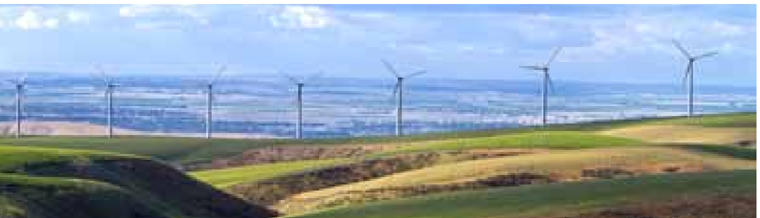
Powering a Clean Energy Future.

2012 ENERGY NORTHWEST ANNUAL REPORT



ENERGY NORTHWEST develops, owns and operates a diverse mix of electricity generating resources, including hydro, solar and wind projects – and the Northwest's only nuclear power plant. These projects provide enough reliable, affordable and environmentally responsible energy to power more than a million homes each year, and that carbon-free electricity is provided at the cost of generation. As a Washington state, not-for-profit joint operating agency, Energy Northwest comprises 28 public power member utilities from across the state serving more than 1.5 million ratepayers. The agency continually explores new generation projects to meet its members' needs.

ENERGY NORTHWEST MISSION:

Provide our public power members and regional ratepayers with safe, reliable and cost-effective power.

ENERGY NORTHWEST VISION:

The region's leader in energy generation and public power solutions through sustained excellence in performance.

OUR CORE VALUES:

Safety first
Integrity in all we do
Accountability for our actions
Excellence in Performance

Our core values guide our daily activities and behaviors, and are achieved through open and honest communication.

contents

A Message to our Stakeholders

Sid **MORRISON**
Chair, Executive Board

Mark **REDDEMANN**
Chief Executive Officer

Fiscal year 2012 was a historic period for Energy Northwest. On May 22, the Nuclear Regulatory Commission officially approved Columbia Generating Station nuclear energy facility's 20-year license renewal during a signing ceremony in Washington, D.C. This was a momentous event, and we are thrilled that Columbia will continue providing clean, baseload energy for Northwest ratepayers through 2043.

In conjunction with the license renewal, Washington Governor Chris Gregoire also made her first visit to Columbia on May 24. The governor, along with Executive Board Chairman Sid Morrison, Bonneville Power Administration Administrator Steve Wright, as well as Senator Patty Murray and Congressman Doc Hastings (both by video), addressed employees and local elected officials and civic leaders. Each presenter offered congratulations to employees for this achievement and for their commitment to upholding the stringent standards of our industry.

We were all pleased to hear the governor publically endorse Columbia's license renewal.

"Nuclear power has its place in the current and future production of electrical power for our nation," she said. "I know that it can provide reliable and affordable baseload power over the very long term. It can produce that power without greenhouse gas emissions. That is why I endorsed the re-licensing of our plant. It is a cornerstone of power production in the Pacific Northwest."

During her visit, the governor toured Columbia and engaged with employees along the tour route. She also joined us at an executive board meeting later in the day, where she received an overview of Columbia and agency performance trends and initiatives.

One of these initiatives, Excellence in Performance, touches everything we do as an agency. We know reaching the highest levels of excellence at Columbia and our other projects won't be easy or quick, but we are encouraged by the dedicated focus of the entire team.

The team's progress in fiscal 2012 – despite some setbacks – confirms we are on the right track.

Employees across the agency are focused on the right behaviors to ensure our projects and equipment operate safely, reliably and predictably. Their efforts are firmly increasing reliability at every project, including Columbia.

And while 2011 was a challenging year for the nuclear industry following the devastating earthquake and tsunami in Japan, our commitment at Columbia as well as across the industry is steadfast. We are continuing to further strengthen nuclear performance and safety, reaching the highest levels of excellence while ensuring we remain the safest industry in the nation.

Among our other generation resources, the agency's first project, Packwood Lake Hydroelectric Project, had another record year. A high-water season helped Packwood increase production to 119,430 megawatt-hours of electricity, an increase of 11 percent over last fiscal year.

Nine Canyon Wind Project achieved a 98.6 percent adjusted availability factor, the highest since Phase III of the project was added in 2008, producing 261,624 net megawatt-hours of electricity.

Keeping our existing projects operating reliably and cost effectively, while meeting members' future energy needs remains Energy Northwest's foundation. In April, Energy Northwest sent a letter to the Department of Energy, on behalf of the Pacific Northwest Utility Small Modular Reactor Working Group, expressing our support for the NuScale reactor design, and encouraging Energy Department pilot project funding. We strongly support the Mid-Columbia Energy Initiative and Tri-City Development Council efforts to locate a small modular reactor near Columbia on the Hanford Site to provide members with options for baseload power post 2025. In the near term, we're working with Veresen U.S. Power to support the development of Kalama Energy Center. This 346-megawatt natural gas combined-cycle plant is slated for commercial operation in 2016. We also continue to look for land we can bank to build renewable projects to meet our members' post-2015 renewable portfolio standard energy requirements.

Our employees remain essential elements to achieving our mission of providing our public power members with safe, reliable and cost-effective power. The Energy Northwest team once again stayed within our long-range plan commitment, ending the year under budget by $3.7 million in operations and maintenance and $2.7 million in capital expenditures, underscoring our dedication to fiscal discipline and responsibility for the benefit of Northwest electric ratepayers.

Additionally, during the last two decades, Energy Northwest and Bonneville Power Administration, with support from Energy Northwest's boards, have collaborated to address BPA debt management challenges and develop strategies to further benefit the region's ratepayers. Through this collaboration, Energy Northwest provided the region an average of $104 million in annual rate relief during BPA's fiscal year 2012 to 2013 power rate period. These savings alone lowered BPA's proposed rate increase by 5 percent, helping to reduce an anticipated 12 to 20 percent increase to 7.8 percent.

To provide even further rate reductions to ratepayers, contracts were signed in May with the Department of Energy, the U.S. Enrichment Corporation (USEC) and Tennessee Valley Authority to initiate the process of turning depleted uranium into low-cost nuclear fuel. Under the agreement, USEC will provide Energy Northwest with 482 metric tons of uranium enriched at USEC's Paducah Gaseous Diffusion Plant in Kentucky. With the additional fuel, Columbia's fuel costs will be reduced and be predictable through 2028. Energy Northwest will also sell a portion of the enriched uranium to TVA beginning in 2015 to meet needs for their nuclear plants and offset some of Energy Northwest's cost.

This fuel purchase agreement that began in fiscal 2012 will generate more than $88 million in additional rate case savings from 2014 to 2017, and tens of millions of dollars more in savings through 2028. These significant additional savings over the life of the transaction will enable BPA to reduce current and future proposed rate increases even further. Every $20 million in savings equates to approximately a 1 percent reduction in rates.

These are only a few examples, which demonstrate the strong commitment of our employees to our stakeholders and why we are so honored to work with each and every member of the Energy Northwest team. Throughout the pages in this report, several Energy Northwest teams are featured highlighting their significant agency achievements. We are extremely proud of their efforts that benefit not only Energy Northwest but also ratepayers and all our stakeholders.

Finally, our sincere thanks to all Energy Northwest team members who volunteered their time and talents to support those in need in our communities, through the March of Dimes, Head Start, United Way and the Red Cross.

Together we are making progress on all our initiatives, bolstering our commitment to powering a clean energy future. This requires everyone involved with our operations to have an unwavering commitment to excellence. While we have a hard road ahead, we are confident in the Energy Northwest team's desire to be the best in all we do. Building on the progress we've made over the last year will ensure our ever rising performance and reliability goals are met and sustained.

Respectfully,

Sid Morrison
Chair, Executive Board

Mark Reddemann
Chief Executive Officer

"Throughout the pages in this report, several Energy Northwest teams are featured highlighting their significant agency achievements."

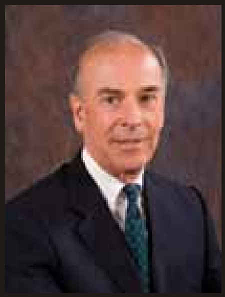
Executive Board

The Energy Northwest Executive Board sets the policies that govern the operations of the organization. It is made up of 11 members, five elected from the board of directors, three outside members appointed by the board of directors and three outside members appointed by Washington's governor.

Sid **MORRISON**
Chair
Outside Director
Zillah, Wash.

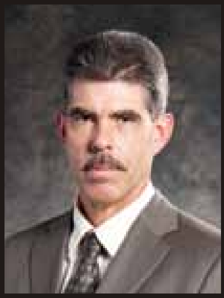
Jack **JANDA**
Assistant Chair
Inside Director
Shelton, Wash.

Kathy **VAUGHN**
Secretary
Inside Director
Lynnwood, Wash.

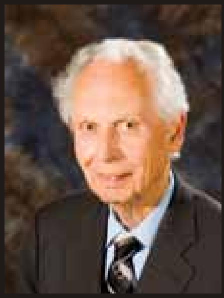


Dave **REMINGTON**
Assistant Secretary
Gubernatorial Appointee
Spokane, Wash.

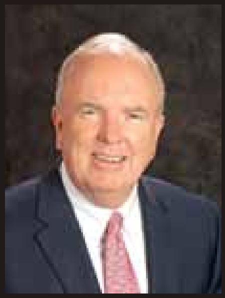
Marc **DAUDON**
Gubernatorial Appointee
Seattle, Wash.



Dan **GUNKEL**
Inside Director
Goldendale, Wash.



Larry **KENNEY**
Gubernatorial Appointee
Seattle, Wash.



Skip **ORSER**
Outside Director
Raleigh, N.C.

Will **PURSER**
Inside Director
Sequim, Wash.

Lori **SANDERS**
Inside Director
Kennewick, Wash.

Tim **SHELDON**
Outside Director
Potlatch, Wash.

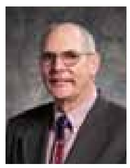
Our Board of Directors

The Energy Northwest Board of Directors includes a representative from each of its member utilities. The powers and duties of the board of directors include final authority on any decision to purchase, acquire, construct, terminate or decommission any plants and/or facilities of Energy Northwest.

Board members represent utilities with strong histories of serving the public power needs of Washington ratepayers. Their experience helps guide the agency as a continuing and effective source of powerful energy solutions.

ANN CONGDON
President
Commissioner,
Chelan County PUD
Manson, Wash.

LINDA GOTT
Vice President
Commissioner,
Mason County PUD 3
Shelton, Wash.



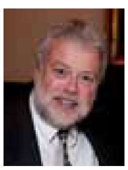
BILL GORDON
Secretary
Commissioner,
Franklin County PUD
Pasco, Wash.

JUDY RIDGE
Assistant Secretary
Commissioner,
Asotin County PUD
Clarkston, Wash.

DOUG AUBERTIN
Commissioner,
Ferry County PUD
Keller, Wash.

NANCY BARNES
Commissioner,
Clark Public Utilities
Vancouver, Wash.

TERRY BREWER
Commissioner,
Grant County PUD 2
Soap Lake, Wash.

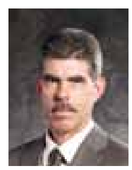


BARNEY BURKE
Commissioner,
Jefferson County PUD
Port Hadlock, Wash.

TOM CASEY
Commissioner,
Grays Harbor County PUD
Aberdeen, Wash.

LARRY DUNBAR
Deputy Director
of Power Systems,
City of Port Angeles
Sequim, Wash.

BILL GAINES
Director of Utilities,
Tacoma Public Utilities
Tacoma, Wash.



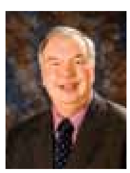
DAN GUNKEL
Commissioner,
Klickitat County PUD
Goldendale, Wash.

BOB HAMMOND
Energy Services Director,
Richland Energy Services
Richland, Wash.

JACK JANDA
Commissioner,
Mason County PUD 1
Shelton, Wash.

ROBERT JUNGERS
Commissioner,
Wahkiakum County PUD
Cathlamet, Wash.

STEVE KERN
Power Supply and
Environmental
Affairs Officer,
Seattle City Light
Seattle, Wash.



BUZ KETCHAM
Commissioner,
Cowlitz County PUD 1
Kalama, Wash.

CURT KNAPP
Commissioner,
Pend Oreille County PUD
Newport, Wash.

CLYDE LEACH
Commissioner,
Skamania County PUD
Underwood, Wash.

MIKE MURPHY
Commissioner,
Whatcom County PUD
Bellingham, Wash.

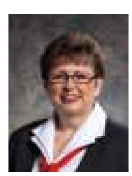
WILL PURSER
Commissioner,
Clallam County PUD
Sequim, Wash.

LORI SANDERS
Commissioner,
Benton County PUD
Kennewick, Wash.

ROGER SPARKS
Commissioner,
Kittitas County PUD
Ellensburg, Wash.

CHUCK TENPAS
Commissioner,
Lewis County PUD
Randle, Wash.

DIANA THOMPSON
Commissioner,
Pacific County PUD 2
Oysterville, Wash.



KATHY VAUGHN
Commissioner,
Snohomish County PUD
Lynnwood, Wash.

ED WILLIAMS
Commissioner,
Centralia City Light
Centralia, Wash.

DAVE WOMACK
Commissioner,
Okanogan Public Utilities
Okanogan, Wash.

senior leadership team

The senior leadership team manages day-to-day operations, executes developing programs and projects, establishes long-term strategies in direct support of the Energy Northwest vision, and provides essential hands-on leadership to foster continual process improvement and to strengthen organizational core values in the workforce.

Mark **REDDEMANN**
Chief Executive Officer

Dale **ATKINSON**
Vice President, Employee Development/Corporate Services

Jack **BAKER**
Vice President, Energy/Business Services (retired)

Grover **HETTEL**
Vice President, Operations

Alex **JAVORIK**
Vice President, Engineering

Brent **RIDGE**
Vice President, Chief Financial and Risk Officer

Brad **SAWATZKE**
Vice President, Nuclear Generation/ Chief Nuclear Officer

FY12 project generation

COLUMBIA GENERATING STATION

6,984 GWh in fiscal year 2012

Columbia produces 1,170-megawatts of electricity, enough energy to power more than a million homes.

NINE CANYON WIND PROJECT

261,624 MWh in fiscal year 2012

The total Nine Canyon generating capability is 95.9 MW, enough energy for approximately 39,000 homes.

PACKWOOD LAKE HYDROELECTRIC PROJECT

119,430 MWh in fiscal year 2012

Packwood has produced 4,359,610 megawatt-hours of electricity since commercial operation began in 1964.

WHITE BLUFFS SOLAR STATION

41,866 KWh in fiscal year 2012

White Bluffs has produced 485,601 net kilowatt-hours of electricity since commercial operation began in 2002.

COLUMBIA GENERATING STATION

Columbia Generating Station continues to operate safely and efficiently, providing valuable electrical power to the region. Station performance improved in fiscal year 2012 without any forced shutdowns or forced outages. Columbia continues to focus on industry excellence through continuous improvement initiatives.

Refueling Outage 20 began April 6, 2011, and ended Sept. 27 with Columbia's reconnection to the Northwest power grid. The outage involved the largest scope of equipment maintenance in Columbia's history, with the most significant tasks being valve work and the installation of a new condenser. Delays in the condenser replacement project extended the outage duration from a scheduled 78 days to 174 days – into fiscal year 2012. As a result, outage duration goals were not met.

Additionally, there were replacements and repairs of multiple other major components that have been the source of long- standing equipment performance issues. The result has been increased reliability, and 22 megawatts of additional power generated, on average. Projects contributing to Columbia's increased output include maintenance on 350 valves; replacement of the plant's main generator rotor and condenser, and efficiency work on two of the facility's six cooling towers.

During fiscal year 2012, Columbia supported reviews by independent, external regulatory agencies, of which all concluded that Columbia continues to operate safely.

6,984 GWh
in fiscal year 2012

Scott **PRAETORIUS**

Pam **BRADLEY**

Jeff **WINDHAM**

Eric **ROCKETT**

Bob **DUTTON**

John **IRVAN**

Mark **REED**

uranium tails team

Cristina **REYFF**

Pete **TAGGARES**

A complex transaction that required a multi-discipline team to achieve success. The group that formed to evaluate and shepherd the $782 million uranium tails fuel procurement transaction worked long hours over several months. Ultimately, the multi-party deal will save Northwest ratepayers $88 million over BPA's next two rate cases (2014-2017). Savings have the potential to be $35 to $37 million for each of the five rate cases after 2017. Columbia's fuel costs will be reduced and predictable through 2028.

> "The multi-party deal has the potential to save Northwest ratepayers hundreds of millions of dollars."

Columbia Generating Station is a boiling water reactor that began commercial operation in December 1984. Columbia produces approximately 1,170 megawatts of electricity, enough energy to power more than a million homes.

Workers also executed two planned maintenance outages to perform needed repairs. The first, in November, was to balance a rotor on one of the four main steam turbines; and the second, in May, was to replace a reactor coolant circulation pump seal. Workers completed both outages on time and under budget.

Worker performance improved following dedicated training on use of error prevention tools. Training at Columbia is maximized to ensure both new and current employees receive the necessary skills and knowledge to excel in their duties.

Columbia is committed to excellence and begins the new fiscal year with a continued focus on performance and results. EN

archival team

A team from Document & Data Services worked with Washington State Archives to include the Nuclear Series in the Washington Records Retention Schedule. In the words of Washington State Archivist Jerry Handfield, the inclusion of the Nuclear Series was "an historic occasion" and represented a significant amount of work between Energy Northwest and the Archives staff.


Alex **GILCA**


Lisa **POZNANSKI**


Jon **COHEN**


James **DORWIN**

LICENSE RENEWAL

On May 22, a more than five-year process came to a close with the stroke of a pen. Just outside of Washington, D.C., the director of Nuclear Reactor Regulation for the independent Nuclear Regulatory Commission signed documents renewing the license of Columbia Generating Station to operate an additional 20 years beyond its current license end date in 2023.

The signature culminated a comprehensive license renewal process that required thousands of hours of work to prepare the rigorous analysis and documentation needed to assure Columbia's regulator and other stakeholders that the facility will continue to operate safely through 2043.

Two days later, employees; elected officials; members of Energy Northwest's Executive Board; Board of Directors and Participants Review Board; and dignitaries gathered at Columbia Generating Station to hear Gov. Chris Gregoire, Executive Board Chair Sid Morrison, Bonneville Power Administration Administrator Steve Wright and Energy Northwest CEO Mark Reddemann hail Columbia's license renewal. U.S. Sen. Patty Murray and U.S. Rep. Doc Hastings provided pre-taped audio remarks congratulating Energy Northwest and its employees for the renewal of Columbia's license.

"This is an historic moment for Energy Northwest. License renewal means we will continue to fulfill our mission statement of providing our public power members and regional ratepayers with safe, reliable and cost-effective power for years to come.

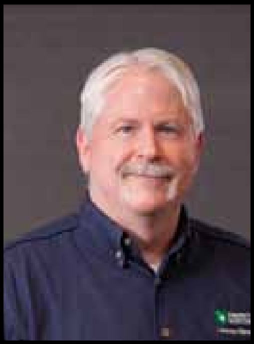
"It's a tribute to all of our employees who commit themselves daily to excellence," CEO Mark Reddemann told the crowd of about 450.

Gov. Gregoire said she supported license renewal because she believes nuclear energy is a key power source for Washington now and into the future.

"Nuclear power has its place in the current and future production of electrical power for our nation," Gregoire said. "I know that it can provide reliable and affordable baseload power over the very long term. It can produce that power without greenhouse gas emissions. That is why I endorsed the re-licensing of our plant. It is a cornerstone of power production in the Pacific Northwest."

"This is an historic moment for Energy Northwest. License renewal means we will continue to fulfill our mission statement of providing our public power members and regional ratepayers with safe, reliable and cost-effective power for years to come."


Abbas MOSTALA


John TWOMEY


Jeff PERSON


Janet WORTHINGTON


Donald GREGOIRE


Scott WOOD

license renewal team

Energy Northwest began pursuing license renewal for Columbia in 2007. The formal application, comprising more than 2,200 pages, was submitted to the Nuclear Regulatory Commission in January 2010. During the five years it took for a successful outcome, the license renewal team worked with the NRC and Energy Northwest colleagues to gather information relating to safety and potential environmental aspects of operating for an additional 20 years.

Administrator Wright highlighted the public power heritage of Energy Northwest. "The people who work here do something that is meaningful and important. The mission of this plant is focused not on producing profit, but on producing benefit that serves the public."

In pre-recorded comments, Hastings said license renewal would not have been possible without an ongoing commitment to safety by employees.

"I will continue to do everything I can to support your current operations and to encourage the further development of nuclear energy in our state," Hastings said.

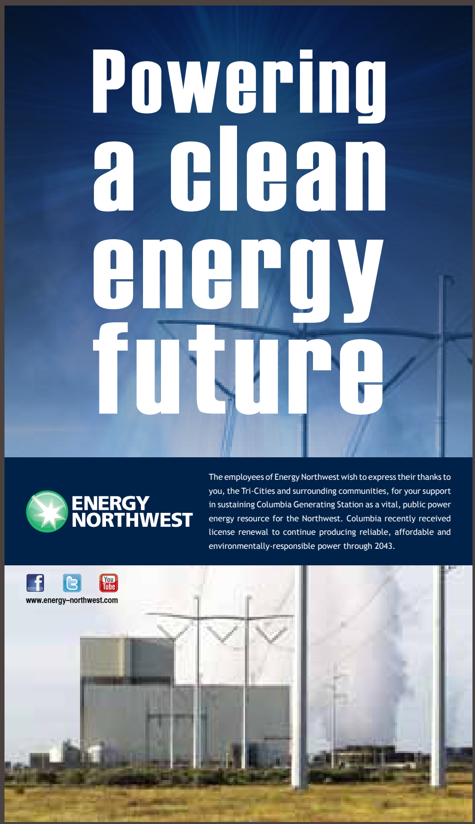
Murray said in her pre-recorded remarks that she was proud to represent the only commercially operated nuclear power plant in the Pacific Northwest.

"I commend you for your continued attention to keeping the community safe and the environment clean," Murray said.

It was a particularly poignant moment for Morrison, who, nearly 30 years ago as the congressman for the district that includes southeastern Washington, attended the ceremony marking Columbia's debut.

"I consider this plant an awesome symbol of Washington public power," Morrison said, encouraging employees to celebrate the achievement of license renewal. EN

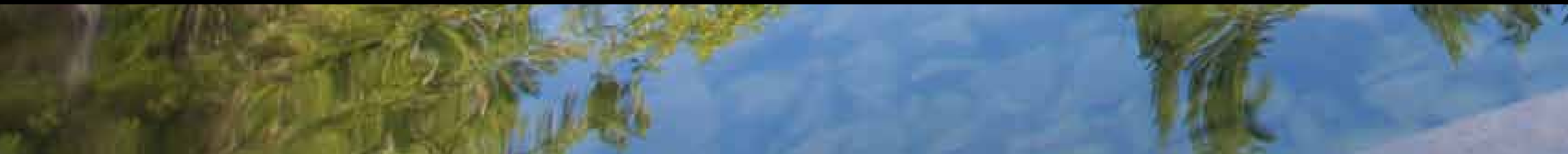
"Nuclear power has its place in the current and future production of electrical power for our nation. It is a cornerstone of power production in the Pacific Northwest."



PACKWOOD LAKE
HYDROELECTRIC PROJECT

The 27.5-megawatt Packwood Lake Hydroelectric Project produced 119,430 megawatt-hours of electricity in fiscal year 2012 – an increase of nearly 11 percent from fiscal 2011 – primarily due to more precipitation, higher snowfall levels and a gradual warm-up in the spring and summer in the Cascade mountain range. The capacity factor for fiscal 2012 was 52.3 percent and the project attained 99.9 percent availability. Packwood has produced 4,493,548 megawatt-hours of electricity since commercial operation began in 1964.

119,430 MWh
in fiscal year 2012



The project received a continuance to operate under its existing license from the Federal Energy Regulatory Commission in March 2010. The continuance will remain in effect until the new license is issued. Packwood's license application was submitted in February 2008. FERC will complete the final license renewal documentation for the project following issuance of the National Oceanic and Atmospheric Administration's biological opinion.

Packwood's 12 participant utilities assumed the responsibility to purchase their respective shares – or re-assign their shares – of the project's output in fall 2011. The participants pay their respective share of annual costs for operation and maintenance of the project. EN

99.9 percent availability
in fiscal year 2012

NINE CANYON
WIND PROJECT

Nine Canyon Wind Project is one of the largest public-owned wind projects in the nation. With 63 wind turbines – 14 rated at 2.3 megawatts and 49 more at 1.3 megawatts – Nine Canyon's total installed capacity is 95.9 megawatts.

IN MARCH, Nine Canyon had a 51.1 percent capacity factor, the first time a capacity factor went above 50 percent at the facility since November 2006.

261,624 MWh
in fiscal year 2012

In fiscal year 2012, Nine Canyon produced 261,624 net megawatt-hours of electricity and achieved a 98.6 percent adjusted availability factor, the highest since Phase III of the project was added in 2008.

New challenges arise for Nine Canyon as the project matures and the need to perform predictive and preventative maintenance is greatly increased. The end of warranty and maintenance agreements brings special difficulties with ordering parts. One dilemma is determining the advantages to using original equipment manufacturers while determining if there are equitable after-market parts that may be more effective. With each year that passes, new issues and challenges are identified and innovative solutions are implemented. EN

WHITE BLUFFS SOLAR STATION

White Bluffs Solar Station began operation in May 2002. It was the region's largest photovoltaic solar facility at the time of its commissioning with a nameplate rating of 38.7 kilowatts direct current.

The 242-panel station is located at the Industrial Development Complex near Columbia Generating Station. The Bonneville Power Administration integrates White Bluffs' renewable energy into its system.

Performance at White Bluffs has been extremely reliable over the past 10 years with 41,866 net kilowatt-hours of electricity produced in fiscal year 2012. The polycrystalline solar panels have a 20-year warranty, which ensures continued operation through 2021. EN

GENERATION
PROJECT DEVELOPMENT

Major development activities in fiscal year 2012 centered on providing member utilities with generation supply options that align with regional renewable policies and power markets.

The agency works with its members to understand and anticipate their thermal and renewable resource needs, and to identify regional generation supply opportunities, to develop appropriate low-cost resources. The goal is to offer competitive generation supply options and solutions to meet member utility needs.

Major challenges to developing new generation projects in the Pacific Northwest exist. These include raising investment funding for development prior to completing power purchase agreements. Additionally, the timeline for project site selection, engineering, permitting and infrastructure interconnection ranges from two to four years and construction can range from six months to three years depending on the technology involved and complexity of the project. A typical generation project needs to anticipate market demand several years in advance of actual utility needs. Transmission and pipeline interconnection and integration processes are becoming more complex and tend to increase resource development timelines. The high percentage of regional hydropower and its variance create market uncertainty and periodic price volatility.

The agency completed a comprehensive review and re-tooling of its development processes to more effectively collaborate with its members and align efforts with member needs. EN

> “THE GOAL is to offer competitive generation supply options and solutions to meet member utility needs.”

key generation projects:

Kalama Energy Center: 346-megawatt Natural Gas Combined-Cycle Plant

Energy Northwest secured development agreements and financial budgets with Veresen U.S. Power to support development of Kalama Energy Center in southwestern Washington. Under the agreements, Energy Northwest will provide development services to Veresen until the center is fully permitted and the output is subscribed. Once all development work is complete, Energy Northwest expects Veresen to exercise its option to purchase the project. Depending on regional energy demand, project construction could start as early as 2014. Kalama Energy Center continues to successfully complete significant permitting and engineering activities. Power marketing efforts continued through fiscal 2012 with the project's submission to multiple competitive regional resource solicitations.

Solar: 5-megawatt Photovoltaic Generation Sites

Under direction from its governing boards, Energy Northwest continues to look for sites it can bank to offer member utilities siting options for low-cost and low-risk solar generation development, in anticipation of Washington's 2016 and 2020 renewable portfolio standard compliance obligations. One potential option under consideration is the expansion of the agency's current solar-photovoltaic site (White Bluffs Solar Station) within Energy Northwest's leased property north of Richland. The potential expansion would utilize an area that features graded topography and robust electrical interconnection infrastructure. Efforts are under way to further assess this option.

Grays Harbor 50-megawatt Power Call Option

A 50-megawatt power call option was part of the compensation package for Energy Northwest selling the rights to develop the 600-megawatt Satsop Natural Gas Combined-Cycle Plant to Duke Energy in 2001. A call option provides the right, but not the obligation, to purchase power. The current value of the option is low due to increased hydropower production and the resulting depressed market prices for power in the region. In times when the price gap between natural gas and hydropower is significant, the option will create substantial revenues for the agency's business development fund.

ENVIRONMENTAL STEWARDSHIP

Energy Northwest designed its environmental management system to meet the rigorous requirements of the globally recognized International Organization for Standardization, with an emphasis on compliance and pollution prevention.

Energy Northwest's environmental stewardship policy is the foundation on which the Environmental Management System is built. The policy commits the agency to consider the environment in everything it does. It also commits the agency to comply with all environmental regulations; pollution prevention; communicate the environmental programs and performance; and continually improve the system.

Energy Northwest's EMS first registered to ISO 14001:2004 in April 2005 with NSF International Strategic Registrations, an accredited registrar. The registration has continued with a successful surveillance by our registrar in April 2012, with no findings of non-conformance.

Ongoing environmental objectives to reduce hazardous and mixed waste generation at Columbia Generating Station demonstrate our commitment to continual improvement. In January 2012, the agency notified the Washington Department of Ecology that Columbia had successfully attained medium quantity generator status. To maintain this regulatory status, Columbia will need to minimize waste generation to stay below the mandated generation and accumulation limits. One benefit of this regulatory status includes extended accumulation

ems team

Through the dedicated efforts of the Environmental & Regulatory Programs group, Columbia Generating Station achieved medium-waste generator status, a first in its almost 30-year history, and demonstrating the agency's environmental stewardship commitment.

Robert **NIELSON**

Steve **MCNUTT**

Steve **KELTNER**

time, which reduces the number of waste shipments throughout the year. The status also demonstrates the agency's environmental stewardship commitment.

Energy Northwest identified and implemented several pollution prevention opportunities during fiscal year 2012. These included participation in the state's surplus program to redistribute products – such as cleaning supplies, lubricants and caulking – that are no longer needed but are still usable by other organizations. Other opportunities included projects to reduce electricity and water consumption; and a vehicle fleet reduction program.

The agency also implemented projects to enhance the natural environment, including the installation of 18 artificial burrows to attract burrowing owls (a species of concern) at the Industrial Development Complex, adjacent to Columbia, and re-establishment of native plants on agency-leased lands. EN

COMMUNITY SERVICE

During fiscal year 2012, Energy Northwest increased community outreach efforts to educate key audiences about energy sources and issues facing Washington state.

One of the community and educational outreach opportunities Energy Northwest undertook was a series of public service announcements focusing on nuclear energy. The PSAs featured agency employees delivering messages about nuclear energy's clean and safe power generation and other benefits.

Energy Northwest also participated in several industry energy and environmental-related events, such as the Sustainable Energy and Environmental Expo; the Hanford Health and Safety Expo; and Imagine Tomorrow, a Washington State University science and energy-oriented event for high school students.

Agency employees also spoke to a wide range of audiences, including many civic and business organizations, through the Energy Northwest Speakers Bureau.

Additionally, Energy Northwest has been a member of the local Tri-Cities business community for more than 50 years. As a major Washington employer, the agency strongly believes in the importance of supporting the communities and non-profit agencies where its employees work and live.

From the CEO to the newest employee, Energy Northwest cares through direct, hands-on involvement.

The agency officially sponsors three vital community organizations: United Way, Head Start and March of Dimes. EN

Head Start

In fiscal 2012, Energy Northwest celebrated the 31st anniversary of supporting the Benton Franklin Head Start program (since 1980).

Each year, Energy Northwest commits to adopting every Head Start child for the holiday season. In fiscal 2012, nearly 450 children were sponsored by employees.

Each child provided a wish list to Santa and received at least one toy and one clothing item. The gifts were distributed by Energy Northwest employees, dressed as Santa and his elves, during the various Head Start parties.

The Head Start program is the most successful, longest-running, national school readiness program in the U.S. It provides comprehensive education, health, nutrition and parent involvement services to low-income children and their families.

More than 25 million pre-school aged children have benefited from Head Start, and the number of children served in Benton and Franklin counties has more than doubled in the past two decades.

United Way

Head Start

March of Dimes
Saving babies, together

United Way

In fiscal 2012, nearly $89,000 was raised for United Way. Final results show that 232 Energy Northwest employees contributed to the 2011 United Way campaign, with 155 of those increasing their contribution from the previous year or being new contributors. These pledges and others help provide hot meals to elderly neighbors, fund youth developmental programs, provide disaster relief planning for our community and build self-esteem in at-risk youth.

United Way improves lives in our community through Community Solutions. The goal is that everyone living in Benton and Franklin counties has a good education; access to healthcare; lives and works in a safe environment; and is a self-sufficient, active member of the community.

March of Dimes

Energy Northwest's team raised $25,000 this year for the March of Dimes, exceeding the goal and once again demonstrating the philanthropy and generosity of its employees. About 70 walkers from Energy Northwest, along with their spouses, children and pets, participated in the 2012 Tri-Cities March for Babies event that helps support neo-natal birth centers and local families in need.

Other activities Energy Northwest participated in include:

Earth Day Clean-Up

Energy Northwest and AREVA employees worked together for the community during an Earth Day clean-up project. Sixteen Energy Northwest employees and family members participated, filling 60, 40-gallon bags with paper, plastic, cans and other debris.

Energy Northwest is committed to taking care of the environment. Energy Northwest's commitment is formally certified by the International Organization for Standardization, which underscores the agency's compliance to international environmental standards, and provides third-party validation that Energy Northwest's environmental stewardship and management efforts are both effective and sustainable.

The clean-up activity reflects both organizations' commitment to the Tri-Cities community and the environment.

Member Forum

"Changing the Energy Landscape" was the theme during Energy Northwest's 14th annual Member Forum. Headlining the event was professional speaker Dale Collie from Courage Builders, who helped attendees focus on success by learning to embrace change, focus on the essentials of overcoming problems, and persevering to achieve personal and team goals. Other presentation topics included Washington state's energy strategy; nuclear energy in a post-Fukishima world; cyber security; public speaking; and wind power integration.

Energy Northwest's Member Forum is an opportunity for the public power community to openly discuss future challenges and changes in the utility industry. Nearly 80 commissioners, managers and other representatives from the agency's 28 member utilities attended the annual event. It continues to be an important venue for a regional public power community that serves more than 1.5 million ratepayers across Washington state. Additionally, it is a chance to meet and listen to speakers on regional and national energy issues.

"About 70 walkers from Energy Northwest, along with their spouses, children and pets, participated in the 2012 Tri-Cities March for Babies event."

CEO RECOGNITION

Congratulations to Energy Northwest employees who received CEO Leadership Performance awards.

During fiscal year 2012, these employees were honored for exemplifying excellence in performance through their achievements and work practices.

Steve Ackley
Barbara Anderson
Cathey Anderson
Charles Anderson
Andrew Arroyos
Frank Bailey
Myron Baird
Douglas Beach
Micky Castle
Nishant Chadha
Sandra Christianson
Sean Clizbe
Jason Davis
Audrey Desserault
Ryan Downing
Melissa Duncan
Danielle Dunigan
Lisa Escalera
Amber Flowers
Jeff Gardiner
Mark Giomi
David Giroux
Don Gregoire
Jeremy Hauger
Bruce Hugo
Tony Huiatt
David Jordan
Thomas Kempton
Tim Lindsley
Johnny Lopez
Jeffrey Lux
Thomas Martens
Jim Massey
Heather McMurdo
Tom Morales
Abbas Mostala
Charles Nash
Doran Nealon
Andrew Olsen
Lynne Pagel
Jeff Person
Lisa Poznanski
Michael Praest
Raj Rana
Dan Ross
Nicholas Rullman
Duane Salsbury
Richard Shaff
Michael Shoup
Habib Shtaih
Janet St. Jacques
Jackie Swift
James Tansy
John Twomey
Linda Walker
Dennis Werlau
Gary Westergard
Lisa Williams
Nicholas Woehle
Scott Wood
Janet Worthington

From all of us at Energy Northwest, thank you for your commitment to exceptional performance and leadership.

FINANCIAL
DATA & INFORMATION

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 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 PricewaterhouseCoopers LLP, Energy Northwest's independent auditors. Management has made available to PricewaterhouseCoopers LLP all financial records and related data, and believes that all representations made to PricewaterhouseCoopers 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, PricewaterhouseCoopers 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 PricewaterhouseCoopers LLP concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 2012, internal control procedures are adequate.

M.E. Reddemann
Chief Executive Officer

B.J. Ridge
Vice President,
Chief Financial Officer/
Chief Risk Officer

Audit, Legal and Finance Committee Chair's Letter

The executive board's Audit, Legal and Finance Committee (committee) is composed of 11 independent directors. Members of the committee are Chair Larry Kenney, Marc Daudon, Dan Gunkel, Jack Janda, Skip Orser, Will Purser, Dave Remington, Lori Sanders, Tim Sheldon, Kathy Vaughn and Sid Morrison, ex-officio. The committee held 11 meetings during the fiscal year ending June 30, 2012.

The committee oversees Energy Northwest's financial reporting process on behalf of the executive board. In fulfilling its responsibilities, the committee discussed with the internal auditor 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 internal auditor 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 internal auditor or independent auditors.

Larry Kenney

Chair,

Audit, Legal and Finance Committee

Report of Independent Auditors

To the Executive Board of Energy Northwest:

In our opinion, the financial statements of the business-type activities of Energy Northwest (the "Company"), comprised of the Columbia Generating Station, Packwood Lake Hydroelectric Project, Nuclear Project No.1, Nuclear Project No.3, the Business Development Fund, the Nine Canyon Wind Project, and the Internal Service Fund which collectively represent the Company's balance sheets, statements of revenues, expenses and changes in net assets, and of cash flows, present fairly, in all material respects, the respective financial position the business-type activities of the Company, at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The accompanying Management's Discussion and Analysis listed in the table of contents is required by accounting principles generally accepted in the United States of America 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 the 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 audits 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.

PricewaterhouseCoopers LLP

Portland, Oregon
September 28, 2012

Energy Northwest Management's Discussion and Analysis

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 ended June 30, 2012, with the basic financial statements for the fiscal year ended June 30, 2011.

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) and, when not in conflict with GASB pronouncements, accounting standards prescribed by the Financial Accounting Standards Board (FASB). (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 2012 and FY 2011 in accordance with GASB No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments."

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

The Balance Sheets present the financial position of each business unit on an accrual basis. The Balance Sheets 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 Assets 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 5 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. 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, 2012 And 2011 (In Thousands)

		2011		2012		Change
Assets						
Current Assets	$	225,932	$	209,345	$	(16,587)
Restricted Assets						
Special Funds		118,860		51,345		(67,515)
Debt Service Funds		459,183		516,106		56,923
Net Plant		1,519,569		1,525,642		6,073
Nuclear Fuel		266,949		341,535		74,586
Long-Term Receivables		-		-		-
Deferred Charges		4,027,612		3,658,124		(369,488)
TOTAL ASSETS	**$**	**6,618,105**	**$**	**6,302,097**	**$**	**(316,008)**
Current Liabilities	$	435,218	$	501,801	$	66,583
Restricted Liabilities						
Special Funds		149,430		138,406		(11,024)
Debt Service Funds		150,832		144,557		(6,275)
Long-Term Debt		5,875,190		5,508,467		(366,723)
Other Long Term Liabilities		14,028		15,776		1,748
Deferred Credits		5,820		5,709		(111)
Net Assets		(12,413)		(12,619)		(206)
TOTAL LIABILITIES AND NET ASSETS	**$**	**6,618,105**	**$**	**6,302,097**	**$**	**(316,008)**
Operating Revenues	$	552,292	$	425,695	$	(126,597)
Operating Expenses		415,020		354,860		(60,160)
Net Operating Revenues		137,272		70,835		(66,437)
Other Income and Expenses		(138,790)		(71,049)		67,741
(Distribution) & Contribution		1,000		-		(1,000)
Beginning Net Assets		(11,895)		(12,405)		(510)
ENDING NET ASSETS	**$**	**(12,413)**	**$**	**(12,619)**	**$**	**(206)**

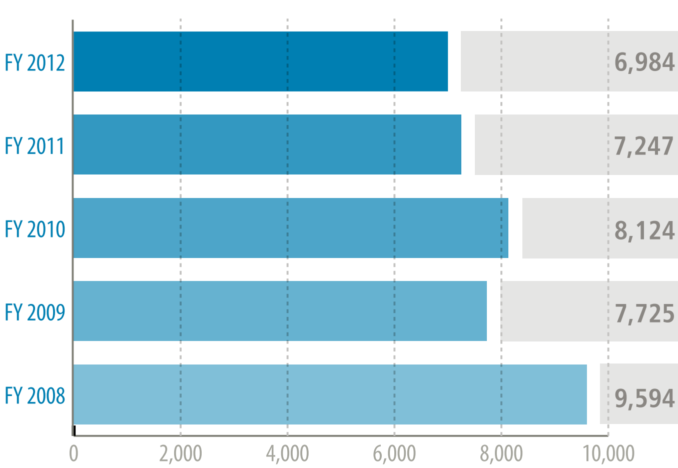
Columbia Generating Station

Columbia Generating Station (Columbia) is wholly owned by Energy Northwest and its participants and operated by Energy Northwest. The plant is a 1,170-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, Wash.

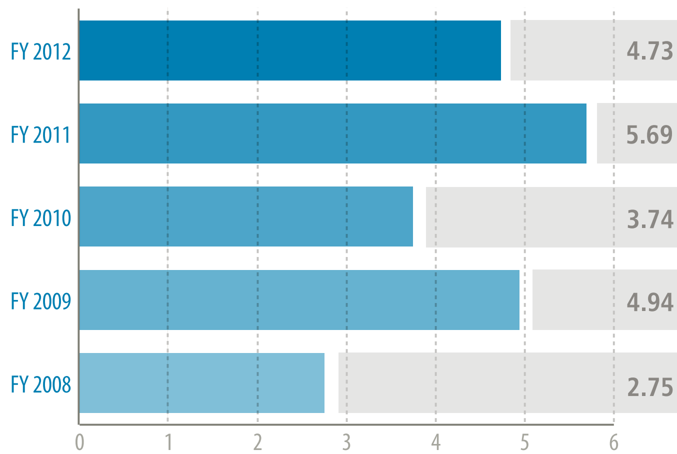
Columbia produced 6,984 gigawatt-hours (GWh) of electricity in FY 2012, as compared to 7,247 GWh of electricity in FY 2011, which included economic dispatch of 140 and 99 GWh respectively. Columbia entered its longest planned refueling cycle of 78 budgeted days on April 6, 2011. The planned refueling outage (R-20) extended past the 78 days and ended Sept. 27, 2011. The extended refueling outage and successful completion of a 10-day planned maintenance outage in May of 2012 were the major factors in the decreased generation of 3.6 percent in FY 2012.

Columbia's cost performance is measured by the cost of power indicator. The cost of power for FY 2012 was 4.73 cents per kilowatt-hour (kWh) as compared with 5.69 cents per kWh in FY 2011. The industry cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. The FY 2012 cost of power decrease of 16.9 percent was due to the significant costs incurred in FY 2011 for the refueling outage which caused an increase in the cost of power for FY 2011. Costs were incurred in FY 2012 for the extended portion of the outage but were not at the same levels as the FY 2011 period.

Columbia Generating Station
NET GENERATION - GWhrs



Columbia Generating Station
COST OF POWER - Cents/kWh



Balance Sheet Analysis

The net increase to Utility Plant (plant) and Construction Work In Progress (CWIP) from FY 2011 to FY 2012 (excluding nuclear fuel) was $15.0 million. The changes to plant and CWIP were comprised of additions to plant of $229.3 million with a decrease to CWIP of $125.2 million. Remaining changes were an adjustment to the capitalized asset for retirement obligation (ARO) due to successful relicensing of Columbia resulting in a decrease of $18.2 million; the period effect of depreciation of $72.6 million and the decrease to accumulated decommissioning of $1.7 million related to the ARO and Columbia relicensing. The accumulated decommissioning and site restoration accrued costs related to Columbia were adjusted to reflect the change in the asset retirement obligation caused by the extension of the Columbia license. Per ASC 410, "Asset Retirement and Environmental Obligations," the obligation was reevaluated and adjusted to reflect the Dec. 31, 2043 end date of relicensing. The revision resulted in a decrease to the capitalized portion of the asset of $18.2 million. (See Note 11 to the Financial Statements.)

The additions of $229.4 million to plant in FY 2012 were captured in 8 major projects of at least $2.0 million: Main Condenser Replacement, Cooling Tower Fill Replacement, Main Generator Rotor Replacement, Non-Segmented Bus Hardware, Asset Suite upgrade, Isolation Valve Change, Blade Monitoring System, and the capitalization of relicensing costs. These projects resulted in 91 percent of Plant activity. The remaining 9 percent were made up of 24 separate projects.

Nuclear fuel, net of accumulated amortization, increased $74.6 million from FY 2011 to $341.5 million for FY 2012. Fuel amounts used for reload increased $106.1 million and increases of $22.9 million were incurred for current year amortization. Fuel removed for cooling decreased $53.5 million and remaining decrease was $0.9 million for fuel loan and purchase activity.

Current assets decreased $13.5 million in FY 2012 to $149.6 million. Changes were increases to inventory of $8.1 million offset by a decrease of $4.6 million due to other business unit activity and a decrease of $17.0 million due to increased outage obligations from FY 2011 and the related timing of obligations due the next fiscal year.

Special funds decreased $67.4 million to $36.8 million in FY 2012 due to the FY 2012 bond activity and schedule of construction costs for these funds in FY 2012.

The debt service funds increased $27.1 million in FY 2012 to $89.9 million. The increase is due in part to the maturity of outstanding debt along with restructuring and funding activities associated with the bond sale in spring of 2012.

Deferred charges decreased $19.2 million in FY 2012 from $854.2 million to $835.0 million. Columbia was issued a standard 40-year operating license by the Nuclear Regulatory Commission (NRC) in 1983. On Jan. 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 for continued operation of Columbia to Dec. 31, 2043 was granted by the NRC on May 22, 2012. Accordingly, $18.7 million of relicensing costs were transferred from a deferred charge to plant. The other component of the decrease to deferred charges related to the net effect of payment of current maturities and refunding activity related to available debt and unamortized debt expenses of $0.5 million.

Current liabilities increased $36.3 million in FY 2012 to $123.8 million. A major component of the change was an increase of $61.8 million in notes payable due to the Depleted Uranium Enrichment Program. The program was a multi-agreement joint effort for processing high-assay uranium tails, enrichment, and sale of fuel components. (See Note 1 (d) to the financial statements.) Other changes included a decrease to year end obligations of $18.4 million resulting from FY 2012 being a non-refueling cycle year, an increase to current debt of $0.3 million, an increase of $1.8 million for business unit activity and a decreased requirement for participant amounts under the net billing agreement of $9.5 million.

Restricted liabilities decreased $11.7 million in FY 2012 to $120.4 million. The decrease was due to the asset retirement obligation adjustment as a result of the NRC relicense agreement issued May 2012.

Long-term debt decreased $12.9 million in FY 2012 from $2.58 billion to $2.6 billion due to the FY 2012 refunding issuance. Current maturing debt is not included. In FY 2012, new debt was issued for various Columbia operational and construction projects, the extension of some maturing debt, the early redemption of certain callable maturities, and to pay for a portion of the costs of issuing debt.

Other long-term liabilities increased $1.8 million in FY 2012 to $15.8 million related to nuclear fuel cask activity.

Statement of Operations 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 assets are accumulated.

Operating expenses decreased $57.5 million from FY 2011 costs of $388.9 million to $331.4 million in FY 2012. The decreases in costs were due to FY 2012 being a non-refueling year. The majority of the impacts to lower operating expenses were for Operations and Maintenance costs. These costs were $69.5

million lower in FY 2012. Costs incurred to offset these decreases were increased nuclear fuel costs of $4.3 million, depreciation and decommissioning increases of $8.1 million, generation tax increases of $0.1 million and a decrease to Administrative and General expenses of $0.5 million comprised of a decrease to regulatory expenses and litigation and damages of $1.2 million, offset by increases to staffing and related benefit programs of $0.6 million.

Other Income and Expenses decreased $66.8 million from FY 2011 to $66.5 million net expenses in FY 2012. The spent fuel litigation settlement from the Department of Energy (DOE) of $48.7 million was the major factor in the decrease to overall other expenses and is shown as gain on DOE settlement on the Statement of Revenues, Expenses and Changes in Net Assets. (See Note 13 to the financial statements.) The remaining net decrease in other income and expenses of $16.5 million resulted from increased costs due to bond activity of $4.1 million, decrease of $20.4 million mostly related to the recognition of the disposal of the condenser from R-20 in FY 2011, increases to non-generation related revenue of $1.6 million, a small increase to lease revenues of $0.5 million and a decrease to investment income of $0.3 million.

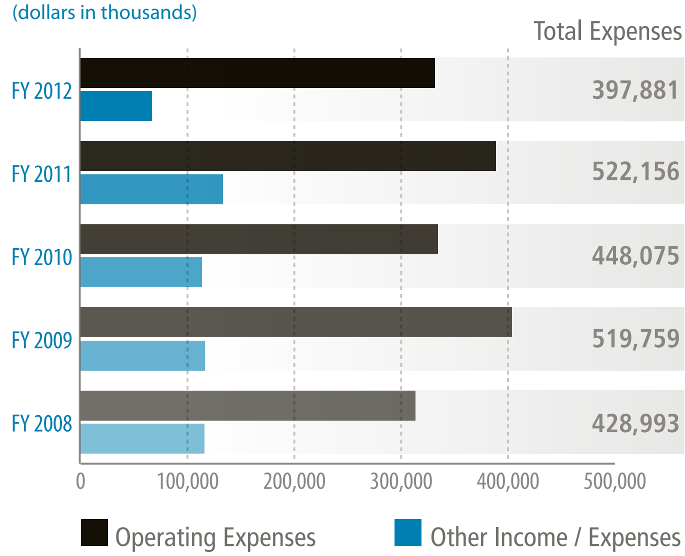
Columbia's total operating revenue decreased from $522.2 million in FY 2011 to 397.9 million in FY 2012. The decrease in costs (and conversely revenue per net billing) of $124.5 million was due to the increased costs incurred in the previous year of R-20. Although R-20 extended into FY 2012, which is an off cycle year for the two year refueling outage, costs incurred for the extended portion of the R-20 outage were not at the levels for the original planned portion of the R-20 in FY 2011.

R-20 was originally budgeted for $153.7 million and 78 days. Actual cost and days were $193.1 million and 174 days. Costs incurred in FY 2012 for R-20 were $21.5 million. R-20 activities continued through September of FY 2012. Columbia officially synced to the grid on Sept. 27, 2011 signaling the end of R-20.

Columbia Generating Station

TOTAL OPERATING COSTS

(dollars in thousands)

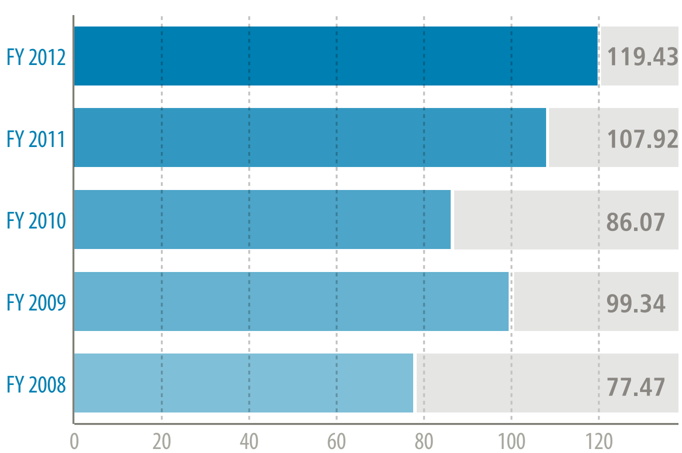


Packwood Lake Hydroelectric Project

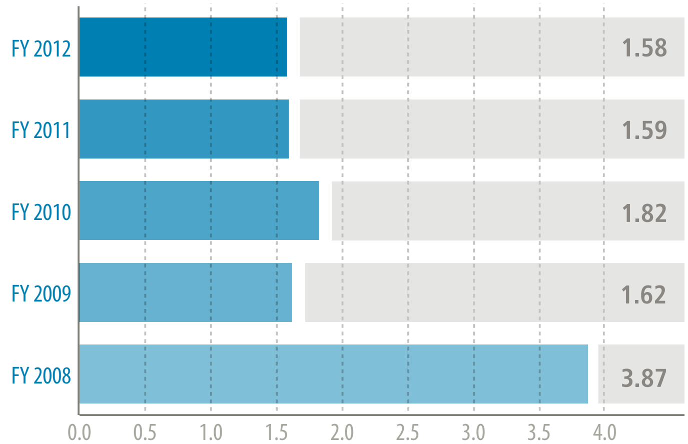
The Packwood Lake Hydroelectric Project (Packwood) is wholly owned and operated by Energy Northwest. Packwood consists of a diversion structure at Packwood Lake and a powerhouse located near the town of Packwood, Wash. The water is carried from the lake to the powerhouse through a five-mile long buried tunnel and drops nearly 1,800 feet in elevation. Packwood produced 119.43 GWh of electricity in FY 2012 versus 107.92 GWh in FY 2011. The 10.7 percent increase in generation can be attributed to increased water availability compared to the previous year. FY 2012 was the fourth highest generation in the life of the plant while FY 2011 was the 11th highest.

Packwood's cost performance is measured by the cost of power indicator. The cost of power for FY 2012 was $1.58 cents per kWh as compared to $1.59 cents per kWh in FY 2011. The cost of power fluctuates year-to-year depending on various factors such as outage, maintenance, generation, and other operating costs. The FY 2012 cost of power decrease of 0.6 percent was a result of higher water availability under terms of the old license agreement which was partially offset by higher transmission and scheduling costs.

Packwood Lake Hydroelectric Project
NET GENERATION - GWhrs



Packwood Lake Hydroelectric Project
COST OF POWER - Cents/kWh



Balance Sheet Analysis

Total assets increased $1.0 million from FY 2011, with the drivers being an increase to cash due to operations of $1.3 million and decrease to accounts receivable of $0.3 million. There were no major changes to Net plant or related depreciation. The corresponding increase to total liabilities of $1.0 million was the increase in due to participants for the results of operations. Packwood has incurred $3.7 million in relicensing costs through FY 2011 with no new costs incurred for FY 2012. These costs are shown as Deferred Charges on the Balance Sheet. Packwood has been operating under a 50-year license issued by the Federal Energy Regulatory Commission (FERC), which expired on Feb. 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on Feb. 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 formal decision is issued by FERC and a new operating license is granted. As of June 30, 2012, Packwood continues to be relicensed under this extended agreement.

Statement of Operations Analysis

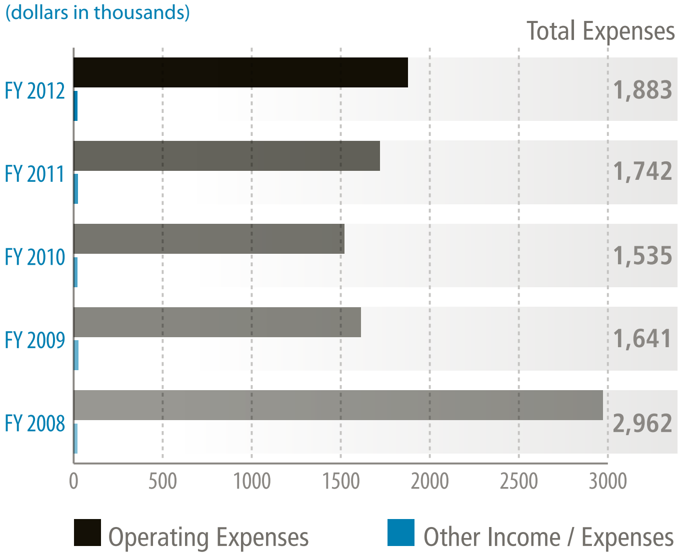
The agreement with Packwood participants obligates them to pay annual costs and to receive excess revenues. (See Note 1 to the Financial Statements.) Accordingly, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized and no net assets are accumulated.

Operating expenses increased $156k from FY 2011 amounts. Operations and Maintenance was the major reason for the increase due to increased transmission and scheduling costs of $267k and $63k of hydraulic and electrical expenses. These areas were offset by decreases in miscellaneous hydro expenses of $132k and maintenance costs of $17k. Other decreases of $8k were in other minor operating areas. Power supply expenses decreased $17k accounting for the remainder of the change in operating expenses.

Packwood Lake Hydroelectric Project

TOTAL OPERATING COSTS

(dollars in thousands)



From July 1, 2011 through Sept. 30, 2011, Packwood was obligated to supply a specified amount of power hourly, known as Priority Firm Energy (PFE). The amount varied monthly based on historical average generation. If the project was not able to deliver PFE, replacement power was purchased on the spot market. Electrical energy from Packwood was sold directly to Snohomish PUD through Sept. 30, 2011, who purchased all of the output directly. The power purchase agreement (PPA) with Snohomish provided a predetermined rate for all firm delivery, per the contract schedule and the Mid-Columbia (Mid-C) based rate for any deliveries above firm, or secondary power. Conversely, if there was excess capacity per the PPA with Snohomish PUD, Energy Northwest sold the excess on the open market for additional revenues to be included as part of the PPA with the participants of the project. As of Oct. 1, 2011, the Packwood Participants began taking 100% of the project generation. (See Note 6 to the Financial Statements.)

Other Income and Expenses increased from a net loss of $23k in FY 2011 to a net gain of $4k in FY 2012. The $27k increase in net gain is primarily due to no interest costs incurred in FY 2012 compared to FY 2011 costs of $26k. The residual amount is due to slight increases in investment income.

Nuclear Project No. 1

Energy Northwest wholly owns Nuclear Project No. 1. Nuclear Project No. 1, a 1,250-MWe plant, 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 on Nuclear Project No. 1 and are net-billed.

Balance Sheet Analysis

Long-term debt decreased $248.6 million from $1.6 billion in FY 2011 to $1.4 billion in FY 2012 as a result of maturing debt. The decrease in long-term debt was offset by the $70.0 million increase in the current debt per the debt maturity schedule.

Statement of Operations Analysis

Other Income and Expenses showed a net decrease to expenses of $9.2 million from $84.2 million in FY 2011 to $75.0 million in FY 2012. Investment revenue stayed steady, and bond related expenses decreased $8.6 million; decreases of $0.6 million for plant preservation and decommissioning costs accounted for the remaining decreases.

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 and are net-billed. (See Note 13 to the Financial Statements.)

Balance Sheet Analysis

Long-term debt decreased $100.0 million from $1.5 billion in FY 2011 to $1.4 billion in FY 2012, as a result of maturing debt. Current debt per the debt maturity schedule decreased $33.9 million from $129.4 million in FY 2011 to $95.5 million in FY 2012.

Statement of Operations Analysis

Overall expenses decreased $10.6 million from FY 2011 related to bond activity with investment income steady with previous year levels.

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. Four business lines have been created within the fund: General Services and Facilities, Generation, Professional Services, and Business Unit Support. Each line may have one or more programs that are managed as a unique business activity.

Balance Sheet Analysis

Total assets increased $0.5 million from $8.6 million in FY 2011 to $9.1 million in FY 2012. Increase was due to positive cash and investments position of $0.6. Deferred charges decreased $0.1 million due to the decrease related to power sales derivatives (see Note 14). Prepaid activity increased $0.2 million but was offset by a corresponding decrease in accounts receivable and other business unit activity of $0.2 million. Liabilities decreased $0.5 million from FY 2011 with deceased amount of payables outstanding items at year end. Net Assets increased $1.0 million from $6.9 million in FY 2011 to $7.9 million in FY 2011 due to the aforementioned changes.

Statement of Operations Analysis

Operating Revenues in FY 2012 totaled $9.8 million as compared to FY 2011 revenues of $12.1 million, a decrease of $2.3 million. The decrease in revenues was driven by two major projects: a telecommunications project that ended in FY 2011 ($0.6 million) and a decrease in the power option agreement revenues with Grays Harbor due to market conditions of $1.9 million. The remaining change of $0.2 million was spread among the remaining 20 projects of the Business Development Fund. Operating costs decreased $3.2 million due to decreases business activity resulting in the net operating loss of $0.9 million.

Other Income and Expenses increased $0.6 million from $1.0 million in net revenues in FY 2011 to net revenue of $1.6 million in FY 2012. Major drivers for the overall change from the previous year were a flat revaluation of the power sale options (see note 14) whereas FY 2011 included an expense adjustment of $1.0 million and a reduction in general and administrative costs of $0.4 million.

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 2012 there were no contributions (transfers) which was also the case for FY 2011.

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, Wash. 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 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.

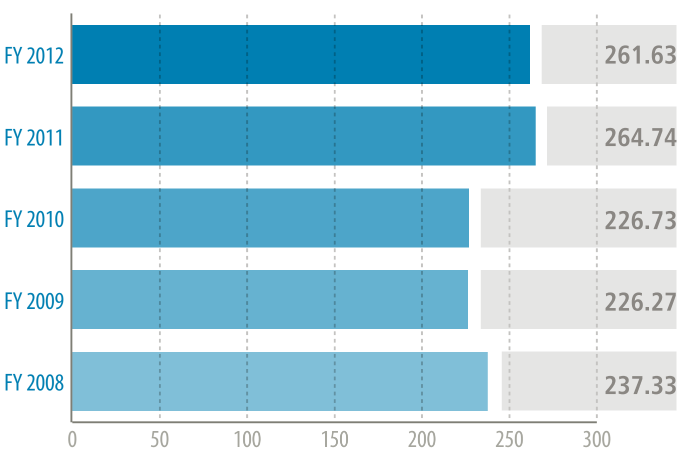
Nine Canyon produced 261.63 GWh of electricity in FY 2012 versus 264.74 GWh in FY 2011. The small decrease of 2.3 percent was due to slightly less favorable wind conditions in FY 2012 as compared to FY 2011 which had record generation for history of the project.

Nine Canyon's cost performance is measured by the cost of power indicator. The cost of power for FY 2012 was $6.69 cents per kWh as compared to $6.56 cents per kWh in FY 2011. The cost of power fluctuates year to year depending on various factors such as wind totals and unplanned maintenance. The FY 2012 cost of power increase of 2 percent was a result of the slightly lower generation as compared to the record generation in FY 2011 coupled with slightly higher FY 2012 maintenance costs.

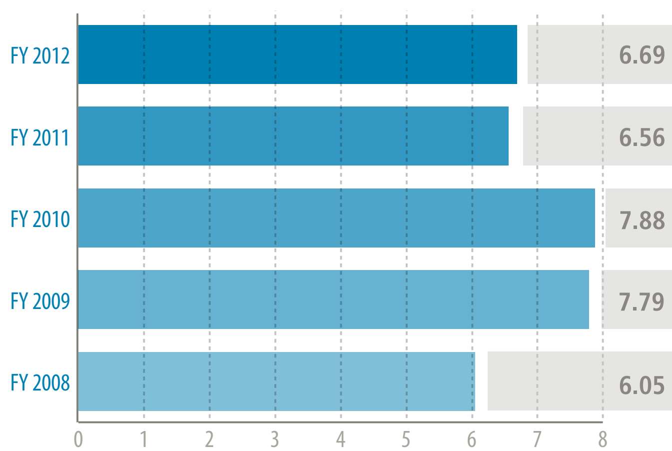
Balance Sheet Analysis

Total assets decreased $6.9 million from $127.4 million in FY 2011 to $120.5 million in FY 2012. The major driver for the change in assets was a decrease of $6.8 million due to accumulated depreciation and plan activity. The remaining small

Nine Canyon Wind Project
NET GENERATION - GWhrs



Nine Canyon Wind Project
COST OF POWER - Cents/kWh



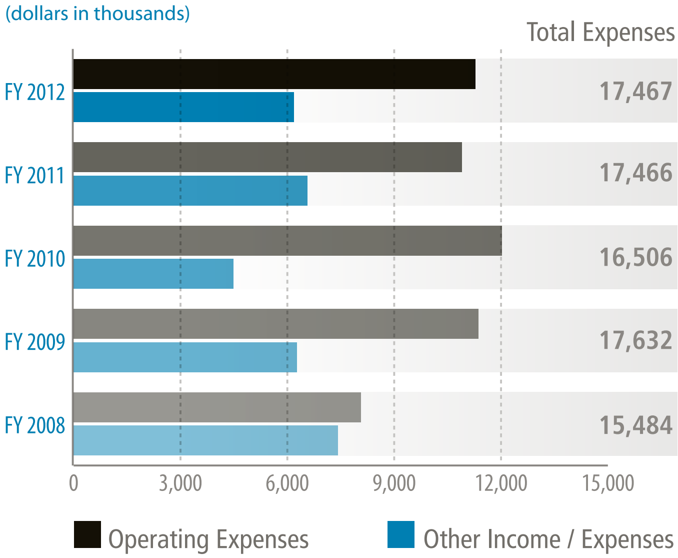
change of $0.1 million was the net impact to cash and operations involving prepaid expenditures and bond related expenditures. There was an overall decrease to liabilities of $6.6 million with a decrease to long term debt of $5.2 million, increases to current debt maturities of $0.3 million, decreases to accrued debt related interest of $0.3 million, and decreases to accrued costs and business activities of $0.4 million. The decrease in net assets was $1.3 million in FY 2012 as compared to $1.2 million in FY 2011. The decline experienced in previous years is continuing, though the trend is consistent with the rate stabilization approach for Nine Canyon planning.

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 were 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. Phase III started with an initial planning rate of $49.82 per MWh which increased at 3 percent per year for three years. In year six (FY 2013) the rate will increase to a rate that will be stabilized over the life of the project. Possible adjustments may be necessary to future rates depending on operating costs and REPI funding, similar to Phase I and II.

Nine Canyon Wind Project

TOTAL OPERATING COSTS

(dollars in thousands)



Statement of Operations Analysis

Operating revenues decreased $0.1 million from $16.3 million in FY 2011 to $16.2 million in FY 2012. The project received revenue from the billing of the purchasers at an average rate of $61.98 per MWh for FY 2012 as compared to $60.69 per MWh for FY 2011 which is reflective of the implementation of the revised rate plan in FY 2008 to account for REPI funding shortfalls and costs of operations. The flat operating revenues from the previous year was due to the planned MWh budgeted rate. Operating costs increased from $10.9 million in FY 2011 to $11.3 million in FY 2012. Increased operating costs of $0.4 million for FY 2012 were due to small increases in maintenance items.

Other income and expenses decreased $0.4 million from $6.6 million in net expenses FY 2011 to $6.2 million in FY

2012. Decreased interest costs of $0.3 million and decreases in transmission and scheduling activity of $0.1 million accounted for the change. Net losses of $1.3 million for FY 2012, were incurred and are consistent with the expectations of a gradual revenue recovery of operating costs. There was a slight increase in loss of $0.1 million from FY 2011 but a declining net asset balance is expected in future years until bond principal payments exceed annual depreciation requirements.

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 2012 and is not anticipating future REPI incentives.

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.)

Balance Sheet Analysis

Total assets decreased $9.0 million from $55.6 million in FY 2011 to $46.6 million in FY 2012. The four major items contributing to the change were 1) decreases to net plant of $2.1 million, 2) decrease of $8.1 million to cash to reflect FY 2011 timing for anticipated year-end check and warrant redemption related to R-20 versus the requirements of FY 2012 non outage year requirements, 3) a decrease of $0.2 million in restricted assets due to maturity schedule and escrow requirements processing schedule, and 4) an increase to operational activities of $1.4 million.

The net decrease in net assets and liabilities is due to decreases in accounts payable and payroll related liabilities of $4.5 million due to year-end timing of expenses for FY 2011, which was the outage year and a decrease of $4.6 million due to other business units resulting from the change in year-end activities.

Statement of Operations Analysis

Net revenues for FY 2012 decreased $40k from FY 2011. The decrease was due to lower amounts of other business expenses of $66k, decrease in investment returns of $23k and increases to depreciation of $35k offset by decreases in operating revenue due to operations of $48k.

Balance Sheets As of June 30, 2012 (In Thousands)

	Columbia Generating Station	Packwood Lake Hydroelectic Project	Nuclear Project No.1 *	Nuclear Project No.3 *	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	2012 Combined Total
ASSETS									
CURRENT ASSETS									
Cash	$ 35,950	$ 1,195	$ 4,569	$ 4,903	$ 2,172	$ 1,372	$ 50,161	$ 5,595	$ 55,756
Available-for-sale investments	-	984	-	245	4,504	8,492	14,225	23,358	37,583
Accounts and other receivables	1,127	118	6	-	415	132	1,798	86	1,884
Due from other business units	-	21	290	-	646	-	957	1,852	-
Materials and supplies	111,203	-	-	-	-	-	111,203	-	111,203
Prepayments and other	1,311	74	-	-	149	278	1,812	1,107	2,919
TOTAL CURRENT ASSETS	149,591	2,392	4,865	5,148	7,886	10,274	180,156	31,998	209,345
RESTRICTED ASSETS (NOTE 1)									
Special funds									
Cash	6,621	-	320	1,656	-	842	9,439	475	9,914
Available-for-sale investments	30,154	-	3,005	5,222	-	750	39,131	2,299	41,430
Accounts and other receivables	1	-	-	-	-	-	1	-	1
Debt service funds									
Cash	58,246	-	87,569	97,804	-	7,512	251,131	-	251,131
Available-for-sale investments	31,657	-	190,486	31,472	-	11,349	264,964	-	264,964
Accounts and other receivables	-	5	-	1	-	5	11	-	11
TOTAL RESTRICTED ASSETS	126,679	5	281,380	136,155	-	20,458	564,677	2,774	567,451
NONCURRENT ASSETS UTILITY PLANT (NOTE 2)									
In service	3,805,582	13,625	-	-	2,174	134,506	3,955,887	48,410	4,004,297
Not in service	-	-	25,253	-	-	-	25,253	-	25,253
Construction work in progress	60,553	-	-	-	-	-	60,553	-	60,553
Accumulated depreciation	(2,441,485)	(12,764)	(25,253)	-	(993)	(47,372)	(2,527,867)	(36,594)	(2,564,461)
Net Utility Plant	1,424,650	861	-	-	1,181	87,134	1,513,826	11,816	1,525,642
Nuclear fuel, net of accumulated amortization	341,535	-	-	-	-	-	341,535	-	341,535
TOTAL NONCURRENT ASSETS	1,766,185	861	-	-	1,181	87,134	1,855,361	11,816	1,867,177
DEFERRED CHARGES									
Costs in excess of billings	822,353	-	1,377,151	1,430,528	-	-	3,630,032	-	3,630,032
Unamortized debt expense	12,624	-	4,955	5,159	-	1,617	24,355	-	24,355
Other deferred charges	-	3,737	-	-	-	-	3,737	-	3,737
TOTAL DEFERRED CHARGES	834,977	3,737	1,382,106	1,435,687	-	1,617	3,658,124	-	3,658,124
TOTAL ASSETS	**$ 2,877,432**	**$ 6,995**	**$ 1,668,351**	**$ 1,576,990**	**$ 9,067**	**$ 119,483**	**$ 6,258,318**	**$ 46,588**	**$ 6,302,097**

* Project recorded on a liquidation basis
The accompanying notes are an integral part of these combined financial statements

	Columbia Generating Station	Packwood Lake Hydroelectic Project	Nuclear Project No.1 *	Nuclear Project No.3 *	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	2012 Combined Total
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Current maturities of long-term debt	$ 355	$ -	$ 236,030	$ 95,540	$ -	$ 4,575	$ 336,500	$ -	$ 336,500
Accounts payable and accrued expenses	94,821	126	98	15	1,095	384	96,539	39,864	136,403
Due to Participants	26,956	1,906	36	-	-	-	28,898	-	28,898
Due to other business units	1,744	-	-	2	-	106	1,852	957	-
TOTAL CURRENT LIABILITIES	123,876	2,032	236,164	95,557	1,095	5,065	463,789	40,821	501,801
LIABILITIES- PAYABLE FROM RESTRICTED ASSETS (NOTE 1)									
Special funds									
Accounts payable and accrued expenses	120,357	-	16,405	-	-	1,236	137,998	408	138,406
Debt service funds									
Accrued interest payable	65,783	-	42,019	33,730	-	3,025	144,557	-	144,557
TOTAL RESTRICTED LIABILITIES	186,140	-	58,424	33,730	-	4,261	282,555	408	282,963
LONG-TERM DEBT (NOTE 5)									
Revenue bonds payable	2,441,385	-	1,321,060	1,395,405	-	130,955	5,288,805	-	5,288,805
Unamortized (discount)/ premium on bonds - net	120,221	-	56,290	53,241	-	4,743	234,495	-	234,495
Unamortized loss on bond refundings	(9,966)	-	(3,614)	(974)	-	(279)	(14,833)	-	(14,833)
TOTAL LONG-TERM DEBT	2,551,640	-	1,373,736	1,447,672	-	135,419	5,508,467	-	5,508,467
OTHER LONG-TERM LIABILITIES	15,776	-	-	-	-	-	15,776	-	15,776
DEFERRED CREDITS									
Advances from members and others	-	4,963	-	-	-	-	4,963	-	4,963
Advances from members and others	-	-	-	-	-	-	-	574	574
Other deferred credits	-	-	27	31	-	109	167	5	172
TOTAL DEFERRED CREDITS	-	4,963	27	31	-	109	5,130	579	5,709
NET ASSETS									
Invested in capital assets, net of related debt	-	-	-	-	1,181	(51,243)	(50,062)	11,816	(38,246)
Restricted, net	-	-	-	-	-	15,124	15,124	2,366	17,490
Unrestricted, net	-	-	-	-	6,791	10,748	17,539	(9,402)	8,137
NET ASSETS	-	-	-	-	7,972	(25,371)	(17,399)	4,780	(12,619)
TOTAL LIABILITIES	2,877,432	6,995	1,668,351	1,576,990	1,095	144,854	6,275,717	41,808	6,314,716
TOTAL LIABILITIES AND NET ASSETS	**$ 2,877,432**	**$ 6,995**	**$ 1,668,351**	**$ 1,576,990**	**$ 9,067**	**$ 119,483**	**$ 6,258,318**	**$ 46,588**	**$ 6,302,097**

* Project recorded on a liquidation basis
The accompanying notes are an integral part of these combined financial statements

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

As of June 30, 2012 (In Thousands)

	Columbia Generating Station	Packwood Lake Hydroelectic Project	Nuclear Project No.1 *	Nuclear Project No.3 *	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	2012 Combined Total
OPERATING REVENUES	$ 397,881	$ 1,872	$ -	$ -	$ 9,770	$ 16,172	$ 425,695	$ -	$ 425,695
OPERATING EXPENSES									
Nuclear fuel	35,393	-	-	-	-	-	35,393	-	35,393
Spent fuel disposal fee	6,560	-	-	-	-	-	6,560	-	6,560
Decommissioning	7,433	-	-	-	-	82	7,515	-	7,515
Depreciation and amortization	74,440	59	-	-	242	6,808	81,549	-	81,549
Operations and maintenance	177,468	1,636	-	-	10,051	4,295	193,450	-	193,450
Other power supply expense	-	(1)	-	-	-	-	(1)	-	(1)
Administrative & general	26,876	156	-	-	-	41	27,073	-	27,073
Generation tax	3,239	26	-	-	-	56	3,321	-	3,321
Total operating expenses	331,409	1,876	-	-	10,293	11,282	354,860	-	354,860
OPERATING INCOME/(LOSS)	66,472	(4)	-	-	(523)	4,890	70,835	-	70,835
OTHER INCOME AND EXPENSE									
Other	8,354	1	74,995	65,770	1,537	46	150,703	70,559	150,749
Gain on DOE settlement	48,703						48,703	-	48,703
Investment income	407	3	46	65	20	46	587	15	587
Interest expense and discount amortization	(123,936)	-	(73,421)	(65,508)	-	(6,276)	(269,141)	-	(269,141)
Plant preservation and termination costs	-	-	(1,048)	(327)	-	-	(1,375)	-	(1,375)
Depreciation and amortization	-	-	(6)	-	-	-	(6)	(2,303)	(6)
Decommissioning	-	-	(566)	-	-	-	(566)	-	(566)
Services to other business units	-	-	-	-	-	-	-	(68,225)	-
TOTAL OTHER INCOME AND EXPENSE	(66,472)	4	-	-	1,557	(6,184)	(71,095)	46	(71,049)
Changes in net assets	-	-	-	-	1,034	(1,294)	(260)	46	(214)
(DISTRIBUTION)/CONTRIBUTION	-	-	-	-	-	-	-	-	-
TOTAL NET ASSETS, BEGINNING OF YEAR	-	-	-	-	6,938	(24,077)	(17,139)	4,734	(12,405)
TOTAL NET ASSETS, END OF YEAR	**$ -**	**$ -**	**$ -**	**$ -**	**$ 7,972**	**$ (25,371)**	**$ (17,399)**	**$ 4,780**	**$ (12,619)**

* Project recorded on a liquidation basis
The accompanying notes are an integral part of these combined financial statements

STATEMENTS CASH FLOWS

As of June 30, 2012 (In Thousands)

	Columbia Generating Station	Packwood Lake Hydroelectic Project	Nuclear Project No.1 *	Nuclear Project No.3 *	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2012 Combined Total
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES								
Operating revenue receipts	$ 389,241	$ 3,214	$ -	$ -	$ 5,645	$ 16,953	$ -	$ 415,053
Cash payments for operating expenses	(180,180)	(1,887)	-	-	(4,970)	(5,657)	-	(192,694)
Other revenue receipts	-	-	322,569	166,796	-	-	-	489,365
Cash payments for preservation, termination expense	-	-	(588)	40	-	-	-	(548)
Cash payments for services	-	-	-	-	-	-	(9,020)	(9,020)
Net cash provided/(used) by operating and other activities	209,061	1,327	321,981	166,836	675	11,296	(9,020)	702,156
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from bond refundings	486,849	-	243,281	172,037	-	15,090	-	917,257
Refunded bond escrow requirement	-	-	-	-	-	(15,085)	-	(15,085)
Deposit to Debt Service Fund	(483,736)	-	(241,758)	(170,948)	-	-	-	(896,442)
Payment for bond issuance and financing costs	(6,288)	-	(2,741)	(1,844)	(1)	(242)	-	(11,116)
Payment for capital items	(91,127)	(11)	-	-	(103)	(77)	681	(90,637)
Receipts from sales of plant assets	-	-	5	-	-	-	-	5
Nuclear fuel acquisitions	(102,960)	-	-	-	-	-	-	(102,960)
Interest paid on revenue bonds	(130,885)	-	(87,682)	(101,024)	-	(6,672)	-	(326,263)
Principal paid on revenue bond maturities	(45)	-	(166,030)	(103,514)	-	(4,260)	-	(273,849)
Escrow refund	-	-	6	-	-	-	-	6
Note	161,902	-	-	-	-	-	-	161,902
Note payment	(100,133)							
Interest paid on Notes	(388)	-	-	-	-	-	-	(388)
Net cash provided/(used) by capital and related financing activities	(266,811)	(11)	(254,919)	(205,293)	(104)	(11,246)	681	(637,570)
CASH FLOWS FROM NON-CAPITAL FINANCE ACTIVITIES	-	-	-	-	-	-	-	-
CASH FLOWS FROM INVESTING								
ACTIVITIES								
Purchases of investment securities	(438,449)	(1,593)	(434,111)	(257,312)	(6,009)	(41,927)	(23,991)	(1,203,392)
Sales of investment securities	512,778	600	361,748	379,827	6,204	34,058	24,076	1,319,291
Interest on investments	1,266	7	82	305	49	38	351	2,098
Net cash provided/(used) by investing activities	75,595	(986)	(72,281)	122,820	244	(7,831)	436	117,997
NET INCREASE(DECREASE) IN CASH	17,845	330	(5,219)	84,363	815	(7,781)	(7,903)	82,450
CASH AT JUNE 30, 2011	82,972	861	97,677	20,000	1,357	17,507	13,973	234,347
CASH AT JUNE 30, 2012	**$ 100,817**	**$ 1,191**	**$ 92,458**	**$ 104,363**	**$ 2,172**	**$ 9,726**	**$ 6,070**	**$ 316,797**

* Project recorded on a liquidation basis
The accompanying notes are an integral part of these combined financial statements

STATEMENTS CASH FLOWS (Cont'd)

As of June 30, 2012 (In Thousands)

	Columbia Generating Station	Packwood Lake Hydroelectic Project	Nuclear Project No.1 *	Nuclear Project No.3 *	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2012 Combined Total
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES								
Net operating revenues	$ 66,473	$ (4)	$ -	$ -	$ (523)	$ 4,890	$ -	$ 70,836
Adjustments to reconcile net operating revenues to cash provided by operating activities:								
Depreciation and amortization	107,739	48	-	-	145	6,780	-	114,712
Decommissioning	7,433	-	-	-	-	33	-	7,466
Other	57,699	7	-	-	1,538	84	-	59,328
Change in operating assets and liabilities:								
Deferred charges/costs in excess of billings	(8,721)	(48)	-	-	-	-	-	(8,769)
Accounts receivable	(45)	354	-	-	94	63	-	466
Materials and supplies	(8,103)	-	-	-	-	-	-	(8,103)
Prepaid and other assets	334	(7)	-	-	-	(202)	-	125
Due from/to other business units, funds and Participants	6,310	1,033	-	-	-	(256)	-	7,087
Accounts payable	(20,058)	(56)	-	-	(579)	(96)	-	(20,789)
Other revenue receipts	-	-	322,569	166,796	-	-	-	489,365
Cash payments for preservation, termination expense	-	-	(588)	40	-	-	-	(548)
Cash payments for services	-	-	-	-	-	-	(9,020)	(9,020)
Receipts for grants/contributions	-	-	-	-	-	-	-	-
Net cash provided (used) by operating and other activities	$ 209,061	$ 1,327	$ 321,981	$ 166,836	$ 675	$ 11,296	$ (9,020)	$ 702,156

* Project recorded on a liquidation basis
The accompanying notes are an integral part of these combined financial statements

ENERGY NORTHWEST 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 23 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.

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 6).

Energy Northwest operates the Columbia Generating Station (Columbia), a 1,170-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 Jan. 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 Dec. 31, 2043. Accordingly, $18.7 million of incurred relicensing costs were transferred from deferred charges to plant.

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 Feb. 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on Feb. 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. Costs incurred to date for relicensing are $3.7 million included in other deferred charges.

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, until the outstanding bonds are paid or provisions are made for bond retirement, in accordance with the requirements of bond resolution. The participants also share Packwood revenue. (See Note 6).

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 wholly owns Nuclear Project No. 1. Energy Northwest is no longer responsible for site restoration costs for Nuclear Project No. 3. (See Note 13)

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 Oct. 30, 2012, the date the financial statements were issued. The Depleted Uranium Enrichment Program (program) (Note 1d) were agreements signed in May 2012 to accept high assay uranium tails from the Department of Energy (DOE) and have them enriched by United States Enrichment Corporation (USEC) in Paducah, Ky. The agreements also contained sales and purchase arrangements with Tennessee Valley Authority (TVA). In order to fund the initial enrichment services and allow for the completion of a long-term financing option, a short term note payable was established as a short term financing bridge to August 2012. On Aug. 23, 2012, Energy Northwest completed the 2012 D/E series bond transaction resulting in the issuance of $34.1 million and $748.5 million of Columbia bonds, respectively, for the purpose of financing the repayment of the short term note, remaining portion of the program, as well as other capital and general expenses.

The following is a summary of the significant accounting policies:

a) Basis of Accounting and Presentation: The accounting policies of Energy Northwest conform to 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. Energy Northwest has applied all applicable GASB pronouncements and elected to apply Financial Accounting Standards Board (FASB) standards except for those conflicting with or in contradiction to GASB pronouncements. 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 the full 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 book of accounts are maintained for each business unit. Payment of obligations of one business unit with funds of another business unit is prohibited, and would constitute violation of bond resolution covenants (See Note 5).

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, 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 Balance Sheet.

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 2012 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."

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," Energy Northwest has elected to apply all FASB standards, except for those that conflict with, or contradict, GASB pronouncements. Specifically, GASB No. 7, "Advance Refundings Resulting in Defeasance of Debt," and GASB No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities", conflict with ASC 860, "Transfers and Servicing". As such, the guidance under GASB No. 7 and No. 23 is followed. Such guidance governs the accounting for bond defeasances and refundings.

There are no new GASB pronouncements that had a material impact on Energy Northwest in the current year.

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 - 9 years
General Plant and Equipment	3 - 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 assets 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 operations.

c) Allowance for Funds Used during Construction (AFUDC): 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. There were no interest costs capitalized for FY 2012.

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, were capitalized and carried at cost.

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 DOE, TVA, 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 are anticipated to be $5 million or less. As of June 30, 2012, Energy Northwest had recorded $0.2 million in charges to the DOE for delivery of the DUF6, which is capitalized as cost of the fuel being purchased.

Energy Northwest will purchase from USEC all of the Separative Work Units (SWU) contained in the EUP. USEC will provide the enrichment of the DUF6 during calendar years 2012 and 2013 at an anticipated cost of between $695 million and $706 million. The final price will be dependent on the total number of cylinders processed, average assay of the DUF6 cylinders, total product produced and final electricity fuel cost adjustment between USEC and TVA. As of June 30, 2012, Energy Northwest had purchased a total of 40.5 MTU of EUP from USEC at a cost of $61.8 million, which is recorded in nuclear fuel, net of accumulated amortization.

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 Agreement is valued at approximately $731 million. The sales under this agreement are scheduled to take place between 2015 and 2022.

Energy Northwest has a contract with DOE that requires DOE to accept title and dispose of spent nuclear fuel (reference to the term "spent fuel" is due to DOE contract and current court proceedings. "Used fuel" is the preferred term by Energy Northwest). Although the courts have ruled that DOE had the obligation to accept title to spent nuclear fuel by Jan. 31, 1998, currently, there is no known date established when DOE will fulfill this legal obligation and begin accepting spent nuclear fuel. Energy Northwest was awarded Final Judgment and received damages, recorded as other income, for the time period through Aug. 31, 2006, in the amount of $48.7 million in FY 2012 (see Note 13).

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. Accumulated nuclear fuel amortization (the amortization of the cost of nuclear fuel assemblies in the reactor used in the production of energy and in the fuel pool for less than six months per FERC guidelines) decreased $53.5 million. The decrease was due to the six month post-cooling entry adjustment required by FERC guidelines adjusting fuel and amortization.

The current period operating expense for Columbia includes a $6.6 million charge from DOE for future spent fuel storage and disposal in accordance with the Nuclear Waste Policy Act of 1982 and $33.6 million for amortization of fuel used in the reactor.

Energy Northwest has completed the Independent Spent Fuel Storage Installation (ISFSI) project, 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. No casks were issued from the cask inventory account in FY 2012. Spent fuel is transferred from the spent fuel pool to the ISFSI periodically to allow for future refuelings. Current period costs were $1.7 million for dry cask storage costs.

e) Asset Retirement Obligation: Energy Northwest has adopted ASC 410, "Asset Retirement and Environmental Obligations." This standard requires 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 11).

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 12).

g) Derivative Instruments: In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." Statement No. 53 provides a comprehensive framework for the measurement, recognition and disclosure of derivative instrument transactions for the purpose of enhancing the usefulness and comparability of derivative instrument information reported by state and local governments (see Note 14).

h) 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, extraordinary operation and maintenance costs, termination, decommissioning, operating reserves, financing, long-term disability, and workers' compensation claims. They are classified as current or non-current assets as appropriate.

i) Cash and Investments: For purposes of the Statements 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, but are classified as available-for-sale investments 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.

j) 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.

k) 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.

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

m) Long-Term Liabilities: Consist of obligations related to bonds payable and the associated premiums/discounts and gains/losses. Other noncurrent liabilities for Columbia relates to the dry storage cask activity.

Long-Term Liability activity for the year ended June 30, 2012 was as follows:

Long-Term Liability (Dollars in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Columbia				
Revenue bonds payable	$ 2,487,355	$ 441,595	$ 487,565	$ 2,441,385
Unamortized (discount)/premium				
on bonds - net	92,655	45,639	18,073	120,221
Unamortized gain/(loss) on bond refundings	(15,501)	13,711	8,176	(9,966)
Other noncurrent liabilities	14,028	1,757	9	15,776
	$ 2,578,537	$ 502,702	$ 513,823	$ 2,567,416
Nuclear Project No.1				
Revenue bonds payable	$ 1,573,805	$ 220,775	$ 473,520	$ 1,321,060
Unamortized (discount)/premium				
on bonds - net	55,641	22,536	21,887	56,290
Unamortized gain/(loss) on bond refundings	(7,111)	6,208	2,711	(3,614)
	$ 1,622,335	$ 249,519	$ 498,118	$ 1,373,736
Nuclear Project No.3				
Revenue bonds payable	$ 1,495,480	$ 159,850	$ 259,925	$ 1,395,405
Unamortized (discount)/premium				
on bonds - net	53,430	22,723	22,912	53,241
Unamortized gain/(loss) on bond refundings	(1,224)	3,727	3,477	(974)
	$ 1,547,686	$ 186,300	$ 286,314	$ 1,447,672
Nine Canyon				
Revenue bonds payable	$ 136,505	$ 13,750	$ 19,300	$ 130,955
Unamortized (discount)/premium				
on bonds - net	4,155	1,340	752	4,743
Unamortized gain/(loss) on bond refundings	-	(290)	(11)	(279)
	$ 140,660	$ 14,800	$ 20,041	$ 135,419

n) Debt Premium, Discount and Expense: Original issue and reacquired bond premiums, discounts and expenses 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. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," 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.

o) Revenue Recognition: Energy Northwest accounts for expenses 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. No net revenue or loss is recognized, and no net assets are accumulated. The difference between cumulative billings received and cumulative expenses is recorded as either billings in excess of costs (deferred credit) or as costs in excess of billings (deferred debit), as appropriate. Such amounts will be settled during future operating periods (see Note 6).

Energy Northwest accounts for revenues and expenses on an accrual basis for the remaining business units. The difference between cumulative revenues and cumulative expenses is recognized as net revenue or loss and included in Net Assets for each period.

p) Capital Contribution: Renewable Energy Performance Incentive (REPI) payments enable Nine Canyon to receive funds based on generation as it applies to the REPI bill. REPI was created as part of the Energy Policy Act of 1992 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. Nine Canyon did not record a receivable for FY 2012 REPI funding as no funds are anticipated to be disbursed to Energy Northwest under this program. The payment stream from Nine Canyon participants and the anticipated REPI funding were projected to cover the total costs over the purchase agreement. Permanent 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 current rate schedule for the Nine Canyon participants covers total estimated project costs occurring in FY 2012 and estimated total cost recovery projections out to the 2030 proposed end date.

q) 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 $19.8 million at June 30, 2012 and is recorded as a current liability.

r) 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.

Note 2 - Utility Plant

Utility plant activity for the year ended June 30, 2012 was as follows:

Utility plant activity (Dollars in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Columbia				
Generation	$ 3,561,999	$ 229,624	$ (297)	$ 3,791,326
Decommissioning	32,469	-	(18,213)	14,256
Construction Work-in-Progress	185,801	104,376	(229,624)	60,553
Accumulated Depreciation and Decommissioning	(2,370,557)	(72,895)	1,967	(2,441,485)
Utility Plant, net *	$ 1,409,712	$ 261,105	$ (246,167)	$ 1,424,650
Packwood				
Generation	$ 13,625	$ -	$ -	$ 13,625
Accumulated Depreciation	(12,716)	(120)	72	(12,764)
Utility Plant, net	$ 909	$ (120)	$ 72	$ 861
Business Development				
General	$ 2,065	$ 151	$ (42)	$ 2,174
Construction Work-in-Progress	-	151	(151)	-
Accumulated Depreciation	(862)	(165)	34	(993)
Utility Plant, net	$ 1,203	$ 137	$ (159)	$ 1,181
Nine Canyon				
Generation	$ 133,586	$ 77	$ (18)	$ 133,645
Decommissioning	861	-	-	861
Construction Work-in-Progress	-	77	(77)	-
Accumulated Depreciation and Decommissioning	(40,572)	(6,842)	42	(47,372)
Utility Plant, net	$ 93,875	$ (6,688)	$ (53)	$ 87,134
Internal Service Fund				
General	$ 48,961	$ 176	$ (727)	$ 48,410
Construction Work-in-Progress	-	176	(176)	-
Accumulated Depreciation	(35,091)	(2,230)	727	(36,594)
Utility Plant, net	$ 13,870	$ (1,878)	$ (176)	$ 11,816

* Does not include Nuclear Fuel Amount of $342 million, net of amortization.

Note 3 - Deposits And Investments

As of June 30, 2012, Energy Northwest had the following unrealized gains and losses on investments available for sale:

Available-For-Sale Investments (Dollars in Thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (1) (2)
Columbia	$ 61,787	$ 24	$ -	$ 61,811
Packwood	985	-	(1)	984
Nuclear Project No. 1	193,491	-	-	193,491
Nuclear Project No. 3	36,939	-	-	36,939
Business Development Fund	4,505	-	(1)	4,504
Internal Service Fund	25,650	12	(5)	25,657
Nine Canyon Wind	20,589	3	(1)	20,591

(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 $5.8 million have a maturity beyond one year with the longest maturity being June 13, 2014. The majority of these maturities ($5.1 million) reside in the Internal Service Fund with the remainder ($0.7 million) residing with Nine Canyon Wind Project.

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 designated in specific bond resolutions.

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 does not specifically address concentration of credit risk. An individual authorized security or obligation can receive up to 100 percent of the authorized investment amount; there are no individual concentration limits.

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 interest bearing accounts and certificates of deposits are covered up to $250,000 by Federal Depository Insurance (FDIC) while non-interest bearing deposits are entirely covered by FDIC and if necessary, 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.

Note 4 – Other Deferred Charges and Deferred Credits

Other deferred charges of $3.7 million relate to the Packwood relicensing effort. Other deferred credits of $0.1 million for Nine Canyon consist of turbine elevator purchases that will be completed in FY 2013.

Note 5 - 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"). 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) and Resolution No.1482 (2006 Bonds).

During the year ended June 30, 2012, Energy Northwest issued, for Columbia, Nuclear Project 1 and Nuclear Project 3, the Series 2012-A bonds. For Nuclear Project No. 1 and Nuclear Project No. 3 Series 2012-B and, 2012-C were also issued. The Series 2012-A, 2012-B, and 2012-C bonds issued are fixed rate bonds with a weighted average coupon interest rate ranging from 1.26 percent to 5.0 percent. These transactions resulted in a net gain for accounting purposes of $1.84 million.

During fiscal year 2012 Nine Canyon issued Series 2012 bonds. The Series 2012 are fixed rate bonds with an average weighted coupon interest rate ranging from 2.0 to 5.0 percent. This transaction resulted in a net loss for accounting purpose of $0.3 million.

The Series 2012-A bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are tax-exempt fixed-rate bonds that refunded certain electric revenue bonds as well as additional Columbia Prior Lien bonds.

The Series 2012-B bonds issued for Nuclear Project No. 1 and Nuclear Project No. 3 are tax exempt, fixed-rate bonds that advance refunded certain electric revenue bonds as well as pay for a portion of the costs of issuance related to the 2012-B bonds.

The Series 2012-C bonds issued for Nuclear Project No. 1 and Nuclear Project No. 3 are taxable fixed-rate bonds that advance refunded certain electric revenue bonds as well as to pay for a portion of the costs of issuance related to the 2012-C bonds.

The Series 2012 bonds issued for Nine Canyon are tax exempt fixed-rate bonds that refunded prior Nine Canyon Project bonds and were issued to pay for the costs of issuance related to the 2012 bonds.

The Bond Proceeds, Weighted Average Coupon Interest Rates, Net Accounting Loss, and Total Defeased Bonds for 2012-A, 2012-B, 2012-C, and 2012 are presented in the following tables:

Bond Proceeds (dollars in millions)

	2012	2012A	2012B	2012C	Total
Project 1	$ -	$ 170.43	$ 48.75	$ 24.10	$ 243.28
CGS	-	486.85	-	-	486.85
Project 3	-	75.36	35.04	61.64	172.04
Nine Canyon	15.09	-	-	-	15.09
Total	$ 15.09	$ 732.64	$ 83.79	$ 85.74	$ 917.26

Weighted Average Coupon Interest Rate for Refunded Bonds

	2012	2012A	2012B	2012C
Project 1	-	5.79%	5.50%	5.50%
CGS	-	5.51%	-	-
Project 3	-	6.00%	5.50%	5.50%
Nine Canyon	4.91%	-	-	-
Total	4.91%	5.63%	5.50%	5.50%

Weighted Average Coupon Interest Rate for New Bonds

	2012	2012A	2012B	2012C
Project 1	-	5.00%	5.00%	1.26%
CGS	-	5.00%	-	-
Project 3	-	5.00%	4.52%	1.66%
Nine Canyon	4.08%	-	-	-
Total	4.08%	5.00%	4.80%	1.55%

Net Accounting Loss (dollars in millions)

	2012	2012A	2012B	2012C	Total
Project 1	$ -	$ 1.42	$ (1.15)	$ (0.55)	$ (0.28)
CGS	-	2.30	-	-	2.30
Project 3	-	1.43	(0.59)	(1.02)	(0.18)
Nine Canyon	(0.29)	-	-		(0.29)
Total	$ (0.29)	$ 5.15	$ (1.74)	$ (1.57)	$ 1.55

Total Defeased ($ in millions)

	2012	2012A	2012B	2012C	Total
Project 1		$ 170.44	$ 44.87	$ 22.18	$ 237.49
CGS	-	486.86		-	486.86
Project 3	-	75.36	32.27	56.76	164.39
Nine Canyon	14.73	-		-	14.73
Total	$ 14.73	$ 732.66	$ 77.14	$ 78.94	$ 903.47

Energy Northwest did not issue or refund any bonds associated with Packwood during FY 2012.

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 their dates of redemption. Accordingly, the trust account assets and liability for the defeased bonds are not included in the financial statements in accordance with GASB statements No. 7 and 23. In FY 2012 defeasements included $170.4 million, $84.8 million, and $547.5 million, for Nuclear Projects Nos. 1 and 3, and Columbia respectively. Nine Canyon defeased bonds totaled $14.7 million.

Outstanding principal on revenue and refunding bonds for the various business units as of June 30, 2012, and future debt service requirements for these bonds are presented in the following tables:

Columbia Generating Revenue and Refunding Bonds
(dollars in thousands)

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
2003A	5.50	7-1-2015	$ 81,090
2003F	5.00-5.25	7-1-13/2018	23,710
2004A	5.25	7-1-17/2018	129,260
2004B	5.50	7-1-2013	12,715
2004C	5.25	7-1-13/2018	15,045
2005A	5.00	7-1-15/2018	114,985
2005C	4.64-4.74	7-1-13/2015	42,885
2006A	5.00	7-1-20/2024	434,210
2006C	5.00	7-1-20/2024	62,200
2006D	5.80	7-1-2023	3,425
2007A	5.00	7-1-13/2018	77,575
2007B	5.07-5.33	7-1-12/2021	10,665
2007D	5.00	7-1-21/2024	35,080
2008A	5.00-5.25	7-1-14/2018	110,935
2008B	5.95	7-1-20/2021	12,025
2008C	5.00-5.25	7-1-21/2024	37,240
2009A	3.00-5.00	7-1-14/2018	116,425
2009B	4.59-6.80	7-1-14/2024	18,515
2009C	4.25-5.00	7-1-20/2024	69,170
2010B	3.75-4.25	7-1-20/2024	16,005
2010C	4.52-5.12	7-1-20/2024	75,770
2010D	5.61-5.71	7-1-23/2024	155,805
2011A	3.00-5.00	7-1-13/2023	311,245
2011B	4.19-5.19	7-1-19/2024	29,920
2011C	3.55	7-1-2019	4,600
2012A	5.00	7-1-18/2021	441,240
		Revenue bonds payable	**$ 2,441,740**
		Estimated fair value at June 30, 2012	**$ 2,863,608** (B)

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Accounting Standards Codification (ASC) 820 and does not purport to represent the amounts at which these obligations would be settled.

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

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1989B	7.125	7-1-2016	$ 41,070
2002A	5.50-5.75	7-1-13/2017	171,420
2002B	6.00	7-1-2017	8,580
2003A	5.50	7-1-13/2014	174,400
2004A	5.25	7-1-2013	62,485
2004B	5.50	7-1-2013	1,135
2005A	5.00	7-1-13/2015	72,175
2006A	5.00	7-1-12/2017	130,560
2007A	5.00	7-1-13/2017	51,730
2007B	5.07-5.10	7-1-12/2013	6,740
2007C	5.00	7-1-13/2017	219,020
2008A	5.00-5.25	7-1-13/2017	230,535
2008D	5.00	7-1-12/2017	53,510
2009A	3.25-5.00	7-1-14/2015	48,905
2009B	4.59	7-1-2014	515
2010A	2.50-5.00	7-1-12/2017	63,535
2012A	5.00	7-1-13/2017	155,390
2012B	5.00	7-1-2017	41,285
2012C	1.26	7-1-2015	24,100
		Revenue bonds payable	**$ 1,557,090**
		Estimated fair value at June 30, 2012	**$ 1,721,874** (B)

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Accounting Standards Codification (ASC) 820 and does not purport to represent the amounts at which these obligations would be settled.

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

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1989A	(A)	7-1-12/2014	$ 4,382
1989B	(A)	7-1-12/2014	13,323
	7.125	7-1-2016	76,145
			89,468
1993C	(A)	7-1-13/2018	23,962
2003A	5.50	7-1-12/2013	102,890
2004A	5.25	7-1-14/2016	83,835
2004B	5.50	7-1-2013	1,515
2005A	5.00	7-1-13/2015	129,265
2006A	5.00	7-1-16/2018	39,445
2007A	4.50-5.00	7-1-13/2018	84,465
2007B	5.07	7-1-2012	1,725
2007C	5.00	7-1-12/2018	61,085
2008A	5.25	7-1-2018	13,790
2008D	5.00	7-1-12/2017	38,370
2009A	5.00-5.25	7-1-14/2018	116,055
2009B	4.59	7-1-2014	970
2010A	5.00	7-1-16/2018	279,980
2010B	5.00	7-1-2016	29,865
2011A	4.00-5.00	7-1-2018	92,285
2012A	5.00	7-1-2018	67,885
2012B	3.00-5.00	7-1-16/2017	30,330
2012C	1.26-1.74	7-1-15/2016	61,635

Compound interest bonds accretion	**137,743**
Revenue bonds payable	**$ 1,490,945**
Estimated fair value at June 30, 2012	**$ 1,689,781** (B)

(A) Compound Interest Bonds

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Accounting Standards Codification (ASC) 820 and does not purport to represent the amounts at which these obligations would be settled.

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

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
2003	4.00	7-1-2012	$ 995
2005	4.50-5.00	7-1-12/2023	51,645
2006	4.50-5.00	7-1-12/2030	69,140
2012	2.00-5.00	7-1-13/2023	13,750

Revenue bonds payable	**$ 135,530**
Estimated fair value at June 30, 2012	**$ 144,138** (B)

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Accounting Standards Codification (ASC) 820 and does not purport to represent the amounts at which these obligations would be settled.

Total Bonds Payable	**$ 5,625,305**
Estimated Fair Value at June 30,2012	**$ 6,419,401**

Debt Service Requirements as of June 30, 2012 (in thousands):

Columbia Generating Station

Fiscal Year***	Principal	Interest	Total
6/30/2012 Balance:*	$ 355	$ 65,783	$ 66,138
2013	40,785	122,800	163,585
2014	83,410	120,848	204,258
2015-2017	406,285	324,065	730,350
2018-2022	1,289,505	359,824	1,649,329
2023-2024	621,400	49,331	670,731
	$ 2,441,740	$ 1,042,651	$ 3,484,391

* Principal and Interest due July 2, 2012.
*** Fiscal year for this report indicates the cash funding requirement year.

Nuclear Project No. 1

Fiscal Year***	Principal	Interest	Total
6/30/2012 Balance:*	$ 236,030	$ 42,019	$ 278,049
2013	273,055	66,372	339,427
2014	332,100	52,401	384,501
2015	191,430	35,443	226,873
2016	239,385	27,026	266,411
2017	285,090	14,117	299,207
	$ 1,557,090	$ 237,379	$ 1,794,469

* Principal and Interest due July 2, 2012.
*** Fiscal year for this report indicates the cash funding requirement year.

Nuclear Project No. 3

Fiscal Year***	Principal	Interest	Total
6/30/2012 Balance:*	$ 69,132	$ 60,138	$ 129,270
2013	131,875	96,804	228,679
2014	124,704	88,738	213,442
2015	129,795	60,487	190,283
2016	247,499	56,838	304,337
2017	177,617	45,124	222,741
2018	472,580	32,625	505,205
Adjustment **	137,743	(137,743)	-
	$ 1,490,945	$ 303,012	$ 1,793,956

* Principal and Interest due July 2, 2012.
** Adjustment for Compound Interest Bonds accretion; Compound Interest Bonds are reflected at their face amount less discount on the balance sheet
*** Fiscal year for this report indicates the cash funding requirement year.

Nine Canyon Wind Project

Fiscal Year***	Principal	Interest	Total
6/30/2012 Balance:*	$ 4,575	$ 3,025	$ 7,600
2013	6,835	6,291	13,126
2014-2017	31,135	21,438	52,573
2018-2021	37,415	15,251	52,666
2022-2025	30,175	7,805	37,980
2026-2029	19,855	3,305	23,160
2030	5,540	250	5,790
	$ 135,530	$ 57,364	$ 192,894

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

Note 6 - 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 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 13)

Security - Packwood Lake Hydroelectric Project

The Packwood participants and Snohomish PUD have a power sales agreement that became effective Oct. 1, 2008 with an end date of Sept. 30, 2011. Under the agreement, Snohomish PUD purchased all of the output directly. The power purchase agreement (PPA) with Snohomish provided a predetermined rate for all firm delivery, per the contract schedule and the Mid-Columbia (Mid-C) based rate for all firm deliveries above firm, or secondary power. Packwood was obligated to supply a specified amount of power. If power production did not supply the required amount of power, Packwood was required to provide any shortfall by purchasing power on the open market. Packwood was not required to purchase power on the open market in FY 2012 to meet the requirements of this contract. Conversely, if there was excess capacity per the PPA with Snohomish PUD, Packwood would sell the excess on the open market for additional revenues to be included as part of the PPA with the Packwood participants.

With the Snohomish PUD contract expiration, the power produced by Packwood reverted back 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 7 - Pension Plans

Substantially all of Energy Northwest 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 retirement plans. 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, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an amendment of GASB statements No. 25 and No. 27.

Any information obtained from the DRS is the responsibility of the state of Washington. PricewaterhouseCoopers LLP (PwC), independent auditors for Energy Northwest, has not audited or examined any of the information available from the DRS; accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

The legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the supreme, appeals, and superior courts (other than judges currently in the judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the state legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by Sept. 30, 1977 are Plan 1 members. Those who joined on or after Oct. 1, 1977 and by either, Feb. 28, 2002 for state and higher education employees, or Aug. 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or Sept. 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	**262,285**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges who participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of Dec. 31, 2011, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both Energy Northwest and the employees made the required contributions. Energy Northwest's required contributions for the years ending June 30 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 124,071	$ 9,773,209	$ 4,710,819
2011	$ 184,863	$ 7,921,762	$ 4,281,077
2010	$ 214,117	$ 7,238,997	$ 3,971,410

Note 8 - 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 2012 Energy Northwest contributed $2.9 million in employer matching funds while employees contributed $10.2 million for FY 2012.

Note 9 - Other Employment Benefits – Post-Employment

In addition to the pension benefits available through PERS, Energy Northwest offers post-employment life insurance benefits to retirees who are eligible to receive pensions under PERS Plan 1, Plan 2, and Plan 3. There are 66 retirees who remain participants in the insurance program. In 1994, Energy Northwest's Executive Board approved provisions which continued the life insurance benefit to retirees at 25 percent of the premium for employees who retire prior to Jan. 1, 1995, and charged the full 100 percent premium to employees who retired after Dec. 31, 1994. The life insurance benefit is equal to the employee's annual rate of salary at retirement for non-bargaining employees retiring prior to Jan. 1, 1995. The life insurance benefit has a maximum limit of $10,000 for retirees after Dec. 31, 1994. The cost of coverage for retirees remained unchanged for FY 2012 and was $2.82 per $1,000 of coverage. Employees who retired prior to Jan. 1, 1995, contribute $.58 cents per $1,000 of coverage while Energy Northwest pays the remainder; retirees after Dec. 31, 1994, pay 100 percent of the cost coverage. Premiums are paid to the insurer on a current period basis. At the time each employee retired, Energy Northwest accrued an estimated liability for the actuarial value of the future premium. Energy Northwest revises the liability for the actuarial value of estimated future premiums, net of retiree contributions. The total liability recorded at June 30, 2012, was $0.6 million for these benefits.

During FY 2012, pension costs for Energy Northwest employees and post-employment life insurance benefit costs for retirees were calculated and allocated to each business unit based on direct labor dollars. This allocation basis resulted in the following percentages by business unit for FY 2012 for this and other allocated costs; Columbia at 94 percent; Business Development at 4 percent; and Project 1, Nine Canyon, Packwood and Project 3 receiving the residual amount of 2 percent.

Note 10 - Insurance

Nuclear Licensing and Insurance

Energy Northwest is a licensee of the Nuclear Regulatory Commission and is subject to routine licensing and user fees, to retrospective premiums for nuclear liability insurance, and to license modification, suspension, or revocation or civil penalties in the event of violations of various regulatory and license requirements.

Federal law under the Price Anderson Act currently limits public liability claims from a nuclear incident. As of June 30, 2012, the current limit was $12.6 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. As required by law, Energy Northwest has purchased the maximum commercial insurance available of $375 million, which is the primary layer of protection. The remaining balance is covered by the industry's retrospective rating plan that uses deferred premium charges to every reactor licensee if a nuclear incident at any licensed reactor in the United States results in claims that exceed the individual licensee's primary insurance layer. The current maximum deferred premium for each nuclear incident is $117.5 million per reactor, but not more than $17.5 million per reactor may be charged in any one year for each incident. Nuclear property damage and decontamination liability insurance requirements are met through a combination of commercial nuclear insurance policies purchased by Energy Northwest and BPA. The total amount of insurance purchased is currently $2.8 billion. The deductible for this coverage is $5 million per occurrence.

Note 11 - Asset Retirement Obligation (ARO)

Energy Northwest adopted ASC 410 on July 1, 2002. This standard requires an entity to recognize 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 operations and net assets 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 assets are 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 DOE. (See Notes 1 and 13) Additionally, there are separate lease agreements for land located at Nine Canyon. Leases at these locations are considered operating leases and expenses for FY 2012 were $38.3 thousand for Columbia, $35.0 thousand for Nuclear Project No. 1 and $647.1 thousand for the Nine Canyon project. The leases for all three locations are projected to remain steady throughout the term of each operating project. Five-year total lease costs are estimated at $3.6 million.

As of June 30, 2012, Columbia has a capital decommissioning net asset value of zero and an accumulated liability of $118.7 million for the generating plant, and for the ISFSI a net asset value of $0.6 million and an accumulated liability of $1.6 million. Columbia's adjusted net asset value decreased $17.7 million reducing the new asset retirement cost below the net asset value. The adjustment of $1.6 million was recorded as other non-operating expense (loss) due to asset revaluation. The adjustments to Columbia and the ISFSI were associated with the renewal of the plant's operating license to 2043 by the NRC in May 2012.

Restoration costs for Nuclear Project No. 1 in FY 2012 of $0.2 million combined with the current year accretion expense of $0.6 million and downward revision in future restoration estimates of $0.2 million resulted in the small increase to the ARO of $0.6 million. Nuclear Project No. 1 has a capital decommissioning net asset value of zero and an accumulated liability of $16.4 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, 2012, Nine Canyon has a capital decommissioning net asset value of $0.6 million and an accumulated liability of $1.2 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 that ended June 30, 2012:

Asset Retirement Obligation (in millions)

Columbia Generating Station		
Balance at June 30, 2011	$	129.66
Current year accretion expense		6.78
Revision in future estimates		(17.74)
ARO at June 30, 2012	$	118.70
ISFSI		
Balance at June 30, 2011	$	1.94
Current year accretion expense		0.10
Revision in future estimates		(0.47)
ARO at June 30, 2012	$	1.57
Nuclear Project No. 1		
Balance at June 30, 2011	$	15.84
Less: Restoration costs incurred		0.22
Current year accretion expense		0.57
Revision in future restoration estimates		(0.23)
ARO at June 30, 2012	$	16.40
Nine Canyon Wind Project		
Balance at June 30, 2011	$	1.19
Current year accretion expense		0.05
ARO at June 30, 2012	$	1.24

Note 12 - 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 11 for Columbia ARO). 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 in March 2011.

Energy Northwest's current estimate of Columbia's decommissioning costs in FY 2011 dollars is $463.5 million (Columbia - $459.7 million and ISFSI - $3.8 million). This estimate, which is updated biannually, is based on the NRC minimum amount required to demonstrate reasonable financial assurance for a boiling water reactor with the power level of Columbia.

Site restoration requirements for Columbia are governed by the site certification agreements between Energy Northwest and the state of Washington and by regulations adopted by the EFSEC. Energy Northwest submitted a site restoration plan for Columbia that was approved by the EFSEC on June 12, 1995. Energy Northwest's current estimate of Columbia's site restoration costs is $96.4 million in constant dollars (based on the 2011 study) and is updated biannually along with the decommissioning estimate. Both decommissioning and site restoration estimates (based on 2011 study) are used as the basis for establishing a funding plan that includes escalation and interest earnings until decommissioning activities occur. Payments to the decommissioning and site restoration funds have been made since January 1985. The fair value of cash and investment securities in the decommissioning and site restoration funds as of June 30, 2012, totaled approximately $173.6 million and $28.4 million, respectively. 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 trust is 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, 2012, is $1.0 million. These contributions will occur through FY 2044; cash payments will begin for decommissioning and site restoration in FY 2045 with equal installments for five years totaling $2.06 million in constant dollars based on the 1997 study.

Note 13 - 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 to-date any viable alternative use has not been found. 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, Wash., 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. A new plan with additional details was submitted in FY 2003. This submittal was used to calculate the ARO discussed in Note 11.

Business Development Fund Interest in Northwest Open Access Network

The Business Development Fund is a member of the Northwest Open Access Network (NoaNet). Members formed NoaNet pursuant to an Interlocal Cooperation Agreement for the development and efficient use by the members and others of a communication network in conjunction with BPA.

The Business Development Fund has a 7.38 percent interest in NoaNet with a potential mandate of an additional 25 percent step-up possible for a maximum 9.23 percent. NoaNet has $11.6 million in network revenue bonds and note payables outstanding, based on their Dec. 30, 2011 audited financial statements. The members are obligated to pay the principal and interest on the bonds when due in the event and to the extent that NoaNet's Gross Revenue (after payment of costs of Maintenance and Operation) is insufficient for this purpose. The maximum principal share (based on step-up potential) that the Business Development Fund could be required to pay is $1.1 million. The Business Development Fund is not obligated to reimburse losses of NoaNet unless an assessment is made to NoaNet's members based on a two-thirds vote of the membership. In FY 2012 the Business Development Fund was not required to contribute to NoaNet. Financial statements for NoaNet may be obtained by writing to: Northwest Open

Access Network, NoaNet Headquarters, 5802 Overlook Ave. NE, Tacoma, WA 98422. Any information obtained from NoaNet is the responsibility of NoaNet. PwC has not audited or examined any information available from NoaNet; accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

Other Litigation and Commitments

Energy Northwest v. United States of America filed in U.S. Court of Federal Claims in January 2004 (Cause No. 04-0010C). This is an action for partial breach of contract and breach of implied covenant of good faith and fair dealing brought by Energy Northwest against the United States (Department of Energy, "DOE") for damages through Aug. 31, 2006, for DOE's failure to meet its legal obligations to accept and dispose of spent nuclear fuel and high-level radioactive waste per the Standard Contract. After litigation at the trial court and court of appeals of Energy Northwest's claim in the amount of $56.8 million, on July 8, 2011, DOE and Energy Northwest filed a Stipulation for Entry of Final Judgment in Favor of Plaintiff Energy Northwest and that same day, the Court of Federal Claims entered Final Judgment in the amount of $48.7 million which was received on Aug. 29, 2011. The settlement amount is shown as Other Income and Expenses – Gain on DOE settlement on the Statement of Revenues, Expenses and Changes in Net Assets.

Energy Northwest vs. United States of America filed in U.S. Court of Federal Claims in July 2011 (Cause No. 11-447C-EJD). This is the second action for partial breach of contract brought by Energy Northwest against the United States (Department of Energy, "DOE") for damages ranging between Sept. 1, 2006 through July 2012, for DOE's continuing failure to meet its legal obligations to accept and dispose of spent nuclear fuel and high-level radioactive waste per the Standard Contract. Energy Northwest has submitted a preliminary amount for damages but outcome of the litigation as far as award and outcome is unknown at this time.

Babcock & Wilcox Nuclear Power Generation Group, Inc., n/k/a Babcock & Wilcox Nuclear Energy, Inc. v. Energy Northwest filed in U.S. District Court, Eastern District of Washington in October 2011 (Cause No. CV-11-5149-EFS). Energy Northwest experienced a significant delay in the completion of R-20. The planned outage extended past the fiscal year-end and was completed September of 2011. R-20 was planned for 72 days and lasted 174 days. On Oct. 21, 2011, the contractor for the majority of the condenser work for R-20 filed a claim against Energy Northwest for additional costs incurred in connection with the extended outage in the amount of $50 million. The parties agreed to resolve their dispute by mediation. On April 30 - May 1, 2012, the parties met and through the services of a professional mediator resolved the dispute. The settlement terms were approved by Energy Northwest's Executive Board in an open public meeting on May 10, 2012. Under the terms of the settlement, Energy Northwest paid the contractor the amount of $18.4 million plus Washington State sales tax for a total amount of $19.9 million. In exchange for the payment, the contractor provided Energy Northwest with a complete and final release of all claims. The Court is expected to dismiss the lawsuit with prejudice on or before Oct. 12, 2012.

Energy Northwest is involved in other various claims, legal actions and contractual commitments and in certain claims and contracts arising in the normal course of business. Although some suits, claims and commitments are significant in amount, final disposition is not determinable. In the opinion of management, the outcome of such litigation, claims or commitments will not have a material adverse effect on the financial positions of the business units or Energy Northwest as a whole. The future annual cost of the business units, however, may either be increased or decreased as a result of the outcome of these matters.

Note 14 – Derivative Instruments

GASB Statement No. 53, "Accounting and Reporting for Derivative Instruments" was adopted in FY 2010. Energy Northwest's policy is to review and apply as appropriate the normal purchase and normal sales exception under GASB No. 53. Energy Northwest has reviewed various contractual arrangements to determine applicability of this statement. Purchases and sales of nuclear fuel and components that require physical delivery and are expected to be used and/or sold in the normal course of business are generally considered normal purchases and normal sales. These transactions are excluded under GASB No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain contracts for power options were evaluated and the following contract did not meet the exclusion for normal purchase and normal sale:

The Business Development Fund had a power sales contract subject to the provisions of GASB 53. Call options associated with the contract had a notional amount of 50 MWh. The fair value of the power sales option contract is based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity and the Sumas index for natural gas. This contract has an end date of June 2013. Assets associated with the call options are classified on the Balance Sheet as current derivative and are currently valued at $0.1 million. Changes in the fair value of the call options are classified as non-operating revenue and expenses – investment income on the Statements of Revenues, Expenses and Changes in Net Assets.

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-	A-	A

ENERGY NORTHWEST

LEARN MORE About Energy Northwest people and projects on the Web at www.energy–northwest.com
Facebook.com/energynorthwest ▶ Twitter.com/energynorthwest ▶ youtube.com/energynorthwest2011