ENERGY NORTHWEST

2018 Annual Report

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, 2018, internal control procedures are adequate.

Bradley J. Sawatzke
Chief Executive Officer

Brent J. Ridge
Vice President for Corporate Services/Chief Financial 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, 2017 - June 16, 2018: Chair Kathy Vaughn, Marc Daudon, Linda Gott, Jack Janda, Sid Morrison, Jim Moss, Skip Orser, Will Purser, Lori Sanders, John Saven and Tim Sheldon.

June 17, 2018 - June 30, 2018: Chair John Saven, Terry Brewer, Arie Callaghan, Marc Daudon, Linda Gott, Jack Janda, Sid Morrison, Jim Moss, Skip Orser, Will Purser and Tim Sheldon.

The committee held seven meetings during the fiscal year ended June 30, 2018.

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.

John Saven
Chair,
Audit, Legal and Finance Committee

BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To the Executive Board
Energy Northwest
Richland, Washington

We have audited the accompanying financial statements of Energy Northwest, as of and for the year ended June 30, 2018, 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 Energy Northwest as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year 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 management's discussion and analysis, schedule of proportionate share of net pension liability, and schedule of contributions, which are considered required supplementary information, 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 Virchow Krause, LLP

Madison, Wisconsin
September 27, 2018

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, 2018, with the basic financial statements for the FY ended June 30, 2017.

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 total only for Energy Northwest, as a whole, for FY 2018 and FY 2017.

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, 2018 and 2017. 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, 2018 and 2017 (Dollars in thousands)

	2017	2018	Change
Assets			
Current Assets	$ 644,343	$ 556,457	$ (87,886)
Restricted Assets			
Special Funds	169,930	134,502	(35,428)
Debt Service Funds	160,169	335,640	175,471
Net Plant	1,661,945	1,692,350	30,405
Nuclear Fuel	891,014	841,196	(49,818)
Long-Term Receivables	21	22	1
Other Charges	3,203,592	3,065,680	(137,912)
TOTAL ASSETS	6,731,014	6,625,847	(105,167)
DEFERRED OUTFLOWS OF RESOURCES	46,227	37,919	(8,308)
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 6,777,241	$ 6,663,766	$ (113,475)
Current Liabilities	$ 546,588	$ 589,516	$ 42,928
Restricted Liabilities			
Special Funds	128	85	(43)
Debt Service Funds	124,502	122,992	(1,510)
Long-Term Debt	5,804,189	5,651,796	(152,393)
Other Long-Term Liabilities	292,302	274,440	(17,862)
Other Credits	6,257	6,431	174
Net Position			
Invested in capital assets, net of related debt	(40,216)	(38,999)	1,217
Restricted, net	18,819	19,101	282
Unrestricted, net	14,112	16,248	2,136
TOTAL LIABILITIES AND NET POSITION	6,766,681	6,641,610	(125,071)
DEFERRED INFLOWS OF RESOURCES	10,560	22,156	11,596
TOTAL LIABILITIES, NET POSITION AND DEFERRED INFLOWS	$ 6,777,241	$ 6,663,766	$ (113,475)
Operating Revenues	$ 516,112	$ 512,319	$ (3,793)
Operating Expenses	402,523	391,442	(11,081)
Net Operating Revenues	113,589	120,877	7,288
Other Income and Expenses	(109,423)	(117,242)	(7,819)
Beginning Net Position	(11,451)	(7,285)	4,166
ENDING NET POSITION	$ (7,285)	$ (3,650)	$ 3,635

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 9,565 gigawatt-hours (GWh) of electricity in FY 2018, as compared to 8,640 GWh of electricity in FY 2017. The generation for FY 2018 included economic dispatch of 204 GWh as compared to 174 GWh and coast down credit of 93 GWh for FY 2017. Coast down credit did not occur in FY 2018 due to a non-refueling year. Both the economic dispatch and coast down credit were due to BPA requested decreases in generation for regional power management. The FY 2018 generation increase of 10.7 percent was due to FY 2017 being a refueling year (R-23) combined with FY 2018 being the fifth highest fiscal year generation on record. FY 2018 generation was 0.5% below budgeted generation for the year due to Columbia going offline for a brief period at the end of August of 2017. Columbia resumed 100% operation on September 7. In May of 2018, the there was a main transformer trip due to a grid fault which resulted in a plant shutdown. Columbia resumed operations at 65% on May 25 and 100% operations on June 11. BPA requested the managed ramp up of power and granted Columbia 156 GWh of economic dispatch due to the grid fault and request ramp-up. The small outage and lost generation during FY 18 was mostly negated by the continued additional 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). Columbia, because of the past two refueling outages work completed, continues the capability to deliver an additional 25 MWe to the grid.

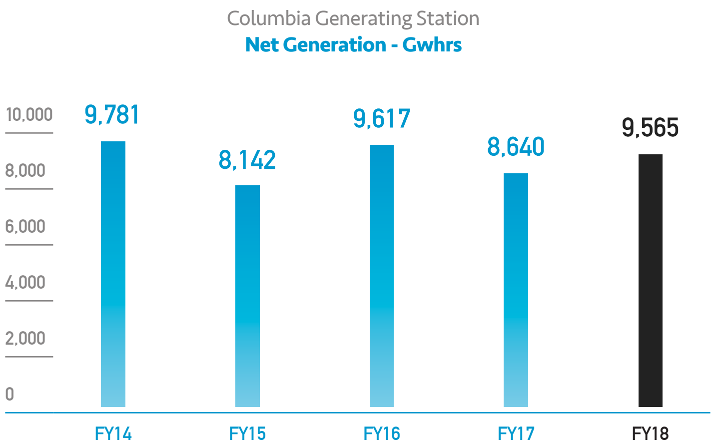
Columbia's cost performance is measured by the cost of power indicator. The cost of power for FY 2018 was 3.56 cents per kilowatt-hour (kWh) as compared with 5.04 cents per kWh in FY 2017. The industry cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. The FY 2017 cost of power decrease of 29.4 percent was due to the increased generation levels budgeted for and attained in FY 2018 along with the decreased generation impacts in FY 2017 due to the R-23 refueling outage. FY 2018 cost of power was 2.60 percent below budget reflecting continued cost control and reliable and predictable operations and generation.

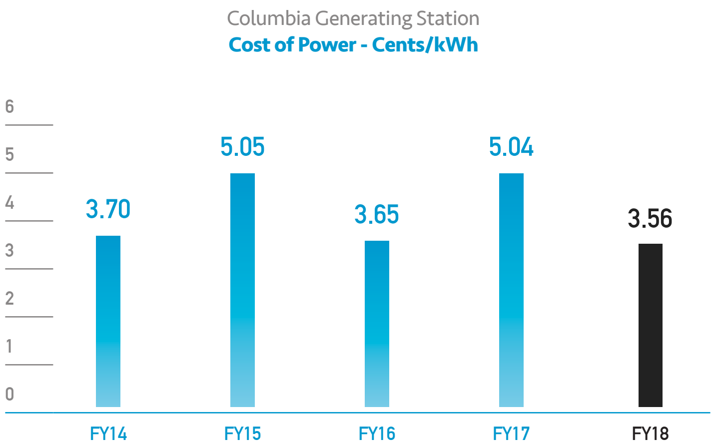
Assets, Liabilities, and Net Position Analysis

The net increase to Utility Plant (plant) and Construction Work In Progress (CWIP) from FY 2017 to FY 2018 (excluding nuclear fuel) was $38.0 million. The changes to plant and CWIP were comprised of additions to plant of $82.4 million and a decrease to CWIP of $37.9 million. Remaining change was the period effect of depreciation of $82.3 million.

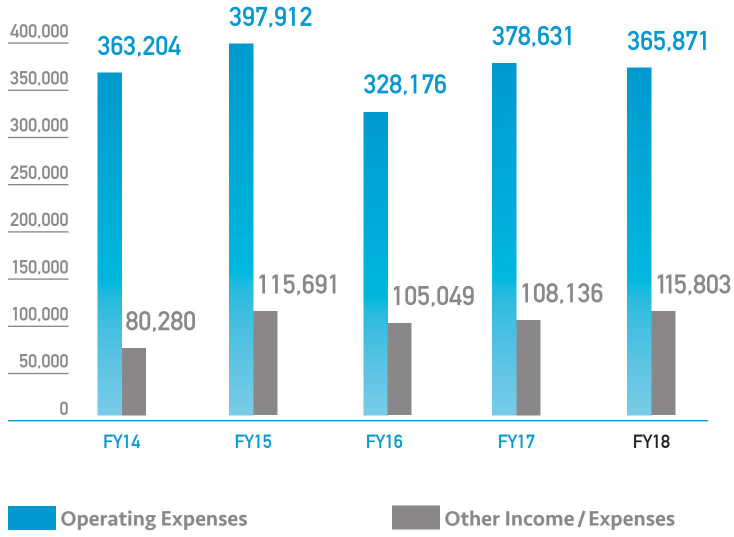
The FY 2018 CWIP balance of $78.3 million consisted of 13 major projects of at least $2.0 million: Low pressure turbine replacement, Fukishima impacts, Plant fire detection upgrades, ISFSI storage pad expansion, Pumps and motors, Asset Suite software upgrade, License renewal implementation, Plant process computer replacement, Control rod drive refurbishments, Stack monitor upgrade, Fire probability risk assessment upgrade, and plant elevator modernization. These projects resulted in 80% of the current CWIP balance. The remaining 20 percent are made up of 38 separate projects.

Current assets decreased $19.6 million in FY 2018 to $493.7 million. The main driver for the decrease was the FY 2018 cask campaign ($29.2 million) that resulted in a movement of nine canisters with used fuel assemblies from the refuel floor of





Columbia Generating Station
Total Operating Costs (Dollars in thousands)



the reactor building to the ISFSI. The FY 2018 cask campaign was the fifth for Columbia since building the ISFSI in 2001; there have been 36 casks moved to date with campaigns taking place in 2002, 2004, 2008 and 2014. The remainder of the change for materials and supplies was an increase to inventory of $9.5 million accounting for the overall decrease in materials and supplies of $19.7 million. Other changes in current assets were increases to prepayments of $0.9 million, increases to accounts and other receivables of $3.3 million, and a decrease to cash of $4.1 million. These minor changes to accounts combined with the drivers in materials and supplies accounted for the overall change to current assets of $19.6 million.

Restricted assets increased $172.7 million to $387.1 million in FY 2018 due to the FY 2018 bond funding activities and bond restructuring associated with the regional cooperation debt program.

Other charges decreased $93.1 million in FY 2018 from $1,167.9 million to $1,074.8 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 $7.6 million in FY 2018 from $42.9 million to $35.3 million. The changes were a decrease of $4.4 million due to the recognition of a deferred pension outflow in accordance with GASB No. 68 and a decrease of $3.1 million to unamortized loss on refunding associated with the 2018 bond activity.

Current liabilities increased $142.6 million in FY 2018 to $535.8 million. The major reason for the increase ($180.6 million) was due to the current portion of debt per the maturity schedule for bonds. The change in current debt was offset by a decrease to current notes payable that funded operations and FY 2018 bond interest costs of $8.0 million, decreases due to timing of year-end obligations and due to other projects of $24.0 million, and timing of due to participants that resulted in a decrease of $6.0 million.

Restricted liabilities increased $1.4 million in FY 2018 to $75.3 million reflecting the changes in accrued interest on various bond series.

Long-term debt (Bonds Payable) increased $100.6 million in FY 2018 from $3,674.4 million to $3,573.8 million due to the FY 2018 bond restructuring and funding activities associated with the regional cooperation debt program.

Other long-term liabilities decreased $14.4 million in FY 2018 to $263.5 million. The major driver was a decrease in the pension liability in accordance with GASB No. 68 of $22.4 million offset by an increase in the decommissioning liability of $8.0 million. 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 reimbursements, per each approved submittal, will be offset against costs incurred. (See Note 11 to the Financial Statements - Commitments and Contingencies - Other Litigation and Commitments.)

Deferred inflows increased $11.5 million from $9.5 million in FY 2017 to $21.0 million in FY 2018. An increase of $12.0 million was recognized to deferred pension inflow in accordance with GASB No. 68. A decrease to bond refunding inflows of $0.5 million was due to the FY 2018 bond restructuring and funding activities associated with the regional cooperation debt program. Deferred credits for FY 2018 consisted of unclaimed bearer bonds and remained at the same level as FY 2017.

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 $12.7 million from FY 2017 costs of $378.6 million to $365.9 million in FY 2018. The decreases in costs were due to FY 2018 being a non-refueling year while FY 2017 was a planned refueling year (R-23). The major driver for the decrease was in operations and maintenance, FY 2018 incurred a decrease of $50.9 million in expenses due to the non-refueling year. The decrease was offset by higher fuel costs and generation taxes for FY 2018 of $27.5 million and $1.0 million respectively; both are a result of higher generation numbers for FY 2018 year. Other increases were $5.8 million for depreciation and amortization due to changes in plant assets, increase of $7.2 million to pension expense requirements related to GASB No. 68, and a small increase of $0.4 million for changes to decommissioning as part of the asset retirement obligation estimate (See Note 9 to the Financial Statements - Asset Retirement Obligation (ARO)). These increases were offset by a decrease to Administrative and General expenses of $3.8 million for the overall decrease to operating expenses of $12.7 million.

Other Income and Expenses increased $7.7 million from FY 2017 to $115.8 million net expenses in FY 2018. Increases of $14.5 million to bond interest expense decreases of $1.5 million to amortized bond accounts were incurred as part of the FY 2018 planned and approved regional cooperation debt program. Other expenses were offset by the FY 2018 $11.1 million gain on spent fuel litigation settlement from the DOE, which was $3.9 million higher than FY 2017. 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 11 to the Financial Statements - Commitments and Contingencies - Other Litigation and Commitments.) 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 SWU sale related to the TVA fuel contract (See Note 12 to the Financial Statements - Nuclear Fuel). The FY 2018 gain on SWU sale was $5.3 million, an increase of $0.6 million over the FY 2017 SWU sale gain. The remaining change of $0.8 million was due to increases in investment income for FY 2018 above the FY 2017 levels.

Columbia's total operating revenue decreased from $486.8 million in FY 2017 to $480.6 million in FY 2018. The decrease of $6.2 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 to the Financial Statements - Net Billing.)

PACKWOOD LAKE HYDROELECTRIC PROJECT

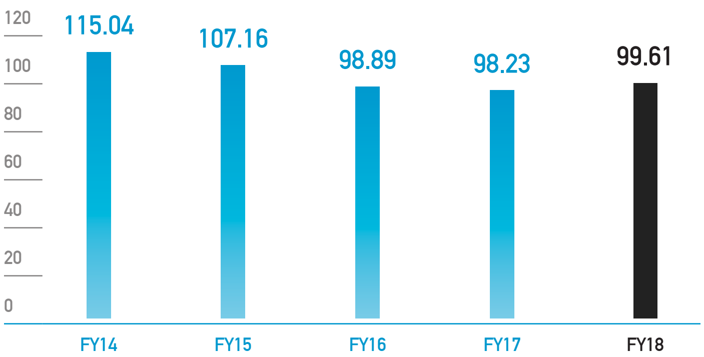
The Packwood Lake Hydroelectric Project (Packwood) is wholly owned and operated by Energy Northwest. Packwood consists of a diversion structure at Packwood Lake and a powerhouse located near the town of Packwood, Washington. The water is carried from the lake to the powerhouse through a five-mile long buried tunnel and drops nearly 1,800 feet in elevation. Packwood produced 99.61 GWh of electricity in FY 2018 versus 98.23 GWh in FY 2017. The slight generation increase of 1.4 percent was due to more favorable snow conditions and runoff in FY 2018 as compared to FY 2017. FY 2018 was the 19th highest for generation on record for Packwood as compared to FY 2017 that was the 23rd highest in generation. FY 2018 generation was near the 10-year average of 101.2 GWh and exceeded the life to date average year of 94.37 GWh. There continues to be some relief in generation capacity due to the delay in new license requirements (See Note 1 to the Financial Statements) which may lower the generating capacity for Packwood.

Packwood's cost performance is measured by the cost of power indicator. The cost of power for FY 2018 was $2.39 cents per kWh as compared to $2.36 cents per kWh in FY 2017. The cost of power fluctuates year-to-year depending on various factors such as outage, maintenance, generation, and other operating costs. The slight increase (1.3%) in the FY 2018 cost of power occurred due to minor increases in operations and maintenance that was not offset by a larger increase in generation.

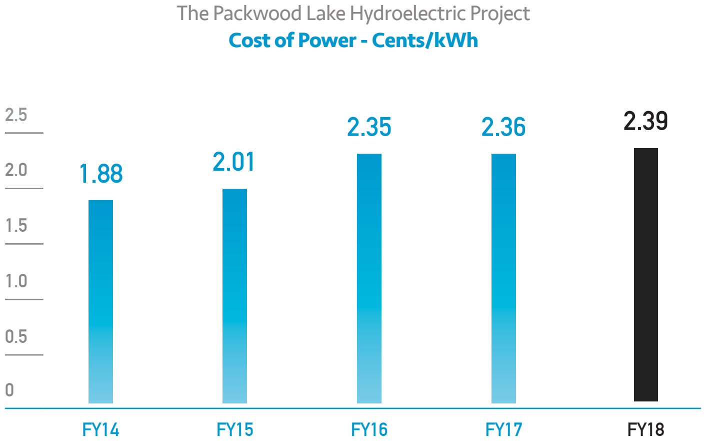
Assets, Liabilities, and Net Position Analysis

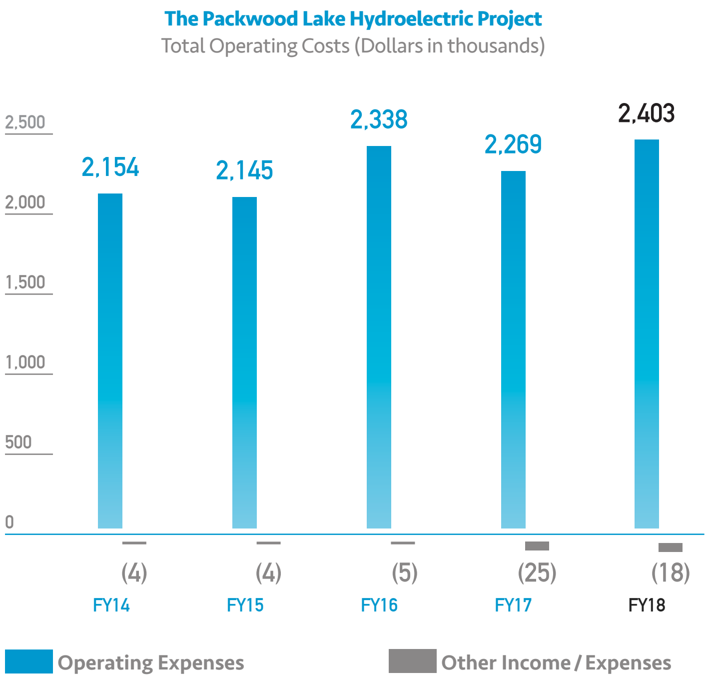
Total assets and deferred outflows remained relatively steady from FY 2017 decreasing by $9 thousand. Deferred pension outflow decreased $15 thousand and net plant decreased $19 thousand. Increases of $25 thousand to current assets accounted for the remaining change in assets and deferred outflows.

The Packwood Lake Hydroelectric Project
Net Generation - Gwhrs



There was an increase to other credits of $21 thousand (increase to billings in excess of cost of $88K with a decrease to unclaimed bearer bonds of $67 thousand). Current liabilities increased $6 thousand, deferred pension inflows increased $41 thousand and long-term pension liability decreased $77 thousand to account for the net change of $9 thousand to liabilities, net position and deferred inflows. Pension deferrals and pension liability are recognized in accordance with GASB No. 68. Packwood has incurred $3.7 million in relicensing costs through FY 2018 with no new costs incurred for FY 2018. These costs are shown as Other Charges on the Statement





of Net Position. Packwood has been operating under a 50-year license issued by 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 March 4, 2010, FERC issued a one-year extension to operate under the original license, which is indefinitely extended for continued operations until a formal decision is issued by FERC and a new operating license is 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. As of June 30, 2018, Packwood continues to be relicensed under the extended agreement from March 2010.

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 $0.1 million FY 2017 to FY 2018 due to contractor support on a forced outage in March of 2018. Other Income and Expense decreased $6 thousand in FY 2018 due to slightly lower investment income ($1 thousand) and no gains on disposals recorded in FY 2018 while FY 2017 had $5 thousand in reported gains.

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, 2018 there is $6.1 million recorded as other credits that are deferred revenues in excess of costs being kept within the project. Packwood participants are currently taking 100 percent 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 percent 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 11 to the Financial Statements.)

Assets, Liabilities, and Net Position Analysis

Total Assets and deferred outflows decreased $63.8 million from $1.0 billion in FY 2017 to $942.2 million in FY 2018. Specific drivers for the decrease was a liquidation of the FY 2017 accounts receivable related to the BPA draw on participant billing of $43.0 million to zero in FY 2018, a decrease of $2.9 million in restricted assets due to FY 2018 bond activity, and a decrease of $17.8 million in costs in excess of billing. There were no major changes in balances for deferred outflows of resources.

Long-term debt remained unchanged at $795.6 million due to maturity schedule with a decrease related to unamortized debt expenses of $15.2 million and a decrease to debt service funds of $2.8 million. Current liabilities decrease from $43.5 million in FY 2017 to $0.2 million in FY 2018 as the notes payable balance of $42.9 million related to bond financing was liquidated. Bond activity with debt accounts and notes payable reflect activity associated with the planned and approved regional cooperation debt program. Remaining decrease to current liabilities of $0.4 million related to accounts payable and accrued expenses. Total long-term liabilities decreased $2.5 million and consisted of activity related to decommissioning; the change reflects accelerated work and updated estimates for decommissioning. 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 decrease to expenses of $3.8 million from $28.4 million in FY 2017 to $24.6 million in FY 2018. Main drivers for the change was a decrease in interest expense and amortization of $2.7 million from FY 2018 bond refunding activity in addition to lower plant preservation and termination costs of $1.1 million.

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 percent 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 11 to the Financial Statements.)

Assets, Liabilities, and Net Position Analysis

Long-term debt decreased $79.7 million from $993.7 million in FY 2017 to $914.0 million in FY 2018 along with an increase related to additional premiums on new debt issued during the year of $52.5 million due to the debt refunding activity associated with the planned and approved regional cooperation debt program.

Current debt per the debt maturity schedule decreased $5.5 million from $17.3 million in FY 2017 to $11.8 million in FY 2018 as a result of the FY 2018 refunding activity moving debt out to future periods. Additionally notes payable balance of $50.5 million from FY 2017 to fund FY 2018 interest costs was paid off. Both the refunding and notes payable activities were associated with the planned and approved regional cooperation debt program.

Other changes to liabilities were decreases to accounts payables of $0.2 million for end of year activity and deferred inflows of $0.4 million due to unamortized gain on bond refundings.

Revenue and Expenses Analysis

Overall expenses and revenues increased $0.5 million in FY 2018 due to decreases in interest expense on long-term debt and notes of $1.0 million offset by $1.5 million of increases in bond related amortized accounts.

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 energy business opportunities.

The BDF is managed as an enterprise fund. Five business sectors have been created within the fund: Applied Technology & Innovation, Business Services, Facilities and Leasing, Generation, 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 decreased $0.1 million from $12.7 million in FY 2017 to $12.6 million in FY 2018. There were no significant individual differences in account classifications; the major driver for the decrease was related to a decrease in deferred pension outflow in accordance with GASB No. 68. There was a corresponding decrease to liabilities, net position and deferred inflows of $0.1 million. Current liabilities decreased $0.4 million from FY 2018 due to timing of year-end outstanding items. Long-term liabilities decreased $0.7 million due to net pension. Deferred inflows increased $0.4 million to account for the change in net pension liability in accordance with GASB No. 68. The change in net position of $0.7 million from operations in FY 2018 was similar to the $0.8 million reflected in FY 2017, which reflects continuing margin achievement from the business sectors and overall control of costs.

Revenue and Expenses Analysis

Operating Revenues in FY 2018 totaled $9.7 million as compared to FY 2017 revenues of $8.2 million, an increase of $1.5 million (18.3 percent). Various projects and timing of work were drivers for the marked increase in overall increase in overall revenue for the Business Development Fund and the five business sectors.

The Applied Technology and Innovation sector increased $0.5 million from FY 2017 levels on activity related to the Demand Response Program. The program was new for FY 2017 and involved a Distributed Energy Resource agreement with BPA that ended In September of 2017. The business sector is continuing to explore new developments and possibilities going forward.

The Business Services sector decreased slightly in FY 2018 from $5.8 million in FY 2017 to $5.7 million. The sector continues strong performance with continuing agreements for Calibration Services and Environmental Lab Services.

The Facilities Leasing sector had decreased revenues of $66 thousand as consolidation and downsizing of leasing at the Industrial Development Complex occurred in FY 2018.

The Generation business sector revenues increased $0.3 million from $0.1 million in FY 2017 to $0.4 million in FY 2018. The increase was due to the startup of the Electric Vehicle Infrastructure Transportation Alliance Project (EVITA). EVITA is a result of a grant award from the Washington State Department of Transportation to participate in the project. Energy Northwest will receive $405 thousand in grant monies to develop the EVITA 1 and EVITA 2 projects. The grant proceeds are 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. Utah Associated Municipal Power Systems (UAMPS) Carbon Free Power and Modular Nuclear increased slightly in FY 2018 ($12 thousand). UAMPS is slated for further development as the Modular Nuclear concept grows and agreements are developed. Energy Northwest is currently supporting development of two solar projects (Neoen and Horn Rapids Solar Storage and Training (HRSST)). Energy Northwest revenues decreased in FY 2018 from $26 thousand to $3 thousand, mostly due to decreased utilization of Energy Northwest personnel for the project. HRSST reported no revenue in FY 2018, similar to FY 2017 that related to the Department of Commerce (Commerce) grant received In FY 2017. The Commerce grant was for development of a four MWdc photovoltaic solar project coupled with a one MW/4 MWh state-of-the-art battery storage. Development and eventual construction of the project continues, Energy Northwest continues to collaborate with the City of Richland for the battery storage portion of the HRSST. No revenues for the HRSST project have occurred due to continued negotiations of final development plans; development with continue in FY 2019 and FY 2020.

The Professional Services business sector revenue increased $0.9 million (10.8%), mostly due to the new FY 2018 project work at the Portland Hydro Project. Portland Hydro is a five-year agreement to operate and maintain the project for the City of Portland. Portland Hydro resulted in $1.2 million in FY 2018 revenues. The Tieton Hydroelectric Project had a slight decrease in revenues of $0.2 million due to a lower volume of special project activity. The remaining decrease of $0.1 million for the Professional Services sector was for various operations and maintenance contracts not achieving desired margins.

Operating costs increased $1.3 million from $9.0 million in FY 2017 to $10.3 million in FY 2018. The 14.4% increase in overall operating costs for the Business Development Fund was a result of additional expenses related to the new Portland Hydro Project and minor increases in additional business support labor and compensation related to all sector activities.

Other Income and Expenses increased $0.3 million in FY 2018 to $1.2 million. The change was a result of pension expense requirements related to GASB No. 68 and a small increase of indirect related expenses.

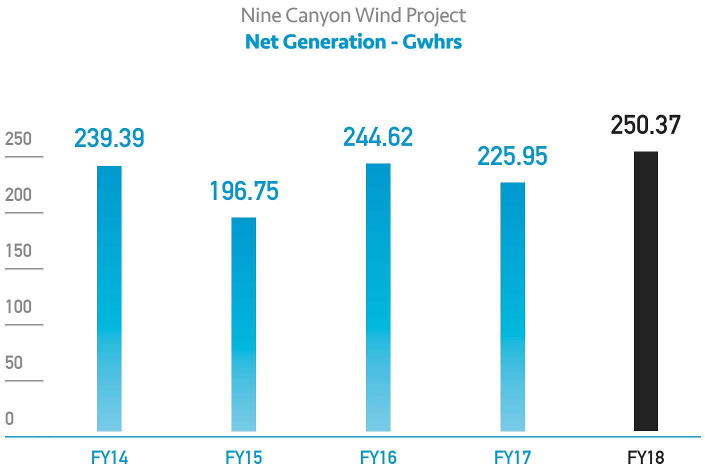
The Business Development Fund receives contributions from the Internal Service Fund to cover cash needs during startup periods. Initial startup costs are not expected to be paid back and are shown as contributions. As an operating business unit, requests can be made to fund incurred operating expenses. In FY 2018, there were no contributions (transfers), which was also the case for FY 2017.

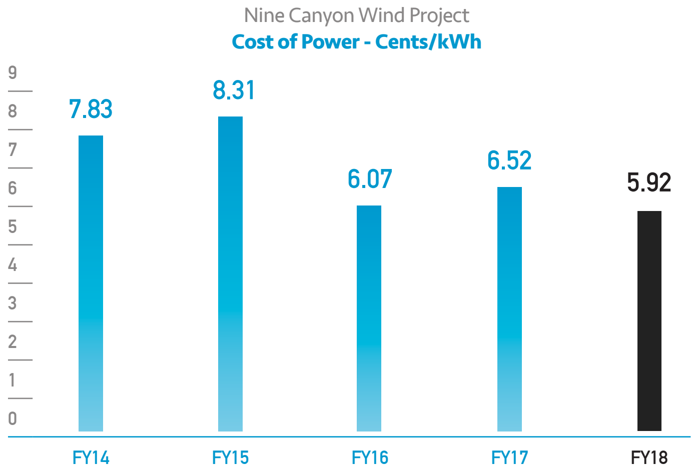
NINE CANYON WIND PROJECT

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 Bonneville Power Administration (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 250.37 GWh of electricity in FY 2018





versus 225.95 GWh in FY 2017, achieving the third highest historical net generation for the project. The increase of 7.6 percent for generation was a result of a higher average wind speed of 3.1% for FY 2018 versus FY 2017 and an improved monthly capacity factor of 30.95 percent for FY 2018 versus 27.74 percent for FY 2017 (increase of 11.6%). Wind speeds in FY 2018 were average as compared against project history; however, the highest capacity factor in the last 5 years and attaining the third highest combined availability for the project to date resulted in the successful generation production.

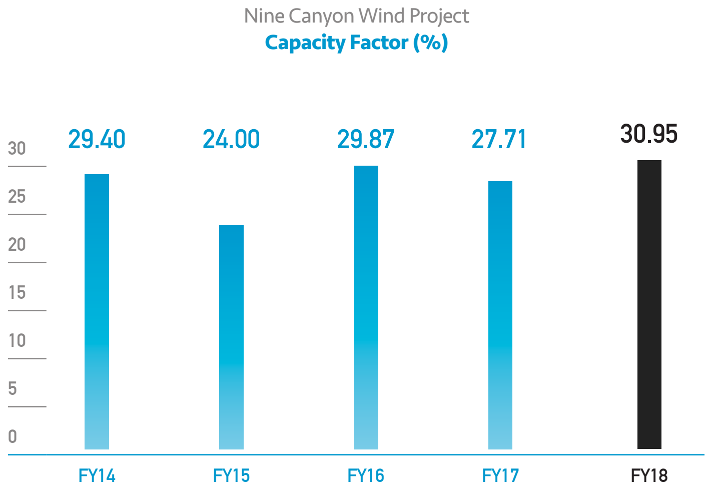
Nine Canyon's cost performance is measured by the cost of power indicator. The cost of power for FY 2018 was $5.92 cents per kWh as compared to $6.52 cents per kWh in FY 2017. The cost of power fluctuates year to year depending on various factors such as wind conditions and unplanned maintenance and is distinctly different than revenue billed cost of power discussed below in revenue and expense analysis. The decrease of 9.2 percent in cost of power for FY 2018 was attributable to flat expenses from FY 2017 to FY 2018, higher capacity and combined availability factors due to more favorable wind conditions. The FY 2018 5.92 cents/KWh cost of power was the lowest to date for the project.

Assets, Liabilities, and Net Position Analysis

Total assets and deferred outflows decreased $6.3 million from $89.6 million in FY 2017 to $83.3 million in FY 2018. The major driver for the change in assets was a decrease of $6.9 million in net plant due to accumulated depreciation. The remaining changes consisted of increases to current cash and investments of $0.5 million, increases to restricted (special and debt service funds) of $0.1 million, an increase of $0.3 million in account receivables and supplies and a decrease to deferred outflows for unamortized debt expense of $0.3 million.

There was an overall decrease to liabilities, net position and deferred inflows of $6.3 million. Changes were a decrease to long term debt (including unamortized bond discount/premium) of $9.5 million, increase to current maturities of debt of $0.4 million, decrease to current liabilities of $0.2, decreases to long term liabilities of $0.1 million for pension liability and decommissioning estimates, decrease of $0.2 million accrued debt service interest. The change in net position lowered slightly in FY 2018 from $3.2 million in FY 2017 to $2.9 million from operations in FY 2018. The positive results continue to reflect the results of the debt financing efforts and cost reduction/stabilization efforts.

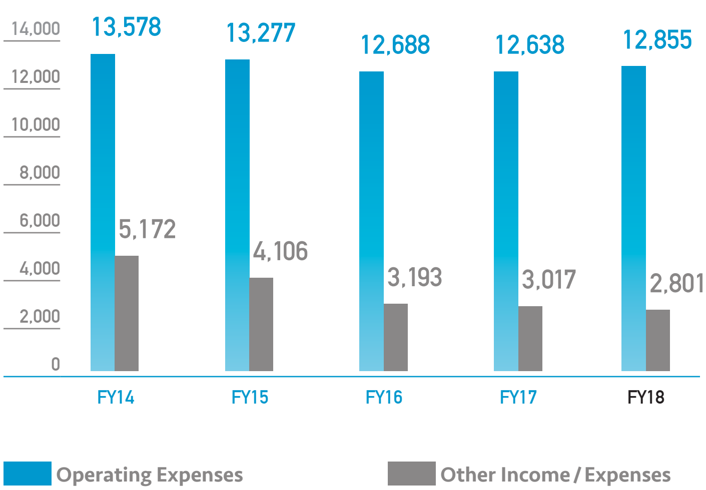
In previous years Energy Northwest has accrued, as income (contribution) from the Department of Energy, Renewable



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. The billing rates for the Nine Canyon participants increased 69 percent and 80 percent for Phase I and Phase II participants respectively in FY 2008 in order to cover total project costs, projected out to the 2030 proposed project end date. The increases for FY 2008 were a change from the previous plan where a 3 percent increase each year over the life of the project was projected. Going forward, the increase or decrease in rates will be based on cash requirements of debt repayment and the cost of operations. In FY 2017 Nine Canyon Participants of all three phases realized a 3 percent decrease in rates driven by debt refinancing efforts and cost reduction/stabilization efforts in recent years. Possible adjustments may be necessary to future rates depending on operating costs.

Nine Canyon Wind Project

Total Operating Costs (Dollars in thousands)



Revenues and Expenses Analysis

Operating revenues decreased $0.3 million from $18.8 million in FY 2017 to $18.5 million in FY 2018. The project received revenue from the billing of the purchasers at an average rate of $70.79 per MWh for FY 2017 as compared to $78.44 per MWh for FY 2018. The decrease in the billed rates was due to increased generation with steady costs as compared to previous years.

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 costs remained relatively steady at $12.8 million from the previous year with a slight increase of $0.3 million. Cost control and increased capacity factor led to the best cost of power achievement to date for the project.

Other income and expenses decreased $0.2 million from $3.0 million in net expenses in FY 2017 to $2.8 million in FY 2018. The decrease of $0.2 million was attributable to bond interest expense and changes in amortized bond expenses. Net income or change in net position of $2.9 million for FY 2018 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 2018 and is not anticipating receiving any future REPI incentives. The results from FY 2018 reflect the revised rate plan scenario and gradual increase in the return of total net position.

INTERNAL SERVICE FUND

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 to Financial Statements.)

Assets, Liabilities, and Net Position Analysis

Total assets and deferred outflows decreased $6.4 million from $58.4 million in FY 2017 to $52.0 million in FY 2018. There was a decrease in due from other business units of $5.5 million and decreases to utility plant of $0.9 million. Other asset items remained relatively steady from the previous year.

The net decrease in net position and liabilities is due to decreases in accounts payable and payroll related liabilities of $5.9 million due to year-end allocation of related expenses and a decrease to due to other projects of $0.4 million. Net position remained relatively unchanged because of FY 2018 activity (increase of $42 thousand).

Revenues and Expenses Analysis

Overall results of operations resulted in a decrease from $148 thousand to $42 thousand in net income for FY 2018. A residual increase in overall expenses resulted in the slight increase of cost of operations

CURRENT DEBT RATINGS **(Unaudited)**

		Nine Canyon Rating	
Energy Northwest (Long-Term)	Net-Billed Rating	Phase I & II	Phase III
Fitch, Inc.	AA	A-	A-
Moodys Investors Service, Inc. (Moodys)	Aa1	A2	A2
Standard and Poor's Ratings Services (S & P)	AA-	NR	A

STATEMENT OF NET POSITION As of June 30,2018 (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	Eliminations	2018 Combined Total
ASSETS										
CURRENT ASSETS										
Cash	$ 24,428	$ 691	$ 2,612	$ 3,080	$ 1,968	$ 3,344	$ 36,123	$ 2,177	$ -	$ 38,300
Investments	-	1,489	797	-	6,735	9,848	18,869	26,303	-	45,172
Accounts and other receivables	313,522	163	1	-	1,533	142	315,361	186	-	315,547
Due from other business units	-	-	66	108	-	254	428	17,125	(17,553)	-
Materials and supplies	153,397	-	-	-	-	-	153,397	-	-	153,397
Prepayments and other	2,360	18	7	7	4	198	2,594	1,447	-	4,041
TOTAL CURRENT ASSETS	493,707	2,361	3,483	3,195	10,240	13,786	526,772	47,238	(17,553)	556,457
RESTRICTED ASSETS (NOTE 1)										
Special funds										
Cash	13,752	-	-	4,300	-	31	18,083	-	-	18,083
Investments	116,169	-	-	-	-	-	116,169	-	-	116,169
Accounts and other receivables	248	-	-	-	-	2	250	-	-	250
Debt service funds										
Cash	257,012	-	19,687	37,820	-	10,193	324,712	-	-	324,712
Investments	-	-	-	-	-	10,921	10,921	-	-	10,921
Accounts and other receivables	-	-	-	-	-	7	7	-	-	7
TOTAL RESTRICTED ASSETS	387,181	-	19,687	42,120	-	21,154	470,142	-	-	470,142
NON CURRENT ASSETS										
UTILITY PLANT (NOTE 2)										
In service	4,489,282	15,232	-	-	3,863	134,886	4,643,263	41,492	-	4,684,755
Not in service	-	-	29,415	-	-	-	29,415	-	-	29,415
Construction work in progress	78,358	-	-	-	-	-	78,358	-	-	78,358
Accumulated depreciation	(2,930,334)	(13,241)	(29,415)	-	(2,281)	(88,206)	(3,063,477)	(36,701)	-	(3,100,178)
Net Utility Plant	1,637,306	1,991	-	-	1,582	46,680	1,687,559	4,791	-	1,692,350
Nuclear fuel, net of accumulated depreciation	841,196	-	-	-	-	-	841,196	-	-	841,196
LONG TERM RECEIVABLES	-	-	-	-	-	-		22	-	22
TOTAL NONCURRENT ASSETS	2,478,502	1,991	-	-	1,582	46,680	2,528,755	4,813	-	2,533,568
OTHER CHARGES										
Cost in excess of billings	1,074,792	-	918,981	1,068,170	-	-	3,061,943	-	-	3,061,943
Other	-	3,737	-	-	-	-	3,737	-	-	3,737
TOTAL OTHER CHARGES	1,074,792	3,737	918,981	1,068,170	-	-	3,065,680	-	-	3,065,680
TOTAL ASSETS	4,434,182	8,089	942,151	1,113,485	11,822	81,620	6,591,349	52,051	(17,553)	6,625,847
DEFERRED OUTFLOWS OF RESOURCES										
Deferred outflows - unamortized loss on bond refunding	9,979	-	-	-	-	1,426	11,405	-	-	11,405
Deferred pension outflows	25,351	87	74	-	777	225	26,514	-	-	26,514
TOTAL DEFERRED OUTFLOWS OF RESOURCES	35,330	87	74	-	777	1,651	37,919	-	-	37,919
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 4,469,512	$ 8,176	$ 942,225	$ 1,113,485	$ 12,599	$ 83,271	$ 6,629,268	$ 52,051	$ (17,553)	$ 6,663,766

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

STATEMENT OF NET POSITION As of June 30, 2018 (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	Eliminations	2018 Combined Total
LIABILITIES AND NET POSITION										
CURRENT LIABILITIES										
Current maturities of long-term debt	$ 181,725	$ -	$ -	$ 11,855	$ -	$ 8,010	$ 201,590	$ -	$ -	$ 201,590
Current notes payable	302,050	-	-	-	-	-	302,050	-	-	302,050
Accounts payable and accrued expenses	35,366	103	187	17	698	861	37,232	47,100	-	84,332
Due to participants	-	1,544	-	-	-	-	1,544	-	-	1,544
Due to other business units	16,650	44	-	-	431	-	17,125	428	(17,553)	-
TOTAL CURRENT LIABILITIES	535,791	1,691	187	11,872	1,129	8,871	559,541	47,528	(17,553)	589,516
LIABILITIES-PAYABLE FROM RESTRICTED ASSETS (NOTE 1)										
Special funds										
Other Liabilities	-	-	-	-	85	-	85	-	-	85
Debt service funds										
Accrued interest payable	75,287	-	19,687	25,965	-	2,053	122,992	-	-	122,992
TOTAL RESTRICTED LIABILITIES	75,287	-	19,687	25,965	85	2,053	123,077	-	-	123,077
LONG-TERM DEBT (NOTE 5)										
Revenue bonds payable	3,327,525	-	795,580	914,055	-	78,530	5,115,690	-	-	5,115,690
Unamortized (discount)/premium on bonds - net	246,276	-	121,604	161,413	-	6,813	536,106	-	-	536,106
TOTAL LONG-TERM DEBT	3,573,801	-	917,184	1,075,468	-	85,343	5,651,796	-	-	5,651,796
OTHER LONG-TERM LIABILITIES										
Pension liability	99,618	344	292	-	3,052	886	104,192	-	-	104,192
Decommissioning liability	163,821	-	4,696	-	-	1,576	170,093			170,093
Other	72	-	-	-	79	-	151	4	-	155
TOTAL OTHER LONG-TERM LIABILITIES	263,511	344	4,988	-	3,131	2,462	274,436	4	-	274,440
OTHER CREDITS										
Advances from members and others	-	6,069	-	-	-	-	6,069	-	-	6,069
Other	125	-	118	119	-	-	362	-	-	362
TOTAL OTHER CREDITS	125	6,069	118	119	-	-	6,431	-	-	6,431
TOTAL LIABILITIES	4,448,515	8,104	942,164	1,113,424	4,345	98,729	6,615,281	47,532	(17,553)	6,645,260
DEFERRED INFLOWS OF RESOURCES										
Deferred inflows - unamortized gain on bond refunding	276	-	-	61	-	146	483	-	-	483
Deferred pension inflows	20,721	72	61	-	635	184	21,673	-	-	21,673
TOTAL DEFERRED INFLOWS OF RESOURCES	20,997	72	61	61	635	330	22,156	-	-	22,156
NET POSITION										
Net investment in capital assets	-	-	-	-	1,582	(45,394)	(43,812)	4,813	-	(38,999)
Restricted for debt service	-	-	-	-	-	19,101	19,101	-	-	19,101
Unrestricted	-	-	-	-	6,037	10,505	16,542	(294)	-	16,248
NET POSITION	-	-	-	-	7,619	(15,788)	(8,169)	4,519	-	(3,650)
TOTAL LIABILITIES, NET POSITION, AND DEFERRED INFLOWS	$ 4,469,512	$ 8,176	$ 942,225	$ 1,113,485	$ 12,599	$ 83,271	$ 6,629,268	$ 52,051	$ (17,553)	$ 6,663,766

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, 2018 (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	2018 Combined Total
OPERATING REVENUES	$ 481,674	$ 2,384	$ -	$ -	$ 9,721	$ 18,540	$ 512,319	$ -	$ 512,319
OPERATING EXPENSES									
Services to other business units	-	-	-	-	-	-	-	-	-
Nuclear fuel, net	73,928	-	-	-	-	-	73,928	-	73,928
Decommissioning	8,163	-	-	-	-	95	8,258	-	8,258
Depreciation and amortization	85,787	114	-	-	248	6,831	92,980	-	92,980
Operations and maintenance	171,220	2,274	-	-	10,066	5,874	189,434	-	189,434
Administrative & general	21,246	(7)	-	-	-	1	21,240	-	21,240
Generation tax	5,527	21	-	-	-	54	5,602	-	5,602
Total operating expenses	365,871	2,402	-	-	10,314	12,855	391,442	-	391,442
OPERATING INCOME (LOSS)	115,803	(18)	-	-	(593)	5,685	120,877	-	120,877
OTHER INCOME & EXPENSE									
Other	10,951	-	24,637	35,670	1,228	-	72,486	42	72,528
Gain on DOE Settlement	11,139	-	-	-	-	-	11,139	-	11,139
Investment income	1,559	18	38	79	74	90	1,858	-	1,858
Interest expense and debt amortization, net of capitalized interest	(139,452)	-	(24,772)	(35,443)	-	(2,891)	(202,558)	-	(202,558)
Plant preservation and termination costs	-	-	(2,379)	(306)	-	-	(2,685)	-	(2,685)
Depreciation and amortization	-	-	(1)	-	-	-	(1)	-	(1)
Decommissioning	-	-	2,477	-	-	-	2,477	-	2,477
Services to other business units	-	-	-	-	-	-	-	-	-
TOTAL OTHER INCOME & EXPENSE	(115,803)	18	-	-	1,302	(2,801)	(117,284)	42	(117,242)
NET INCOME (LOSS)	-	-	-	-	709	2,884	3,593	42	3,635
TOTAL NET POSITION, BEGINNING OF YEAR	-	-	-	-	6,910	(18,672)	(11,762)	4,477	(7,285)
TOTAL NET POSITION, END OF YEAR	$ -	$ -	$ -	$ -	$ 7,619	$ (15,788)	$ (8,169)	$ 4,519	$ (3,650)

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

STATEMENTS OF CASH FLOWS As of June 30, 2018 (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	2018 Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Operating revenue receipts	$ 587,662	$ 2,630	$ -	$ -	$ 5,363	$ 18,611	$ -	$ 614,266
Cash payments for operating expenses	(255,291)	(2,447)	-	-	(4,904)	(6,165)	-	(268,807)
DOE Cash settlement	-	-	-	-	-	-	-	-
Cash received from TVA fuel activities	25,000	-	-	-	-	-	-	25,000
Cash payments for services net of cash received from other units	-	-	-	-	-	-	140	140
Net cash provided/(used) by operating activities	357,371	183	-	-	459	12,446	140	370,599
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from bond refundings	104,261	-	-	2,161	-	-	-	106,422
Principal paid on revenue bond maturities	(1,135)	-	-	(17,305)	-	(7,640)	-	(26,080)
Payment for bond issuance and financing costs	(3,957)	(13)	(342)	(2,410)	(15)	(53)	-	(6,790)
Proceeds from notes payable	357,050	-	-	-	-	-	-	357,050
Payment for notes payable	(365,000)	-	(42,871)	(50,471)	-	-	-	(458,342)
Interest paid on bonds	(149,969)	-	(42,171)	(50,198)	-	(4,288)	-	(246,626)
Interest paid on notes	(8,062)	-	(719)	(850)	-	-	-	(9,631)
Payment for capital items	(98,391)	(90)	-	-	(254)	(2)	(14)	(98,751)
Cash received from sale of assets	20							20
Nuclear fuel acquisitions	(25,071)	-	-	-	-	-	-	(25,071)
Payments received from BPA for terminated nuclear projects	-	-	83,123	113,055	-	-	-	196,178
Net cash provided/(used) by capital and related financing activities	(190,254)	(103)	(2,980)	(6,018)	(269)	(11,983)	(14)	(211,621)
CASH FLOWS FROM NON-CAPITAL FINANCE ACTIVITIES	-	-	-	-	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of investment securities	(126,244)	(2,243)	(3,297)	(6,553)	(10,774)	(28,640)	(15,472)	(193,223)
Sales of investment securities	113,292	1,250	2,900	6,542	6,200	17,581	15,510	163,275
Interest on investments	1,137	22	32	87	117	320	480	2,195
Net cash provided/(used) by investing activities	(11,815)	(971)	(365)	76	(4,457)	(10,739)	518	(27,753)
NET INCREASE(DECREASE) IN CASH	155,302	(891)	(3,345)	(5,942)	(4,267)	(10,276)	644	131,225
CASH AT JUNE 30, 2017	139,890	1,582	25,644	51,142	6,235	23,844	1,533	249,870
CASH AT JUNE 30, 2018 (NOTE H)	$ 295,192	$ 691	$ 22,299	$ 45,200	$ 1,968	$ 13,568	$ 2,177	$ 381,095

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

RECONCILIATION OF DIRECT CASH FLOW TO STATEMENT OF NET POSITION								
Cash unrestricted	$ 24,428	$ 691	$ 2,612	$ 3,080	$ 1,968	$ 3,344	$ 2,177	$ 38,300
Cash restricted special funds	$ 13,752	$ -	$ -	$ 4,300	$ -	$ 31	$ -	$ 18,083
Cash restricted debt service funds	$ 257,012	$ -	$ 19,687	$ 37,820	$ -	$ 10,193	$ -	$ 324,712
Total Statement of Net Position cash	$ 295,192	$ 691	$ 22,299	$ 45,200	$ 1,968	$ 13,568	$ 2,177	$ 381,095

STATEMENTS OF CASH FLOWS As of June 30, 2018 (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	2018 Combined Total
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES								
Net income/loss from operations	$ 115,803	$ (18)	$ -	$ -	$ (593)	$ 5,685	$ -	$ 120,877
Adjustments to reconcile net operating revenues to cash provided by operating activities:								
Depreciation and amortization	140,309	114	-	-	248	6,831	-	147,502
Decommissioning	8,163	-	-	-	-	95	-	8,258
Non-operating revenues	-	-	-	-	-	-	42	42
Other	(10,977)	(75)	-	-	1,151	302	1,335	(8,264)
Change in operating assets and liabilities:								
Costs in excess of billings	116,669	325	-	-	-	-	-	116,994
Accounts receivable	(4,258)	(64)	-	-	(376)	(188)	(458)	(5,344)
Materials and supplies	19,750	-	-	-	-	-	-	19,750
Prepaid and other assets	(872)	(3)	-	-	(1)	(164)	84	(956)
Due from/to other business units	(6,007)	169	-	-	1,146	(286)	5,039	61
Change in net pension liability and deferrals	(5,962)	(21)	-	-	(183)	(53)	-	(6,219)
Due from/to participants	-	-	-	-	(43)	-	-	(43)
Accounts payable	(15,247)	(244)	-	-	(890)	224	(5,902)	(22,059)
Net cash provided/(used) by operating activities	$ 357,371	$ 183	$ -	$ -	$ 459	$ 12,446	$ 140	$ 370,599
Non-cash activities								
Capitalized interest	$ 2,499	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,499
Bond refunding	$ 540,460	$ -	$ -	$ 470,835	$ -	$ -	$ -	$ 1,011,295
Decommissioning liability adjustment	$ -	$ -	$ 2,477	$ -	$ -	$ -	$ -	$ 2,477
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 March 4, 2010, FERC issued a one-year extension, or until the issuance of a new license for the project or other disposition under the Federal Power Act, whichever comes first. FERC is awaiting issuance of the National Oceanic and Atmospheric Administration's (NOAA) Biological Opinion, after which FERC will complete the final license renewal documentation for Packwood.

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.

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 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 27, 2018, 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 FY 2018 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 and Adopted Guidance:

GASB Statement No. 86, "Certain Debt Extinguishment Issues." The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 did not impact Energy Northwest.

Issued but not Adopted Guidance:

GASB Statement No. 83, "Certain Asset Retirement Obligations." This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). GASB Statement No. 83 is effective in fiscal year 2019 for Energy Northwest. Currently the accounting and reporting for AROs is in compliance with FASB ASC 410, "Asset Retirement and Environmental Obligations." (See Note 10) Energy Northwest plans to adopt GASB Statement No. 83 in fiscal year 2019.

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 2019. 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 2021. Energy Northwest is currently evaluating the full impact of this statement.

GASB Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements." The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement is effective for Energy Northwest in fiscal year 2019.

GASB Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period." The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement is effective for Energy Northwest in fiscal year 2021. (See Note 1 C) Energy Northwest plans to early adopt in fiscal year 2019.

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) Capitalized Interest: Energy Northwest analyzes the gross interest expense relating to the cost of the bond sale, taking into account interest earnings and draws for purchase or construction reimbursements for the purpose of analyzing impact to the recording of capitalized interest. If estimated costs are more than inconsequential, an adjustment is made to allocate capitalized interest to the appropriate plant account. Capitalized interest costs were $2.5 million for utility plant with no capitalized Interest for fuel.

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, including interest are capitalized and carried at cost.

E) Asset Retirement Obligation (ARO's): In the absence of government-specific guidance that directly addresses ARO's, Energy Northwest has elected to follow Accounting Standards Codification (ASC) 410, Asset Retirement and Environmental Obligations as issued by the FASB. ASC 410 allows Energy Northwest to recognize the fair value of a liability associated with the retirement of a long-lived asset, such as: Columbia Generating Station, Nuclear Project No. 1, and Nine Canyon, in the period in which it is incurred (See Note 9). AROs are included in decommissioning liabilities on the statement of net position. GASB Statement No. 83 "Certain Asset Retirement Obligations," addresses accounting and financial reporting for certain asset retirement obligations (AROs) and is effective fiscal year 2019 for Energy Northwest. Energy Northwest will adopt the standard as scheduled.

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 10).

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 2018 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:

PROJECTS OPERATING LEASE COSTS (Dollars in thousands)

	2019	2020	2021	2022	2023	2024-28
Columbia	$ 646	$ 646	$ 646	$ 646	$ 646	$ 3,230
Nuclear Project No. 1	60	60	60	60	60	300
Nine Canyon	704	704	704	704	704	3,520
Business Development Fund	35	35	35	35	35	175
Internal Service Fund	134	134	134	134	134	670
Total	$ 1,579	$ 1,579	$ 1,579	$ 1,579	$ 1,579	$ 7,895

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), and other immaterial liabilities. The table on the following page 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 (BPA). Energy Northwest maintains

LONG-TERM LIABILITIES (Dollars in thousands)

	Balance 6/30/2017	Increase	Decrease	Balance 6/30/2018
Columbia				
Revenue bonds payable	$ 3,488,565	$ 553,810	$ 714,850	$ 3,327,525
Unamortized (discount)/premium on bonds - net	185,868	85,557	25,149	246,276
Current maturities of long-term debt	1,135	181,725	1,135	181,725
Other noncurrent liabilities	63	9	-	72
	$ 3,675,631	$ 821,101	$ 741,134	$ 3,755,598
Nuclear Project No.1				
Revenue bonds payable	$ 795,580	$ -	$ -	$ 795,580
Unamortized (discount)/premium on bonds - net	136,774	-	15,170	121,604
Current maturities of long-term debt	-	-	-	-
	$ 932,354	$ -	$ 15,170	$ 917,184
Nuclear Project No.3				
Revenue bonds payable	$ 993,725	$ 401,535	$ 481,205	$ 914,055
Unamortized (discount)/premium on bonds - net	108,887	69,307	16,781	161,413
Current maturities of long-term debt	17,305	11,855	17,305	11,855
	$ 1,119,917	$ 482,697	$ 515,291	$ 1,087,323
Nine Canyon				
Revenue bonds payable	$ 86,540	$ -	$ 8,010	$ 78,530
Unamortized (discount)/premium on bonds - net	8,250	-	1,437	6,813
Current maturities of long-term debt	7,640	8,010	7,640	8,010
	$ 102,430	$ 8,010	$ 17,087	$ 93,353
Business Development Fund				
Other noncurrent liabilities	$ 95	$ -	$ 16	$ 79
	$ 95	$ -	$ 16	$ 79
Internal Service Fund				
Other noncurrent liabilities	$ 5	$ -	$ 1	$ 4
	$ 5	$ -	$ 1	$ 4

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 BPA.

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 $23.2 million at the end of this fiscal year and is recorded as a current liability.

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 financial 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 financial 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, and other pension related costs (See Note 6) as labeled on the Statement of Net Position.

S) Other Charges and Credits for Resources: Other charges of $3.7 million relate to the Packwood relicensing effort. On March 4, 2010, FERC issued a one-year extension to operate under the original license, which is indefinitely extended for continued operations until a formal decision is issued by FERC and a new operating license is 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. Energy Northwest has contacted FERC on eventual licensing timeline; current estimate is early in FY 2019. As of June 30, 2018, Packwood continues to be relicensed under the extended agreement from March 2010.

T) Short-Term Debt: A non-revolving loan was established for Project 1, Columbia, and Project 3 in fiscal year 2017 and was subsequently paid in full during fiscal year 2018. The loan paid in full included separate allocations in the amount of $42.9 million, $365.0 million, and $50.5 million for Project 1, Columbia, and Project 3, respectively. Two new loan agreements were established in fiscal year 2018 for up to $302.1 million in total associated with Columbia; agreements not to exceed $141.0 million and $161.1 to fund operations and maintenance expense and interest expense for Columbia. On June 30, 2018, all $302.1 million had been drawn for Columbia. The short-term loan for up to $141.0 million has a maturity of December 18, 2018 but may be extended for an additional six months with a potential final maturity of June 18, 2019. The short-term loan for up to $161.1 million has a maturity of January 4, 2019 but may be extended for an additional period with a final maturity no later than October 31, 2019. Nine Canyon did not receive short-term financing during fiscal year 2018. These balances (on the following page) are included in current notes payable in the Statement of Net Position.

U) 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.

SHORT-TERM DEBT (Dollars in thousands)

	Balance Outstanding at 6/30/2017	Increases	Decreases	Balance Outstanding 6/30/2018	Balance Available at 6/30/2018
Columbia					
Non-Revolving Loan	$ 310,000	$ 357,050	$ 365,000	$ 302,050	$ -
Nuclear Project No.1					
Non-Revolving Loan	42,871	-	42,871	-	-
Nuclear Project No.3					
Non-Revolving Loan	50,471	-	50,471	-	-
Nine Canyon					
Short-term debt	-	-	-	-	-
Packwood					
Short-term debt	-	-	-	-	-
Business Development					
Short-term debt	-	-	-	-	-
Total	$ 403,342	$ 357,050	$ 458,342	$ 302,050	$ -

NOTE 2 - Utility Plant

Utility plant activity for the year ended June 30, 2018 was as follows:

	Balance 06/30/2017	Capital Acquisitions	Sale or Other Dispositions	Balance 06/30/2018
Columbia				
Generation	$ 4,392,077	$ 85,093	$ (2,656)	$ 4,474,514
Decommissioning	14,768	-	-	14,768
Construction Work-in-Progress	40,419	120,533	(82,594)	78,358
Accumulated Depreciation and Decommissioning	(2,848,019)	(84,971)	2,656	(2,930,334)
Utility Plant, net*	$ 1,599,245	$ 120,655	$ (82,594)	$ 1,637,306
Packwood				
Generation	$ 15,142	$ 90	$ -	$ 15,232
Construction Work-in-Progress	-	90	(90)	-
Accumulated Depreciation	(13,133)	(108)	-	(13,241)
Utility Plant, net	$ 2,009	$ 72	$ (90)	$ 1,991
Business Development				
Generation	$ 3,539	$ 324	$ -	$ 3,863
Construction Work-in-Progress	-	324	(324)	-
Accumulated Depreciation	(2,038)	(243)	-	(2,281)
Utility Plant, net	$ 1,501	$ 405	$ (324)	$ 1,582
Nine Canyon				
Generation	$ 134,031	$ -	$ (6)	$ 134,025
Decommissioning	861	-	-	861
Construction Work-in-Progress	-	-	-	-
Accumulated Depreciation and Decommissioning	(81,359)	(6,853)	6	(88,206)
Utility Plant, net*	$ 53,533	$ (6,853)	$ -	$ 46,680
Internal Service Fund				
Generation	$ 46,226	$ 4	$ (4,738)	$ 41,492
Construction Work-in-Progress	-	4	(4)	-
Accumulated Depreciation	(40,568)	(871)	4,738	(36,701)
Utility Plant, net	$ 5,658	$ (863)	$ (4)	$ 4,791

* 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, EN will not be able to recover the value of its investments or collateral securities in possession of an outside party. EN's investment policy addresses this risk. All securities owned by Energy Northwest are held by a third party custodian, acting as an agent for EN under the terms of a custody agreement.

Fair Value: Energy Northwest investments have been adjusted to reflect available fair value as of June 30, 2018 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 EN fair market measurements are quoted at Level 2.

INVESTMENTS **(Dollars in thousands)**

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (1) (2)
Columbia	$ 116,263	$ -	$ (94)	$ 116,169
Packwood	1,490	-	(1)	1,489
Nuclear Project No. 1	798	-	(1)	797
Nuclear Project No. 3	-	-	-	-
Business Development Fund	6,752	1	(18)	6,735
Internal Service Fund	26,755	-	(452)	26,303
Nine Canyon Wind	20,956	12	(199)	20,769

(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 $43.1 million have a maturity beyond 1 year with the longest maturity being May 31st, 2022.

Investment Type	Rating	June 30, 2018
Federal Home Loan Bank	AA+	18%
Federal National Mortgage Assn.	AA+	15%
U.S. Treasury	AA+	67%
		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. 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, 2018 under Resolution Nos. 1214, 1299, 1376, and 1482 respectively.

During the year ended June 30, 2018, Energy Northwest issued, for Columbia 2018-A and 2018-B fixed-rate bonds. Additionally, Energy Northwest issued, for Columbia and Project 3, 2018-C and 2018-D fixed-rate bonds. The Columbia and Project 3 bonds were issued with a coupon interest rate ranging from 2.85 percent to 5.00 percent.

The Series 2018-A bonds issued for Columbia are tax-exempt fixed-rate bonds. Series 2018-B bonds issued for Columbia are taxable fixed-rate bonds. The 2018-A and 2018-B bonds were issued in majority to refund prior Columbia bonds along with the purpose of funding fiscal year 2019 capital related expenses at Columbia. The 2018-A, and 2018-B refunding bonds resulted in a combined economic gain of $6.9 million for Columbia. The Series 2018-C bonds issued for Columbia and Project 3 are tax-exempt fixed-rate bonds. Series 2018-D bonds issued for Columbia and Project 3 are taxable fixed-rate bonds. The 2018-C and 2018-D bonds were issued in majority to refund prior Columbia and Project 3 bonds. The 2018-C and 2018-D refunding bonds resulted in a combined economic gain for Columbia of $3.1 million and a combined economic loss for Project 3 of $0.4 million.

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 2018 defeasements included $309.1 million for Columbia and $469.4 million for Project 3.

The Weighted Average Coupon Interest Rates and Total Defeased Bonds for Columbia and Project 3 2018-A, 2018-B, 2018-C, and 2018-D are presented in the following tables:

Weighted Average Coupon Interest Rate for Refunded Bonds

	2018A	2018B	2018C	2018D
Columbia	2.99%	N/A	4.74%	1.76%
Nuclear Project No. 3	N/A	N/A	4.92%	1.38%
Total	2.99%	N/A	4.85%	1.64%

Weighted Average Coupon Interest Rate for New Bonds

	2018A	2018B	2018C	2018D
Columbia	4.84%	2.85%	5.00%	3.03%
Nuclear Project No. 3	N/A	N/A	4.95%	3.03%
Total	4.84%	2.85%	4.97%	3.03%

Total Defeased (Dollars in thousands)

	2018A	2018B	2018C	2018D	Total
Columbia	$ 261,005	N/A	$ 270,135	$ 1,985	$ 533,125
Nuclear Project No. 3	N/A	N/A	$ 468,465	$ 885	$ 469,350
Total	$ 261,005	N/A	$ 738,600	$ 2,870	$ 1,002,475

2018 Refunding Results

Outstanding principal on revenue and refunding bonds for the various business units as of June 30, 2018, and future debt service requirements for these bonds are presented in the following tables:

2018-A (Tax-Exempt) Transaction	Columbia	Project 3
Cash Flow Difference		
Old debt service cash flows	$ 300,078	$ -
New debt service cash flows	291,650	-
Net Cash Flow Savings (Dissavings)	$ 8,428	$ -
Economic Gain / Loss		
Present value of old debt service cash flows	$ 272,232	$ -
Present value of new debt service cash flows	265,283	-
Economic Gain (Loss)	$ 6,949	$ -

2018-C (Tax-Exempt) Transaction	Columbia	Project 3
Cash Flow Difference		
Old debt service cash flows	$ 276,861	$ 468,465
New debt service cash flows	376,770	556,586
Net Cash Flow Savings (Dissavings)	$ (99,909)	$ (88,121)
Economic Gain / Loss		
Present value of old debt service cash flows	$ 272,826	$ 467,427
Present value of new debt service cash flows	269,749	467,798
Economic Gain (Loss)	$ 3,077	$ (371)

2018-D (Taxable) Transaction	Columbia	Project 3
Cash Flow Difference		
Old debt service cash flows	$ 1,985	$ 885
New debt service cash flows	2,182	973
Net Cash Flow Savings (Dissavings)	$ (197)	$ (88)
Economic Gain / Loss		
Present value of old debt service cash flows	$ 1,980	$ 883
Present value of new debt service cash flows	1,983	884
Economic Gain (Loss)	$ (3)	$ (1)

Columbia Generating Revenue and Refunding Bonds
(Dollars in thousands)

Series	Coupon Rate (%)	Serial or Term Maturities	Original Issue Amount	Amount Outstanding
2006A	5.00	7-1-2020	434,210	50,000
2006D	5.80	7-1-2023	3,425	3,425
2007B	5.33	7-1-20/2021	10,665	9,935
2008A	5.25	7-1-2018	110,935	775
2008B	5.95	7-1-20/2021	14,850	12,025
2008C	5.00-5.25	7-1-21/2024	37,240	20
2009A	4.00-5.00	7-1-2018	116,425	795
2009B	6.80	7-1-23/2024	18,515	9,780
2009C	4.25-5.00	7-1-20/2024	69,170	41,235
2010B	3.75-4.25	7-1-20/2024	16,005	16,005
2010C	4.52-5.12	7-1-20/2024	75,770	75,770
2010D	5.61-5.71	7-1-23/2024	155,805	155,805
2011A	4.00-5.00	7-1-21/2023	311,245	263,685
2011B	4.19-5.19	7-1-2019	29,920	10,595
2011C	3.55	7-1-2019	4,600	4,600
2012A	5.00	7-1-18/2021	441,240	422,440
2012D	4.00-5.00	7-1-25/2044	34,140	34,140
2012E	2.15-4.14	7-1-18/2037	748,515	723,030
2014A	4.00-5.00	7-1-20/2040	517,720	357,770
2014B	4.05	7-1-2030	90,520	41,515
2015A	4.00-5.00	7-1-21/2038	330,460	330,460
2015B	1.82-3.84	7-1-19/2038	329,175	80,830
2015C	5.00	7-1-30/2031	38,525	38,525
2016A	5.00	7-1-21/2032	89,055	85,690
2016B	1.65-3.2	7-1-19/2028	4,085	2,390
2017A	4.00-5.00	7-1-21/2035	188,130	180,405
2017B	1.90-3.39	7-1-20/2029	3,795	3,795
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
Revenue bonds payable				$ 3,509,250

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

Series	Coupon Rate (%)	Serial or Term Maturities	Original Issue Amount	Amount Outstanding
2014C	5.00	7-1-25/2027	197,110	197,110
2015A	5.00	7-1-27/2028	117,815	117,815
2015C	3.00-5.00	7-1-2025	44,005	44,005
2016A	5.00	7-1-25/2026	195,525	195,525
2016B	1.65	7-1-2019	1,280	1,280
2017A	5.00	7-1-26/2028	237,685	237,685
2017B	1.90-2.94	7-1-20/2025	2,160	2,160
Revenue bonds payable				$ 795,580

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

Series	Coupon Rate (%)	Serial or Term Maturities	Original Issue Amount	Amount Outstanding
1993C	5.75	7-1-2018	522,853	2,911 (A)
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	1.65-3.05	7-1-19/2027	5,420	5,420
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
Compound interest bonds accretion				8,944
Revenue bonds payable				$ 925,910

(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	7-1-18/2023	13,750	8,310
2014	5.00	7-1-18/2023	36,750	26,150
2015	4.00-5.00	7-1-18/2030	54,895	52,080
Revenue bonds payable				$ 86,540

DEBT SERVICE REQUIREMENTS As of June 30, 2018 (Dollars in thousands)

COLUMBIA GENERATING STATION

FISCAL YEAR*	PRINCIPAL	INTEREST	TOTAL
6/30/2018 Balance:**	$ 181,705	$ 77,195	$ 258,900
2019	417,255	150,885	568,140
2020	357,510	135,545	493,055
2021	353,380	120,834	474,214
2022	354,780	105,749	460,529
2023	299,770	89,879	389,649
2024-2028	430,550	306,385	736,935
2029-2033	708,055	203,198	911,253
2034-2038	373,590	48,996	422,586
2039-2043	29,010	3,464	32,474
2044	3,645	146	3,791
	$ 3,509,250	$ 1,242,276	$ 4,751,526

* Fiscal year for this report indicates the cash funding requirement year.

** Principal and Interest due July 1, 2018.

NUCLEAR PROJECT NO. 1

FISCAL YEAR*	PRINCIPAL	INTEREST	TOTAL
6/30/2018 Balance:**	$ -	$ 19,687	$ 19,687
2019	1,280	39,375	40,655
2020	1,635	39,353	40,988
2021	0	39,322	39,322
2022	0	39,323	39,323
2023	0	39,322	39,322
2024-2028	792,665	131,910	924,575
	$ 795,580	$ 348,292	$ 1,143,872

* Fiscal year for this report indicates the cash funding requirement year.

** Principal and Interest due July 1, 2018.

NUCLEAR PROJECT NO. 3

FISCAL YEAR*	PRINCIPAL	INTEREST	TOTAL
6/30/2018 Balance:**	$ 11,855	$ 25,965	$ 37,820
2019	1,350	45,296	46,646
2020	740	45,274	46,014
2021	2,380	45,259	47,639
2022	0	45,187	45,187
2023	68,275	45,187	113,462
2024-2028	841,310	152,892	994,202
	$ 925,910	$ 405,060	$ 1,330,970

* Fiscal year for this report indicates the cash funding requirement year.

** Principal and Interest due July 1, 2018.

NINE CANYON WIND PROJECT

FISCAL YEAR*	PRINCIPAL	INTEREST	TOTAL
6/30/2018 Balance:**	$ 8,010	$ 2,053	$ 10,063
2019	8,425	3,705	12,130
2020	8,835	3,296	12,131
2021	9,295	2,855	12,150
2022	9,755	2,404	12,159
2023	10,255	1,916	12,171
2024-2028	21,845	4,981	26,826
2029-2030	10,120	611	10,731
	$ 86,540	$ 21,821	$ 108,361

* Fiscal year for this report indicates the cash funding requirement year.

** Principal and Interest due July 1, 2018.

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 subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions as of and for the fiscal year ended June 30, 2018 (in thousands):

Pension Liabilities	$	104,192
Pension Assets	$	-
Deferred Outflows of Resources	$	26,514
Deferred Inflows of Resources	$	21,673
Pension Expense	$	11,877

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 Energy Northwest 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 five 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 five 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, 2018:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

Energy Northwest's actual contributions to the plan were $7,213 thousand for the fiscal year ended June 30, 2018.

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 five 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 five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five 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 six 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, 2018:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
PERS Plan 2/3	7.49%	7.38%	Varies
PERS Plan 1 UAAL	5.03%		
Administrative Fee	0.18%		
Total	12.70%	7.38%	Varies

Energy Northwest's actual contributions to the plan were $10,658 thousand for the fiscal year ended June 30, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the actuarial valuation completed in 2017, with a valuation date of June 30, 2016. 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 2015 Economic experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016 to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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 2017 since the 2016 valuation.

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% 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 7.5% 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 7.5% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience date, 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 at various future times.

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, 2017:

Asset Class	Target Allocation	Percent Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	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 7.5%, 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 (6.5%) or 1-percentage point higher (8.5%) than the current rate at June 30, 2018 (in thousands).

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 65,515	$ 53,781	$ 43,616
PERS 2/3	$ 135,814	$ 50,411	$ (19,563)

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, 2018 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
Columbia	$ 51,420	$ 48,198	$ 99,618
Packwood	177	166	343
Business Development	1,576	1,477	3,053
Nine Canyon	457	429	886
Nuclear Project No. 1	151	141	292
Total	$ 53,781	$ 50,411	$ 104,192

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, 2018 Energy Northwest reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2017 in thousands):

PERS 1	$ 53,781
PERS 2/3	50,411
Total	$ 104,192

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	1.08%	1.13%	0.05%
PERS 2/3	1.38%	1.45%	0.07%

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, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the fiscal year ended June 30, 2018, Energy Northwest's recognized pension expense as follows (in thousands):

PERS 1	$	5,922
PERS 2/3		5,712
Expenses		243
Total	$	11,877

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, 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 of Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	2,007
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Paid to PERS Subsequent to the Measurement Date	7,213	-
Total PERS 1	7,213	2,007
PERS 2/3:		
Differences Between Expected and Actual Economic Experience	5,108	1,658
Changes of Actuarial Assumptions	536	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	13,438
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	3,000	4,570
Contributions Paid to PERS Subsequent to the Measurement Date	10,657	-
Total PERS 2/3	19,301	19,666
Total All Plans	$ 26,514	$ 21,673

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
2019	(1,357)	(6,650)
2020	428	(100)
2021	(99)	(1,195)
2022	(979)	(5,016)
2023	-	843
Thereafter	-	1,095
Total	$ (2,007)	$ (11,023)

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 2018 Energy Northwest contributed $3.6 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, 2018.

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 $12.6 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 $127.3 million not including state insurance premium tax. Assessments are limited to $18.96 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.

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 - Asset Retirement Obligation (ARO)

Energy Northwest recognizes the fair value of a liability of an ARO for legal obligations related to the dismantlement and restoration costs associated with the retirement of tangible long-lived assets, such as nuclear decommissioning and site restoration liabilities, in the period in which it is incurred. Upon initial recognition of the AROs that are measurable, the probability weighted future cash flows for the associated retirement costs are discounted using a credit-adjusted-risk-free rate, and are recognized as both a liability and as an increase in the capitalized carrying amount of the related long-lived assets. Capitalized asset retirement costs are depreciated over the life of the related asset with accretion of the ARO liability classified as an operating expense on the statement of revenues, expenses, and changes in net position each period. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss if the actual costs differ from the recorded amount. 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.

Energy Northwest has identified legal obligations to retire generating plant assets at the following business units: Columbia, Nuclear Project No. 1 and Nine Canyon. Decommissioning and site restoration requirements for Columbia and Nuclear Project No. 1 are governed by the NRC regulations and 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)

As of June 30, 2018, Columbia has a capital decommissioning net asset value of zero and an accumulated liability of $161.2 million for the generating plant, and for the Independent Spent Fuel Storage Installation (ISFSI) a net asset value of $1.0 million and an accumulated liability of $2.6 million.

As of June 30, 2018, Nuclear Project No. 1 has a capital decommissioning net asset value of zero and an accumulated liability of $4.7 million.

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. As of June 30, 2018, Nine Canyon has a capital decommissioning net asset value of $0.4 million and an accumulated liability of $1.6 million.

Packwood's obligation has not been calculated because the time frame and extent of the obligation was considered under this statement as indeterminate. As a result, no reasonable estimate of the ARO obligation can be made. An ARO will be required to be recorded if circumstances change. Management believes that these assets will be used in utility operations for the foreseeable future.

The following table describes the changes to Energy Northwest's ARO liabilities for the year ended June 30, 2018. The balance is included in the accounts payable and accrued expense balances for each unit. ISFSI is included in Columbia's balance:

Asset Retirement Obligation (Dollars in thousands)

Columbia Generating Station		
Balance at Beginning of the Year	$	153,164
Current year accretion expense		8,010
ARO Ending Balance	$	161,174

ISFSI		
Balance at Beginning of the Year	$	2,525
Current year accretion expense		122
ARO Ending Balance	$	2,647

Nuclear Project No. 1		
Balance at Beginning of the Year	$	7,173
Current year accretion		(2,477)
ARO Ending Balance	$	4,696

Nine Canyon Wind Project		
Balance at Beginning of the Year	$	1,514
Current year accretion expense		62
ARO Ending Balance	$	1,576

Monies related to the ISFSI decommissioning trust are included in the decommissioning balance for Columbia.

NOTE 10 - Decommissioning and Site Restoration

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 (See Note 9). 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 2018. 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 December 2015.

Energy Northwest's estimate of Columbia's plant decommissioning costs in FY 2017 dollars is $490.2 million and estimate of Columbia's ISFSI decommissioning costs in FY 2015 dollars is $6.1 million. This estimate, which is updated biannually for the plant decommissioning and every three years for the ISFSI decommissioning with the last update for the plant decommissioning occurring in fiscal year 2018 and for the ISFSI in fiscal year 2015, is based on the NRC minimum amount (based on NRC 2016 study for the plant and NRC 2013 study for the ISFSI) required to demonstrate reasonable financial assurance for a boiling water reactor with the power level of Columbia.

The fair value of cash and investment securities in the decommissioning and site restoration funds as of June 30, 2018, totaled approximately $290.5 million and $46.6 million, respectively. The fair value of cash and investment securities in the site restoration fund for Nuclear Project No. 1 is $30.3 million. Since September 1996, these 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, 2018, is $1.9 million. These contributions will occur through FY 2044; cash payments will begin for decommissioning and site restoration in FY 2045.

NOTE 11 - 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 2014.

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 $15,143,888.14 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 $7,200,184.33 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 confirmation that it would receive $11,139,344.69 in reimbursed costs in September 2018.

NOTE 12 - 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 third delivery of 150,000 SWU was received August 30, 2017 for $24.9 million. The total gain reported for the sale was $5.2 million 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 2018 and September 2022.

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 $86.0 million.

The current period operating expense for Columbia was $50.7 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	2017	2016	2015	2014	2013
Proportion of the net pension liability (asset)	1.13%	1.08%	1.24%	1.22%	1.19%
Proportionate share of the net pension liability (asset)	$ 53,781	$ 58,147	$ 65,005	$ 61,291	$ 71,094
Covered-employee payroll	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	37.75%	45.09%	42.09%	42.39%	50.63%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%	61.19%	55.70%

	PERS 2/3				
Measurement Date Ended June 30	2017	2016	2015	2014	2013
Proportion of the net pension liability (asset)	1.45%	1.38%	1.60%	1.55%	1.55%
Proportionate share of the net pension liability (asset)	$ 50,411	$ 69,510	$ 57,017	$ 31,410	$ 66,351
Covered-employee payroll	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	35.47%	54.04%	37.00%	21.79%	47.52%
Plan fiduciary net position as a percentage of the total pension liability	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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 7,213	$ 6,818	$ 6,141	$ 5,711	$ 5,385	$ 3,078	$ 70	$ 88	$ 104	$ 245
Contributions in Relation to the Contractually Required Contribution Subtotal	(7,213)	(6,818)	(6,141)	(5,711)	(5,385)	(3,078)	(70)	(88)	(104)	(245)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 143,282	$ 142,483	$ 128,944	$ 154,431	$ 144,597	$ 140,409	$ 996	$ 1,610	$ 1,933	$ 2,894
Contributions as a Percentage of Covered Employee Payroll	5.03%	4.79%	4.76%	3.70%	3.72%	2.19%	7.03%	5.47%	5.38%	8.47%

PERS 2/3

Fiscal year Ended June 30	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 10,658	$ 8,862	$ 8,200	$ 7,108	$ 6,564	$ 6,020	$ 8,760	$ 6,533	$ 6,225	$ 9,522
Contributions in Relation to the Contractually Required Contribution	(10,658)	(8,862)	(8,200)	(7,108)	(6,564)	(6,020)	(8,760)	(6,533)	(6,225)	(9,522)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 143,015	$ 142,140	$ 128,634	$ 154,080	$ 144,158	$ 139,637	$ 134,777	$ 133,276	$ 123,367	$ 124,301
Contributions as a Percentage of Covered Employee Payroll	7.45%	6.23%	6.37%	4.61%	4.55%	4.31%	6.50%	4.90%	5.05%	7.66%

Notes to Schedules

Information is presented only for those years for which information is available.

There were no changes to any actuarial assumptions during fiscal year 2018.

*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).