the number of operating plants. The SFP and liability coverage are not subject to any deductibles.

Nuclear Electrical Insurance Limited (NEIL) Coverage: The Code of Federal Regulations requires nuclear generation plant license-holders to maintain at least $1.06 billion nuclear decontamination and property damage insurance and requires the proceeds thereof to be used to place a plant in a safe and stable condition, to decontaminate it pursuant to a plan submitted to and approved by the NRC before the proceeds can be used for plant repair or restoration or to provide for premature decommissioning. Energy Northwest has aggregate coverage in the amount of $2.75 billion which is subject to a $5 million deductible per accident.

The Agency anticipates exposure to a variety of risks of loss as a normal part of conducting business (for example: torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation). These anticipated risks of losses are covered through a combination of self insurance, commercial property and liability insurance, nuclear property and liability insurance, professional services liability insurance, Directors & Officers (including employment practices liability) insurance, and fiduciary insurance. Claims for loss to the Agency are infrequent and have not exceeded the liability policy limits in the past three years.

**NOTE 9 - Decommissioning and Site Restoration - Asset Retirement Obligation (ARO)**

Energy Northwest implemented GASB Statement No. 83 - "Certain Asset Retirement Obligations" and applied the statement in the previous fiscal year (FY 2019). For the purposes of this statement, an ARO is a legally enforceable liability associated with the retirement of a tangible capital asset (that is, the tangible capital asset is permanently removed from service). The retirement of a tangible capital asset encompasses its sale, abandonment, recycling, or disposal in some manner, however, it does not encompass temporary idling of a tangible capital asset.

AROs result from the normal operations of a tangible capital assets, whether acquired or constructed, and include legally enforceable liabilities with all of the following activities:

- Retirement of a tangible capital asset
- Disposal of a replaced part that is a component of a tangible capital asset
- Environmental remediation associated with the retirement of a tangible capital asset that results from the normal operation of that capital asset

The measurement of Energy Northwest's AROs are based on the best estimate of the current value of outlays expected to be incurred. Current value is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired at the end of the accounting period. The current estimate is the basis for the ARO and corresponding liability. The recognition of the ARO at current value also results in a corresponding deferred outflow of resources.

Energy Northwest has identified the following AROs subject to GASB No. 83:

- Columbia Generating Station (includes related Columbia Site Restoration)
- Independent Spent Fuel Storage Installation (ISFSI)
- Nine Canyon Wind Farm
- Nuclear Project No. 1 site restoration
- Horn Rapid Battery Energy Storage System (BESS). The BESS project is currently in progress with a completion date of FY 2021. See decommissioning activity section below for discussion.
- Excluded from GASB No. 83 reporting is the Packwood Hydroelectric Project. The timing and extent of any liabilities associated with operations is not determinable at this time. Packwood remains operable with no foreseeable change in operations. As such, Packwood's obligation has not been calculated because the time frame and extent of the obligation under this statement was considered indeterminate. As a result, no estimate of the ARO obligation was completed; an ARO will be recorded if future events warrant a change.

Decommissioning and site restoration requirements for Columbia and ISFSI are governed by the NRC regulations. Columbia, ISFSI and Nuclear Project No. 1 are also governed by site certification agreements between Energy Northwest and the state of Washington and regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC) and a lease agreement with the Department of Energy ("DOE"). (See Notes 1 & 10). Nine Canyon decommissioning requirements are governed by participant agreements which are part of the 2nd Amended and Restated Nine Canyon Wind Project Power Agreement and associated land leases for location of the wind turbines.

## Decomissioning Activity

Columbia Generation Station (including site restoration)

Columbia is a 1,174-megawatt electric (MWe Design Electric rating, net) boiling water reactor located on the DOE Hanford Site north of Richland, Washington.

Columbia was issued a construction permit in March of 1973 and NRC licensing was completed in December of 1983. Columbia began commercial generation in December of 1984. The estimate for the ARO was updated in February of 2019 to account for the liability associated with the dismantling and decommissioning of the Columbia asset along with restoration of the leased DOE land. Both the asset decommissioning and site restoration are governed by agreements and regulations signed as part of construction and completion of Columbia.

The FY 2019 Columbia study was a joint effort between BPA and Energy Northwest to comply with the provisions of adopting GASB No. 83 to provide a current estimate for future accounting and funding requirements. The study was completed by a national firm that is involved with approximately 90% of cost studies completed in the United States nuclear industry. Original plan specifications and drawings were used as basis for costing estimates and mapped for design changes that have occurred since construction. Current estimates for labor and materials were obtained and used as basis for coming up with the estimates of work to be performed. Phasing of the costs were scheduled and flowed according to two scenarios currently accepted by the NRC, DECON and SAFSTOR.

- DECON - method in which structures, systems, and components that contain radioactive contamination are removed from a site and safely disposed at a commercially operated low-level waste disposal facility, or decontaminated to a level that permits the site to be released for unrestricted use shortly after it ceases operation.
- SAFSTOR - method in which a nuclear facility is placed and maintained in a condition that allows the facility to be safely stored and subsequently decontaminated (deferred decontamination) to levels that permit release for unrestricted use.

Both DECON and SAFSTOR are acceptable methods of accounting for decommissioning estimates with differences in method and timing of when the expenditures will occur after termination of the plant (currently planned for December 2043). A joint decision between BPA and Energy Northwest was made to adopt the DECON method for accounting purposes.

The Columbia study estimate using DECON as the scenario has an estimated decommissioning activity completion date of June 2097. The estimated liability in current dollars (2019) for the decommissioning of Columbia was $1.45 billion. The decommissioning of the Columbia asset made up $1.29 billion of the estimate with the remainder ($135.1 million) associated with specific site restoration activities. Approximately $816.5 million of the new estimate has already been recognized as part of the previous decommissioning accounting activity recognized from FY 1984 through FY 2018. The remaining amount of $613.9 million (adjusted for standard index) as of June 30, 2019, will be amortized over the remaining expected life of Columbia. In FY 2020, $25.0 million of amortization expense was recognized and the index adjustment for FY 2020 was $14.5 million resulting in the overall decrease in deferred outflow of $10.5 million. The index adjustment increased the estimated liability as of June 30, 2020 from $1.45 billion to $1.47 billion.

Each year the ARO is evaluated to determine if there are any material changes in timing or costs. If there are material changes, the estimate will be adjusted accordingly. If there are no material changes impacting the estimate then a standard index will be used each year to determine current changes to the estimated derived from the original study. The amount for both the liability and deferred outflow will be increased or decreased accordingly and change the straight-line amount for decommissioning going forward. There were no material changes in timing or costs related to the Columbia ARO.

At the time of termination of Columbia and commencing of decommissioning activities, the liability will be decreased as cash expenditures occur through the estimated completion date of FY 2097. Upon settlement of the liability, there is potential for variances from the original estimates. If there are differences from the estimate and actual payment a gain or loss on the ARO will be recorded for the difference. However, with regard to the net-billed projects, BPA is obligated to provide for the entire cost of decommissioning and site restoration; therefore, any gain or loss recognized upon settlement of the ARO results in an adjustment to either the billings in excess of costs (liability) or costs in excess of billings (asset), as appropriate, as no net revenue or loss is recognized, and no net position is accumulated for the net-billed projects.

### Independent Spent Fuel Storage Installation

Energy Northwest's Independent Spent Fuel Storage Installation (ISFSI) at the Columbia Generating Station is a temporary dry cask storage facility intended to store spent nuclear reactor fuel in NRC-approved dry storage casks until the DOE completes its plan for a national repository. The ISFSI consists of two concrete pads storing a total of 36 casks and one additional pad with the capacity of 18 casks. The last ISFSI campaign, which began in March 2018, was completed in May 2018 for an additional nine casks. In order to accommodate spent fuel to be generated through the end of the plant's operating license period of December 20, 2043, Energy Northwest is planning the ISFSI facility expansion to store an additional 72 casks. The final phase of the ISFSI pad expansion project will be completed in FY 2021-2024 and commissioned in 2025. The four additional pads will have capacities of 18 casks each. Energy Northwest previously financed a portion of the costs needed for the construction of the existing ISFSI pads.

No additional issues are anticipated with the ISFSI expansion project. However, the NRC is in the process of developing additional security rulemaking that may potentially impose additional requirements beyond currently planned security controls. The extent of those additional requirements or when they will be imposed on Columbia are not known at this time but are not anticipated to become effective within the next two or three years.

Energy Northwest established a decommissioning and site restoration plan for the ISFSI in 1997. Annual payments to a fund established pursuant to this plan began in 2003 and are held by Energy Northwest. These payments are currently scheduled to occur annually through 2044. Adoption of asset retirement accounting for the ISFSI project took place in FY 2005. The Columbia cost study completed in February 2019 included the ISFSI and revised both the timing and estimate. ISFSI decommissioning is projected to be completed in a five month period in 2097 under the DECON scenario and is estimated at $7.5 million (in 2019 dollars). Approximately $2.6 million of the new estimate has already been recognized as part of the previous decommissioning accounting activity recognized from FY 2005 through FY 2018. The remaining amount of $4.7 million (adjusted for standard index) as of June 30, 2019, will be amortized over the remaining expected live of Columbia. In FY 2020, $194 thousand of amortization expense was recognized and the index adjustment for FY 2020 was $75 thousand resulting in the overall decrease in deferred outflow of $119 thousand. The index adjustment increased the estimated liability as of June 30, 2020 from $7.5 million to $7.6 million.

Each year the ARO evaluation, accounting and any eventual net-billed project impacts will follow the same process described above for the Columbia ARO and net-billed obligations.

The above estimates and timing do not take into account any of the impacts of the current DOE litigation or potential changes in DOE handling of accumulated spent fuel being stored at the ISFSI. Note 11 - Commitments and Contingencies under other litigations and commitments describes the current status of the ISFSI settlement.

Energy Northwest is in discussion with Bonneville on transferring, in trust, the current funding amount and any future funding requirements from Energy Northwest to Bonneville. Such transfer was expected to occur in FY 2020 but now is planned for FY 2021. The fair market value of the cash and investments in this fund were $2,426,822 as of June 30, 2020.

### Nine Canyon Wind Project

The Nine Canyon Wind Farm Project (Nine Canyon) is wholly owned and operated by Energy Northwest on leased ground located in the Horse Heaven Hills area southwest of Kennewick, Washington in Benton County. Electricity generated by Nine Canyon is purchased under signed agreements with an end date of 2030. Under the current agreement, Nine Canyon has the obligation to remove the generation facilities upon expiration of the lease agreement if requested by the lessors. The Nine Canyon Wind Project recorded the related original ARO in FY 2003 for Phase I and II. Phase III began commercial operation in FY 2008 and the original ARO was adjusted to reflect the change in scenario for the retirement obligation, with current lease agreements reflecting a 2030 expiration date. Previous scenarios for the ARO have been factored into the participant agreements, derives the rate plan and drives the cash requirements for debt repayment and cost of operations. Possible adjustments may be necessary to future rates depending on operating costs and any changes to the ARO.

A cost estimate was completed in FY 2018 for Nine Canyon and revised both the timing and estimate of decommissioning activities. The Nine Canyon decommissioning is projected to be completed following the 2030 expiration date of the power purchase and lease agreements and is estimated at $18.0 million (in 2019 dollars). Approximately $9.9 million of the new estimate had already been recognized as part of the previous decommissioning accounting activity recognized from FY 2003 through FY 2018. The remaining amount of $7.4 million (adjusted for standard index) as of June 30, 2019, will be amortized over the remaining expected life of Nine Canyon. In FY 2020, $673 thousand of amortization expense was recognized and the index adjustment for FY 2020 was $180 thousand million resulting in the overall decrease in deferred outflow of $493 thousand. The index adjustment also increased the estimated liability as of June 30, 2020 from $18.0 million to $18.1 million

Each year the ARO will be evaluated to determine if there are any material changes in timing or costs. If there are material changes, the estimate will be adjusted accordingly. If there are no material changes impacting the estimate then a standard index will be used each year to determine current changes to the estimated derived from the original study. The amount for both the liability and deferred outflow will be increased or decreased accordingly and change the straight-line amount for decommissioning going forward. There were no material changes in timing or costs for the Nine Canyon ARO.

At the time of termination of Nine Canyon and commencing of decommissioning activities, the liability will be decreased as cash expenditures occur through the estimated completion date of FY 2031. Upon settlement of the liability, there is potential for variances from the original estimates. If there are differences from the estimate and actual payment a gain or loss on the ARO will be recorded for the difference.

### Nuclear Project No. 1

Project 1 is a partially completed nuclear electric generating project located on DOE's Hanford reservation, approximately one and one-half miles east of Columbia. Project 1 was terminated in May 1994. Energy Northwest has planned for the demolition and restoration of Nuclear Project No. 1 and is now maintaining the site to support re-use activities. The Nuclear Project No. 1 Post Termination agreement requires BPA to fund this site remediation plan. The current plan estimates final decommissioning (site remediation) to be complete in June 2023. The estimate from FY 2019 was updated to reflect some updated costs to be incurred; the remaining estimate was $8.1 million at June 30, 2019 but has increased to $13.0 million as of June 30, 2020. Total site remediation activity costs to date are $9.9 million. The asset retirement calculation has been adjusted yearly for actual costs incurred and yearly revised estimates. BPA has placed funds in an external interest-bearing trust account in order to have sufficient funds for ongoing remediation costs. The amount in the trust fund is approximately $26.2 million as of June 30, 2020. Any funds remaining after final remediation efforts are complete will be returned to BPA.

### Horn Rapids Battery Storage System

The Horn Rapids Battery Energy Storage System (BESS) is a collaborative effort between Energy Northwest and the City of Richland and is part of an overall project effort commonly known as the Horn Rapids Solar, Storage, and Training Project (HRSST). HRSST Is a four MWdc Photovoltaic solar project (Energy Northwest does not own the solar portion) paired with a 1 MW/4 MWh basic lithium ion battery storage system. Energy Northwest will operate and maintain the BESS portion of the project for the City of Richland. The City of Richland has signed a purchase power agreement for 100% of the power and reimbursement of construction and operating costs of the BESS. The BESS is located on leased property in Richland Washington. The BESS is currently under construction with the solar portion of the HRSST to be energized in September of 2020 and the BESS (battery portion) to be energized in October of 2020. Total BESS projected costs are estimated at $6.4 million, with $4.9 million incurred as of June 30, 2020. Energy Northwest was the recipient of a Washington State Department of Commerce (Commerce) grant in 2017. Commerce will award up to $3.0 million under the Clean Energy Funds' Grid Modernization Grant Program to offset the construction of the BESS. Grant proceeds received as of June 30, 2020 were $1.6 million. When the BESS is operational decommissioning will be part of the incurred costs. Financial assurance is for total costs to be reimbursed by the City of Richland. Projected decommissioning costs are $38 thousand in 2020 dollars and expected to be incurred after 25 years of operation. The decommissioning plan for the ARO will be finalized when the BESS is operational. The BESS will not be operational until FY2021; therefore, there are no estimates to the ARO as required by GASB No. 83. When the BESS becomes operational, a liability will be established for the ARO and a corresponding deferred outflow as required by GASB No. 83.

### ARO Financial Assurance

The NRC has issued rules to provide guidance to licensees of operating nuclear plants on providing financial assurance for decommissioning plants at the end of each plant's operating life. In September 1998, the NRC approved and published its "Final Rule on Financial Assurance Requirements for Decommissioning Power Reactors." As provided in this rule, each power reactor licensee is required to report to the NRC the status of its decommissioning funding for each reactor or share of a reactor it owns. This reporting requirement began March 31, 1999, and reports are required every two years thereafter. Energy Northwest submitted its most recent report to the NRC for Columbia decommissioning in March 2020. A separate requirement for providing financial assurance for ISFSI decommissioning states that a report must be provided at least every three years. Energy Northwest submitted its most recent report to the NRC for ISFSI decommissioning in November 2018.

Energy Northwest's assurance funding estimate (10 CFR 50.75 - Reporting and Recordkeeping for Decommissioning) of Columbia's plant decommissioning costs in FY 2019 dollars is $563.2 million and assurance funding estimate (10 CFR 72.30 - Reporting and Recordkeeping for Decommissioning) of Columbia's ISFSI decommissioning costs in FY 2019 dollars is $7.2 million. These estimates are updated biannually for the Columbia decommissioning and every three years for the ISFSI decommissioning with the last update for the Columbia occurring in fiscal year 2020 and for the ISFSI in fiscal year 2019. The estimates are based on the NRC minimum amount (NRC 2018 study for Columbia and 2019 study for the ISFSI) required to demonstrate reasonable financial assurance for a boiling water reactor with the power level of Columbia.

Site restoration requirements for Columbia and Nuclear Project No. 1 are governed by the site certification agreements between Energy Northwest and the state of Washington and by regulations adopted by the EFSEC. Energy Northwest submitted a site restoration plan that was approved by the EFSEC on June 12, 1995. Energy Northwest's funding estimate of Columbia's site restoration costs in FY 2019 dollars is $111.9 million and is updated biannually along with the Columbia decommissioning estimate. Both decommissioning and site restoration estimates are used as the basis for establishing a funding plan that includes escalation and interest earnings until decommissioning activities occur. Payments to the decommissioning and site restoration funds have been made since January 1985.

The fair value of cash and investment securities in the Columbia decommissioning and site restoration funds as of June 30, 2020, totaled approximately $311.0 million and $48.9 million, respectively. The fair value of cash and investment securities in the site restoration fund for Nuclear Project No. 1 is $26.2 million. Since September 1996, the Columbia and Nuclear Project No. 1 amounts have been held in an irrevocable trust that recognizes asset retirement obligations according to the fair value of the dismantlement and restoration costs of certain Energy Northwest assets. The trustee is a domestic U.S. bank that certifies the funds for use when needed to retire the asset. The trusts are funded by BPA ratepayers and managed by BPA in accordance with NRC requirements and site certification agreements; the balances in these external trust funds are not reflected on Energy Northwest's balance sheet.

Energy Northwest established a decommissioning and site restoration plan for the ISFSI in 1997. Beginning in FY 2003, an annual contribution is made to the Energy Northwest Decommissioning Fund. These contributions are held by Energy Northwest and not held in trust by BPA. The fair market value of cash and investments as of June 30, 2020, is $2.4 million. These contributions are scheduled to occur through FY 2044; with cash payments scheduled to begin for decommissioning and site restoration in FY 2045. However, the revised Columbia study, which included the ISFSI, estimates the decommissioning and site restoration for the ISFSI to occur in FY 2097. Because of the change in timing and estimate, Energy Northwest is in discussion with Bonneville on transferring, in trust, the current funding amount and any future funding requirements from Energy Northwest to Bonneville. Such transfer is expected to occur in Energy Northwest FY 2021, any changes in funding for the ISFSI project will be determined at that time.

Nine Canyon billing rates to power purchase participants are set to cover cash requirements of debt repayment and cost of operations. Any increases or decreases to rates will be based on cost of operations In the future. Adjustments to billing rates may be necessary in the future to cover estimated costs incurred for the eventual decommissioning of Nine Canyon.

Financial assurance and estimates for Nuclear Project No. 1 are discussed in the previous section - Decommissioning - Nuclear Project No. 1.

Financial assurance and estimates for the BESS are discussed in the previous section - Decommissioning- Horn Rapids Battery Storage System.

## NOTE 10 - Commitments and Contingencies

### Nuclear Project No. 1 Termination

Since the Nuclear Project No.1 termination, Energy Northwest has been planning for the demolition of Nuclear Project No. 1 and restoration of the site, recognizing the fact that there is no market for the sale of the project in its entirety, and no viable alternative use has been found to-date. The final level of demolition and restoration will be in accordance with agreements discussed below under "Nuclear Project No. 1 Site Restoration."

### Nuclear Project No. 3 Termination

In June 1994, the Nuclear Project No. 3 Owners Committee voted unanimously to terminate the project. In 1995, a group from Grays Harbor County, Washington, formed the Satsop Redevelopment Project (SRP). The SRP introduced legislation with the state of Washington under Senate Bill No. 6427, which passed and was signed by the governor of the state of Washington on March 7, 1996. The legislation enables local governments and Energy Northwest to negotiate an arrangement allowing such local governments to assume an interest in the site on which Nuclear Project No. 3 exists for economic development by transferring ownership of all or a portion of the site to local government entities. This legislation also provides for the local government entities to assume regulatory responsibilities for site restoration requirements and control of water rights. In February 1999, Energy Northwest entered into a transfer agreement with the SRP to transfer the real and personal property at the site of Nuclear Project No. 3. The SRP also agreed to assume regulatory responsibility for site restoration. Therefore, Energy Northwest is no longer responsible to the state of Washington and EFSEC for any site restoration costs.

### Nuclear Project No. 1 Site Restoration

Site restoration requirements for Nuclear Project No. 1 are governed by site certification agreements between Energy Northwest and the state of Washington and regulations adopted by EFSEC, and a lease agreement with DOE. Energy Northwest submitted a site restoration plan for Nuclear Project No. 1 to EFSEC on March 8, 1995, which complied with EFSEC requirements to remove the assets and restore the sites by demolition, burial, entombment, or other techniques such that the sites pose minimal hazard to the public. EFSEC approved Energy Northwest's site restoration plan on June 12, 1995. In its approval, EFSEC recognized that there is uncertainty associated with Energy Northwest's proposed plan. Accordingly, EFSEC's conditional approval provides for additional reviews once the details of the plan are finalized. The plan is updated every five years with the last update submitted in 2019.

### Business Development Fund Interest in Northwest Open Access Network (NoaNet)

Energy Northwest, along with 9 other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was formed in February 2000 to provide broadband communications over public benefit fibers leased from Bonneville Power Administration throughout the Pacific Northwest. The network began commercial operation in January 2001.

As a member of NoaNet as allowed by RCW 54.16, Energy Northwest has guaranteed certain portions of NoaNet debt based on its proportionate membership share. Energy Northwest's membership share is 8.04% with a step-up provision of 25 percent of the membership share. NoaNet reserves the right to assess the members to cover deficits from operations. In Calendar Year 2018 NoaNet met all of the debt obligations through profitable operations. There have been no assessments since 2011.

NoaNet did report a decrease in net position (excluding grant proceeds) of $8.8 million for Calendar Year 2018. In accordance with GAAP, Energy Northwest did not record their proportionate share of these gains/losses.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Chief Financial Officer, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335.

### Other Litigation and Commitments

Energy Northwest is a party to various claims and legal actions arising in the normal course of business. The following is a discussion of certain litigation and claims relating to the Net Billed Projects to which Energy Northwest is a party:

Energy Northwest v. United States of America (DOE). On August 28, 2014, Energy Northwest and the United States entered into a Settlement Agreement ("Settlement Agreement") under Energy Northwest v. United States, No. 11-447C (Fed. Cl. filed July 7, 2011). In addition to settling litigation for the U.S. Department of Energy's ("DOE") continuing breach of contract for its failure to dispose of spent nuclear fuel and high-level radioactive waste, the Settlement Agreement provided that Energy Northwest could be reimbursed by the government for its allowable expenses, as defined in the Settlement Agreement, related to DOE's continued failure to accept used nuclear fuel under the Standard Contract Energy Northwest signed with DOE in 1983. The Settlement Agreement also settled the litigation filed by Energy Northwest in the U.S. Court of Federal Claims in July 2011 for damages incurred between September 1, 2006, and June 30, 2012 in the amount of $23.6 million. Energy Northwest received $48.7 million in 2011 under the first action that resulted in a Stipulation for Entry of Final Judgment in Favor of Plaintiff Energy Northwest which covered damages prior to September 1, 2006.

Under the Settlement Agreement, Energy Northwest is required to submit a claim for reimbursement to DOE annually for each year, July 1, 2012 through December 31, 2016. The claim submission deadline is January 31 of the following calendar year. After submission, DOE has a set time to review and request additional information from Energy Northwest.

At the end of the review period, Energy Northwest can accept DOE's determination and be paid the amount determined by DOE or Energy Northwest can reject the determination and proceed to binding arbitration.

Under the Settlement Agreement, Energy Northwest submitted its first claim to DOE by the deadline. The first claim covers Fiscal Years 2013 through 2014 (a catch-up claim). Energy Northwest was reimbursed $15,143,888 in September 2015. In early 2016, Energy Northwest submitted its second claim for costs incurred from July 1, 2014 to June 30, 2015. DOE agreed to pay and Energy Northwest accepted the sum of $4,531,664 in full satisfaction of the claim for costs incurred by Energy Northwest for the time period. Payment from the Judgment Fund was received in fall 2016. The third claim for costs incurred between July 1, 2015 and June 30, 2016, was submitted January 31, 2017. Energy Northwest received confirmation that it would receive $7,200,184 in reimbursed costs on June 6, 2017. The reimbursement was received by Energy Northwest on June 26, 2017. In March of 2017, Energy Northwest was able to extend the Settlement Agreement, by addendum, for an annual claims process terminating December 31, 2019. The first claim under the extended Settlement Agreement, covering costs incurred between July 1, 2016 to June 30, 2017, was submitted January 31, 2018. Energy Northwest received reimbursement of $11,139,345 in in September 2018. The second claim under the extended Settlement Agreement, covering costs incurred from July 1, 2017 to June 30, 2018, was submitted January 30, 2019. Energy Northwest received $17,832,584 in reimbursed costs in the ifrst quarter of fiscal year 2021. The third claim under the extended Settlement Agreement, covering costs incurred from July 1, 2018 to June 30, 2019, was submitted January 31, 2020. On July 17, 2020, Energy Northwest received $1,178,445 in reimbursed costs.

**NOTE 11 - Nuclear Fuels**

In May 2012, Energy Northwest entered into agreements with three other parties for processing high assay uranium tails. The Program consists of several agreements between the parties involved, entered into as a joint effort between the Department of Energy (DOE), Tennessee Valley Authority (TVA), United States Enrichment Corporation (USEC) and Energy Northwest to enrich approximately 9,082 metric tons (MTU) of Depleted Uranium Hexafluoride (DUF6) with an average assay of 0.44 weight percent U235 (wt%) that will yield approximately 482 MTU of enriched uranium product (EUP) with an average assay of 4.4 wt%.

DOE and Energy Northwest have entered into an agreement for the transfer of the DUF6 to Energy Northwest. The agreement addresses delivery and transfer of title of the DUF6, return of residual DUF6 after enrichment, storage of the EUP, and payment of DOE's costs. The costs for the handling of the DUF6 and storage of the EUP were anticipated to be $5 million or less. As of December 31, 2015, Energy Northwest had removed all EUP stored with DOE to a commercial facility in New Mexico. Energy Northwest had recorded $0.9 million in total charges to the DOE for delivery of the DUF6, storage and loading of the EUP, which is capitalized as cost of the fuel being purchased.

Under the Depleted Uranium Enrichment Program (DUEP), Energy Northwest purchased from USEC all of the Separative Work Units (SWU) contained in the EUP. Upon finalization of the program, Energy Northwest had purchased a total of 481.6 MTU of EUP from USEC at a cost of $687.2 million, which is recorded in nuclear fuel, net of accumulated amortization, as of June 30, 2013. There have been no additional purchases since the conclusion of the program in May of 2013.

Energy Northwest and TVA have entered into an agreement for the sale and purchase of a portion of the SWU and Feed Component of the EUP. The sales under the agreement are expected to total approximately $730 million. The payment for the fifth delivery of 485,000 SWU and 1,050,000 KgU of uranium was received August 30, 2019 for $230.42 million. The payment for the sixth delivery of 385,000 SWU was received June 1, 2020 for $67.46 million. The total gain reported for the fifth and sixth sale was $76.2 million and reported on the Statements of Revenues, Expenses, and Changes in Net Position under Other. The remaining sales under this agreement are scheduled to take place between July 2021 and September 2022.

Energy Northwest has a contracts with Global Nuclear Fuel - Americas LLC valued at $192.0 million for fuel fabrication services through FY2027 with an option to extend for two additional reloads through 2031. The delivery of new fuel assemblies coincides with each refueling outage year, with the next refueling outage year occurring in FY2021 (R-25).

Energy Northwest has a contract with DOE that requires DOE to accept title and dispose of spent nuclear fuel. Although the courts have ruled that DOE had the obligation to accept title to spent nuclear fuel by January 31, 1998, currently, there is no known date established when DOE will fulfill this legal obligation and begin accepting spent nuclear fuel. On November 19, 2013, the D.C. Circuit Court ordered the DOE to submit to Congress a proposal to reduce the current waste disposal fee to zero, unless and until there is a viable disposal program. On January 3, 2014, the DOE filed a petition for rehearing which was denied by the D.C. Circuit Court on March 18, 2014. Also, on January 3, 2014, the DOE submitted a proposal to Congress to reduce the current waste disposal fee to zero. On May 9, 2014, the DOE notified Energy Northwest that the waste disposal fee will remain in effect through May 15, 2014, after which time the fee will be set to zero. Until such time as a new fee structure is in effect, Energy Northwest will not accrue any further costs related to waste disposal fees. When the fuel is placed in the reactor the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. The amount moved to spent fuel for cooling decreased $90.2 million.

The current period operating expense for Columbia was $53.67 million for amortization of fuel used in the reactor. There were no DOE spent fuel disposal charges.

Energy Northwest has an Independent Spent Fuel Storage Installation (ISFSI), which is a temporary dry cask storage facility to be used until DOE completes its plan for a national repository. ISFSI will store the spent fuel in commercially available dry storage casks on a concrete pad at the Columbia site. There were 9 casks issued from inventory in fiscal year 2018. Spent fuel is transferred from the spent fuel pool to the ISFSI periodically to allow for future refueling. The FY2018 ISFSI loading campaign filled a total of 9 casks. The next ISFSI loading campaign is scheduled for March of 2022 for a total of 9 casks.

## Schedules of Required Supplementary Information (Unaudited)

### Schedule of the Energy Northwest's Proportionate Share of the Net Pension Liability (in thousands)

| | PERS 1 | | | | | | |
|---|---|---|---|---|---|---|---|
| Measurement Date Ended June 30 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Proportion of the net pension liability (asset) | 1.02% | 1.08% | 1.13% | 1.08% | 1.24% | 1.22% | 1.19% |
| Proportionate share of the net pension liability (asset) | $ 39,358 | $ 48,192 | $ 53,781 | $ 58,147 | $ 65,005 | $ 61,291 | $ 71,094 |
| Covered-employee payroll | 143,601 | 143,282 | 142,483 | 128,944 | 154,431 | 144,597 | 140,409 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 27.41% | 33.63% | 37.75% | 45.09% | 42.09% | 42.39% | 50.63% |
| Plan fiduciary net position as a percentage of the total pension liability | 67.12% | 63.22% | 61.24% | 57.03% | 59.10% | 61.19% | 55.70% |

| | PERS 2/3 | | | | | | |
|---|---|---|---|---|---|---|---|
| Measurement Date Ended June 30 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Proportion of the net pension liability (asset) | 1.32% | 1.38% | 1.45% | 1.38% | 1.60% | 1.55% | 1.55% |
| Proportionate share of the net pension liability (asset) | $ 12,831 | $ 23,584 | $ 50,411 | $ 69,510 | $ 57,017 | $ 31,410 | $ 66,351 |
| Covered-employee payroll | 143,502 | 143,015 | 142,140 | 128,634 | 154,080 | 144,158 | 139,637 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 8.94% | 16.49% | 35.47% | 54.04% | 37.00% | 21.79% | 47.52% |
| Plan fiduciary net position as a percentage of the total pension liability | 97.77% | 95.77% | 90.97% | 85.82% | 89.20% | 93.29% | 84.60% |

## **Schedule of Energy Northwest's Contributions** (in thousands)

| | PERS 1 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year Ended June 30 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
| Contractually Required Contribution | $ 6,441 | $ 7,339 | $ 7,213 | $ 6,818 | $ 6,141 | $ 5,711 | $ 5,385 | $ 3,078 | $ 70 | $ 88 |
| Contributions in Relation to the Contractually Required Contribution Subtotal | (6,441) | (7,339) | (7,213) | (6,818) | (6,141) | (5,711) | (5,385) | (3,078) | (70) | (88) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Covered-Employee Payroll | $ 134,853 | $ 143,601 | $ 143,282 | $ 142,483 | $ 128,944 | $ 154,431 | $ 144,597 | $ 140,409 | $ 996 | $ 1,610 |
| Contributions as a Percentage of Covered Employee Payroll | 4.78% | 5.11% | 5.03% | 4.79% | 4.76% | 3.70% | 3.72% | 2.19% | 7.03% | 5.47% |

| | PERS 2/3 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal year Ended June 30 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
| Contractually Required Contribution | $ 10,657 | $ 10,789 | $ 10,658 | $ 8,862 | $ 8,200 | $ 7,108 | $ 6,564 | $ 6,020 | $ 8,760 | $ 6,533 |
| Contributions in Relation to the Contractually Required Contribution | (10,657) | (10,789) | (10,658) | (8,862) | (8,200) | (7,108) | (6,564) | (6,020) | (8,760) | (6,533) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Covered-Employee Payroll | $ 134,852 | $ 143,502 | $ 143,015 | $ 142,140 | $ 128,634 | $ 154,080 | $ 144,158 | $ 139,637 | $ 134,777 | $ 133,276 |
| Contributions as a Percentage of Covered Employee Payroll | 7.90% | 7.52% | 7.45% | 6.23% | 6.37% | 4.61% | 4.55% | 4.31% | 6.50% | 4.90% |

**Notes to Schedules**

Key valuation assumptions:

- DRS allocates certain portion of contributions from PERS Plan 2/3 to PERS Plan 1 in order to fund its unfunded actuarially accrued liability (UAAL).
- There were no changes in actuarial as assumptions between the valuation date of June 30, 2013 and the measurement date of June 30, 2014.
- There were no changes in actuarial as assumptions between the valuation date of June 30, 2014 and the measurement date of June 30, 2015.
- There were no changes in actuarial as assumptions between the valuation date of June 30, 2015 and the measurement date of June 30, 2016.
- There were no changes in actuarial as assumptions between the valuation date of June 30, 2016 and the measurement date of June 30, 2017.
- There were no changes in actuarial as assumptions between the valuation date of June 30, 2017 and the measurement date of June 30, 2018.
- There were changes in actuarial as assumptions between the valuation date of June 30, 2018 and the measurement date of June 30, 2019.
    - Lowered the valuation interest rate from 7.70% to 7.50% for all plans.
    - Lowered the assumed general salary growth from 3.75% to 3.50% for all plans.
    - Lowered assumed inflation from 3.00% to 2.75% for all plans.
    - Lowered assumed investment rate of return from 7.50% to 7.40% for all plans.
- There were no changes in actuarial as assumptions between the valuation date of June 30, 2019 and the measurement date of June 30, 2020.