

April 15, 2003

Dear Public Power Leader,

As the Northwest faces another rate increase, public power leaders across the region are asking for greater accountability. They want to know if their money is being spent wisely. That's why I'm writing. Although I can't speak for other public power generators, I can speak for the one I represent – Energy Northwest. I am eager for you to hold us accountable.

Energy Northwest has been – and will continue to be – open and honest with all its information. The reason: We are proud of our accomplishments, and we want you to share in that pride.

Here is the overarching fact I want you to remember: Columbia Generating Station will cost 42 percent less to operate during the next fiscal year than it did a decade ago! We expect to spend about \$199 million to operate during the upcoming fiscal year. A decade ago, the plant cost \$344 million a year to operate, in 2003 dollars. I doubt you will find a similar record of fiscal accountability anywhere in the nation.

Not only are we spending less, we are stretching your dollars further. Ten years ago, we had a capacity factor of 64 percent. During the most recently completed fiscal year, our capacity factor was 92 percent. So, not only are we spending much less, we are much more effective with your dollars. That's accountability.

Some people will say we were able to cut spending only because we spent too much to begin with. Those people are right. Ten years ago, it cost too much to operate the nuclear station. You knew it. We knew it. But we didn't wait for a drought to do what had to be done. We went to work 10 years ago, asking for great sacrifices and even greater ingenuity from our people. The men and women of Energy Northwest succeeded. They held themselves accountable to you and, just as importantly, to themselves.

And, last year when it became clear we must cut deeper, we didn't hesitate. We made plans to defer spending by about \$76 million under projections through 2006 and absorb some of the costs related to new requirements. We did this by cutting, by absorbing new spending within established budgets, by pushing some maintenance out of the current rate period and by foregoing some long-term purchases. Would we have preferred to continue with our original spending plan? Yes. But it was more important that we be recognized as accountable to the needs of our owners – the public power community.

Today, I'm asked if we can cut even more. We can, but we won't. We must do what is right for the region and our plant. Energy Northwest has two overriding obligations: Ensuring safety today and sustaining Columbia Generating Station for the future. We will never compromise safety – ever. And I believe we have a duty to the region to maintain Columbia Generating Station in a condition to operate for 41 more years – long enough to power the Northwest for our great-grandchildren. To shortchange the plant today would be to shortchange generations to come. I intend to be accountable to our neighbors today and to our children tomorrow.

The field of human endeavor is scattered with the remnants of pound-foolish decisions, of attempts to save a dime today and paying dollars tomorrow. In the nuclear industry, we need look no further than to a plant in Ohio called Davis-Besse that's been in the news over the past year. Managers at Davis-Besse were pressured to cut costs, to generate more and spend less. By slashing payrolls, managers dispirited the work force, leaving only employees who went through the motions. The result was a hole the size of a football that had been eaten through the nuclear vessel pressure head. Only a half-inch piece of stainless steel stood between the plant and a catastrophic loss of coolant accident. What borders on the irresponsible, at least in my mind, is that the people at Davis-Besse ignored sure signs of the problem – for years! Focusing on generation and cost control, they lost sight of far more important goals: safety and sustainability. The plant was taken off line in February 2002 and it still is not running. The cost will be close to \$1 billion.

If that were to happen at Columbia Generating Station, the plant obviously would be closed for good. The Northwest doesn't have \$1 billion to make this station whole. But the issue is moot. As long as I'm the CEO of Energy Northwest, we never will become so consumed with cost-cutting that we forget our first obligation is safety, followed by an obligation that this plant will be maintained so that it will operate for four more decades.

You've heard numbers batted around that indicate Energy Northwest isn't keeping its word to the region. For example, a projection mentioned occasionally would have Columbia Generating Station's budget at \$171 million next year. That projection is not one Energy Northwest presented to Bonneville for the current rate case. That projection is six years old – so old, in fact, that it was made even before California began its embrace of deregulation. It is unclear to me why Bonneville chose to use it in the rate case. The old projection came to being as part of the Power Planning Council's Cost Review Panel in the 1990s. The projection didn't include inflationary factors and wasn't even based upon budgetary requirements. Instead, the projection reflected only what the plant must do to remain competitive in a market envisioned in 1997 – and we all know what's happened since then.

We expect our budget to be \$199.1 million next year – representing power cost of about 20 mills, compared to 39 mills 10 years ago. Our budget during the present fiscal year is higher, primarily because of a refueling outage. But we intend this outage to be far more efficient than any in the plant's history.

You've heard a lot about benchmarking. In that arena, we are unequalled in the Northwest, with the possible exception of Boeing. Every improvement we've made at Columbia Generating Station has been a result of benchmarking, comparing ourselves with the best. We do that constantly, and sometimes we come up lacking. If benchmarks show perfection, you're not doing benchmarking very well. At Energy Northwest, the goal line always moves away. In doing this, we remain accountable not only to you today, but to the future that will require even higher standards.

In a search for such standards, the Energy Northwest Executive Board recently concluded an 18-month project to benchmark the cost effectiveness of management at Columbia Generating Station. The *Energy Northwest Executive Board Review of Nuclear Program* is available on our web site (www.energy-northwest.com). However, here is its essence: "Using commonly accepted standards of performance, Columbia is a very well-run plant, and there is no reason to instigate a substantial change in either its management or mode of operation."

The ultimate benchmarking in our industry comes from the Institute of Nuclear Power Operations, which conducts regular evaluations of benchmarks focused on safety and excellence in performance. Two years ago, Columbia Generating Station received the highest possible results, joining the ranks of fewer than 30 plants in the nation judged to be superior. Then, we fell behind the best in the industry because our interest was drawn toward financial targets. The resulting grade, while good, placed Columbia Generating Station in the second tier of plants in the nation. I didn't like that. The employees of Energy Northwest didn't like that.

The Executive Board's review also included a completely independent study by Richard Kacich, a nuclear power expert for Janus Management Associates. Here is what Mr. Kacich said about Energy Northwest employees: "They are justifiably proud of who they are, what they do, how well they do it, and their commitment to continuously improve."

Our successes in driving down the cost of operations by 42 percent – as well as the credit for increasing reliability while maintaining safety and sustainability – can be traced directly to the men and women of Energy Northwest. Columbia Generating Station is a complex machine, its workings fully understood and controlled by very talented men and women. They split atoms and make power for a living. The process, when overseen by a cadre of professionals, has become quite cost-effective. To get there, our employees built a culture that demands the best. If I were to essentially tear apart this culture in the name of short-term savings, it would be the equivalent of running equipment until it broke. We do neither at Energy Northwest, because we're accountable to safety, to the future and to you.

If we were to place the plant and its support organizations in the hands of a dispirited work force, the station would ultimately fail. There have been requests that I prepare contingencies to cut the budget 5 or 10 percent. The only area in which I have such discretion is payroll. At 5 percent, I would be forced to lay off 112. At 10 percent, the number would double – 224 employees, nearly a quarter of the entire work force. As long as I'm CEO of Energy Northwest, this will not happen.

This commitment to accountability – to safety, to reliability, to generations to come – has been approved by boards associated with Energy Northwest. The benchmarking review was unanimously endorsed by the Energy Northwest Board of Directors and the Energy Northwest Executive Board. We expect the budget for the coming fiscal year to be unanimously endorsed by the Board of Directors and the Executive Board. This budget for the coming fiscal year already has been endorsed by the Participants Review Board. The vast majority of members of these boards are commissioners elected by their neighbors to help lead public power into the 21st century. By standing for election, they have assumed the highest standard of accountability. These commissioners, each of whom is directly accountable to voters, have endorsed the upcoming Energy Northwest budget.

These board members also have exhibited accountability beyond the bounds of Energy Northwest. The Executive Board has constantly supported Bonneville's Debt Optimization Program. In one year alone, Energy Northwest has freed up about a half-billion dollars for Bonneville. When Bonneville asked, the Executive Board again was accountable.

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To help you further understand our vision of long-term accountability, I'm enclosing a recent letter I wrote to Administrator Steve Wright at Bonneville. It's a recap of what we've done recently to help ratepayers, and how we intend to address challenges in the future. From these documents, you'll see we are careful stewards of your money. In becoming so, we have built an efficient system of machines, of people, and of high standards.

Energy Northwest has been accountable with your dollars for a decade, year after year costing you less and delivering more. The cost of power from our plant is nearly half of what it was 10 years ago. We didn't wait for a financial emergency to become accountable; we've made it a habit for 10 years. For the guidance that began our journey and today keeps us on track, I must thank the most accountable people I know – you, the leaders of public power in the Pacific Northwest.

Our board members – people accountable year after year to the voters and ratepayers – will again approve a budget for Energy Northwest. They will base their decisions not on short-term expediency but on what's right for the region today and into the future. They have – and will – agree that Energy Northwest is accountable to the ratepayers of the region.

As for management, my senior team represents a cumulative 250 years of nuclear experience. We are in agreement: Further budget reductions will threaten the plant's continued safe operation. Further budget reductions will threaten an employee culture of excellence that has driven efficiencies at Columbia Generating Station. Further budget reductions will threaten the survival of Columbia Generating Station for the next 41 years. As a group, Energy Northwest managers and myself will not be a party to these changes. In this, we must be accountable to ourselves.

Respectfully,

Vic Parrish

Chief Executive Officer

April 15, 2003

To: Public Power Leaders of the Pacific Northwest

From: Vic Parrish, CEO of Energy Northwest

Here is a short list of major actions undertaken during the past year by Energy Northwest designed to reduce spending on the part of the Bonneville Power Administration.

- We have refinanced bonds to provide cash for Bonneville through the Debt Optimization Program. By deferring payment on Energy Northwest bond principal, we have been able to provide Bonneville with \$504 million. If we continue using this program, we could defer about \$3 billion in net billing revenue requirements over the next 10 years.
- While improving Bonneville's overall debt profile, Energy Northwest funds provided to Bonneville's Debt Optimization Program also produce an immediate savings for ratepayers of about \$20 million a year.
- Energy Northwest has freed about \$235 million over the last two years by substituting surety bonds for cash in reserve accounts for holders of Energy Northwest bonds. This represents direct savings and greater flexibility for Northwest ratepayers.
- We have prevailed in negotiations with the Bank of America and given the proceeds of about \$22 million to Bonneville. The dispute concerned whether the bank was an effective custodian of an account for outstanding bearer bonds. While Energy Northwest maintained there was no legal requirement to do so, we gave remnants of the account to Bonneville.
- By agreement with Bonneville, Energy Northwest is entitled to a \$3.5 million incentive fee for handling Columbia Generating Station matters in the best interest of the region's ratepayers. We have chosen to waive that fee for the coming fiscal year.

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- The condenser at Columbia Generating Station is nearly 20 years old and needs work. This is common at thermal plants. With careful consideration for safety and risk, we have decided to wait until after this current rate case period to fix the condenser. This will result in a deferral of \$35 million.
- We have offered a fuel-purchasing plan that will delay actual cash output for fuel during the current rate case period. This will save the region about \$41 million. In addition, we recently negotiated a fuel swap that will save the region an additional \$1.4 million.
- In fiscal year 2003, we reduced our budget in other areas to pay for on-site spent fuel storage costs and upgrades to security. Those costs are approximately \$4.3 million in this year's budget.
- In the past, Columbia's capital project expenses have been paid for through rates. We have proposed a different plan to Bonneville that will provide some relief during this rate case period. We have offered to take on additional long-term debt to pay for current major projects. If this plan is accepted, it will result in a savings of \$38 million in the current rate case period. Over the last two fiscal years, we have previously funded \$35 million in capital projects using this strategy.
- We already have acted on most of the recommendations made by the customer group through the Public Power Council.

April 15, 2003

Steve Wright
Administrator & Chief Executive Officer
Bonneville Power Administration
905 N.E. 11th Avenue
Portland, Oregon 97208-3621

Dear Mr. Wright:

Thank you for again sharing your thoughts concerning the financial exigency now facing the Pacific Northwest power industry. You have one of the most challenging jobs in the region as you lead the Bonneville Power Administration through very difficult times.

As you know, Energy Northwest has met the region's call for reduced expenditures while remaining committed to safety and sustainability of Columbia Generating Station. Because of previously committed budget deferrals, direct savings to ratepayers will amount to \$76 million over the remainder of the rate period. In addition, the Energy Northwest Executive Board has agreed to work with Bonneville in its Debt Optimization Program. Over the past 12 months, refinancing has freed more than \$500 million in revenue for BPA.

We have kept our promises to you and to the ratepayers of the Pacific Northwest, but our job isn't done. We shall continue to seek out efficiencies throughout this rate base period and beyond – but these efforts will be tempered with safety requirements, new security directives and our obligation to sustain Columbia Generating Station for the future. Your nine-member staff assigned to Energy Northwest knows of this search for economies and has acknowledged them.

Given these challenges, and our response to them, public power leaders from across the region have endorsed our efforts as stipulated in the fiscal year 2004 budget. These endorsements range from the Participants Review Board – representing 94 public power utilities in the Northwest – to our own Board of Directors, which includes 17 member utilities from the State of Washington. (Please see attached letters.) Each of these 100-or-so utilities has a powerful sense of accountability to the ratepayers, because their leaders must stand for election. I find it extremely gratifying that these direct representatives of the ratepayers have endorsed Energy Northwest's fiscal year 2004 budget and our continuing efforts to remain accountable to the region.

As you correctly noted, our draft budget for fiscal year 2004 is \$199.1 million. Our projections in the past had the budget at \$195.7 million – 1.7 percent less. Since the initial estimate was made, unforeseen expenditures have arisen. You know them well: further-reaching federally mandated security enhancements, requirements of the spent fuel storage project necessitated because of inaction on the part of the federal government, and new spending necessary to keep our promises to our retirees. In all, costs of these projects have added about \$10 million to our projected costs. Against such costs, we continue to keep our promise made to the region: We will absorb \$5 million of proposed spending, as our draft budget indicates.

Although we're now projecting a fiscal year 2004 budget of \$199.1 million, we intend to capitalize \$9 million of that sum. The Energy Northwest Executive Board determined that a few long-term improvements to the plant should be capitalized. This was only prudent utility practice – asking that capital improvements for the future be paid for in the future. This wise philosophy has guided the Bonneville Power Administration and public power for decades. Although Energy Northwest has been very cautious about capitalizing expenditures over the past 20 years, we believe this mechanism is appropriate during these times of financial crisis in the region.

Thank you for the checklist of mission-critical expenditure guidelines. It reflects the focus of Energy Northwest over the past decade. However, as you undoubtedly understand, the safety item is first on our list and takes precedence over all other considerations. Every day, our managers examine conditions of the plant, dial in expected work plans and, using a complex formula, arrive at a numerical indication that reflects the likelihood of core damage. While there is no such reliable formula to perform risk analysis in the other areas of concern you raised, Energy Northwest managers and members of the Executive Board are intimately attuned to the consequences of their actions. We approve only those expenditures necessary to maintain the safety and sustainability of the plant – and the employee culture that nourishes both.

Hence, we constantly weigh risk – balancing cost and consequences. However, some guidance in risk analysis from Bonneville has been somewhat puzzling in recent months. For more than a decade, Energy Northwest has abided by the wishes of Bonneville to self-indemnify certain areas of potential risk. Bonneville's counsel has been wise, because there never has been a claim in those areas. However, when faced with the current financial exigency, Bonneville now insists that we activate insurance policies covering such risk, increasing our expenditures for the 2004 fiscal year budget by about \$500,000. Yet, while Bonneville seems concerned about low-risk/low-consequence issues – such as the one mentioned above – Bonneville has asked that I pursue a strategy that will clearly increase exposure in higher-risk/high-consequence matters by further cutting maintenance at the plant. If we are to forego normal maintenance measures in Columbia Generating Station to reduce spending, we dramatically increase our risk to significant consequences. One day of forced outage stands to cost the region \$2 million or more. A forced outage of only two weeks will consume the entirety of savings proposed under the deepest cuts described in your letter.

That isn't to say the people of Energy Northwest are unwilling to accept calculated risks in areas that don't affect safety. The obvious cuts – travel, incidental training, etc. – were made last year. But in the face of the regional exigency, we have reluctantly recommended many cuts in the draft fiscal year 2004 budget. Here are a few: We have reduced the number of candidates in the initial licensing class. We have reduced our current coatings program. We have eliminated upgrades in our gamma detection portal monitors. We have foregone a program to replace liquid nitrogen coolers for counting room detectors. We have stopped funding of outside analysis of changing out containment isolations valves. We have reduced the budget for outside engineering support of emergent issues. We have cut funding for computer systems to improve efficiency in Performance Management. We have reduced performance liaison training. We have eliminated money for additional Nuclear Regulatory Commission inspection beyond baseline activities. We have reduced technical training in our Information Services Department. We have reduced computer hardware and software. We have cut engineering staff support in fatigue analysis. We have eliminated significant outside project engineering services. We have given up improvements in the Emergency Preparedness System. We have omitted HVAC upgrades to a computer room. And that is only a short list.

These programs may seem minor, but together they represent solid, professional steps in maintaining Columbia Generating Station for the future. They must be funded to sustain the plant. In the fiscal year 2004 budget, we have only deferred such costs, not eliminated the need for them.

When viewed in isolation, individual budget reductions seem laudable. Cumulatively, however, such budget cuts can be seen as a trend toward cost-based management that has led other nuclear plants to economic disaster. In the past nine years, at least five U.S. commercial nuclear stations have been shut down for extended periods, primarily because of deferred maintenance activities. Some plants were terminated, resulting in decades of lost generation and broken promises to ratepayers who paid for construction in good faith. Those plants that did struggle back to production cost their owners – and ratepayers – billions of dollars in new expenditures. Many of those dollars weren't spent on new equipment or fixing the old, but on fixing a broken employee culture – one in which hundreds of workers had to be retrained to approach the standards we have at Columbia Generating Station today.

It is this vision of cost-based management, of operating a nuclear power station with budgets as the prime driver, of focusing on revenue and not sustainability that led those five stations into trouble. For the management of Columbia Generating Station, those five stations are the ultimate benchmarks – milestones for failure.

It was the search for such benchmarks that inspired the Energy Northwest Executive Board to commission *Review of Nuclear Program*. This review, released late last year, was the result of an 18-month study that encompassed not only Columbia Generating Station but WNP-1. In its core, the review is a benchmarking document that compared Columbia with nuclear power stations across the country. The conclusion: "Using commonly accepted standards of performance, Columbia is a very well-run plant, and there is no reason to instigate a substantial change in either its management or mode of operation."

On a different stage, the Institute of Nuclear Power Operations regularly rates commercial nuclear plants across the United States. During an evaluation in the autumn of 2000, INPO gave Columbia Generating Station its highest rating, placing the plant among the top 30. In its most recent evaluation, INPO reduced the rating for Columbia. While exemplary, the plant doesn't rate with the very best. In my mind, we fell behind the best in the industry because our interest was drawn toward financial targets. I maintain Columbia Generating Station can be economically efficient and operationally flawless. To do so, the men and women of Energy Northwest must first focus on operations. We will.

Benchmarks represent both indicators of our success and our route to excellence. I doubt there is any organization in the region, with the possible exception of Boeing, that benchmarks more than does Energy Northwest. For the past 10 years, we have been relentless in demanding benchmarks, not only for the plant as a whole but for virtually every endeavor within it. We measure and compare – and improve. I am gratified that you recognize the value of this technique.

Benchmarking helped us achieve some stunning successes. Ten years ago, the plant had a capacity factor of 64 percent. During the upcoming fiscal year, the capacity factor will be about 93 percent. Ten years ago, the plant's cost of power was 3.9 cents a kilowatt-hour. In the upcoming fiscal year, the cost of power will be about 2 cents – the lowest in history.

Benchmarking, as well as every other method of improving corporate performance, ultimately rests on men and women throughout the organization. These employees, rather than the

mechanisms within the plant, created our successes. These employees are the repository of a new culture that demands excellence. But these employees, sadly, would bear the greatest burden of additional budget cuts. You ask for estimates of the effects of 5 percent and 10 percent cuts under the \$190.7 million figure. Virtually the only elasticity in budgets for Columbia Generating Station rests in the payroll. If we were to cut 5 percent, I would be forced to lay off 112 employees. For 10 percent, I would be forced to lay off 224 employees.

Earlier, I spoke of investing in the plant to sustain it for decades. Such investments must be made in the plant and in the people. Without investments in the people, the plant simply couldn't endure. At Energy Northwest, these investments have included a strong incentive program, in which employees place a portion of their remuneration at risk. Such tactics have produced a culture of excellence. Without this culture and the people who nourish it, the plant simply could not be sustained. The plant would fail. Drastic cuts to the payroll would endanger the sustainability of Columbia Generating Station. I will not let that happen.

As you wrote in your March 26 letter to Bonneville's customers, "Further reductions in operations and maintenance costs of our generating partners can reduce rates in the near term, but at the expense of long-term reliability, safety and generation capability."

Sens. Patty Murray and Maria Cantwell and Rep. Norm Dicks – all elected officials representing large constituencies – made the same observation. In a recent letter to you, they asked for cost control "consistent with all relevant legal obligations and in a manner that will not jeopardize the safety and reliability of the Northwest electricity system."

I cannot agree more – with you and with Sens. Murray and Cantwell and with Rep. Dicks.

In a more recent letter, the Northwest congressional delegation has asked you a series of questions, two of which reflect directly on Energy Northwest. Allow me to offer brief answers:

- *Why hasn't Energy Northwest lived up to its cost projections compiled for the current rate period?* Quite simply, those weren't our numbers! Two years ago, the Bonneville Power Administration used old numbers while ignoring more recent – and reliable – projections. Bonneville's estimate for fiscal year 2003 had emerged much earlier – in 1997 – from the Power Planning Council's Cost Review Panel. That estimate not only ignored the inflation factor, it obviously couldn't have included costs driven by security and more recent emergent necessities within the plant. Finally, the 1997 estimate wasn't based upon projected costs, but on the market – a budget the station must follow to remain competitive in the West Coast market. Obviously, much has happened to the market since 1997. When Bonneville was preparing its current rate case, Energy Northwest provided much more accurate numbers. For some reason, they were not used.
- *What was the cost of the February forced outage at Columbia Generating Station?* At that time our management team determined that one of our backup diesel-generator units may not be able to operate flawlessly for 30 days and 30 nights in the unlikely event of an emergency. Our plant was running well at the time. The diesel-generator in question also was able to operate. At issue was an NRC-endorsed requirement that we be certain the diesel-generator could operate for a month.

There was a minority report among several outside consulting engineers that indicated the generator might fail. Because safety is our highest calling, and because the diesel-generator was one of many backup safety systems, we chose to take the plant off line for repairs. The cost of labor and

replacement parts for the forced outage was about \$1.5 million. As for the cost of replacement power, it is impossible to say with any accuracy, but a guess might be \$20 million. The outage was a brief foretaste of what might become a common occurrence at Columbia Generating Station if we do not maintain the plant for short-term reliability and long-term sustainability.

Columbia Generating Station is nearly 20 years old. It is sound, but requires ongoing and conscientious care. If we were to slash budgets today, equipment would fail tomorrow. The cost of future forced outages will be greater than money saved today. Worse, drastically reduced budgets will create a sense of unreliability for those who depend on Columbia Generating Station's power and for those who work here. I will not let that happen.

The financial exigency we face today will last only a few years. The plant, however, can last generations if we maintain its machinery and people. I intend to do so. Therefore, I cannot in good conscience accede to your request to plan for deeper reductions in the fiscal year 2004 budget. That said, I intend to work with my staff to continue benchmarking in an effort to cut every cost possible.

In reaching these conclusions, I have followed the wishes of the public power community in the Northwest. Nearly everyone I have spoken with wants Columbia Generating Station maintained for the future, and they understand such sustainability requires investment in the plant, in its people and in their culture. I intend to follow the wishes of these public power leaders just as I must follow my own conscience. I intend to operate Columbia Generating Station safely and sustainably while pledging that I will ask no more of ratepayers than absolutely necessary.

Respectfully,

A handwritten signature in black ink, appearing to read "Vic Parrish". The signature is fluid and cursive, with a large initial "V" and "P".

Vic Parrish
Chief Executive Officer

**ROBERT GRAVES
1811 WEST 18TH
KENNEWICK, WASHINGTON 99337
509.582.7207**

April 3, 2003

John Cockburn, Chairman
Executive Board
Energy Northwest
Post Office Box 968
Richland, Washington 99352

Dear John,

As an elected public power official and president of the Energy Northwest Board of Directors, I want to add my support for the Energy Northwest management team and its draft fiscal year 2004 budget.

I have witnessed countless budget reviews in my time, and I think Energy Northwest's most recent review outshined others by far. The review was made even more powerful by the involvement of managers directly responsible for departmental decisions. They intimately knew how money would be spent – and why.

I could detect that a great amount of thought and analysis went into each budget recommendation. Every proposed expenditure had been trimmed to the fullest extent commensurate with prudent utility practice.

Energy Northwest must strive to save money during this time of financial crisis in the region. However, Energy Northwest must not go beyond the threshold of guaranteeing public safety and reliability and sustainability of Columbia Generating Station.

Best regards,

Robert Graves, President
Board of Directors

**JOHN F. COCKBURN
ARBITRATION AND CONSULTING
1524 SHENANDOAH DRIVE EAST
SEATTLE, WASHINGTON 98112
(206) 329-4951**

March 31, 2003

Mr. J. V. Parrish, CEO
Energy Northwest
Richland, Washington

Dear Vic,

All of us on the Executive Board appreciate the excellent 2004 Budget Workshop last week, and thank you and your fine staff for a tough job well done.

The format, which included, among other things, listing of cost drivers and important items left out of the 2004 budget, was very informative. Also, everyone was impressed by and liked seeing team members we don't often see as well as those more familiar, all of whom gave excellent presentations.

While we probably don't have a full grasp of how much thought, deliberation, and just plain sweat and tears went into developing the budget and its presentation, we do know that all those efforts resulted in a product for which you all can take pride. For the Executive Board, it gives us confidence that Energy Northwest is in good hands.

Again, well done! Keep up the good work!

Sincerely,

Chairman, Executive Board

April 9, 2003

John F. Cockburn
Chairman, Executive Board
Energy Northwest
1524 Shenandoah Drive, East
Seattle, Washington 98112

Dear Mr. Cockburn:

As the outgoing chair of the Energy Northwest Participants Review Board, I want to thank Energy Northwest's management representatives for an informative, thorough and convincing review of the draft fiscal year 2004 budget.

As elected public officials we believe it is vital that Columbia Generating Station continue to be maintained as a long-term generating asset for the region. If the past three years have taught us anything, it's that we cannot totally rely upon the Northwest's hydro system alone for all our energy needs. We must have steady, reliable generating resources not only this year, but for decades to come. Regardless of the region's financial exigency today, we must maintain reasonable levels of investment in Columbia Generating Station now if we are to rely upon it into the future. The draft budget does just that.

It is evident to us that in a time of increased security expenditures and more discriminating oversight by the Nuclear Regulatory Commission, Energy Northwest has limited expenditures to a prudent level.

The Participants Review Board feels that the draft budget for fiscal year 2004 provides for the safety of the public – the first and foremost obligation of Energy Northwest. The draft budget does strike a wise balance between the sustainability of Columbia Generating Station and the needs of the Northwest to limit Bonneville Power Administration expenditures during this financial exigency.

WHAT IS NOT IN THE BUDGET SECTION clearly indicates that no more cuts can be made without serious consequences to the safety and reliability of Columbia Generating Station. The Participants Review Board strongly recommends approval of the draft budget for Columbia Generating Station.

We commend the Executive Board's *Review of Nuclear Program*. We feel it is an accurate reflection of the high standards and great efficiencies at Columbia Generating Station. Benchmarking on the part of individual departments within Energy Northwest has resulted in high standards during recent years. To continue this legacy of benchmarking excellence, I am gratified that Energy Northwest has undertaken a review of its decision-making processes, with the goal of ensuring that decisions won't be made that will jeopardize the long-term sustainability of Columbia Generating Station. We are confident that Energy Northwest's benchmarking efforts have created notable savings for ratepayers of the region, just as we are confident that Energy Northwest's further review of the decision-making process is necessary for sustained, low-cost operations into the future.

Best regards,



Thelma Crook
Chair, Participants Review Board

cc: Steve Wright, BPA Administrator
Vic Parrish, CEO, Energy Northwest