

2013
Energy Northwest
Annual Report

A COMMITMENT
to Excellence





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 energy facility. These projects provide enough reliable, affordable and environmentally responsible energy to power nearly a million homes each year, and that carbon-free electricity is provided at cost. As a Washington state, not-for-profit joint operating agency, Energy Northwest comprises 27 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.

Public health and safety is the unwavering commitment for everything we do and is the overarching imperative of our mission, vision and strategic plan.

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.

“ Our work here is a team sport. ”
– Alex Javorik, Vice President, Engineering

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SID MORRISON
Chair, Executive Board



MARK REDDEMANN
Chief Executive Officer

A MESSAGE TO OUR STAKEHOLDERS

**Under
Budget:**

\$500K

**Operations &
Maintenance**

\$1.7 million

**Capital
Expenditures**

Fiscal year 2013 was a year of records and much more for Energy Northwest. Our team's commitment to Excellence in Performance was validated through both the continuing **safe, reliable** and **predictable** operation of our generation projects, and achievement of a number of performance firsts for the agency.

Safe operations were demonstrated through our third consecutive year without an accident resulting in lost work time among our more than 1,100 employees and supplemental workers. In January, we set a plant record for the longest period – nearly one year – without an Occupational Safety and Health Administration recordable accident. These are just the highlights from a year that earned us the American Public Power Association's national Safety Award of Excellence, recognizing Energy Northwest as first in safety standards among utilities with 500 to 2,000 employees.

Reliability means we can be depended upon. In December, Columbia Generating Station joined the industry's top performers for equipment reliability and finished the calendar year with the highest ever annual production – 9.3 million megawatt hours of electricity to the power grid. Columbia, in fact, was recognized by its peers for substantial performance improvement during the last few years.

At the Nine Canyon Wind Project, we installed an energy storage system in partnership with the City of Richland, the Bonneville Power Administration, Powin Energy and Pacific Northwest National Laboratory. The demonstration project will help determine the feasibility of using storage to manage production to a transmission schedule; to comply with over-generation curtailment events; and to shift facility energy production between off-peak and on-peak energy periods.

Predictability instills confidence in the public as well as our employees, and the long list of work we completed in our 21st Refueling and Maintenance Outage to improve equipment reliability was essential to

Zero: Lost Time Accidents

OSHA Recordables

helping us meet our goal of achieving predictable performance. Furthering our predictability, our Energy/Business Services group also completed a \$2 million labor contract for operations and maintenance with Seattle City Light at their major hydro projects.

Our fuel purchase agreement with the Department of Energy, U.S. Enrichment Corporation and the Tennessee Valley Authority that began in fiscal 2012 will generate tens of millions of dollars in additional rate case savings from 2014 to 2017, and tens of millions of dollars more in savings through 2028. These significant savings during the life of the transaction will enable Bonneville Power Administration to reduce current and future proposed rate increases – every \$40 million in savings over a two-year rate case period equates to approximately a 1 percent reduction in rates.

Our successes in safety, reliability and predictability have their roots in Excellence in Performance, which you can learn more about on the next pages. Initiated in 2011, it now touches everything we do as an agency. As we enter Phase III of this initiative – Achieving Excellence – we stay focused on building a culture of continuous improvement across the agency.

Keeping our existing projects operating reliably and cost effectively, while meeting members' future energy needs, remains Energy Northwest's foundation. We're working to set the stage for small modular reactors in Washington state. We also strongly support efforts to locate SMRs near Columbia to provide members with options for baseload power during the post-2025 years and continue to look for land we can set aside to build renewable projects to meet our members' post-2015 renewable portfolio standard energy requirements.

Our employees drive these successes and our vision; they are the essential element to achieving our mission. The Energy Northwest team once again stayed within our long-range plan commitment. We ended the year under budget by half a million dollars in operations and maintenance and \$1.7 million in capital expenditures, underscoring our dedication to fiscal discipline and responsibility for the benefit of Northwest electric ratepayers.

Finally, our sincere thanks to all Energy Northwest team members who volunteered their time and talents to support needs within our communities, through March of Dimes, Head Start, United Way, Red Cross and many other community organizations. Our employees demonstrate a strong commitment to not only our stakeholders, but also to the communities in which we live and work – and that's why we're so honored to work with this team each day. We are extremely proud of their efforts.

Together we are making progress on all our initiatives, and proving our commitment to excellence to the industry, our peers and the community. While we still have a long road ahead, we are confident in our team's desire to be the standard by which others measure excellence.

Respectfully,

Sid Morrison
Chair, Executive Board

Mark Reddemann
Chief Executive Officer

The EXCELLENCE Model

The Excellence Model is a model for changing and sustaining workforce behaviors. It is a union of management structure, procedures and processes that result in continuous performance improvement. It builds on proven industry principles to form a solid basis for long-lasting and effective performance.

The model's visual appearance includes four interdependent tiers that build on the preceding tiers' strengths. Its foundation is based on four principles that are key to establishing and maintaining a workplace environment that leads to and sustains desired behaviors. The model is a proven blueprint to pursue performance excellence opportunities and realize sustainable performance excellence results.

The Excellence Model's Principles:

The Right People

Selecting and retaining the right people ensures each employee has the right skills, knowledge and behaviors required for the job. It also builds appreciation for workforce diversity.

The Right Picture

Communicating and reinforcing the right picture aligns and engages all employees with agency standards and goals. It involves team and individual goals that align with the model's multi-tiered structure.

The Right Process

The right processes lead to improved performance and ensure processes are effective and efficient. Achieving the right processes lower agency costs and increase productivity.

The Right Coaching

Ensuring the right workforce coaching and engagement is the most important role of leadership, and involves providing individuals positive and constructive guidance needed for performance improvement. Leading by example and providing anecdotes are effective coaching methods, and positive reinforcement of desired behaviors is the best way to get those behaviors repeated. Performance measures, the performance appraisal process, ACEMAN and trend data provide early indication of performance results. These elements are also cues for supervisory oversight and involvement.

Individual Excellence (ACEMAN)

Individual Excellence, or ACEMAN, specifies individual results that constitute individual and site excellence. The letters in ACEMAN represent six critical attributes developed to show how daily activities and daily individual results relate to achieving top performance. The attributes are listed on the opposite page.

Effective implementation of the Excellence Model, with all its elements, will ensure these principles are established and followed throughout the organization.

“ We can't accept anything short of excellence. ”

– Brad Sawatzke, Vice President,
Nuclear Generation; Chief Nuclear Officer

The Right People

The Right Picture

Energy Northwest Excellence

SAFE, RELIABLE, PREDICTABLE



Individual Excellence



Enablers of Excellence



The Right Process

The Right Coaching

* Reflects attributes of both the corporate and nuclear Excellence Models

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.

EXECUTIVE BOARD



**LARRY
KENNEY**
1930-2013

Larry Kenney, a gubernatorial appointee, resigned from his position on the board in February 2013 and passed away shortly thereafter. "He was clearly dedicated to the work of Energy Northwest and public power. He will be missed," said CEO Mark Reddemann.



SID MORRISON
Chair
Outside Director
Zillah, Wash.

Sid Morrison was appointed to the executive board in July 2001 by the Energy Northwest Board of Directors. He served as chair of the Energy Northwest Operations, Construction and Safety Committee from 2003 to 2006 and was re-appointed to serve another term on the executive board in 2005. In June 2006, he was elected chair of the executive board, and reappointed in June 2013.

Mr. Morrison is a former legislator serving in the Washington State House of Representatives from 1966 to 1974, the Washington State Senate from 1974 to 1980 and the United States House of Representatives from 1980 to 1992. He was appointed as secretary of transportation by the Washington Transportation Commission in 1993 and served in that capacity until retiring from state service in 2001. He is also the chairman for the board of trustees at Central Washington University and the chair for the Yakima Basin Storage Alliance.



JACK JANDA
Vice Chair
Inside Director
Shelton, Wash.

Jack Janda was elected to the Mason County Public Utility District 1 Board of Commissioners in 2001. Commissioner Janda was appointed to the Energy Northwest Board of Directors in January 2003, and recently re-elected to serve another six-year term. He was elected by the board of directors to serve on the executive board in January 2005. In April 2010, he was re-elected to serve another term on the executive board. Additionally, he is vice chair of the executive board and has served as secretary/treasurer, vice president and president of Columbia Generating Station Participants Review Board.

Commissioner Janda represented Mason PUD 1 on the Washington Public Utility District Association and has served on the WPUDA board as secretary/treasurer, vice president and president. He also served as first chairman of the WPUDA Energy Committee in 2008.

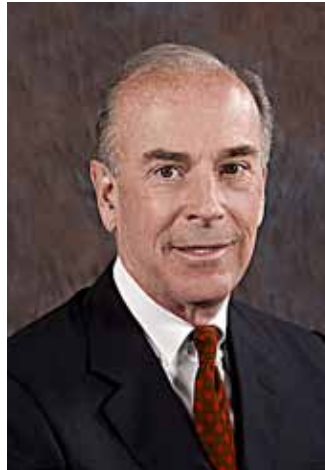
Prior to his election, Commissioner Janda was employed with the Forest Service and retired after 32 years of service. He is a member of Mason County Fire District 1 and served as its chief for 10 years. He has also served as a past board member of the Mason County Tourism Council and a past member of the Hood Canal Salmon Enhancement Group.



KATHY VAUGHN
Secretary
 Inside Director
 Lynnwood, Wash.

Kathy Vaughn was the first woman elected to the Snohomish County Public Utility District Board of Commissioners. Commissioner Vaughn was appointed to the Energy Northwest Board of Directors in 2004 and served as its vice president from 2005 to 2007. In April 2006 she was elected by the board of directors to the executive board and was re-elected in April 2010. She served as the assistant secretary until 2008 when she was selected as secretary. In January, she was appointed chair on the Energy Northwest Executive Board's Audit, Legal and Finance Committee.

Ms. Vaughn also serves on the Policy Makers Council for the American Public Power Association to work on national energy policy issues in Washington, D.C. She is an accomplished businesswoman and is the president and licensed broker of a Washington state mortgage brokerage firm. She is also co-owner of a construction company with her husband.



DAVE REMINGTON
Assistant Secretary
 Gubernatorial Appointee
 Spokane, Wash.

Dave Remington was appointed to the Energy Northwest Executive Board by Gov. Gary Locke in December 2004, and was re-appointed by Gov. Chris Gregoire in 2009 and by Gov. Jay Inslee in June 2013. He is currently assistant secretary of the executive board and chair of the Compensation Subcommittee.

Mr. Remington is retired from his position as senior vice president and chief financial officer of a public company that provides hardware and software systems used by both utilities and customers. He has more than 35 years of experience in corporate finance, treasury and investment banking services where he specialized in private debt and equity transactions, including project financing. Before that, he was president of a financial corporation where he also held positions as executive vice president and vice president of finance.

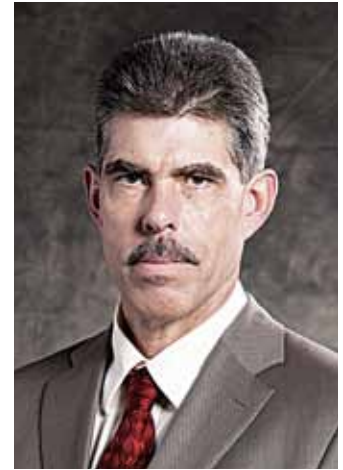
Mr. Remington serves on the board of a non-profit organization that established a science center in eastern Washington and an angel fund. He also served as an Army Reserve officer.



MARC DAUDON
 Gubernatorial Appointee
 Seattle, Wash.

Marc Daudon was appointed to the Energy Northwest Executive Board by Gov. Chris Gregoire in 2011. He is the principal and co-founder of a consulting group with more than 25 years of international environmental consulting experience, with expertise in the fields of sustainability, resource conservation, waste management, energy, climate change and strategic planning.

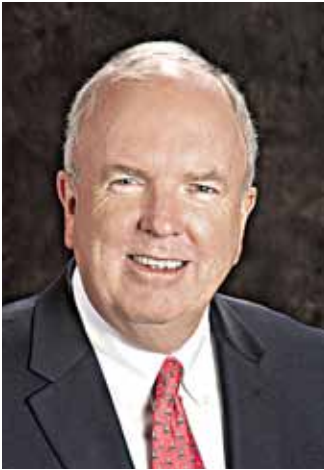
Prior to that, Mr. Daudon created a Seattle-based mail order business, served as a consultant in Africa on energy issues and worked in a Somali refugee camp. He is chair emeritus of the board of Washington Conservation Voters and also serves on the board of the Washington Environmental Council.



DAN GUNKEL
 Inside Director
 Goldendale, Wash.

Dan Gunkel was elected commissioner of the Klickitat County PUD in 1991. He was appointed to the Energy Northwest Board of Directors that same year and was elected to the Energy Northwest Executive Board in 1994. In April 2006, he was re-elected to serve another term on the executive board and was appointed chair of the Energy Northwest Operations, Construction and Safety Committee in June 2006.

Commissioner Gunkel is co-owner/business manager of a medium-sized fruit orchard, which enables him to sufficiently represent irrigators in Klickitat County. He sought the commissioner position because of a commitment to public service, but he also has an interest in seeing the PUD provide quality service.



SKIP ORSER

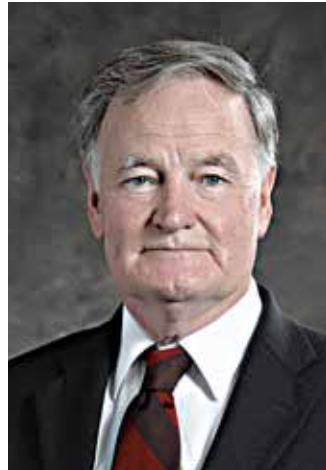
Outside Director
Raleigh, N.C.

Skip Orser was appointed to the Energy Northwest Executive Board in April 2010.

His background includes more than 30 years of experience with nuclear energy, most recently serving as interim chief operating officer at Tennessee Valley Authority.

Mr. Orser previously served as group president of energy supply with Progress Energy, executive vice president and chief nuclear officer at Carolina Power and Light Co., and executive vice president and chief nuclear officer at Detroit Edison Co. His career began in the Navy with service aboard three nuclear submarines.

Mr. Orser holds a bachelor's degree in naval science from the U.S. Naval Academy and a master's degree in computer systems management from the Naval Postgraduate School.



WILL PURSER

Inside Director
Sequim, Wash.

Will Purser has served as Clallam County PUD commissioner since April 2001. He was appointed to the Energy Northwest Board of Directors in April 2008 and elected to the executive board in June 2010.

Commissioner Purser has spent nearly 30 years in the energy (oil and gas) industry. His career includes responsibility for capital-intensive and technical projects in the U.S. and internationally, such as deep-water offshore facilities, liquefied natural gas terminals and large Public Utility Regulatory Policies Act power generation facilities.

Commissioner Purser has negotiated power sales agreements with major investor-owned utilities and intervened in electrical rate cases before various state public utility commissions. A Vietnam-era veteran, he is active in public power and community service organizations.



LORI SANDERS

Inside Director
Kennewick, Wash.

Lori Sanders became a Benton County PUD commissioner in January 2005.

She was elected to the Energy Northwest Executive Board in April 2010 and her four-year term began in June 2010. She was appointed to the Energy Northwest Board of Directors in January 2005 and was elected secretary in January 2007, and again in June 2013.

Commissioner Sanders is the owner and president of a consulting firm on conservation and renewables. She is a Kennewick, Wash., native and brings 25 years of experience as a small business owner to her post.



TIM SHELDON

Outside Director
Pottlatch, Wash.

State Sen. Tim Sheldon was appointed by the Energy Northwest Board of Directors to serve an unexpired term on the executive board in October 2003. He was elected to a second term in June 2004. He served as assistant secretary to the executive board from 2004 to 2006. In June 2006, he was appointed to chair the Administrative and Public Responsibility Committee. In June 2008 he was re-elected for another four-year term on the executive board. He was once again re-elected to a four-year term that began in June.

Sen. Sheldon was a Mason County PUD 1 commissioner from 1992 to 2002. He served as the executive director of a non-profit corporation dedicated to assisting startup businesses. His economic development expertise includes work with Northwest Indian tribes. Sen. Sheldon is the general partner in a family-owned, 500-acre tree farm on the Olympic Peninsula.

As senator for the 35th District, he represents all of Mason and portions of Grays Harbor, Kitsap and Thurston counties. He serves on the Transportation Committee and the Legislative Transportation Committee. He was elected to the Mason County Commission in 2003 and re-elected in 2007.

The Energy Northwest Board of Directors is comprised of a representative from each of its member utilities. The board of directors has 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.

Board of DIRECTORS



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



TERRY BREWER
Vice President
Commissioner,
Grant County PUD 2
Soap Lake, 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.



JIM BAGGS
Power Supply and Environmental
Affairs,
Seattle City Light
Seattle, Wash.



NANCY BARNES
Commissioner,
Clark Public Utilities
Vancouver, Wash.



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



ANN CONGDON
Commissioner,
Chelan County PUD
Manson, 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.



STEVE HOUSTON
Commissioner,
Okanogan County PUD
Okanogan, Wash.



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



ROBERT JUNGERS
Commissioner,
Wahkiakum County PUD
Cathlamet, 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.



PHIL LUSK
Power Resources Manager,
City of Port Angeles
Port Angeles, Wash.



M.L. NORTON
General Manager,
City of Centralia
Centralia, Wash.



WILL PURSER
Commissioner,
Clallam County PUD
Sequim, Wash.



LORI SANDERS
Commissioner,
Benton County PUD
Kennewick, Wash.



RUSS SKOLROOD
Commissioner,
Grays Harbor County PUD
Aberdeen, 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.

Senior LEADERSHIP

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
and Corporate Services



**GROVER
HETTEL**

Vice President, Operations



**ALEX
JAVORIK**

Vice President, Engineering

**BRENT
RIDGE**

Vice President, and Chief Financial
& Risk Officer

**BRAD
SAWATZKE**

Vice President, Nuclear Generation;
Chief Nuclear Officer

**LARRY
WILLEY**

Vice President,
Energy/Business Services

**BOB
DUTTON**

General Counsel



Project GENERATION



COLUMBIA GENERATING STATION



STEVE SIDWELL

**INSTRUMENTS &
CONTROLS TECHNICIAN**

Since 1991, Steve Sidwell has been an integral part of the Energy Northwest team. As an instrumentation and controls technician, he calibrates and maintains instrumentation throughout Columbia Generating Station.

8.5 Million

net megawatt-hours of electricity to the power grid

Columbia Generating Station is a boiling water reactor, using nuclear fission to heat water into high pressure steam. The steam spins turbines that are connected to a generator making emissions-free electricity. Columbia demonstrates Energy Northwest's commitment to developing environmentally friendly, powerful solutions.

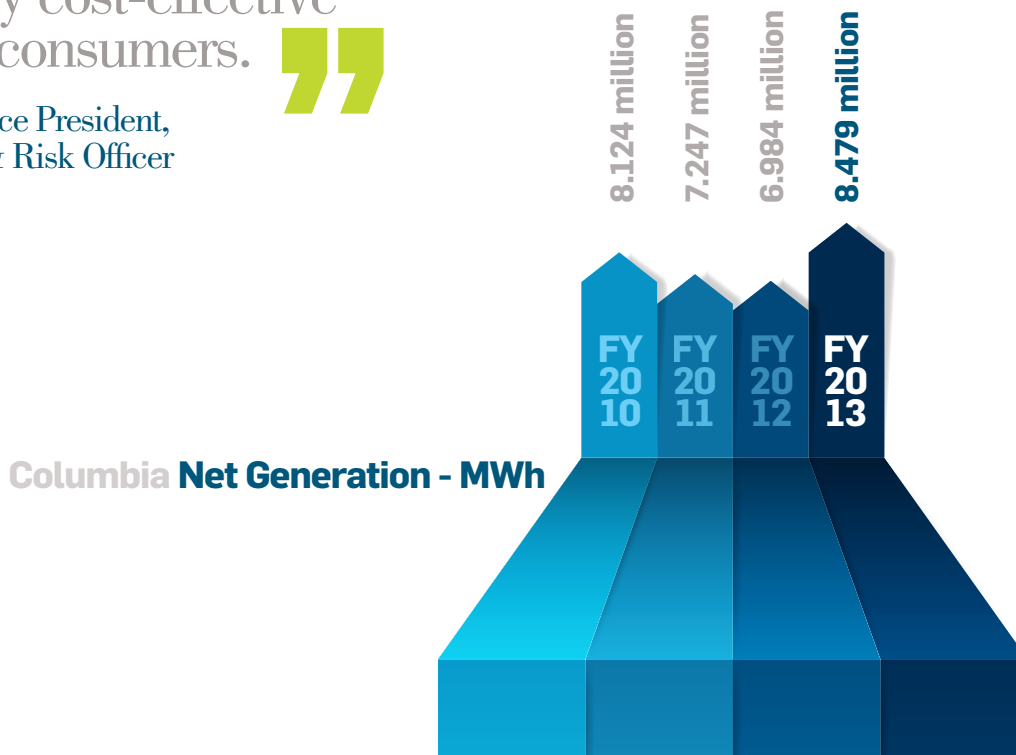
Electricity produced at Columbia is provided, at-cost, to the Bonneville Power Administration, which delivers the power to utilities throughout Washington and other western states as necessary.

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

Columbia Generating Station operated safely with no unplanned outages or unexpected shutdowns for the fiscal year. Refueling and Maintenance Outage 21 was successfully completed.

“ Columbia’s continued operation is the most socially and fiscally cost-effective option for consumers. ”

– Brent Ridge, Vice President, Chief Financial & Risk Officer



I'm extremely proud of our folks for the hard work that has gone into getting us where we are.

– Grover Hettel, Vice President, Operations



Refueling & Maintenance OUTAGE 21

Refueling and Maintenance Outage 21 began May 11, 2013, and ended June 25 with Columbia's reconnection to the Northwest power grid. The plant is refueled every two years, and the down time is used for corrective and preventative maintenance, equipment upgrades and repairs that cannot be done while the plant is producing power.

Refueling outages are scheduled in the spring, when the need for the plant's 1,170 megawatts of power – enough to supply a city the size of Seattle – is lower than normal. Demand for electricity drops with mild spring weather and hydropower abundance.

Major R-21 Projects:

- Replacement of 36 control rod blades
- Maintenance performed on 17 - 480 volt transformers
- Maintenance performed on 20 - 480 volt motor control center buckets
- Replaced or refurbished three large motors and one feedwater drive turbine
- Performed program preventative maintenance and/or testing on more than 300 valves
- Performed turbine maintenance and removed one low pressure turbine rotor for inspection; inspected the other two rotors for cracks
- Performed eddy current testing on 11 feedwater heaters
- Completed 1,552 preventative maintenance work orders
- Performed more than 200 surveillance procedures
- Performed 474 maintenance work orders



APRIL VILLARREAL
FINANCIAL ANALYST

April Villarreal has worked in the Finance department for six years at Energy Northwest. During fiscal year 2013 she participated in her first outage job as a computer-based training lab proctor. In her outage duties, April oversaw contractors as they completed required computer-based training that allowed them to work in the outage. "I enjoyed meeting different people from different states who had worked at various nuclear plants," Villarreal said. "It amazes me how many people travel to work the various outages throughout the U.S."

“ Safety is always our top priority and – from a safety standpoint – this was the most successful outage ever at Columbia.

– Mark Reddemann, Chief Executive Officer

JAMES SAUCEDA
ENGINEER

James Saucedo has worked at Columbia Generating Station for nearly four years as a component engineer in Technical Services Engineering, supporting pumps and vibration monitoring. He received a CEO Recognition Award for his contribution to the first-time replacement of one of our three residual heat removal pumps just prior to Refueling and Maintenance Outage 21.



NINE CANYON

Wind Project

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

**SCOTT
IMMELE**
WIND GENERATION TECHNICIAN

A maintenance technician and troubleshooter on the 1.3 and 2.3 megawatt wind turbines – which reach heights of up to 265 feet – Scott Immele performs routine service, main bearing inspections, torque checks and major component replacements. He has helped to produce job-specific work instructions and recently established a preventive maintenance program for project vehicles. Immele has worked at Nine Canyon for more than six years.



228,227

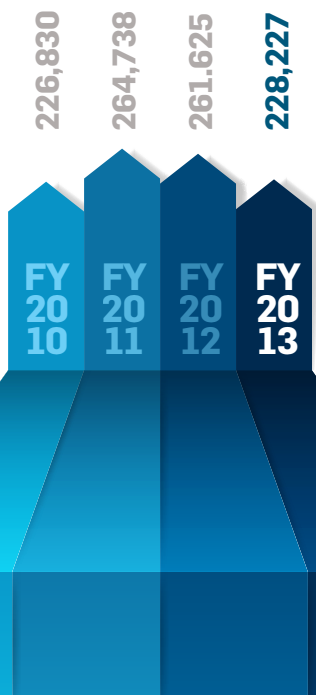
net megawatt-hours of electricity sent to the power grid

Fiscal year 2013 produced 228,227 net megawatt-hours of electricity, and achieved a 98.9 percent adjusted availability factor, up from 98.6 percent in fiscal 2012. Nine Canyon reached its 10th year of renewable energy production during fiscal year 2013, and produced its two millionth megawatt hour in December 2012.

Nine Canyon is aligned on the hilltops southeast of Kennewick, Wash., and the turbines are positioned to take advantage of persistently strong winds along the Columbia River Gorge. The turbines convert those winds into electrical energy.

Each turbine has its own miniature weather station that monitors wind direction and speed. Motors atop the turbines rotate the turbines into the wind. Sophisticated control systems ensure the blades turn at the optimal speed to produce electricity. The turbines are self-starting and begin generating electricity when wind speed reaches eight miles per hour. Generation increases as the wind speed increases, with full power achieved at about 35 mph. If winds exceed 55 mph on a sustained basis, the turbines shut down automatically by pitching the blades to a stopped position while engaging a large disk brake and restart when the winds fall below 45 mph. The pitch of the blades is automatically adjusted to maximize power generation from the available wind.

With a vision to be the region's leader in energy generation, Energy Northwest partnered with Walla Walla Community College to host the state's first wind energy technician training program at the community college level, which will increase the availability of a local skilled workforce to enter the growing wind energy job market.



Nine Canyon Net Generation - MWh

The 27.5 megawatt Packwood Lake Hydroelectric Project produces low-cost energy for Northwest ratepayers. Packwood fiscal year 2013 generation totaled 103,700 megawatt-hours – down 13.15 percent from 2012 – primarily due to less precipitation and lower snowfall levels in the Cascade Mountains. The capacity factor for fiscal year 2013 was 45.5 percent and the project attained 94.7 percent availability.

Packwood’s average availability during the last 12 years has been 97.7 percent. Packwood has produced 4,597,249 megawatt-hours since commercial operation began in 1964.

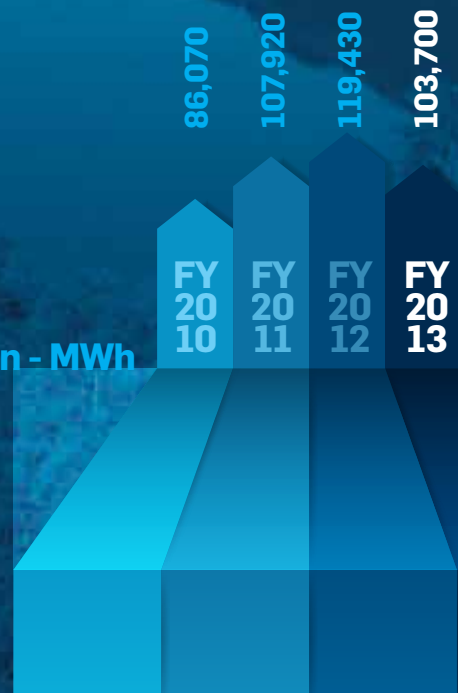
Packwood Lake Hydroelectric Project is located in Lewis County, Wash., in the Gifford Pinchot National Forest, approximately 20 miles south of Mt. Rainier. The facility was Energy Northwest’s first electric power generation project.

Power from the project is environmentally friendly. Fish screens protect migrating fish populations and water levels in Packwood Lake and Lake Creek are closely monitored to preclude environmental impacts.

103,700
megawatt-hours
in fiscal year 2013

PACKWOOD LAKE HYDROELECTRIC PROJECT

Packwood Net Generation - MWh



HOW It Works

4,597,249
megawatt-hours since
commercial operation
began in 1964.

1 Packwood Lake was formed when a large mass of soil and rock slid off Snyder Mountain and dammed Lake Creek. The lake's elevation of 2,857 feet lies approximately 1,800 feet above the powerhouse.

2 Water from the lake enters a concrete intake structure located approximately 424 feet downstream from the lake outlet.

3 The structure feeds water into a six-foot diameter underground pipe that carries water five miles while dropping 1,800 feet in elevation before delivering water to the powerhouse near the town of Packwood.

4 Water reaches the powerhouse with approximately 780 pounds per square inch of pressure at the turbine. The water spins the turbine generator at 360 revolutions per minute producing up to 27.5 megawatts of electricity.

5 After passing through the turbine, water is discharged to the Cowlitz River through a 6,670-foot tailrace canal. A fish screen at the entrance to the Cowlitz River prevents migrating fish from entering the Packwood facility.



The lake's elevation of 2,857 feet lies approximately 1,800 feet above the powerhouse. Packwood Lake and Lake Creek are bounded on the southwest by Snyder Mountain. The lake occupies approximately 450 acres.

WHITE BLUFFS

Solar Station

BRAD MARKLAND

PLANT TECHNICIAN

Brad Markland began his Energy Northwest career in early 2003 after 20 years as a construction electrician. As a plant technician now, he works on all aspects of building maintenance, but spends a large portion of his time on electrical. Brad completes the agency's fire alarm testing and maintenance, performs ice and snow removal during the winter months, as well as painting and yard maintenance. He has completed lighting upgrades in several buildings for energy savings, better quality lighting and helped lower the cost of maintenance.

White Bluffs Solar Station, a 242-panel demonstration facility with a rating of 38.7 kilowatts direct current, is located at the Industrial Development Complex near Columbia Generating Station.

The solar project began operation in May 2002 and was the region's largest photovoltaic solar facility at the time in the Pacific Northwest. The collaborative project is funded by Energy Northwest, Bonneville Power Administration, Bonneville Environmental Foundation and the U.S. Department of Energy. May 2012 marked the 10th anniversary of the generation project, which has provided reliable and efficient clean energy during the past 11 years.

British Petroleum, the solar panel manufacturer, continues to support the 20-year warranty of the PV panels. The generated electricity during fiscal year 2013 was 40,834 net kilowatt-hours and was integrated in the BPA system.

40,834
net kilowatt-hours
in fiscal year 2013



OPERATIONS & Maintenance

Energy Northwest provides technical support for its members in the areas of operations and maintenance of power generating facilities, as well as electric utility automation.

During fiscal year 2013, Operations and Maintenance Services engaged the agency's member utilities with solutions for supervisory control and data acquisition systems, power plant optimization and development of the technical specifications for a demand response control network. The program is intended to create a transmission grid scaled load balancing resource based on real-time management of residential, commercial and industrial electric loads.

Energy Northwest continues to provide operations and maintenance services to Olympic View Generating Station, which is owned by Mason County Public Utility District 3. Olympic View is comprised of two 2.8-megawatt generating units powered by natural gas-fired reciprocating engines. The plant may be operated remotely, depending on load requirements.

Operations and Maintenance also provide project management, project engineering and craft labor support for the agency's members' power generation projects. During fiscal year 2013, Energy Northwest provided project support for Seattle City Lights' Boundary Hydroelectric Project and Grant Public Utility District's Priest Rapids and Wanapum Hydroelectric Projects.

GENERATION

Project Development

500 kilowatt-hour portable
energy storage system at the
Nine Canyon Wind Project



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

To better address member needs, the agency has increased its focus on energy management initiatives such as energy storage and demand response.

“ We have embarked on a renewed commitment to *listening* to our members and using our excellence model principles to assist members as they seek energy solutions. ”

– Larry Willey, Vice President, Energy/Business Services

Energy Storage

The Generation Project Development team successfully installed and began operating a 500 kilowatt-hour energy storage system at the Nine Canyon Wind Project in April. The portable battery storage system concept was developed by Powin Energy, an Oregon-based company. Energy Northwest is working with several partners, including Powin Energy, Bonneville Power Administration, Pacific Northwest National Laboratory and the City of Richland, on the deployment and testing of the energy storage system in the Tri-Cities area.

The overall goal of the project is to validate operability, reliability and durability of the energy storage unit; and then to evaluate multiple energy storage applications and determine their relative value to the electric grid and regional utilities. One application currently being analyzed is the ability to integrate intermittent renewable energy into the electric grid by storing and releasing excess energy to optimize energy production. Other applications include electric distribution system support and industrial and commercial customer support.

Demand Response

In fiscal year 2013, Energy Northwest assembled a team of public power utilities, industry representatives and technical advisors to develop an aggregated demand response program for the Northwest. This large-scale public power program is designed to vary utility loads or the output from small regional generators on demand to allow a better balancing of loads and resources in BPA's balancing authority.

Demand response anticipates the use of technically-advanced infrastructure to efficiently assemble the region's existing smart grid, demand response assets and other investments into a capable, cost effective and well-coordinated resource.

Kalama Energy Center

Citing poor market conditions for new natural gas resources in the region, Veresen U.S. Power elected to discontinue funding of the Kalama Energy Center in April. Energy Northwest immediately placed the project on hold to minimize development costs until a new partner or alternative plan is identified to move the project forward.

Renewable Energy Resources

Energy Northwest is committed to identifying low cost and low risk resource development options. The agency continues to evaluate regional renewable energy sites and partially developed projects to determine their viability in meeting member utility needs.

Banking renewable projects for future development in anticipation of Washington's 2016 and 2020 renewable portfolio standard compliance obligations enhances value to member utilities through the benefits of shortened development schedules and reduced costs. During fiscal year 2013, development efforts were concentrated mainly on wind and solar resource opportunities in the region.

Grays Harbor 50-megawatt Power Call Option

The agency's call option on the Grays Harbor Energy Center expired at the end of fiscal year 2013.

A proud U.S. Navy nuclear submarine veteran, John Steigers joined Energy Northwest in 2009 with 24 years of electric utility experience in engineering, operations and environmental and business development. As a Generation Project developer, Steigers identifies generation resource needs of Energy Northwest's member public utilities and then creates and offers solutions to meet those needs. His work has focused on solar, biomass, wind and other non-traditional generation types. Most recently, his emphasis was on battery-based grid storage with a two-year demonstration project exploring operational values of a modular energy storage system at multiple deployment sites, including Energy Northwest's Nine Canyon Wind Project.

JOHN STEIGERS
GENERATION PROJECT DEVELOPER



APPLIED PROCESS ENGINEERING LABORATORY

Energy Northwest offers the Applied Process Engineering Laboratory as a lease facility for laboratory-based research and development. The Pacific Northwest National Laboratory is an anchor tenant, and is joined by IsoRay Medical, Inc., which attained anchor tenant status during fiscal year 2013. Approximately 20 percent of the facility is dedicated as a business incubator, supporting start-up and acceleration of new technologies and technology-based businesses. APEL fills a community need for business starter space and provides suitable environments for controlled testing of advanced processes.

Located in the heart of the Tri-Cities Research District Innovation Partnership Zone, APEL is the “launch pad” to leverage regional technological expertise into early stage entrepreneurial ventures. By creating an environment rich with resources, technical assistance and connections to potential partners and customers, APEL fosters collaboration in innovation and commercialization.

In fiscal 2013, APEL continued its mission of providing spaces for tenants as well as offering options for businesses and researchers with intermittent needs. Supporting companies that do not need physical space on an ongoing basis creates additional exposure for business – both the entrepreneurs and their products – within the APEL community.

Major institutions in the Tri-Cities support and sponsor APEL including Energy Northwest, the Port of Benton, the Department of Energy, Washington State University Tri-Cities, Pacific Northwest National Laboratory, the city of Richland and the Tri-Cities Industrial Development Council. APEL’s operating costs are covered by tenant rent.

...APEL

is the
“launch pad”
to leverage
regional
technological
expertise into
early stage
entrepreneurial
ventures



CALIBRATION SERVICES LABORATORY

Calibration Services operates and maintains the Energy Northwest Standards Laboratory located adjacent to Columbia Generating Station. This facility is a multi-faceted applied physics laboratory performing calibrations in virtually every aspect of metrology, including torque, force, pressure, vacuum, mass, dimensional, electrical, electronic, temperature, humidity, flow, vibration, light and sound.

In addition to providing services to its primary customer, Columbia Generating Station, ENSL performs work in the commercial sector, which has helped develop and expand the laboratory's capabilities, increased the technical expertise of the staff and enhanced its quality program.

ENSL was first accredited in January 2009. Since then, the staff has maintained its accreditation by successfully completing the American Association for Laboratory Accreditation on-site assessment process during fiscal years 2010 to 2012. The association recently moved ENSL to a two-year accreditation cycle. As a result, the laboratory's successful completion of current re-accreditation will last until 2015.

Maintaining accreditation, enhancing capabilities, and continually making improvements to ENSL's technical and

quality programs have all been factors in securing contracts with several major clients. Some of the laboratory's customers include Bechtel, Washington Closure Hanford, Washington River Protection Solutions, Pacific Northwest National Laboratory, AREVA, Columbia Energy & Environmental, High-Line Engineering, Intermech and Mid-Columbia Engineering.

ENSL has provided commercial calibration services for the past 15 years. In addition, ENSL has provided on-site outage support to Columbia, other nuclear facilities through the Utility Service Alliance shared personnel program, Packwood Lake Hydroelectric Project and Hermiston Generating Facility. Laboratory employees also provide support through on-site audits and surveillances of vendors for qualification and placement on the Energy Northwest evaluated suppliers list.

ENSL is also involved with educational outreach in the Tri-Cities through participation in the annual Science Technology Engineering and Math conference and World Metrology Day. This participation includes classroom instruction to students at local schools in hands-on applied physics, as well as hosting students at ENSL laboratory facilities for work-based learning experiences.

...more than **700** calibration standards covering numerous metrology disciplines

Environmental & Analytical Services LABORATORY

For more than 15 years, Energy Northwest's Environmental and Analytical Services Laboratory has provided chemical analysis and environmental monitoring expertise for utility, municipal and residential customers. The laboratory continues to maintain accreditation for wastewater, drinking water, and radiochemical analyses and licensure as a clinical laboratory for drugs-of-abuse screenings.

Services provided to Columbia Generating Station and outside clients include metals quantification, general chemistry, microbiological testing, radiological monitoring, lubricant condition monitoring, material verification, commercial grade dedication of materials, and aquatic and terrestrial monitoring. This includes working with the Washington Geological Survey, as part of a Department of Energy geothermal grant and an Energy/Business Services financially-supported project to participate in the chemical analysis of mineral springs samples collected throughout the state of Washington.

The Radiological Environmental Monitoring Program for Columbia, operated by the laboratory, independently assesses the radiological impact of Columbia's operation. The REM lab collects and analyzes air, water and agricultural samples to ensure any operational environmental impact is known and quantified.

In support of Energy Northwest's ISO 14001 Environmental Management System commitment, the laboratory monitored noxious weed populations and controlled these populations primarily through the use of species specific insects. Additionally, as part of the Migratory Bird Habitat Enhancement Plan, artificial nest sites were installed during fiscal year 2012 for the burrowing owl, a "species of concern" listed by Washington state. Monitoring during fiscal year 2013 indicated that burrowing owls use the artificial nests.

Laboratory employees continue to perform key environmental assessments at the Shepherds Flat Wind Farm, located in north-central Oregon. Owned by Caithness Shepherds Flat, LLC, of Sacramento, Calif., the project's 909-megawatt capacity makes it the largest wind generation facility in the United States. Involvement with the project began in 2002.

The laboratory staff was involved with educational outreach in the Tri-Cities including presenting to Delta High School students, serving as judge for the "Future Cities" competition at Ochoa Middle School and participating in the annual Science Technology Engineering and Math conference. With the laboratory's participation, students learned about analytical chemistry testing, careers in environmental science and the importance of clean energy.

Industrial Development COMPLEX

The Industrial Development Complex is located just east of Columbia Generating Station and is operated by Energy Northwest. A leasing business line was developed to utilize the outlying buildings at the IDC for use as office and warehouse space, as well as former power facilities.

Energy/Business Services continues to manage the leasing business line at the IDC. The tenants based at the IDC are primarily involved in the ongoing construction efforts at the Department of Energy's Hanford Site. A significant challenge the IDC faced during fiscal 2013 was maintaining a positive margin in leasing as the federal government made drastic funding cuts to several tenant contractors.

Energy Northwest also plans to continue looking at ways to efficiently remove unused infrastructure to reduce short- and long-term costs to regional ratepayers.

**Fiscal year 2013
revenue from the
leasing line at
the IDC totaled
\$862,000**

ENVIRONMENTAL Stewardship

Energy Northwest's Environmental Management System is designed to meet rigorous requirements of the globally recognized International Organization for Standardization 14001:2004 standard, with additional emphasis on compliance and pollution prevention. Energy Northwest's EMS was registered to ISO 14001 in April 2005 by NSF International Strategic Registrations, an accredited registrar.

During fiscal year 2013, Energy Northwest established and exceeded environmental targets for reductions of hazardous waste generation, mixed waste generation and prevention of hazardous material spills at Columbia Generating Station.

As a result of a challenge from CEO Mark Reddemann, EMS established a goal to achieve a 7.5 percent reduction in carbon dioxide emissions at Columbia from fiscal year 2011. With a significant reduction in the vehicle fleet and replacement of diesel-powered portable security lighting – with hard-wired light stands – Columbia achieved a 39 percent carbon dioxide reduction from the base year.

The Environmental and Regulatory Programs department identified pollution-prevention opportunities and implemented them in fiscal 2013. The most successful results came from the elimination of microfilm photo processing, a major contributor to the agency's hazardous waste volume in the past.

“ Energy Northwest has reduced house loads, fuel consumption, CO₂ generation and has supported wildlife improvement efforts on our leased lands. We are committed to ISO 14001 and to the practice of responsible environmental stewardship.

– Dale Atkinson, Vice President, Employee Development and Corporate Services

**JON
COHEN**
RECORDS CONTROL
SUPERVISOR

In fiscal year 2013, Jon Cohen, Records Control supervisor, led changes in the processing of quality assurance records. Energy Northwest now converts paper records to a digital image rather than microfilming, thus decreasing hazardous waste resulting from the microfilming process. It also improved turnaround time to the customer and retrieval time. Cohen also started the initiative of electronic records and electronic approvals in the agency by conducting a pilot of a new electronic content and records management system.



**ROY
LYNDE**
TELECOMMUNICATION
TECHNICIAN

Ryoji (Roy) Lynde joined Energy Northwest in 1981, relocating to Richland from western Washington. Prior to his employment with Energy Northwest, he served in the United States Navy. As a telecommunication technician, Lynde maintains emergency (sound-powered phones, fire systems and public address systems) and non-emergency communication systems (cameras, audio/visual, LAN and fiber). During the Refueling and Maintenance Outage 21, Lynde was the lead in telecommunications for support inside the power block.



Energy Northwest members were featured in public service announcements in fiscal year 2013 to tout public power. The Public Affairs department produced two versions of a public service announcement highlighting and promoting the organization's ties to public power. The two 30-second spots featured employees from Energy Northwest's member utilities, including Benton and Franklin PUDs; Mason County PUD 1 and 3; Chelan County PUD and Grant County PUD. The spots aired in the Seattle and Spokane markets, and on Energy Northwest's YouTube channel.

PUBLIC SERVICE ANNOUNCEMENTS

COMMUNITY Service

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 members delivering messages about nuclear energy's clean and safe power generation and other benefits.

\$90,214
raised for
United Way

\$29,000
raised for
March of Dimes





Energy Northwest employees 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.

United Way

In fiscal year 2013, more than \$90,000 was raised for United Way. Final results show 222 Energy Northwest employees contributed to the 2012 United Way campaign. These pledges and others help provide hot meals to elderly neighbors, fund youth developmental programs, provide disaster relief planning for the community and build self-esteem in at-risk youth.

United Way improves lives in the community through *Community Solutions*. The goal is for everyone living in Benton and Franklin counties to have a good education; access to healthcare; to live and work in a safe environment; and to be a self-sufficient, active member of the community.

March of Dimes

Energy Northwest's team raised \$29,000 this year for the March of Dimes, exceeding the goal, and once again demonstrating the philanthropy and generosity of its employees. More than 50 walkers from Energy Northwest, along with their spouses, children and pets, participated in the 3.1-mile walk along the Columbia River in the 2013 Tri-Cities March for Babies event supporting neo-natal birth centers and local families in need.

Additionally, Energy Northwest's dedicated employees provided more than \$10,000 for the "celebrity chef" event sponsored by the March of Dimes. These efforts provide national support for research for healthy babies and local support for expectant mothers.

Head Start

In fiscal year 2013, Energy Northwest celebrated the 32nd 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.

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 preschool-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.

CEO RECOGNITION

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

During fiscal year 2013, these employees were honored for exemplifying excellence in performance through their achievements and worker practices.



BRENDA INGALLS

IN-PROCESSING COORDINATOR

Brenda Ingalls is Energy Northwest's outage In-Processing Coordinator. She in-processed 1,247 employees and contractors between March 18 and May 20 this year to support Refueling and Maintenance Outage 21.

Originally from Prosser, Wash., Brenda joined Team Energy Northwest in July 2006. Her primary responsibilities include coordination of badging and training requirements for employees and contractors requesting unescorted access to Columbia Generating Station and other Energy Northwest facilities.

- | | | |
|-------------------|--------------------|-------------------|
| Sabrina Absolon | Gina Harper | Robby Peek |
| Robert Alexander | Bob Harris | Scott Praetorius |
| Paul Allen | Richard Hatten | Randall Prewett |
| Greg Armatrou | Jeremy Hauger | Don Queen |
| Dale Atkinson | Bryan Hays | Kelly Rae |
| Steve Baker | Mot Hedges | Angel Rains |
| Marianne Banta | Rick Hermann | Mark Reed |
| Brad Barfuss | Michael Holle | Cristina Reyff |
| Susan Barwick | Kevin Huber | Mark Rice |
| Carole Bergara | Dallin Hunt | George Richmond |
| Brittany Bergsson | Brenda Ingalls | Brent Ridge |
| Eddie Bickett | John Irvan | Eric Rockett |
| Scott Black | Alex Javorik | Darin Rodabaugh |
| Charles Blake | Kathy Jerrow | Ross Rodriguez |
| Mike Boddy | Carolyn John | Brian Rogers |
| PT Boler | Joshua Jones | Diego Rolon |
| Barbara Bomotti | Sandra Jorgensen | Richard Sanker |
| Pam Bradley | Steve Keltner | James Saucedo |
| Denise Brandon | Michael Kennedy | Bob Schuetz |
| Daryl Breard | Michael Kinmark | Jeff Schwartz |
| Tracey Brown | Dean Kovacs | Sherri Schwartz |
| Dave Brown | Marlene Ladendorff | Richard Shaff |
| Dean Butler | John Lamendola | Chris Smith |
| Jon Cohen | Andy Langdon | Angela Smith |
| Greg Cullen | John Latta | James Snyder |
| Shannon Dado | James Leiren | Cherie Sonoda |
| Michael Davis | Pattie Lilly | Kyle Sponholtz |
| John Dobken | Greg Lisle | Ben Stewart |
| JoAnna Dobson | Aaron Lyle | Diego Suarez |
| James Dorwin | Clay Madden | Dave Swank |
| Jerry Droppo | Kyle Martens | Pete Taggares |
| Elmer Dumlao | Carla Martinez | Richard Torres |
| Zach Dunham | Donna McCauley | Michael Tracy |
| Bob Dutton | Kevin McCullen | Scott Urban |
| Dick Ehr | Heather McMurdo | Steve Vaughn |
| Pat Ellsworth | Troy McNabb | Linda Walker |
| Tom Erwin | Steve McNutt | Jim Watts |
| Lisa Escalera | Angel Melendrez | Brent Weatherman |
| Val Eveland | Scott Metzger | Kenneth Webb |
| John Fellman | Daniel Morris | Gary Welch |
| Terra Flores | Toni Munder | Nancy Weston |
| Jacque Fuller | Theresa Neidhold | Ron Wick |
| Kathleen Galioto | Randy Nelson | William Wilfinger |
| Gary Gardner | Terry Northstrom | Lisa Williams |
| Jim Gaston | Rochelle Olson | Rod Williams |
| Jeff Gloyn | Rick Olson | Jeff Windham |
| Carl Golightly | Jerry Paetel | Larry Wingle |
| Dwayne Gregory | Lynne Pagel | Nick Woehle |
| Tim Hancock | Mike Paoli | Desiree Wolfram |
| Greg Hanson | Christopher Payne | Janet Worthington |
| Candy Harmon | Bruce Pease | |

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, 2013, internal control procedures are adequate.

M.E. Reddemann
Chief Executive Officer

B.J. Ridge
Vice President, and Chief Financial & 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 (July 2012 – February 2013), Marc Daudon, Dan Gunkel, Jack Janda, Skip Orser, Will Purser, Dave Remington, Lori Sanders, Tim Sheldon, Chair Kathy Vaughn (March – June 2013) and Sid Morrison, ex-officio. The committee held 10 meetings during the fiscal year ending June 30, 2013.

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.

Kathy Vaughn
Chair,
Audit, Legal and Finance Committee

Independent Auditor's Report

To the Executive Board of Energy Northwest:

We have audited the statements of net position and the related statements of revenues, expenses and changes in net position and of cash flows 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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the business-type activities of Energy Northwest (the "Company").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Company at June 30, 2013, and the respective results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying management's discussion and analysis listed in the table of contents are 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Portland, Oregon
September 26, 2013

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 (FY) ended June 30, 2013, with the basic financial statements for the fiscal year ended June 30, 2012.

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 2013 and FY 2012 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, 2013 and 2012 (Dollars in thousands)

	2012		2013		Change
Assets					
Current Assets	\$	209,345	\$	199,122	\$ (10,223)
Restricted Assets					
Special Funds		51,345		51,896	551
Debt Service Funds		516,106		672,455	156,349
Net Plant		1,525,642		1,499,711	(25,931)
Nuclear Fuel		341,535		985,824	644,289
Other Charges		3,658,124		3,258,111	(400,013)
TOTAL ASSETS	\$	6,302,097	\$	6,667,119	\$ 365,022
Current Liabilities	\$	501,801	\$	621,867	\$ 120,066
Restricted Liabilities					
Special Funds		138,406		147,047	8,641
Debt Service Funds		144,557		139,029	(5,528)
Long-Term Debt		5,508,467		5,746,882	238,415
Other Long-Term Liabilities		15,776		18,115	2,339
Other Credits		5,709		5,727	18
Net Position		(12,619)		(11,548)	1,071
TOTAL LIABILITIES AND NET POSITION	\$	6,302,097	\$	6,667,119	\$ 365,022
Operating Revenues	\$	425,695	\$	569,863	\$ 144,168
Operating Expenses		354,860		443,629	88,769
Net Operating Revenues		70,835		126,234	55,399
Other Income and Expenses		(71,049)		(125,163)	(54,114)
(Distribution) & Contribution		-		-	-
Beginning Net Assets		(12,405)		(12,619)	(214)
ENDING NET ASSETS	\$	(12,619)	\$	(11,548)	\$ 1,071

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, Washington.

Columbia produced 8,479 gigawatt-hours (GWh) of electricity in FY 2013, as compared to 6,984 GWh of electricity in FY 2012, which included economic dispatch of 51 and 140 GWh respectively. Columbia entered its planned refueling outage (R-21) on May 11, 2013. The 40 day planned outage extended an additional 5 days and ended June 25, 2013. The FY 2013 generation increase of 21.4% was due to the extended outage (R-20) incurred in FY 2011 extending into a portion of FY 2012, which ended September 27, 2012 which reduced the amount of power generated in FY 2012. Additionally, FY 2013 generation was approximately 6 GWh higher than budgeted, reflecting the continuous and successful generation run.

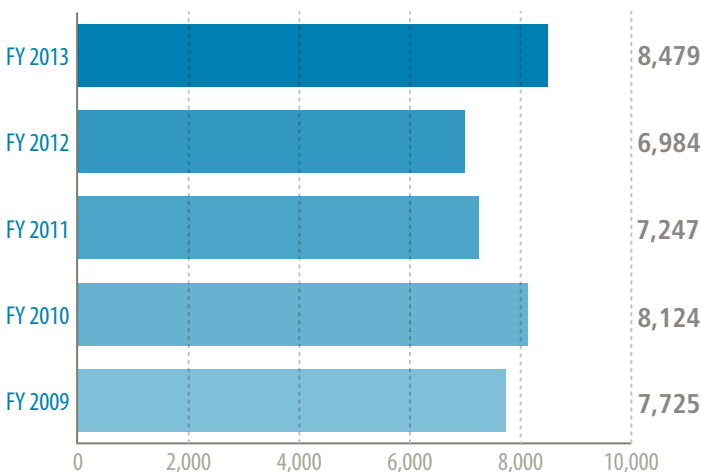
Columbia's cost performance is measured by the cost of power indicator. The cost of power for FY 2013 was 4.51 cents per kilowatt-hour (kWh) as compared with 4.73 cents per kWh in FY 2012. The industry cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. The FY 2013 cost of power decrease of 4.7 percent was due to the successful cost control and generation run in FY 2013 as compared to the generation and additional costs incurred during FY 2012 due to the extended R-20 outage.

Balance Sheet Analysis

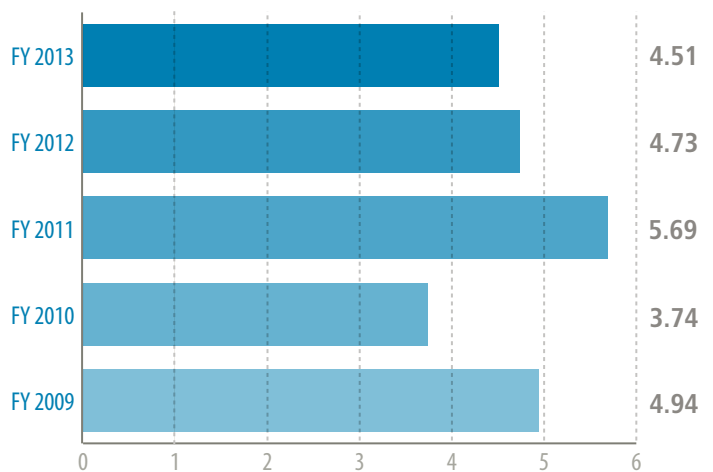
The net decrease to Utility Plant (plant) and Construction Work In Progress (CWIP) from FY 2012 to FY 2013 (excluding nuclear fuel) was \$18.1 million. The changes to plant and CWIP were comprised of additions to plant of \$8.0 million with an increase to CWIP of \$55.9 million. Remaining changes was the period effect of depreciation of \$82.0 million. The accumulated decommissioning and site restoration accrued costs related to the Integrated Spent Fuel Storage Installation (ISFSI) at Columbia were adjusted to reflect the change in the asset retirement obligation (ARO). Change in the ARO was necessary due to new Nuclear Regulatory Commission requirements for fuel storage calculations. Per ASC 410, "Asset Retirement and Environmental Obligations," the obligation was reevaluated and adjusted to reflect the change in timing due to the relicensing of Columbia through December 31, 2043 and to account for estimated costs related to fuel disposition obligations for the post five year period following the end of licensing and generation. The revision resulted in an increase to the capitalized portion of the asset of \$0.5 million. (See Note 11 to the Financial Statements.)

The FY 2013 additions to CWIP of \$55.9 million consisted of 20 major projects of at least \$0.7 million: Fukushima impacts, Radio Obsolescence, Cobalt Reduction Program, Stack Monitor Performance, Service Water Pump and Motor Overhaul, On-Line Noble Chemical Application, Keep Fill Pump Replacement, Control Rod Device Refurbishment, Main Transformer Replacement, High Pressure Core Spray Refurbishment, Turbine Blade Procurement, Reactor Feed Water Overhaul, Condensate Pump Refurbishment, Residual Heat Removal Systems, and Plant Telephone Obsolescence. These projects resulted in 76

Columbia Generating Station NET GENERATION - GWhrs



Columbia Generating Station COST OF POWER - Cents/kWh



percent of the CWIP activity. The remaining 24 percent were made up of 103 separate projects.

Nuclear fuel, net of accumulated amortization, increased \$644.3 million from FY 2012 to \$985.8 million for FY 2013. The major factor contributing to the increase in Nuclear Fuel relates to the completion of the Depleted Uranium Enrichment Program (DUEP). This program increased Fuel held for resale from \$1.5 million in FY 2012 to \$538.9 million in FY 2013. Fuel amounts used for reload increased \$90.0 million with a decrease in net fuel of \$37.8 million for current year amortization. Fuel removed for cooling increased \$55.3 million and remaining change was \$0.6 million for fuel loan and purchase activity relating to the cylinder/sampling activity for the DUEP.

Current assets increased \$16.4 million in FY 2013 to \$166.2 million. Changes were increases to materials and supplies of \$10.2 million (nuclear fuel cask inventory is \$4.5 million and inventory is \$5.7), increases to cash and investments of \$7.2 million offset by a decrease in accounts and other receivables of \$1.0 million.

Special funds decreased \$20.4 million to \$16.4 million in FY 2013 due to the FY 2013 bond activity and schedule of construction costs for these funds in FY 2013.

The debt service funds increased \$57.6 million in FY 2013 to \$147.5 million. The increase is due to the maturity of outstanding debt along with restructuring and funding activities and the requirement of making funds available for these maturities.

Deferred charges increased \$59.8 million in FY 2013 from \$835.0 million to \$894.8 million. Components of this increase were changes in Costs in

Excess of Billings related to the net effect of payment of current maturities and refunding activity related to available debt of \$58.1 million. There was also a slight increase to unamortized debt expense of \$1.7 million due to debt related activity.

Current liabilities increased \$15.6 million in FY 2013 to \$139.6 million. Components of the change were an increase to year end obligations relating from R-21 year end impacts of \$4.1 million, increases to current maturities of debt of \$60.7 million, decrease of \$61.8 million due to payment of notes payable obligation related to the DUEP, an increase of \$14.6 million for business unit activity and a decreased requirement for participant amounts under the net billing agreement of \$2.0 million.

Restricted liabilities increased \$12.5 million in FY 2013 to \$198.7 million. The increase was due to bond activity and related increase of \$5.7 million and decommissioning increases of \$6.8 million.

Long-term debt (Bonds Payable) increased \$721.6 million in FY 2013 from \$2.4 billion to \$3.2 billion due to the debt associated with DUEP of \$748.6 million. The current portion of Bonds Payable increased \$60.1 million, which was driven by timing of scheduled maturities.

Other long-term liabilities increased \$2.1 million in FY 2013 to \$17.9 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.

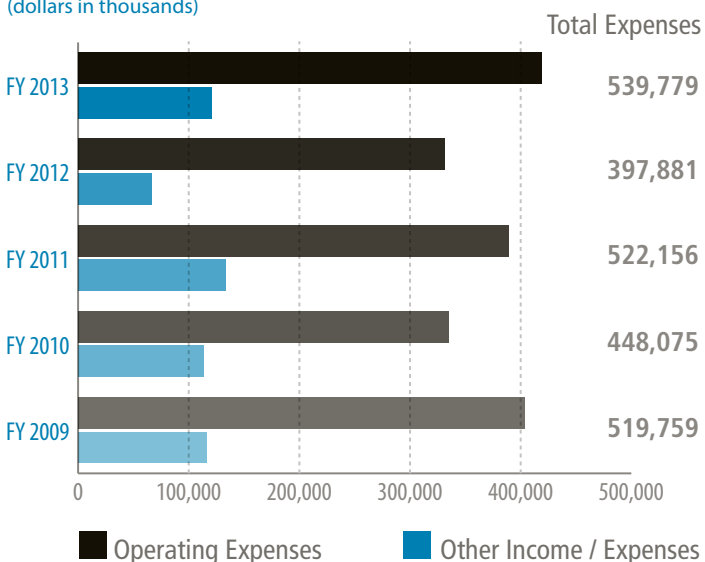
Operating expenses increased \$87.5 million from FY 2012 costs of \$331.4 million to \$418.9 million in FY 2013. The increases in costs were due to FY 2013 being a planned refueling year. The majority of the impacts to operating expenses were for Operations and Maintenance costs. These costs were \$68.9 million higher in FY 2013. Increased generation in FY 2013 resulted in increased fuel disposal costs of \$8.5 million and increased generation taxes of \$0.8 million. Periodic expenses for depreciation and decommissioning increased \$8.4 million with the remainder of the increase (\$0.9 million) a result of Administrative and General Expenses.

Other Income and Expenses increased \$54.2 million from FY 2012 to \$120.7 million net expenses in FY 2013. In FY 2012 there was a spent fuel litigation settlement from the Department of Energy (DOE) of \$48.7 million recorded as an offset to other income and expense. This is the major factor in the overall increase in other income and expenses for FY 2013. Additionally, FY 2012 had \$1.8 million in property disposal gains (condenser from R-20) that did not occur in FY 2013. The remaining major components of the increases were \$2.0 million due to bond and interest related activity and decreases to leasing activity of \$1.7 million. This includes a \$1.2 million DUEP leasing adjustment.

Columbia's total operating revenue increased from \$397.9 million in FY 2012 to \$539.7 million in FY 2013. The increase in costs (and conversely revenue per net billing) of \$141.8 million was due to the increased costs incurred in the completion of R-21. R-21 was originally budgeted for \$87.0 million and 40 days. Actual cost and days were \$85.1 million and 45 days. Columbia officially synced to the grid on June 25, 2013 signaling the completion of R-21.

Columbia Generating Station TOTAL OPERATING COSTS

(dollars in thousands)

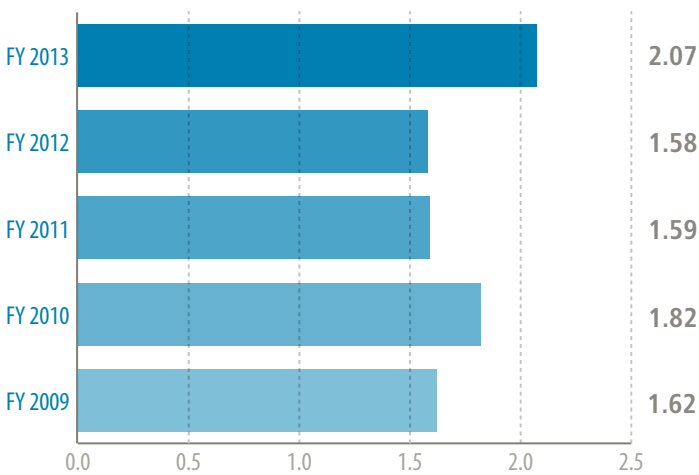


Packwood Lake Hydroelectric Project

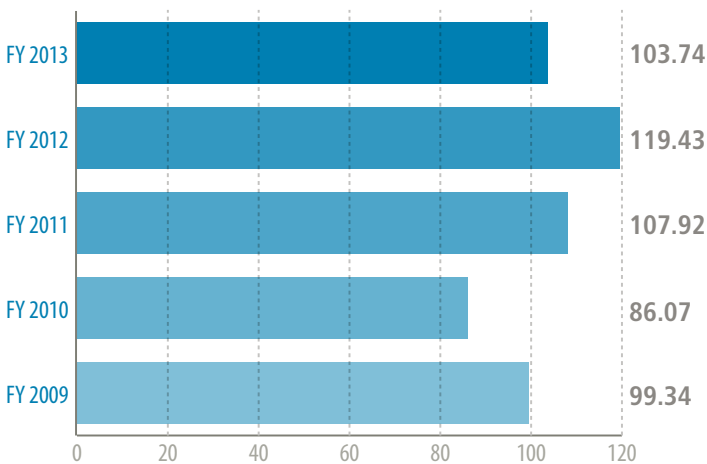
The Packwood Lake Hydroelectric Project (Packwood) is wholly owned and operated by Energy Northwest. Packwood consists of a diversion structure at Packwood Lake and a powerhouse located near the town of Packwood, Washington. The water is carried from the lake to the powerhouse through a five-mile long buried tunnel and drops nearly 1,800 feet in elevation. Packwood produced 103.70 GWh of electricity in FY 2013 versus 119.43 GWh in FY 2012. The 13.2 percent decrease in generation can be attributed to less favorable water availability compared to the previous year in addition to FY 2012 being the fourth highest generation in the life of the plant. Generation results for FY 2013 did exceed the estimated amount of 92.7 GWh by 11.9 percent.

Packwood's cost performance is measured by the cost of power indicator. The cost of power for FY 2013 was \$2.07 cents per kWh as compared to \$1.58 cents per kWh in FY 2012. The cost of power fluctuates year-to-year depending on various factors such as outage, maintenance, generation, and other operating costs. The FY 2013 cost of power increase of 31.0 percent was a result of less generation due to water availability and increased costs due to maintenance and transmission charges.

Packwood Lake Hydroelectric Project COST OF POWER - Cents/kWh



Packwood Lake Hydroelectric Project NET GENERATION - GWhrs

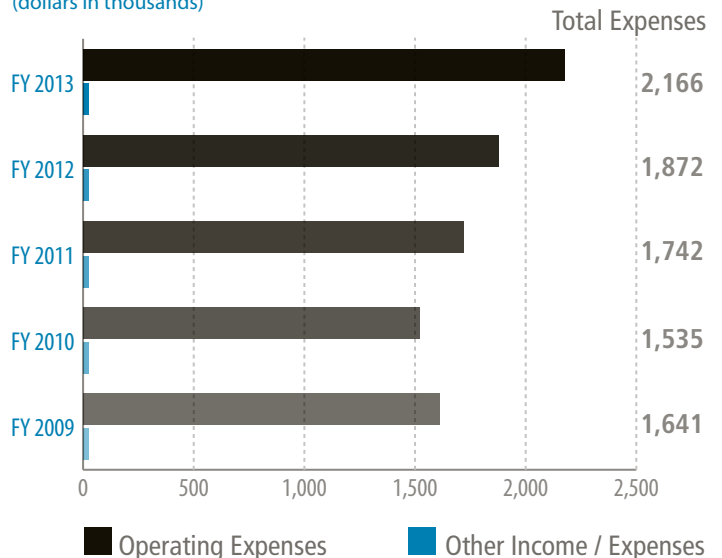


Balance Sheet Analysis

Total assets decreased \$0.1 million from FY 2012, with the drivers being an increase of \$0.7 million in capital activity for utility plant and a decrease of \$0.8 million in cash for operating activities. The corresponding decrease to total liabilities of \$0.1 million was the decrease in due to participants for the results of operations. Packwood has incurred \$3.7 million in relicensing costs through FY 2012 with no new costs incurred for FY 2013. 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 February 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on February 22, 2008. On March 4, 2010, FERC issued a one-year extension to operate under the original license which is indefinitely extended for continued operations until formal decision is issued by FERC and a new operating license is granted. As of June 30, 2013, Packwood continues to be relicensed under this extended agreement.

Packwood Lake Hydroelectric Project TOTAL OPERATING COSTS

(dollars in thousands)



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 \$0.3 million to \$2.2 million in FY 2013 from \$1.9 million in FY 2012. Operations and Maintenance was the major reason for the increase due to increased transmission and scheduling costs of \$57,000 and \$245,000 of hydraulic and electrical expenses.

Other Income and Expense increased from a net gain of \$4,000 in FY 2012 to an \$8,000 gain in FY 2013. The \$4,000 increase in net gain is primarily due to a small gain on property disposed of \$2,000 and a small increase in investment income from FY 2012 of \$2,000.

Packwood participants are obligated to pay annual costs of the project (including any applicable debt service), whether or not the project is operable. The Packwood participants also share project revenue to the extent that the amounts exceed costs. These funds can be returned to the participants or kept within the project. As of June 30, 2013 there is \$5.7 million recorded as deferred revenues in excess of costs that are being kept within the project. Packwood participants are currently taking 100 percent of the project generation; there are no additional agreements for power sales.

Nuclear Project No. 1

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

Balance Sheet Analysis

Long-term debt decreased \$289.7 million from \$1.4 billion in FY 2012 to \$1.1 billion in FY 2013 as a result of \$273.1 million being transferred to current debt to be paid on July 1, 2013 along with a decrease in bond related amortization of \$16.6 million. Short term debt increased \$37.0 million per the debt maturity schedule. There was a decrease to restricted liabilities of \$7.0 million, represented by a decrease to interest payable of \$8.8 million offset by an increase to the decommissioning estimate of \$1.8 million.

Statement of Operations Analysis

Other Income and Expenses showed a net decrease to expenses of \$20.0 million from \$75.0 million in FY 2012 to \$55.0 million in FY 2013. Investment revenue stayed steady, bond related expenses decreased \$21.5 million, decommissioning costs increased \$1.3 million and there was a slight increase of \$0.2 million in plant preservation costs.

Nuclear Project No. 3

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

Balance Sheet Analysis

Long-term debt decreased \$174.4 million from \$1.5 billion in FY 2012 to \$1.3 billion in FY 2013, as a result of \$166.2 million being transferred to current debt to be paid on July 1, 2013 along with a decrease in bond related amortization of \$8.2 million. Current debt per the debt maturity schedule increased \$70.6 million from \$95.5 million in FY 2012 to \$166.2 million in FY 2013. The remaining changes in liabilities of \$6.6 million were due to increased payable transfers from bond related activities.

Statement of Operations Analysis

Overall expenses decreased \$9.9 million from FY 2012 related to bond activity with investment income and liquidation costs 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 \$1.0 million from \$9.1 million in FY 2012 to \$10.1 million in FY 2013. Increases were due to cash and investments of \$1.1 million, net plant of \$0.2 million, and decreases to receivables and prepaid amounts of \$0.3 million. Liabilities decreased \$0.4 million from FY 2012 due to timing of year end outstanding items.

Statement of Operations Analysis

Operating Revenues in FY 2013 totaled \$9.0 million as compared to FY 2012 revenues of \$9.8 million, a decrease of \$0.8 million. The decrease in revenues was driven by four major projects: Grays Harbor project, which was a 50 MW power call option that ended in June 2013 at the 600 MW Satsop

Natural Gas Combined-Cycle plant as part of a compensation package for selling development rights to Duke Energy in 2001 (\$0.3 million), termination of the Kalama project in FY 2013, which was a proposed development of a 346 MW Natural Gas Combined-Cycle plant in southwestern Washington state (\$0.4 million), decreases in Hanford calibration services (\$0.3 million) due to the expiration of a portion of the contracted scope of work, and decreased lease activity (\$0.3 million). The decreases in the four projects mentioned above were offset by increased revenues for technical services and engineering services of \$0.6 million. Operating costs decreased \$0.9 million due to decreased business activity resulting in a net operating increase of \$0.1 million.

Other Income and Expenses decreased \$0.2 million from \$1.5 million in net revenues in FY 2012 to net revenue of \$1.3 million in FY 2013; there was an adjustment of \$0.1 million for completion of the power option derivative contract for the Grays Harbor project, and a decrease of other income and expenses of \$0.1 million, with no significant individual items.

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 2013 there were no contributions (transfers), which was also the case for FY 2012.

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 228.23 GWh of electricity in FY 2013 versus 261.63 GWh in FY 2012. The decrease of 12.8 percent was due to slightly less favorable wind conditions in FY 2013 as compared to FY 2012. The average wind speed for the months of January and June were significantly below the 10 year average. The below average wind conditions combined with FY 2012 being the second highest generation year for history of the project were the drivers for the decrease between years.

Nine Canyon's cost performance is measured by the cost of power indicator. The cost of power for FY 2013 was \$7.91 cents per kWh as compared to \$6.69 cents per kWh in FY 2012. The cost of power fluctuates year to year depending on various factors such as wind

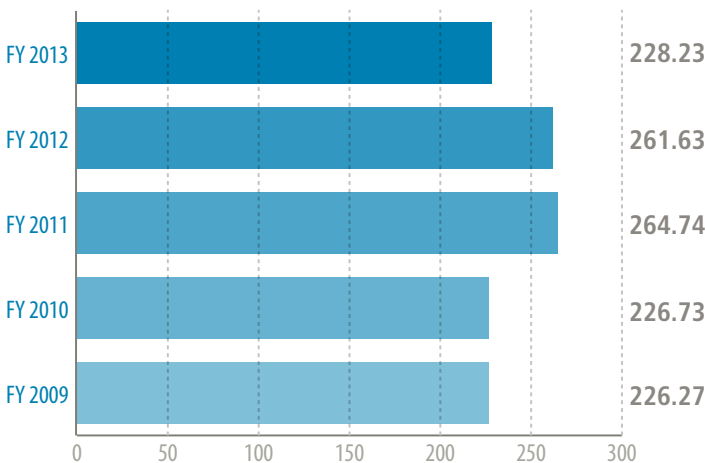
totals and unplanned maintenance. The FY 2013 cost of power increase of 18.2 percent was a result of the decreased generation due to wind conditions and higher maintenance costs incurred due to turbine bearing maintenance.

Balance Sheet Analysis

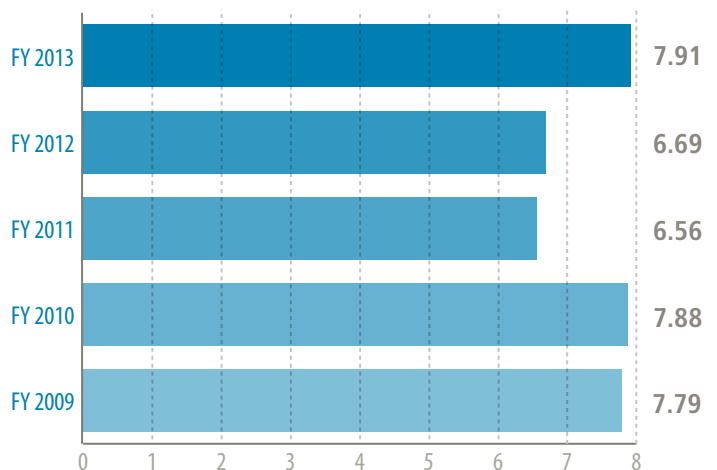
Total assets decreased \$5.0 million from \$119.5 million in FY 2012 to \$114.5 million in FY 2013. The major driver for the change in assets was a decrease of \$6.8 million in net plant due to accumulated depreciation. The remaining changes consisted of increases to restricted assets of \$2.4 million and decreases in cash and investments of \$0.2 million, prepaid amounts of \$0.2 million and debt related expenses of \$0.2 million. There was an overall decrease to liabilities of \$5.2 million with a decrease to long term debt of \$7.4 million, increases to current debt maturities of \$2.3 million, increases to accrued debt related interest of \$0.1 million, and increases to accrued costs and business activities of \$0.1 million. The increase in net assets was \$0.2 million in FY 2013 as compared to a decrease of \$1.3 million in FY 2012. The slight reversal in net assets reflects the rate stabilization approach for Nine Canyon planning out through the 2030 period.

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 Wind Project NET GENERATION - GWh



Nine Canyon Wind Project COST OF POWER - Cents/kWh



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 increased 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.

Statement of Operations Analysis

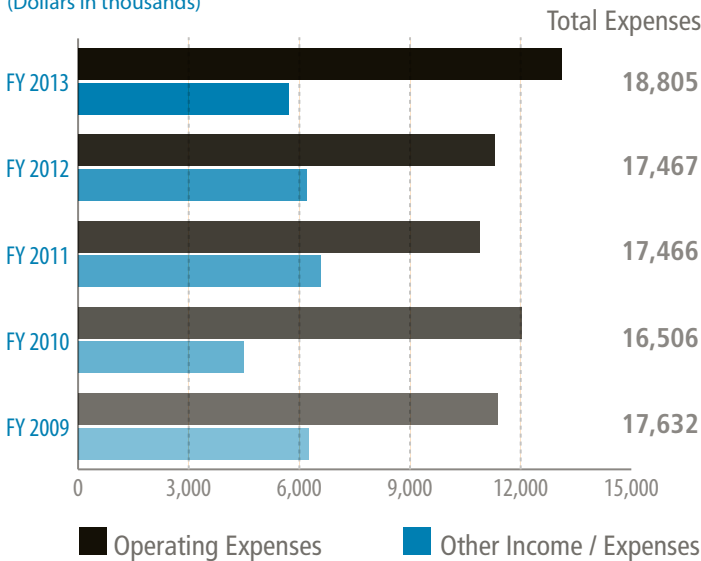
Operating revenues increased \$2.8 million from \$16.2 million in FY 2012 to \$19.0 million in FY 2013. The project received revenue from the billing of the purchasers at an average rate of \$80.06 per MWh for FY 2013 as compared to \$61.98 per MWh for FY 2012 which is reflective of the implementation of the revised rate plan in FY 2008 to account for REPI funding shortfalls and costs of operations. The increased operating revenues from the previous year were due to increased funding requirements for Phase III purchasers. The increase in the average rate billed to purchasers was also impacted by the reduced generation in FY 2013 as compared to FY 2012. Operating costs increased from \$11.3 million in FY 2012 to \$13.1 million in FY 2013. Increased operating costs of \$1.8 million for FY 2013 were due to maintenance work related to turbine bearing replacements.

Other income and expenses decreased \$0.5 million from \$6.2 million in net expenses FY 2012 to \$5.7 million in FY 2013. Decreased interest costs of \$0.4 million and decreases in amortized bond expenses of \$0.1 million accounted for the change. Net gain or change in net assets of \$0.2 million for FY 2013 was a direct result of the planned average rate increase with lower than budgeted operating costs.

The original plan anticipated operating at a loss in the early years and gradually increasing the rate charged to the purchasers to avoid a large rate increase after the REPI expires. The REPI incentive expires 10 years from the initial operation startup date for each phase. Reserves that were established are used to facilitate this plan. The rate plan in FY 2008 was revised to account for the shortfall experienced in the REPI funding and to provide a new rate scenario out to the 2030 project end date. Energy Northwest did not receive REPI funding in FY 2013 and is not anticipating receiving any future REPI incentives. The results from FY 2013 reflect the revised rate plan scenario and gradual increase in the return of total net assets.

Nine Canyon Wind Project TOTAL OPERATING COSTS

(Dollars in thousands)



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 increased \$9.1 million from \$46.6 million in FY 2012 to \$55.7 million in FY 2013. The five major items contributing to the change were 1) decreases to net plant of \$2.0 million, 2) decrease of \$5.7 million to cash to reflect FY 2013 recognition of year-end check redemption related to R-21 versus the requirements of FY 2012 which was a non-outage year, 3) an increase of \$1.6 million in restricted assets due to the debt maturity schedule and escrow requirements processing schedule, 4) an increase to prepaid amounts of \$0.4 million, and an increase to due from other business units of \$14.8 million.

The net increase in net assets and liabilities is due to increases in accounts payable and payroll related liabilities of \$9.4 million due to year-end timing of expenses for FY 2013, which was an outage year and a decrease of \$15.0 million due to other business units resulting from the change in year-end activities.

Statement of Operations Analysis

Net revenues for FY 2013 increased \$112,000 from FY 2012. The increase was due to decreased amounts of other business expenses of \$146,000, decrease in depreciation of \$194,000 offset by decreases in operating revenue due to operations of \$452,000.

Current Debt Ratings **(Unaudited)**

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

Statement Of Net Position As of June 30, 2013 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project Number 1*	Nuclear Project Number 3*	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	Combined Total
ASSETS									
CURRENT ASSETS									
Cash	\$ 33,154	\$ 373	\$ 606	\$ 667	\$ 5,223	\$ 8,624	\$ 48,647	\$ -	\$ 48,647
Available-for-sale investments	10,000	1,023	2,512	2,669	2,542	1,049	19,795	5,065	24,860
Accounts and other receivables	263	111	3	3	466	144	990	84	1,074
Due from other business units	-	10	270	-	343	-	623	16,638	-
Materials and supplies	121,404	-	-	-	-	-	121,404	-	121,404
Prepayments and other	1,409	12	-	-	140	76	1,637	1,500	3,137
TOTAL CURRENT ASSETS	166,230	1,529	3,391	3,339	8,714	9,893	193,096	23,287	199,122
RESTRICTED ASSETS (NOTE 1)									
Special funds									
Cash	9,907	-	298	699	-	4	10,908	406	11,314
Available-for-sale investments	6,518	-	3,000	7,257	-	1,558	18,333	22,227	40,560
Accounts and other receivables	22	-	-	-	-	-	22	-	22
Debt service funds									
Cash	125,970	-	98,267	57,632	-	9,959	291,828	-	291,828
Available-for-sale investments	21,482	-	207,975	139,799	-	11,364	380,620	-	380,620
Accounts and other receivables	3	-	-	3	-	1	7	-	7
TOTAL RESTRICTED ASSETS	163,902	-	309,540	205,390	-	22,886	701,718	22,633	724,351
NON CURRENT ASSETS									
UTILITY PLANT (Note 2)									
In service	3,813,536	14,437	-	-	2,543	134,510	3,965,026	47,971	4,012,997
Not in service	-	-	29,415	-	-	-	29,415	-	29,415
Construction work in progress	116,483	-	-	-	-	-	116,483	-	116,483
Accumulated depreciation	(2,523,438)	(12,812)	(29,415)	-	(1,150)	(54,166)	(2,620,981)	(38,203)	(2,659,184)
Net Utility Plant	1,406,581	1,625	-	-	1,393	80,344	1,489,943	9,768	1,499,711
Nuclear fuel, net of accumulated depreciation	985,824	-	-	-	-	-	985,824	-	985,824
LONG TERM RECEIVABLES	-	-	-	-	-	-	-	-	-
TOTAL NONCURRENT ASSETS	2,392,405	1,625	-	-	1,393	80,344	2,475,767	9,768	2,485,535
OTHER CHARGES									
Cost in excess of billings	880,778	-	1,093,010	1,258,171	-	-	3,231,959	-	3,231,959
Unamortized debt expense	14,290	-	2,813	3,888	-	1,424	22,415	-	22,415
Other	-	3,737	-	-	-	-	3,737	-	3,737
TOTAL OTHER CHARGES	895,068	3,737	1,095,823	1,262,059	-	1,424	3,258,111	-	3,258,111
TOTAL ASSETS	\$ 3,617,605	\$ 6,891	\$ 1,408,754	\$ 1,470,788	\$ 10,107	\$ 114,547	\$ 6,628,692	\$ 55,688	\$ 6,667,119

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

Statement Of Net Position As of June 30, 2013 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project Number 1*	Nuclear Project Number 3*	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	Combined Total
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Current maturities of long-term debt	\$ 61,020	\$ -	\$ 273,055	\$ 166,160	\$ -	\$ 6,835	\$ 507,070	\$ -	\$ 507,070
Accounts payable and accrued expenses	36,973	196	183	43	995	486	38,876	49,994	88,870
Due to participants	24,959	968	-	-	-	-	25,927	-	25,927
Due to other business units	16,618	-	-	10	-	10	16,638	623	-
TOTAL CURRENT LIABILITIES	139,570	1,164	273,238	166,213	995	7,331	588,511	50,617	621,867
LIABILITIES-PAYABLE FROM RESTRICTED ASSETS (NOTE 1)									
Special funds									
Accounts payable and accrued expenses	127,163	-	18,244	-	-	1,287	146,694	353	147,047
Debt service funds									
Accrued interest payable	71,522	-	33,186	31,259	-	3,062	139,029	-	139,029
TOTAL RESTRICTED LIABILITIES	198,685	-	51,430	31,259	-	4,349	285,723	353	286,076
LONG-TERM DEBT (NOTE 5)									
Revenue bonds payable	3,163,020	-	1,048,005	1,229,245	-	124,120	5,564,390	-	5,564,390
Unamortized (discount)/premium on bonds - net	105,591	-	36,251	44,955	-	4,138	190,935	-	190,935
Unamortized loss on bond refundings	(7,175)	-	(170)	(884)	-	(214)	(8,443)	-	(8,443)
TOTAL LONG-TERM DEBT	3,261,436	-	1,084,086	1,273,316	-	128,044	5,746,882	-	5,746,882
OTHER LONG-TERM LIABILITIES	17,914	-	-	-	195	-	18,109	6	18,115
OTHER CREDITS									
Advances from members and others	-	5,727	-	-	-	-	5,727	-	5,727
Other	-	-	-	-	-	-	-	-	-
TOTAL OTHER CREDITS	-	5,727	-	-	-	-	5,727	-	5,727
NET POSITION									
Invested in capital assets, net of related debt	-	-	-	-	1,393	(53,110)	(51,717)	9,766	(41,951)
Restricted, net	-	-	-	-	-	17,559	17,559	22,633	40,192
Unrestricted, net	-	-	-	-	7,524	10,374	17,898	(27,687)	(9,789)
NET POSITION	-	-	-	-	8,917	(25,177)	(16,260)	4,712	(11,548)
TOTAL LIABILITIES	3,617,605	6,891	1,408,754	1,470,788	1,190	139,724	6,644,952	50,976	6,678,667
TOTAL LIABILITIES AND NET POSITION	\$ 3,617,605	\$ 6,891	\$ 1,408,754	\$ 1,470,788	\$ 10,107	\$ 114,547	\$ 6,628,692	\$ 55,688	\$ 6,667,119

* 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 Position

As Of June 30, 2013 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Project	Nuclear Project No.1 *	Nuclear Project No.3 *	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	2013 Combined Total
OPERATING REVENUES	\$ 539,667	\$ 2,173	\$ -	\$ -	\$ 9,024	\$ 18,999	\$ 569,863	\$ -	\$ 569,863
OPERATING EXPENSES									
Services to other business units	-	-	-	-	-	-	-	-	-
Nuclear fuel	42,433	-	-	-	-	-	42,433	-	42,433
Spent fuel disposal fee	8,059	-	-	-	-	-	8,059	-	8,059
Decommissioning	6,306	-	-	-	-	84	6,390	-	6,390
Depreciation and amortization	83,967	57	-	-	240	6,814	91,078	-	91,078
Operations and maintenance	246,376	1,938	-	-	9,167	6,121	263,602	-	263,602
Administrative & general	27,775	164	-	-	-	34	27,973	-	27,973
Generation tax	4,023	22	-	-	-	49	4,094	-	4,094
Total operating expenses	418,939	2,181	-	-	9,407	13,102	443,629	-	443,629
OPERATING INCOME (LOSS)	120,728	(8)	-	-	(383)	5,897	126,234	-	126,234
OTHER INCOME & EXPENSE									
Other	4,785	3	55,032	55,906	1,308	12	117,046	82,214	116,978
Investment income	645	5	68	50	20	61	849	11	849
Interest expense and discount amortization	(126,158)	-	(51,919)	(55,594)	-	(5,776)	(239,447)	-	(239,447)
Plant preservation and termination costs	-	-	(1,336)	(362)	-	-	(1,698)	-	(1,698)
Depreciation and amortization	-	-	(6)	-	-	-	(6)	2,109	(6)
Decommissioning	-	-	(1,839)	-	-	-	(1,839)	-	(1,839)
Services to other business units	-	-	-	-	-	-	-	(84,402)	-
TOTAL OTHER INCOME & EXPENSE	(120,728)	8	-	-	1,328	(5,703)	(125,095)	(68)	(125,163)
INCOME (LOSS)	-	-	-	-	945	194	1,139	(68)	1,071
TOTAL NET ASSETS, BEGINNING OF YEAR	-	-	-	-	7,972	(25,371)	(17,399)	4,780	(12,619)
TOTAL NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ 8,917	\$ (25,177)	\$ (16,260)	\$ 4,712	\$ (11,548)

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

Statement of Cash Flows As of June 30, 2013 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project No.1 *	Nuclear Project No.3 *	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2013 Combined Total
CASH FLOWS FROM OPERATING AND NON-OPERATING ACTIVITIES								
Operating revenue receipts	\$ 478,335	\$ 2,011	\$ -	\$ -	\$ 5,074	\$ 19,002	\$ -	\$ 504,422
Cash payments for operating expenses	(275,172)	(2,033)	-	-	(1,159)	(6,069)	-	(284,433)
Non-operating revenue receipts	112	-	338,733	228,232	(67)	-	-	567,010
Cash payments for preservation, termination expense	-	-	(534)	(22)	-	-	-	(556)
Cash payments for services	-	-	-	-	-	-	(4,192)	(4,192)
Net cash provided/(used) by operating and nonoperating activities	203,275	(22)	338,199	228,210	3,848	12,933	(4,192)	782,251
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from bond refundings	785,282	-	-	-	-	-	-	785,282
Payment for bond issuance and financing costs	(4,063)	-	(295)	(306)	(1)	(24)	-	(4,689)
Payment for capital items	(65,339)	(770)	-	-	(333)	(37)	-	(66,479)
Nuclear fuel acquisitions	(679,614)	-	-	-	-	-	-	(679,614)
Interest paid on bonds	(133,511)	-	(75,205)	(64,989)	-	(6,119)	-	(279,824)
Principal paid on revenue bond maturities	(355)	-	(236,030)	(95,540)	-	(4,575)	-	(336,500)
Note Payment	(61,769)	-	-	-	-	-	-	(61,769)
Interest paid on Notes	(110)	-	-	-	-	-	-	(110)
Net cash provided/(used) by capital and related financing activities	(159,479)	(770)	(311,530)	(160,835)	(334)	(10,755)	-	(643,703)
CASH FLOWS FROM NON-CAPITAL FINANCE ACTIVITIES								
	-	-	-	-	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of investment securities	(592,637)	(1,046)	(214,700)	(181,777)	(2,560)	(22,339)	(25,490)	(1,040,549)
Sales of investment securities	615,262	975	194,710	69,005	2,035	28,792	24,640	935,419
Interest on investments	1,794	41	34	31	62	230	(622)	1,570
Net cash provided/(used) by investing activities	24,419	(30)	(19,956)	(112,741)	(463)	6,683	(1,472)	(103,560)
NET INCREASE(DECREASE) IN CASH	68,215	(822)	6,713	(45,366)	3,051	8,861	(5,664)	34,988
CASH AT JUNE 30, 2012	100,817	1,195	92,458	104,363	2,172	9,726	6,070	316,801
CASH AT JUNE 30, 2013 (NOTE B)	\$ 169,032	\$ 373	\$ 99,171	\$ 58,997	\$ 5,223	\$ 18,587	\$ 406	\$ 351,789

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

Statement of Cash Flows As of June 30, 2013 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project No.1 *	Nuclear Project No.3 *	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2013 Combined Total
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES								
Net operating revenues	\$ 120,728	\$ (8)	\$ -	\$ -	\$ (383)	\$ 5,897	\$ -	\$ 126,234
Adjustments to reconcile net operating revenues to cash provided by operating activities:								
Depreciation and amortization	124,410	48	-	-	157	6,793	-	131,408
Decommissioning	6,306	-	-	-	-	33	-	6,339
Other	(2,041)	770	-	-	1,458	37	-	224
Change in operating assets and liabilities:								
Deferred charges/costs in excess of billings	(61,332)	(48)	-	-	-	-	-	(61,380)
Accounts receivable	980	11	-	-	(51)	(9)	-	931
Materials and supplies	(10,201)	-	-	-	-	-	-	(10,201)
Prepaid and other assets	(98)	62	-	-	2,572	202	-	2,738
Due from/to other business units, funds and Participants	14,874	(915)	-	-	-	76	-	14,035
Accounts payable	9,537	58	-	-	95	(96)	-	9,594
Non-operating revenue receipts	112	-	338,733	228,232	-	-	-	567,077
Cash payments for preservation, termination expense	-	-	(534)	(22)	-	-	-	(556)
Cash payments for services	-	-	-	-	-	-	(4,192)	(4,192)
Net cash provided (used) by operating and nonoperating activities	\$ 203,275	\$ (22)	\$ 338,199	\$ 228,210	\$ 3,848	\$ 12,933	\$ (4,192)	\$ 782,251

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

Notes To Financial Statements

Note 1 - Summary of Operations and Significant Accounting Policies

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

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

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

Energy Northwest maintains seven business units. Each unit is financed and accounted for separately from all other current or future business units.

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 January 19, 2010 Energy Northwest submitted an application to the NRC to renew the license for an additional 20 years, thus continuing operations to 2043. A renewal license was granted by the NRC on May 22, 2012 for continued operation of Columbia to December 31, 2043.

Energy Northwest also operates the Packwood Lake Hydroelectric Project (Packwood), a 27.5-MWe generating plant completed in 1964. Packwood has been operating under a 50-year license issued by the Federal Energy Regulatory Commission (FERC), which expired on February 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on February 22, 2008. On March 4, 2010, FERC issued a one-year extension, or until the issuance of a new license for the project or other disposition under the Federal Power Act, whichever comes first. FERC is awaiting issuance of the National Oceanic and Atmospheric Administration's (NOAA) Biological Opinion, after which FERC will complete the final license renewal documentation for Packwood. 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. 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 October 30, 2013, the date the financial statements were issued.

The following is a summary of the significant accounting policies:

- a) **Basis of Accounting and Presentation:** The accounting policies of Energy Northwest conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 books of accounts are maintained for each business unit. Payment of the obligations of one business unit with funds of another business unit is prohibited, and would constitute violation of bond resolution covenants (See Note 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 (unaudited) only as each Energy Northwest business unit is financed and accounted for separately from all other current and future business units. The FY 2013 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.

In June 2011, GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." Statement No. 63 amends the current net assets reporting requirements by incorporating deferred inflows of resources and deferred outflows of resources into the definitions of required financial statement components and renames "Net Assets" as "Net Position." Statement No. 63 is effective for Energy Northwest beginning in fiscal year 2013. Energy Northwest's financial statements have been modified to conform to the requirements of this statement. Implementation did not have a material impact on the Energy Northwest's financial results.

In March 2012, GASB issued Statement No. 65, "Items, Previously Reported as Assets and Liabilities." Statement No. 65 establishes accounting and financial reporting standards to reclassify certain items previously reported as assets and liabilities as deferred outflows or deferred inflows of resources, or as outflows or inflows of resources. This statement also limits the use of the term deferred in financial statement presentations. This statement is effective for Energy Northwest beginning in fiscal year 2014. The District is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In June 2012, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27." The primary objective of Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This

statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit pension plans, this statement identifies the methods and assumptions to project benefit payments, discount projected benefit payments to their actuarial present value and attribute present value to periods of employee service. Note disclosure and required supplementary information about pensions are also addressed. Statement No. 68 is effective for Energy Northwest beginning in fiscal year 2015. Energy Northwest is currently evaluating the financial statement impact of adopting this statement.

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 (see Note 15).

c) Capitalized Interest: Energy Northwest analyzes the gross interest expense relating to the cost of the bond sale, taking into account interest earnings and draws for purchase or construction reimbursements for the purpose of analyzing impact to the recording of capitalized interest. If estimated costs are more than inconsequential, an adjustment is made to allocate capitalized interest to the appropriate plant account. Capitalized interest costs were \$1.6 million.

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.

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, unplanned 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) Leases:** Consist of separate operating lease agreements. The total of these leases by business unit and their respective amounts paid per year are listed in the table on the next page.
- n) 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.
- o) 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.
- p) 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.
- q) 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 2013 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 of 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 2013 and estimated total cost recovery projections out to the 2030 proposed end date. During FY 2013 there was no cost recovery obtained from REPI.

Projects Operating Lease Costs (Dollars in thousands)

	2014	2015	2016	2017	2018	2019+
Columbia	\$ 723	\$ 723	\$ 723	\$ 723	\$ 723	\$ 18,082
Nuclear Project No. 1	35	35	35	35	35	210
Nine Canyon	684	684	684	684	684	8,209
Business Development Fund	169	169	169	169	169	226
Internal Service Fund	147	147	147	147	147	1,655
Packwood Lake Project	81	81	81	81	81	81
Total	\$ 1,839	\$ 1,839	\$ 1,839	\$ 1,839	\$ 1,839	\$ 28,463

Long-Term Liabilities (Dollars in thousands)

	Balance 6/30/2012	INCREASES	DECREASES	Balance 6/30/2013
Columbia				
Revenue bonds payable	\$ 2,441,385	\$ 782,655	\$ 61,020	\$ 3,163,020
Unamortized (discount)/premium on bonds - net	120,221	2,632	17,262	105,591
Unamortized gain/(loss) on bond refundings	(9,966)	3,371	580	(7,175)
Other noncurrent liabilities	15,776	2,142	4	17,914
	\$ 2,567,416	\$ 790,800	\$ 78,866	\$ 3,279,350
Nuclear Project No.1				
Revenue bonds payable	\$ 1,321,060	\$ -	\$ 273,055	\$ 1,048,005
Unamortized (discount)/premium on bonds - net	56,290	30	20,069	36,251
Unamortized gain/(loss) on bond refundings	(3,614)	3,905	461	(170)
	\$ 1,373,736	\$ 3,935	\$ 293,585	\$ 1,084,086
Nuclear Project No.3				
Revenue bonds payable	\$ 1,395,405	\$ -	\$ 166,160	\$ 1,229,245
Unamortized (discount)/premium on bonds - net	53,241	8,403	16,689	44,955
Unamortized gain/(loss) on bond refundings	(974)	913	823	(884)
	\$ 1,447,672	\$ 9,316	\$ 183,672	\$ 1,273,316
Nine Canyon				
Revenue bonds payable	\$ 130,955	\$ -	\$ 6,835	\$ 124,120
Unamortized (discount)/premium on bonds - net	4,743	-	605	4,138
Unamortized gain/(loss) on bond refundings	(279)	88	22	(214)
	\$ 135,419	\$ 88	\$ 7,462	\$ 128,044

r) 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 \$20.8 million at June 30, 2013 and is recorded as a current liability.

s) 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, 2013 was as follows:

Utility Plant Activity (Dollars in thousands)

	Balance 6/30/2012	Capital Acquisitions	Sale or Other Dispositions	Balance 6/30/2013
Columbia				
Generation	\$ 3,791,326	\$ 7,482	\$ (41)	\$ 3,798,767
Decommissioning	14,256	512	-	14,768
Construction Work-in-Progress	60,553	282,452	(226,522)	116,483
Accumulated Depreciation and Decommissioning	(2,441,485)	(81,993)	41	(2,523,438)
Utility Plant, net*	\$ 1,424,650	\$ 208,453	\$ (226,522)	\$ 1,406,581
Packwood				
Generation	\$ 13,625	\$ 812	\$ -	\$ 14,437
Construction Work-in-Progress	-	812	(812)	-
Accumulated Depreciation	(12,764)	(48)	-	(12,812)
Utility Plant, net	\$ 861	\$ 1,576	\$ (812)	\$ 1,625
Business Development				
General	\$ 2,174	\$ 369	\$ -	\$ 2,543
Construction Work-in-Progress	-	369	(369)	-
Accumulated Depreciation	(993)	(157)	-	(1,150)
Utility Plant, net	\$ 1,181	\$ 581	\$ (369)	\$ 1,393
Nine Canyon				
Generation	\$ 133,645	\$ 37	\$ (32)	\$ 133,649
Decommissioning	861	-	-	861
Construction Work-in-Progress	-	37	(37)	-
Accumulated Depreciation and Decommissioning	(47,372)	(6,826)	32	(54,166)
Utility Plant, net	\$ 87,133	\$ (6,752)	\$ (37)	\$ 80,345
Internal Service Fund				
General	\$ 48,410	\$ 59	\$ (500)	\$ 47,969
Construction Work-in-Progress	-	59	(59)	-
Accumulated Depreciation	(36,594)	(2,109)	500	(38,203)
Utility Plant, net	\$ 11,816	\$ (1,990)	\$ (59)	\$ 9,766

Note 3 –**Available-for-Sale Investments (Dollars in thousands)**

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (1) (2)
Columbia	\$ 37,986	\$ 14	\$ -	\$ 38,000
Packwood	1,023	-	-	1,023
Nuclear Project No. 1	213,488	-	-	213,488
Nuclear Project No. 3	149,725	-	-	149,725
Business Development Fund	2,540	-	-	2,540
Internal Service Fund	27,202	5	(4)	27,203
Nine Canyon	13,971	2	(2)	13,971

(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 \$1.5 million have a maturity beyond 1 year with the longest maturity being July 5th, 2014. Of the total \$1.5 million maturing beyond 1 year, \$1.0 million resides in the Business Development Fund and the remaining \$0.5 million resides with Packwood.

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 Charges and Credits for Resources

Other credits of \$3.7 million relate to the Packwood relicensing effort. Other credits of \$0.1 million for Nine Canyon consist of turbine elevator purchases to be completed in FY 2014.

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), Resolution No.1482 (2006 Bonds), and Resolution No. 1722 (2012 Bonds).

During the year ended June 30, 2013, Energy Northwest issued, for Columbia Series 2012-D and 2012-E fixed rate bonds with a weighted average coupon interest rate ranging from 1.06 percent to 5.0 percent.

The Series 2012-D bonds issued for Columbia are tax-exempt fixed-rate bonds. Series 2012-E bonds issued for Columbia are taxable fixed rate bonds. These bonds were issued in majority to cover fuel purchases (See Note 1).

The Bond Proceeds, Weighted Average Coupon Interest Rates and Bond Proceeds for 2012-D and 2012-E are presented in the following tables:

Bond Proceeds (Dollars in millions)

	2012D	2012E	Total
Columbia	\$ 34.14	\$ 748.52	\$ 782.66
Total	\$ 34.14	\$ 748.52	\$ 782.66

Weighted Average Coupon Interest Rate for New Bonds

	2012D	2012E
Columbia	4.48%	2.50%
Total	4.08%	5.00%

Energy Northwest did not issue or refund any bonds associated with Project No. 1, Project No. 3, Packwood, and Nine Canyon during FY 2013.

Outstanding principal on revenue and refunding bonds for the various business units as of June 30, 2013, 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	5.10-5.33	7-1-13/2021	10,310
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
2012D	5.00	7-1-25/2044	34,140
2012E	1.06-4.14	7-1-15/2037	748,515
Revenue bonds payable			\$ 3,224,040
Estimated fair value at June 30, 2013			\$ 3,512,957 (A)

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
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	7-1-13/2017	103,120
2007A	5.00	7-1-13/2017	51,730
2007B	5.10	7-1-2013	2,290
2007C	5.00	7-1-13/2017	219,020
2008A	5.00-5.25	7-1-13/2017	230,535
2008D	5.00	7-1-13/2017	38,100
2009A	3.25-5.00	7-1-14/2015	48,905
2009B	4.59	7-1-2014	515
2010A	3.00-5.00	7-1-13/2017	54,805
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			\$ 1,321,060
Estimated fair value at June 30, 2013			\$ 1,425,123 (A)

(A) 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.

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Nuclear Project No. 3 Refunding Revenue Bonds

(Dollars in thousands)

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1989A	(B)	7-1-13/2014	\$ 2,815
1989B	(B)	7-1-13/2014	8,297
	7.125	7-1-2016	76,146
Subtotal 1989A and 1989B			87,258
1993C	(A)	7-1-13/2018	23,963
2003A	5.50	7-1-2013	52,890
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
2007C	5.00	7-1-13/2018	55,045
2008A	5.25	7-1-2018	13,790
2008D	5.00	7-1-13/2017	33,595
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			111,334
Revenue bonds payable			\$ 1,395,405
Estimated fair value at June 30, 2013			\$ 1,537,662 (A)

(A) 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.

(B) Compound Interest Bonds

Nine Canyon Wind Project Revenue and Refunding Bonds

(Dollars in thousands)

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
2005	4.50-5.00	7-1-13/2023	\$ 48,370
2006	4.50-5.00	7-1-13/2030	68,835
2012	2.00-5.00	7-1-13/2023	13,750
Revenue bond payable			\$ 130,955
Estimated fair value at June 30, 2012			\$ 136,617 (A)

(A) 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	\$6,071,460
Estimated Fair Value at June 30, 2013	\$6,612,359

Debt Service Requirements As of June 30, 2013 (Dollars in thousands)

Columbia Generating Station

Fiscal Year***	Principal	Interest	Total
2013	\$ 61,020	\$ 71,522	\$ 132,542
2014	79,765	140,052	219,817
2015-2017	419,645	382,322	801,967
2018-2022	1,927,765	423,440	2,351,205
2023-2024	648,950	57,484	706,434
2025-2028	54,275	9,799	64,074
2029-2044	32,620	12,972	45,592
	\$ 3,224,040	\$ 1,097,591	\$ 4,321,631

* Principal and Interest due July 1, 2013.

*** Fiscal year for this report indicates when the obligations are expected to be paid.

Nuclear Project No. 1

Fiscal Year***	Principal	Interest	Total
2013	\$ 273,055	\$ 33,186	\$ 306,241
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
	\$ 1,321,060	\$ 162,174	\$ 1,483,234

* Principal and Interest due July 1, 2013.

*** Fiscal year for this report indicates when the obligations are expected to be paid.

Nuclear Project No. 3

Fiscal Year***	Principal	Interest	Total
2013	\$ 131,875	\$ 65,552	\$ 197,427
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	472,581	32,625	505,206
Adjustment **	111,334	(111,334)	-
	\$ 1,395,405	\$ 238,031	\$ 1,633,435

* Principal and Interest due July 1, 2013.

** 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 when the obligations are expected to be paid.

Nine Canyon Wind Project

Fiscal Year***	Principal	Interest	Total
2013	\$ 6,835	\$ 3,062	\$ 9,897
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	249	5,789
	\$ 130,955	\$ 51,109	\$ 182,064

* Principal and Interest due July 1, 2013.

*** Fiscal year for this report indicates when the obligations are expected to be paid.

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 previously entered into an agreement with BPA to provide for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement among Energy Northwest and private companies was terminated in FY 1999. (See Note 13)

Security - Packwood Lake Hydroelectric Project

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

Note 7 - Pension Plans

Substantially all 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, Wash., 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; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. 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 September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 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 September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to 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 is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS 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, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for 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. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional Cost of Living Adjustment (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. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

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. 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 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 that 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 December 31, 2012, 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 percent.

** The employer rate for state elected officials is 10.74 percent for Plan 1 and 7.21 percent for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50 percent for Plan 1 and 4.64 percent for Plan 2.

***** Variable from 5.0 percent minimum to 15.0 percent 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
2013	\$ 106,514	\$ 10,630,935	\$ 5,075,823
2012	\$ 124,071	\$ 9,773,209	\$ 4,710,819
2011	\$ 184,863	\$ 7,921,762	\$ 4,281,077

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 2013 Energy Northwest contributed \$3.1 million in employer matching funds while employees contributed \$10.8 million for FY 2013.

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 62 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 January 1, 1995, and charged the full 100 percent premium to employees who retired after December 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 January 1, 1995. The life insurance benefit has a maximum limit of \$10,000 for retirees after December 31, 1994. The cost of coverage for retirees remained unchanged for FY 2013 and was \$2.82 per \$1,000 of coverage. Employees who retired prior to January 1, 1995, contribute 58 cents per \$1,000 of coverage while Energy Northwest pays the remainder; retirees after December 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, 2013, was \$0.6 million for these benefits.

During FY 2013, 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 2013 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 - Nuclear Licensing and Insurance

Nuclear Licensing

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

Nuclear Insurance

Nuclear insurance includes liability coverage, property damage, decontamination and premature decommissioning coverage and accidental outage and/or extra expense coverage. The liability coverage is governed by the Price-Anderson Act (Act), while the property damage, decontamination and premature decommissioning coverage are defined by the Code of Federal Regulations. Energy Northwest continues to maintain all regulatory required limits as defined by the NRC, Code of Federal Regulations and the Act. The NRC requires Energy Northwest to certify nuclear insurance limits on an annual basis. Energy Northwest intends to maintain insurance against nuclear risks to the extent such insurance is available on reasonable terms and in an amount and form consistent with customary practice. Energy Northwest is self-insured to the extent that losses (i) are within the policy deductibles, (ii) are not covered per policy exclusions, terms and limitations, (iii) exceed the amount of insurance maintained, or (iv) are not covered due to lack of insurance availability. Such losses could have an effect on Energy Northwest's results of operations and cash flows. All dollar figures noted below are as of June 30, 2013.

American Nuclear Insurance (ANI) Coverage: The Act provides financial protection for the public in the event of a significant nuclear generation plant incident. The Act sets the statutory limit of public liability for a single nuclear incident at \$12.6 billion. Energy Northwest addresses this requirement through a combination of private insurance and an industry-wide retrospective payment program called Secondary Financial Protection (SFP). Energy Northwest has \$375 million of liability insurance as the first layer of protection. If any US nuclear generation plant has a significant event which exceeds the plant's first layer of protection, every operating licensed reactor in the US is subject to an assessment up to \$117.5 million not including state insurance premium tax. Assessments are limited to \$ 17.5 million per reactor, per year, per incident, excluding tax. The SFP is adjusted at least every 5 years to account for inflation and any changes in the number of operating plants. The SFP and liability coverage are not subject to any deductibles.

NEIL Coverage: The Code of Federal Regulations requires nuclear generation plant license-holders to maintain at least \$1.06 billion nuclear decontamination and property damage insurance and requires the proceeds thereof to be used to place a plant in a safe and stable condition, to decontaminate it pursuant to a plan submitted to and approved by the NRC before the proceeds can be used for plant repair or restoration or to provide for premature decommissioning. Energy Northwest has aggregate coverage in the amount of \$2.25 billion which is subject to a \$5 million deductible per accident.

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).

As of June 30, 2013, Columbia has a capital decommissioning net asset value of zero and an accumulated liability of \$124.9 million for the generating plant, and for the ISFSI a net asset value of \$1.1 million and an accumulated liability of \$2.2 million. The adjustment to ISFSI was associated with new Nuclear Regulatory Commission (NRC) spent fuel decommissioning requirements.

Nuclear Project No. 1 in FY 2013 current year accretion of \$.5 million and upward revision in future restoration estimates of \$1.3 million resulted in the increase to the ARO liability of \$1.8 million. Nuclear Project No. 1 has a capital decommissioning net asset value of zero and an accumulated liability of \$18.2 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, 2013, Nine Canyon has a capital decommissioning net asset value of \$0.6 million and an accumulated liability of \$1.3 million.

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

The following table describes the changes to Energy Northwest's ARO liabilities for the year ended June 30, 2013. The balance is included in the accounts payable and accrued expense balances for each unit. ISFSI is included in Columbia's balance:

Asset Retirement Obligation (Dollars in millions)

Columbia Generating Station		
Balance At June 30, 2012	\$	118.70
Current year accretion expense		6.21
ARO at June 30, 2013	\$	124.91
ISFSI		
Balance At June 30, 2012	\$	1.57
Current year accretion expense		0.08
Revision in future estimates		0.51
ARO at June 30, 2013	\$	2.16
Nuclear Project No. 1		
Balance At June 30, 2012	\$	16.40
Current year accretion expense		0.50
Revision in future restoration estimates		1.34
ARO at June 30, 2013	\$	18.24
Nine Canyon Wind Project		
Balance At June 30, 2012	\$	1.24
Current year accretion expense		0.05
ARO at June 30, 2013	\$	1.29

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 2013.

Energy Northwest's current estimate of Columbia's decommissioning costs in FY 2013 dollars is \$459.0 million (Columbia - \$454.6 million and ISFSI - \$4.4 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 \$109.0 million in constant dollars (based on the 2013 study) and is updated biannually along with the decommissioning estimate. Both decommissioning and site restoration estimates (based on 2013 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, 2013, totaled approximately \$188.6 million and \$31.3 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, 2013, is \$1.1 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 \$10.6 million in constant dollars based on the 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 no viable alternative use has been found to-date. The final level of demolition and restoration will be in accordance with agreements discussed below under "Nuclear Project No. 1 Site Restoration."

Nuclear Project No. 3 Termination

In June 1994, the Nuclear Project No. 3 Owners Committee voted unanimously to terminate the project. In 1995, a group from Grays Harbor County, 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 \$12.4 million in network revenue bonds and note payables outstanding, based on their December 30, 2012 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 2013 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, Wash., 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 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 September 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. After extensive discovery, Energy Northwest is claiming total damages of approximately \$24.9 million in this case. Energy Northwest believes DOE does not have a defense on liability, which was established in the prior case.

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 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 settled in June 2013. 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. The total dollars recorded in FY 2013 were \$148,000.

Note 15 – Nuclear Fuels

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

DOE and Energy Northwest have entered into an agreement for the transfer of the DUF6 to Energy Northwest. The agreement addresses delivery and transfer of title of the DUF6, return of residual DUF6 after enrichment,

storage of the EUP, and payment of DOE's costs. The costs for the handling of the DUF6 and storage of the EUP are anticipated to be \$5 million or less. As of June 30, 2013, Energy Northwest had recorded \$0.4 million in charges to the DOE for delivery of the DUF6, which is capitalized as cost of the fuel being purchased.

Under the Depleted Uranium Enrichment Program (DUEP), Energy Northwest purchased from USEC all of the Separative Work Units (SWU) contained in the EUP. Upon finalization of the program, Energy Northwest had purchased a total of 481.6 MTU of EUP from USEC at a cost of \$687.5 million, which is recorded in nuclear fuel, net of accumulated amortization, as of June 30, 2013.

Energy Northwest and TVA have entered into an agreement for the sale and purchase of a portion of the SWU and Feed Component of the EUP. The sales under the agreement are expected to total approximately \$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. Although the courts have ruled that DOE had the obligation to accept title to spent nuclear fuel by January 31, 1998, currently, there is no known date established when DOE will fulfill this legal obligation and begin accepting spent nuclear fuel.

When the fuel is placed in the reactor the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. The amount moved to spent fuel for cooling increased \$55.3 million. Fees for disposal of fuel in the reactor are expensed as part of the fuel cost.

The current period operating expense for Columbia includes an \$8.1 million charge from DOE for future spent fuel storage and disposal in accordance with the Nuclear Waste Policy Act of 1982 and \$40.3 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 2013. Spent fuel is transferred from the spent fuel pool to the ISFSI periodically to allow for future refueling. Current period costs were \$2.1 million for dry cask storage costs which are recorded in nuclear fuel expense.

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