



**ENERGY  
NORTHWEST**



# **POWERFUL SOLUTIONS**

**2008 ANNUAL REPORT**

# TABLE OF CONTENTS

<b>1</b>	<i>A Message From Our Executive Board Chairman &amp; Our CEO</i>	<b>21</b>	<b>FINANCIAL DATA &amp; INFORMATION</b>
<b>2</b>	<i>Executive Board &amp; Board of Directors</i>	<b>22</b>	<i>Management Report on Responsibility for Financial Reporting</i>
<b>3</b>	<i>Executive Management</i>	<b>22</b>	<i>Audit, Legal and Finance Committee Chairman's Letter</i>
<b>4</b>	<b>GENERATING SOLUTIONS</b>	<b>23</b>	<i>Report of Independent Auditors</i>
<b>6</b>	<i>Columbia Generating Station</i>	<b>24</b>	<i>Energy Northwest Management's Discussion and Analysis</i>
<b>8</b>	<i>Nine Canyon Wind Project</i>	<b>36</b>	<i>Balance Sheets</i>
<b>10</b>	<i>Packwood Lake Hydroelectric Project</i>	<b>38</b>	<i>Statements of Operations and Fund Equity</i>
<b>12</b>	<i>White Bluffs Solar Station</i>	<b>39</b>	<i>Statements of Cash Flows</i>
<b>14</b>	<i>New Generating Sources</i>	<b>41</b>	<i>Notes to Financial Statements</i>
<b>15</b>	<i>Operations &amp; Maintenance Services</i>	<b>61</b>	<i>Current Debt Ratings</i>
<b>15</b>	<i>Industrial Development Complex</i>		
<b>16</b>	<i>Applied Process Engineering Laboratory (APEL)</i>		
<b>17</b>	<i>Calibration Services Laboratory</i>		
<b>17</b>	<i>Environmental Services Laboratory</i>		
<b>18</b>	<i>Environmental Management System</i>		
<b>19</b>	<i>Commitment to Our Community</i>		
<b>20</b>	<i>Looking Ahead</i>		

## OUR VISION

The region's preferred source for energy solutions.

## OUR MISSION

Provide responsible and cost-effective energy solutions for the region's ratepayers.



**Sid Morrison**  
Chairman, Executive Board



**Joseph V. (Vic) Parrish**  
Chief Executive Officer

# A MESSAGE FROM OUR EXECUTIVE BOARD CHAIRMAN & OUR CEO

**F**iscal year 2008 was a watershed year. It may well be remembered as the beginning of the end of Northwest hydropower as our ever-reliable source of energy to meet growing regional demand.

With long-term federal power contracts set to expire in 2011 and the federal hydro system fully subscribed, new sources of reliable, affordable, and environmentally responsible power must be found. Energy Northwest should be a major part of those solutions.

Our preparation for that role was stymied this past year when our proposed Integrated Gasification Combined Cycle (IGCC) power plant at the Port of Kalama was halted by well intended but short-sighted legislation, and the cost of participation in the proposed Reardan wind project left us with insufficient interest to move forward with construction.

Plans to replace the IGCC project with a large natural gas power plant at the same site and supplant the Reardan wind site with another wind project in Western Washington will give our members additional opportunities to secure resources for their future needs.

On a brighter note, we completed the third and final phase of the Nine Canyon Wind Project. Phase III added 14 new turbines bringing the total to 63 turbines with a combined maximum output of 95.9 megawatts.

Our future as an energy company lies in our ability to develop a diverse set of generating projects using the latest efficiencies and environmental protections to meet our members' needs. Today we produce nearly 1,300 megawatts of power; 90 percent coming from Columbia Generating Station. Our goal is to eventually quadruple that output with Columbia providing no more than 25 percent of the total.

The power resource enlightenment that marked 2008 was also accompanied by some in-house lessons for our team. The Washington State Department of Ecology issued two Administrative Orders for hazardous waste and chemical management compliance issues.

The good news is our response to the orders was timely and appropriate. We took the lessons seriously and used them as catalysts to improve our environmental programs and performance. We created a corporate-level environmental oversight organization with a charter to enhance our environmental compliance at all levels of the company. Our goal remains the ongoing pursuit of environmental excellence.

Our team's fiscal year 2008 performance was exemplary overall, despite a few bumps we encountered along the way. However the true measure of our professionalism was highlighted by our ability and willingness to be self-critical, and to embrace those bumps in the road as learning opportunities. The corporate culture that allows us to do that is what makes us stronger and wiser as a team each time we overcome an obstacle.

We encourage you to read through this report to get a fuller sense of what 2008 meant to Energy Northwest. The challenges of the next few years will require us to continue checking our behaviors and adjusting our actions. Continuing that process in earnest will keep us strong and ready to carry out our mission of providing reliable, affordable, environmentally responsible power for our members and the region.

**Respectfully,**  
Joseph V. (Vic) Parrish  
Chief Executive Officer

Sid Morrison  
Chairman, Executive Board



## EXECUTIVE BOARD

**FRONT (L-R):** Jack Janda, Sid Morrison, Edward (Ted) Coates, Larry Kenney

**BACK (L-R):** Bill Gordon, Kathy Vaughn, Tim Sheldon, Tom Casey, Dan Gunkel



## BOARD OF DIRECTORS

**FRONT (L-R):** Bill Gordon, Ron Hatfield, Lori Sanders, Merritt (Buz) Ketcham, Linda Gott

**BACK (L-R):** Tom Casey, Ann Congdon, Kathy Vaughn, Jack Janda, Judy Ridge, Chris Kroupa, Dan Gunkel, Roger Sparks, Clyde Leach, Will Purser



# EXECUTIVE MANAGEMENT

FRONT (L-R)

**Albert E. Mouncer**

*Vice President, Corporate Services/General Counsel/Chief Financial Officer*

**W. Scott Oxenford**

*Vice President, INPO Assignment*

**Cheryl Whitcomb**

*Vice President, Organizational Performance & Staffing/Chief Knowledge Officer*

BACK (L-R)

**Jack Baker**

*Vice President, Energy/Business Services*

**Joseph V. (Vic) Parrish**

*Chief Executive Officer*

**Dale Atkinson**

*Vice President, Nuclear Generation, Chief Nuclear Officer*

**Sudesh Gambhir**

*Vice President, Technical Services*



# GENERATING SOLUTIONS

**T**he 1,100 men and women of Energy Northwest provide powerful solutions for public power and the ratepayers they serve. The agency's efforts contribute to a vibrant regional economy and an overall high quality of life by providing affordable, reliable, environmentally responsible power. From the efficient operation of existing projects to the ongoing development of new power generation facilities, Energy Northwest continues to lead the region with options to meet tomorrow's energy challenges.



 **ENERGY  
NORTHWEST**

**CHERIE**



EDWARD

ENERGY  
NORTHWEST

**9,594**

gigawatt-hours in  
FY 2008 of **clean,  
nuclear energy.**

**COLUMBIA  
GENERATING STATION**



Columbia Generating Station had an outstanding year, improving performance in virtually every area of operation. The station continues to run safely, reliably and efficiently providing valuable baseload power to the region.

The strong performance was driven by our “Trek 2 Excellence” initiative that provided the organizational focus, alignment and structure to continually improve. The program included three focus areas: human performance, equipment reliability and dose reduction.

Strong human performance meant that work was done safely, correctly and efficiently. Employees at Columbia used proven error-prevention tools and provided in-depth training to assist with achieving our human performance goals.

Equipment reliability also improved under the “Trek 2 Excellence” initiative with a preventive maintenance program ranked among the best in the industry. Continuous monitoring identified problems before equipment failures occurred, so refurbishment or replacement could be scheduled through the normal work management process rather than enduring costly and disruptive failures. Improved equipment reliability, along with an excellent work management process also contributed to our performance by reducing work order backlogs to historic lows.

Dose reduction was a challenge in past years, but significant improvement took place in fiscal year 2008. “Hot spots” accumulated in plant systems over the years were significantly reduced or eliminated through chemical decontamination. Additional dose reduction was achieved through heightened worker awareness and improved dose tracking.

In addition to these three overarching focus areas, there were numerous departmental and inter-departmental initiatives managed through the

“Trek 2 Excellence” Program. All of the focus areas and initiatives were regularly updated and available to employees. The “Trek 2 Excellence” has become a key part of our organizational culture.

The third Independent Spent Fuel Storage Installation (ISFSI) cask loading campaign began in February. The campaign involved moving fuel assemblies from the used fuel pool adjacent to the reactor core, where they have been stored since being removed from the core during previous outages. The assemblies are loaded into steel and concrete over-pack containers for storage on-site. The casks will remain on-site until a permanent national repository is available. During this campaign, 12 casks were loaded, each with 68 used fuel assemblies. The fully loaded canisters with over-pack weigh 122 tons each.

The campaign was successfully completed in June, bringing the total count of casks stored at Columbia Generating Station to 27. The next ISFSI loading campaign will be in 2014.

Columbia also faced a significant weather event during fiscal year 2008 due to several days of excessively high winds which caused damage to several plant buildings. Quarter-century-old sheet metal siding was torn off the upper levels of two buildings exposing an inner layer of sheet metal, which remained intact. No injuries occurred and the plant remained on line at 100 percent power. However, the repair efforts caused financial and manpower issues for the remainder of fiscal year 2008 and will continue well into fiscal year 2009.

While the plant had a capacity factor of 98.9 percent in fiscal year 2008, the two-year average can be improved. Consequently, the staff is focused on refueling outage 19 (R-19) where additional improvements are planned.

**237,328**

net megawatt-hours of  
electricity, during FY 2008,  
from **renewable wind**  
**power.**



# NINE CANYON WIND PROJECT

Completion of the third and final phase of the Nine Canyon Wind Project was a significant accomplishment in fiscal year 2008. Phase III construction began in September and achieved commercial availability on May 8.

Interconnection to the Bonneville Power Administration's power grid was accomplished with help from Energy Northwest member and Nine Canyon project participant, Benton County PUD. The utility upgraded the electrical infrastructure at the project site to support the Phase III interconnection.

An additional 14 turbines were added to the 49 turbines already in the project. With 260 foot-tall towers and 148 foot-long rotor blades, the new 2.3 megawatt turbines are significantly

larger than the 1.3 megawatt turbines of Phases I and II. Nine Canyon technicians received special training to maintain the new, larger turbines.

The project produced 237,328 net megawatt-hours of electricity in fiscal year 2008 with a 97.8 percent adjusted availability factor despite several component failures, such as gear boxes and bearing replacements. Project management is working with the equipment manufacturer to address these issues prior to the loss of warranty coverage.

The completion of Phase III brings the total installed maximum capacity to 95.9 megawatts of clean, renewable electricity for the Pacific Northwest region. There are no plans to add additional phases at this site.

# PACKWOOD LAKE HYDROELECTRIC PROJECT

**P**ackwood Lake Hydroelectric Project continues to provide environmentally friendly power for the region from its location south of Mount Rainier.

Since commercial operation began in 1964, Packwood has produced 4,048,415 megawatt-hours of electricity. In fiscal year 2008, production totaled 77,470 net megawatt-hours, down significantly from the previous year due to the slow melting of record snow pack and the license requirement to maintain lake elevation to a certain level by end of April. This necessitated a reserve shutdown for the month of May to help raise the water level in the lake to avoid any potential environmental impacts.

During the spring, Packwood also experienced

a forced outage when an output bus bar failed in the transformer yard. The damaged part was repaired and the project was returned to service.

The annual maintenance outage, conducted in October 2007, was completed on time and within budget. The outage consisted of turbine repairs, calibration of all protective relays, and cleaning and inspecting systems that are not accessible while the power plant is on line. Additionally, a fish barrier was installed in the tailrace to prevent salmon from spawning in the stilling pond.

Work continued on relicensing Packwood. The current 50-year operating license expires in 2010. An application requesting a new 50-year license was submitted to the Federal Energy Regulatory Commission in April 2008.



**4,048,415**  
megawatt-hours since  
1964 of **environmentally  
friendly hydroelectric  
power.**

# WHITE BLUFFS SOLAR STATION



**T**he White Bluffs solar project continued to quietly and reliably produce electricity from the Tri-Cities' abundant sunshine. The project produced 46,636 net kilowatt-hours of electricity during fiscal year 2008. Operating since May 2002, all the power produced is integrated into the Bonneville Power Administration (BPA) grid.

The White Bluffs solar project requires minimal maintenance with only one photo-voltaic panel needing replacement during the fiscal year. That work was done under a manufacturer's warranty.

As a first-of-its-kind generating plant in the Northwest, the 242-panel White Bluffs Solar Station continues to generate interest within both the solar and academic communities.



**46,636**

net kilowatt-hours of  
electricity during FY  
2008 from **reliable  
solar power.**



# NEW GENERATING SOURCES

**F**iscal year 2008 saw the Energy Northwest team continuing its quest of reliable, affordable, environmentally responsible power project opportunities.

New wind project sites were actively explored to meet new Washington legislative regulations enacted through the voter approved Renewable Portfolio Standards. Project feasibility studies are being conducted at Radar Ridge in Pacific County, Washington, with more preliminary evaluations under way at other sites in the region.

Due to the uncertainty of a federal incentive allocation for public utilities and timing of our member's needs in the region, Energy Northwest elected to sell the Reardan Twin Buttes Wind Project. Requests for proposals were sent out in early 2008, and on May 8, Avista Corporation purchased the Reardan Twin Buttes Wind Project development rights for the 60-megawatt project. The sale netted \$2.25 million in revenue.

Efforts to develop the Pacific Mountain Energy Center, an Integrated Gasification Combined Cycle power plant at the Port of Kalama site, were discontinued during fiscal year 2008 due to well intended, but short-sighted state legislation passed in the middle of the development effort. The legislation requires

power generation to have a maximum of 1,100 pounds of carbon dioxide (CO<sub>2</sub>) per megawatt-hour (MWh) or sequester the CO<sub>2</sub> permanently. As proposed, the gasification project exceeded the CO<sub>2</sub> threshold. With permanent sequestration still technically unproven Energy Northwest ended development efforts at the PMEC site.

Energy Northwest requested and received an 18-month extension on the site permitting process from the Energy Facility Site Evaluation Council (EFSEC). The extension will keep options available for public power. The site's property lease was renegotiated down to 16 acres to reduce costs. Options for a natural gas power plant on this site are being assessed.

The Energy Northwest Board of Directors implemented a new policy this past year, requiring investor commitments in the feasibility stage of development before any major progress or permitting is conducted. This allows Energy Northwest personnel to work with member utilities to customize projects, drive project development timing, and share development risks and rewards.

Energy Northwest continues to evaluate sites and consider several technologies to meet member utility needs including solar, geothermal and biomass.



# OPERATIONS & MAINTENANCE SERVICES

**E**nergy Northwest continued Operations and Maintenance Services for Olympic View Power Station during the fiscal year. Since 2001, Energy Northwest has performed these services full-time for the station owned by Mason County PUD No. 3. The Olympic View Generating Station is comprised of two 2.8 megawatt generating units, powered by natural gas-fired reciprocating engines. The nominal station output is 5.4 net megawatts. The plant is designed to be manned or operated remotely depending on load requirements.

Klickitat County PUD assumed operations and maintenance of their H.W. Hill project from Energy Northwest in January 2008. The project had been successfully managed and operated since 2002, but the PUD chose to use internal resources as a cost savings.

Energy Northwest provided journeyman craft support for Seattle City Light's Boundary Hydroelectric project. Located on the Pend Oreille River in Northeastern Washington, the dam, in its 41st year of operation, supplies over one third of Seattle City Light's power.

# INDUSTRIAL DEVELOPMENT COMPLEX

**T**he Industrial Development Complex (IDC) continues its focus on leasing the existing facilities at the site towards its mission of economic development and reuse of existing assets. The long-term goal is to land an "anchor tenant" which will utilize a substantial portion of the existing facilities. This will equate to a \$20 to \$30 million savings for Bonneville Power Administration in further restoration costs.

The leasing program has been very successful to date, and is currently at 80 percent capacity. Bechtel National and Washington Closure Hanford are the two primary tenants. Columbia Generating Station is also leasing property at the IDC.

In addition to the leasing program, the IDC site has the capability of supplying both back up water and power to Columbia, if needed. IDC personnel offer a variety of support functions during Columbia's outage years.

# APPLIED PROCESS ENGINEERING LAB

The Applied Process Engineering Laboratory (APEL) reached its 10-year milestone in 2008, capping a decade of providing facilities, programs and services to the regional technology start-up sector.



Energy Northwest and the other founding contributors—Pacific Northwest National Laboratory (PNNL), Port of Benton, U.S. Department of Energy, Washington State University Tri-Cities, City of Richland and Tri-City Development Council (TRIDEC)—provide strategic vision and operational support.

Energy Northwest continued its partnership with the Washington Technology Center, established in 2007, to help APEL broaden and diversify the laboratory's business incubation services as well as improve performance and metrics for successful business start-ups. APEL now provides resident and non-resident clients with entrepreneurship coaching, access to funding resources and marketing consulting which complement the robust business technical assistance initiatives available. Education programs have been introduced to develop business skills for entrepreneurial scientists.

Environmental Assessment Services, InnoVaTec, Energy Northwest's Environmental Services Laboratory and IsoRay are tenants at APEL in addition to anchor tenant PNNL. Three

businesses successfully expanded physical plant operations during fiscal year 2008. Two start-up companies engaged with APEL as non-tenant, Affiliate Clients to receive business coaching and for access to funding in their formative phase.

APEL maintains an occupancy rate of over 95 percent, and although this provides a healthy financial picture, it is uncharacteristically high for an incubator facility. To correct this situation, anchor tenant PNNL has committed to reduce occupancy thus making additional entrepreneurial and laboratory space available for start-up businesses. Additionally, to remain flexible in the face of changing tenant needs, APEL has divided light manufacturing space into smaller demonstration project areas.

The Tri-Cities Research District, a designated Washington State Innovation Partnership Zone, has engaged APEL as the provider of incubation programs and facilities for new technology-based businesses. Centered in the middle of the Research District, APEL and Energy Northwest have a pivotal opportunity to lead "technology innovation-to-commercialization" initiatives in clean and renewable energy.

Key initiatives for 2009 and beyond include continued environmental and regulatory compliance, expanded programs for business leadership skills, support energy technology advancement and fostering community throughout the incubator tenants and affiliates in the APEL "collaboratory."





# CALIBRATION SERVICES LAB

**T**he demand for Calibration Services outside of Energy Northwest grew in fiscal year 2008. In addition to large companies such as Bechtel, Pacific Northwest National Laboratory (PNNL), Areva and Washington Demilitarization Company, the laboratory added numerous small businesses to its growing list of customers, helping reduce overhead costs at Columbia Generating Station.

The laboratory also recently completed nine years of service to the Hanford Site through the Fluor contract and negotiated an agreement with options to extend services through October 2010.

Columbia Generating Station continues to be a primary customer for the Calibration Services Laboratory, which provides in-house services including outage support and special testing

services. The laboratory also provides services for other Energy Northwest projects such as Packwood and Nine Canyon and Klickitat County PUD's H.W. Hill Landfill Gas Power Plant.

During fiscal year 2009, personnel will work to obtain laboratory accreditation to the International Standard ANS/ISO/IEC 17025 - General Requirements for the Competence of Testing and Calibration Laboratories. In order to obtain accreditation, laboratories must demonstrate that both their quality management system and their technical competence comply with the International Standard. Accreditation is being obtained from the American Association for Laboratory Accreditation (A2LA). This accreditation will position the laboratory to attract new customers both regionally and nationally.

# ENVIRONMENTAL SERVICES LAB

**F**or over 15 years, Energy Northwest's Environmental Services Laboratory has provided a wide range of services including ecological evaluations, workplace drug screening, environmental monitoring, National Pollution Discharge Elimination System (NPDES) permit testing, drinking water analyses, solid and hazardous waste site monitoring, lubrication oil condition testing and technical consulting.

The laboratory chemical analyses and environmental monitoring services are offered to utility, municipal, commercial, nuclear, wind power, small business and residential customers.

The laboratory is accredited by the Washington State Department of Health for Workplace Drug Screening and by the Washington State Department of Ecology for the analysis of radiological and non-radiological environmental parameters.

# ENVIRONMENTAL MANAGEMENT SYSTEM

**E**nergy Northwest's commitment to environmental stewardship continued to grow in fiscal year 2008. The Energy Northwest Environmental Stewardship Policy is the cornerstone of our "Environmental Management System" (EMS). This comprehensive program demonstrates commitment and establishes clear expectations for all Energy Northwest employees.

The EMS program was designed to meet the rigorous requirements of the globally recognized International Organization for Standardization (ISO) 14001 standard, with additional emphasis on compliance, pollution prevention and communication. Energy Northwest's EMS has been registered to the ISO 14001 standard since April of 2005 by NSF International Strategic Registrations, an accredited registrar. Periodic independent audits of the EMS are required to maintain ISO 14001 registration and Energy Northwest was recertified for a three-year period in March 2008. The audits and recertification help ensure that our system remains effective and continually improves.

To ensure compliance, regular audits are performed by independent state agencies. During fiscal year 2008, the State of Washington Department of Ecology inspected Energy Northwest facilities and issued two Administrative Orders for hazardous waste and chemical management compliance issues. The issues and conditions the Department of Ecology noted during the inspection were a disappointment to Energy Northwest, and immediate corrective and preventive actions were aggressively implemented to correct the noncompliant conditions. A corporate level environmental oversight organization was established with the charter to enhance our environmental compliance and use our robust performance

improvement processes to self-regulate compliance to environmental requirements at all levels of the company. As Energy Northwest moves forward into fiscal year 2009, it is our goal to achieve and maintain consistent environmental excellence to foster environmental stewardship at all Energy Northwest facilities and operations.

Compliance with regulatory requirements is a fundamental aspect of sound environmental management. To minimize Energy Northwest's impact on the environment, all company activities are periodically reviewed for compliance and identification of potential impacts to the environment. Review of potentially impacting activities include: waste generation, atmospheric emissions, liquid discharges, storage and use of petroleum, chemicals or radioactive materials, and land use. These potentially significant impacts are addressed as a priority by Energy Northwest and are considered when setting environmental objectives and in designing and implementing necessary controls and programs. Under the EMS, Energy Northwest monitors the effectiveness of these controls and takes corrective and preventative action as needed to continually improve.

Energy Northwest trends environmental performance through the use of Key Performance Indicators (KPI). These indicators assess environment impacts and EMS effectiveness by monitoring performance in areas such as energy production, effluents, emissions, wastes, compliance, pollution prevention and recycling. Energy Northwest's goal in FY 2009 is to continually improve on environmental compliance and meet or exceed all environmental Key Performance Indicators.



# COMMITMENT TO OUR COMMUNITY

**E**nergy Northwest is committed to making a positive impact in the Tri-Cities community through direct, hands-on involvement. Energy Northwest and its employees officially sponsor three vital community organizations: United Way, Head Start and March of Dimes. Employees worked to raise money and increase awareness on behalf of each of these important service organizations through annual fund raising campaigns.

Many employees were also actively involved with direct support and fund raising efforts for the local *American Red Cross*, *Boy Scouts of America*, *Junior Achievement*, *American Diabetes Association* and many other charitable organizations.



## **UNITED WAY**

Approximately 472 Energy Northwest employees gave \$136,610 to United Way in 2008. Employee pledges fund youth developmental programs, provide hot meals to elder neighbors, help build self-esteem in at-risk youth and provide disaster relief planning for the Tri-Cities' community. Thirty-seven Energy Northwest employees stepped forward to join the United Way Vintner Club leadership program with donations totaling \$60,359.

## **HEAD START**

Energy Northwest continued its annual tradition of supporting the Benton-Franklin Head Start program, hosting Christmas parties at six local schools for 390 children this past year. Gifts were distributed by Energy Northwest employees dressed as Santa and his elves. This joyous program provides the children with a new sense of hope while offering Energy Northwest employees the warm feeling of giving to those in need.

## **MARCH OF DIMES**

Energy Northwest's "PowerMarchers" team received the Gold Team Award from the March of Dimes for its 2008 "March for Babies<sup>SM</sup>" campaign. The team raised a total of \$31,763 and was one of only three teams to receive the Platinum Award for contributions over \$20,000.



# LOOKING AHEAD

**E**nergy Northwest's future rests in delivering a diverse mix of energy options for its members and Northwest ratepayers. That mix of solutions must include support for energy conservation, the fastest, cheapest, most environmentally responsible approach to meeting new demand.

None of these challenges can, or will be accomplished without a team of highly trained and motivated profes-

sionals. Therefore, the recruitment and retention of a world-class workforce continues as one of the agency's highest priorities.

Energy Northwest's steadfast commitment to meeting the needs of its public power member utilities is unwavering. That commitment to the region's ratepayers, honed over a half-century of service to public power, remains the hallmark of Energy Northwest.

# FINANCIAL DATA & INFORMATION

---

# Management Report on Responsibility for Financial Reporting

The management of Energy Northwest is responsible for preparing the accompanying financial statements and for their integrity. The statements 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, 2008, internal control procedures are adequate.

**J.V. Parrish**  
CHIEF EXECUTIVE OFFICER

**A.E. Mouncer**  
VICE PRESIDENT,  
CORPORATE SERVICES/  
GENERAL COUNSEL/CFO

## Audit, Legal and Finance Committee Chairman's Letter

The Executive Board's Audit, Legal and Finance Committee is composed of six independent directors. Members of the Committee are Chairman Larry Kenney, K.C. Golden, Bill Gordon, Jack Janda, Dave Remington, Kathy Vaughn and Sid Morrison, Ex Officio. The Committee held 10 meetings during the fiscal year ended June 30, 2008.

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 periodic meetings with the independent auditors to discuss the results of their examinations, their evaluations of Energy Northwest's internal controls, and the overall quality of Energy Northwest's financial reporting. The meetings were designed to facilitate any private communications with the Committee desired by the internal auditor or independent auditors.

**Larry Kenney**  
CHAIRMAN,  
AUDIT LEGAL AND FINANCE COMMITTEE



# Report of Independent Auditors

## To the Executive Board of Energy Northwest

We have audited the accompanying balance sheet of Energy Northwest and the related individual balance sheets of Energy Northwest's business units and internal service fund as of June 30, 2008, and the related statements of operations and fund equity and of cash flows for the year then ended. Energy Northwest's business units include the Columbia Generating Station, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 3, the Business Development Fund, and the Nine Canyon Wind Project. These basic financial statements are the responsibility of Energy Northwest's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Energy Northwest and Energy Northwest's business units and internal service fund at June 30, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*PricewaterhouseCoopers LLP*

Portland, Oregon  
September 25, 2008

# Energy Northwest Management's Discussion and Analysis

**E**nergy 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, 2008, with the basic financial statements for the FY ended June 30, 2007. 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 principles prescribed by the Financial Accounting Standards Board (FASB). (SEE NOTE B 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 2008 and FY 2007 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 Operations and Fund Equity, the 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 (see Note B to the Financial Statements) for each business unit.

The Statements of Operations and Fund Equity 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 investment activities. The statements 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 E – Long-Term Debt), accounting policies, significant

balances and activities, material risks, commitments and obligations and subsequent events, if applicable.

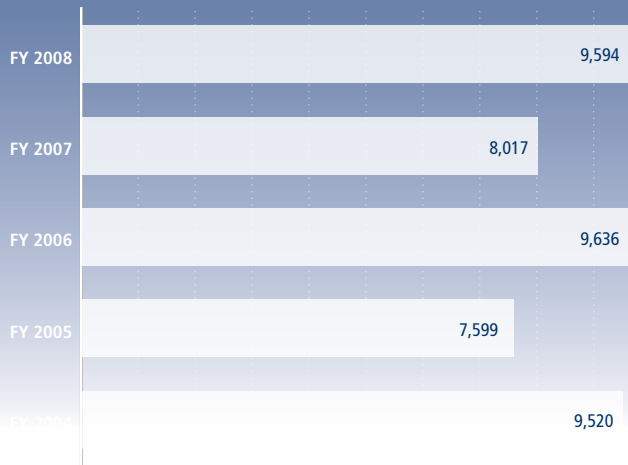
The basic financial statements of each business unit should be used individually along with the notes to the financial statements and the management discussion and analysis to provide an overview of Energy Northwest’s financial performance. Questions concerning any of the information provided in this report should be addressed to Energy Northwest at PO Box 968, Richland, WA, 99352.

## COMBINED FINANCIAL INFORMATION

June 30, 2008 and 2007 (000's)

	2007	2008	Change
<b>Assets</b>			
Net Plant	\$ 1,512,222	\$ 1,509,814	\$ (2,408)
Nuclear Fuel	235,742	208,082	(27,660)
Current and Restricted Assets	497,562	592,034	94,472
Long-term Receivables and Deferred Charges	4,517,173	4,492,382	(24,791)
<b>TOTAL ASSETS</b>	<b>\$ 6,762,699</b>	<b>\$ 6,802,312</b>	<b>\$ 39,613</b>
<b>Fund Equity</b>			
	\$ (7,667)	\$ (10,045)	\$ 2,378
Long-Term Debt	\$ 6,379,097	\$ 6,290,766	\$ 88,331
Restricted and Non-current Liabilities	274,625	267,753	(6,872)
Current Liabilities	113,504	247,918	134,414
Deferred Credits	3,140	5,920	2,780
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>\$ 6,762,699</b>	<b>\$ 6,802,312</b>	<b>\$ 39,613</b>
Operating Revenues	\$ 452,402	\$ 455,066	\$ 2,664
Operating Expenses	355,675	336,622	(19,053)
Net Operating Revenues	\$ 96,727	\$ 118,444	\$ 21,717
Other Income and Expense	\$ (105,136)	\$ (120,337)	\$ (15,201)
Distribution and Contributions	771	(485)	(1,256)
Beginning Fund Equity	(29)	(7,667)	(7,638)
<b>ENDING FUND EQUITY</b>	<b>\$ (7,667)</b>	<b>\$ (10,045)</b>	<b>\$ (2,378)</b>

## Columbia Generating Station Net Generation - GWhrs



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



## COLUMBIA GENERATING STATION

The Columbia Generating Station (Columbia) is owned by Energy Northwest and its Participants and operated by Energy Northwest. The plant is a 1,150 megawatt electric (MWe, Design Electric Rating, net) boiling water nuclear power station located on the Department of Energy's (DOE) Hanford Reservation north of Richland, Washington.

Columbia had its second best fiscal year generation on record bettered only by the continuous daily record run for FY 2006. Columbia produced 9,594 gigawatt-hours (GWh) of electricity in FY 2008, as compared to 8,017 GWh of electricity in FY 2007, which included economic dispatch of 134 GWh and 33 GWh respectively. Columbia was in the off cycle year for its two-year refueling and maintenance outage which was the major reason for the increase in generation from FY 2007 to FY 2008.

Columbia's performance is measured in several ways, including cost of power at Columbia. The cost of power for FY 2008 was 2.75 cents per kilowatt-hour (kWh) as compared with 3.69 cents per kWh in FY 2007. The industry cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. Higher generation figures for FY 2008 combined with cost underruns for operations and maintenance and capital costs were the major drivers for the lower cost of power from FY 2007.

## Balance Sheet Analysis

The net decrease to Plant in Service and Construction Work In Progress (CWIP) from FY 2007 to FY 2008 (excluding nuclear fuel) was \$44.8 million. The additions to Plant/CWIP of \$26.9 million were offset by an increase to Accumulated Depreciation of \$71.7 million resulting in the net decrease to plant of \$44.8 million. The additions to plant for FY 2008 were captured in seven major projects (Condenser Module Replacement, Reactor Recirculation Motor Refurbishment, Reactor Manual Control System Upgrade, Upgrade Enterprise Project Management Database, Intrusion Detection System Improvement, Emergency Preparedness Order B.5.b Driven Upgrades, and Radiation Monitor Replacements); these projects resulted in 44 percent of the additions to plant. The remaining 56 percent of additions were made up of 83 separate projects.

Nuclear fuel, net of accumulated amortization, decreased \$27.7 million from FY 2007 to \$208.1 million for FY 2008. During FY 2008 Columbia incurred \$6.6 million in capitalized fuel purchases. There was a bi-annual write-off of fuel and amortization for the removal of fuel assemblies related to the maintenance and refueling outage (R-18). The write-off of \$54.4 million represents the original cost of the fuel assemblies removed and those that are past the required six month cooling period per Federal Energy Regulatory Commission (FERC) guidelines. The write-off amount was offset by \$20.1 million in current year amortization.

The Restricted Assets Special Funds increased \$27.7 million from FY 2007 levels to \$91.1 million in FY 2008 due to the FY 2008 bond financing plan and schedule of construction cost for these funds in FY 2009.

The Debt Service Funds increased \$3.7 million in FY 2008 to \$58.0 million. The increase was created from funding increases in FY 2008 due to borrowing activities.

Long-term receivables decreased \$1.1 million in FY 2008 to \$34k reflecting the estimate

of current use of the negotiated receivable and anticipated costs for FY 2009.

Current assets decreased \$40.5 million in FY 2008 to \$134.9 million. The main cause of this decrease was due to timing of cash outlay for FY 2007 expenses which amount to approximately \$30 million. The remaining difference was due to lower operating activities from the previous year.

Deferred charges increased \$114.7 million in 2008 from \$694.5 million to \$809.2 million. Components of this increase were an increase to Costs in Excess of Billings of \$110.0 million, increase for relicensing of \$5.4 million and a slight decrease to unamortized debt expense of \$0.7 million. The increase to Costs in Excess of Billings was due to refunding current maturities while extending the overall maturities on the refunding debt. In addition, the accumulated decommissioning and site restoration accrued costs are not currently billed to Bonneville Power Administration (BPA). BPA holds and manages a trust fund for the purpose of funding decommissioning and site restoration (see Note B to the Financial Statements, "Decommissioning and Site Restoration"). The balances in these external trust funds are not reflected on Energy Northwest's Balance Sheet.

Columbia was issued a standard 40-year operating license by the Nuclear Regulatory Commission (NRC) in 1983. Energy Northwest is in the initial phase of preparing an application to renew the license for an additional 20 years, thus continuing operations to 2043. Submittal of this application is anticipated in the second half of FY 2009. The estimated license renewal process is 18-24 months from acceptance of application.

Long-Term Debt increased \$43.8 million in FY 2008 from \$2.39 billion to \$2.44 billion, excluding current maturities, which was a result of the FY 2008 Bond Issue. In FY 2008, new debt was issued for various Columbia construction projects, as well as for part of the Debt Optimization Program (see Note E to the Financial Statements).

Through June 30, 2006, Energy Northwest was being paid by the participants for Net Billings. The payments were based on a percentage

of ownership in Columbia and Nuclear Projects No. 1 and 3 and reflected budgeted costs for operations of the fiscal year. Beginning in FY 2007, Energy Northwest began billing Bonneville Power Administration on a monthly basis for estimated expenses, not to exceed the approved budget, instead of billing and receiving the participants' legal obligations. The change in billing arrangement does not impact the Net Billing Agreements for Columbia and Nuclear Projects No. 1 and 3.

## Statement of Operations Analysis

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

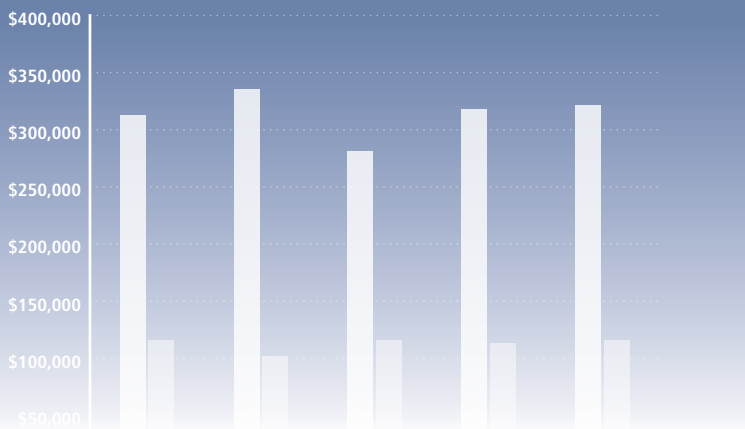
Operating expenses decreased \$22.0 million from FY 2007 to \$313.2 million due to less activity related to the off cycle year of the two year refueling and maintenance program. Operations and Maintenance decreased \$37.7 million which is attributable to the off cycle year. The decrease in operations and maintenance was offset by higher fuel costs of \$12.0 million due to the increased generation levels from FY 2007 and the associated increase in generation taxes of \$1.5 million. Other offsets to the operating expense decrease is a \$3.6 million increase to Administrative and General relating to staffing requirements, related benefit increases, and increased regulatory expenses. There was a slight decrease to the Decommissioning and Depreciation accounts of \$1.4 million.

Other Income and Expenses increased \$14.0 million from FY 2007 to \$115.8 million net expenses in FY 2008. The main driver of change to these accounts was the net effects of Columbia debt (see Note E to the financial statements). However in FY 2007, there was \$12.6 million in a building sale and loaned fuel revenue that did not happen in FY 2008. This change was offset slightly by an increase in miscellaneous activity resulting in revenue of \$1.3 million. The remaining \$2.7 million increase was related to the net effects of Columbia debt activity.

Columbia total operating revenue decreased from \$437.0 million in FY 2007 to \$429.0 million in FY 2008. The decrease of \$8.0 million is due to the off cycle year of the two year refueling and maintenance program and the related effect of the net billing agreements on total revenue.

### Columbia Generating Station Total Operating Costs (000's)

■ Operating Expenses  
■ Other Income / Expenses



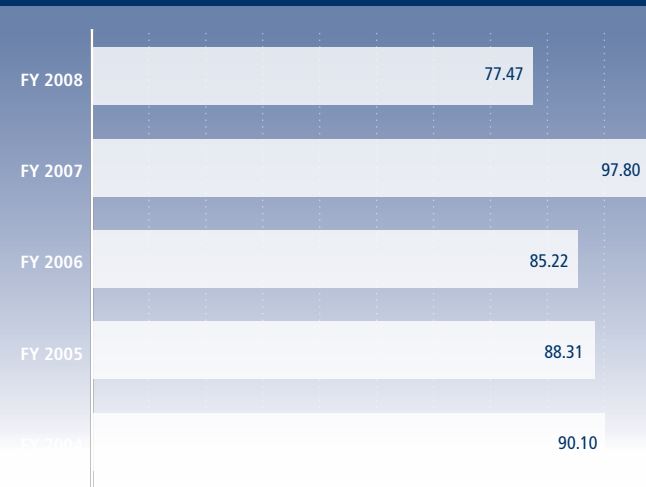
## PACKWOOD LAKE HYDROELECTRIC PROJECT

The Packwood Lake Hydroelectric Project (Packwood) is owned and operated by Energy Northwest. Packwood consists of a dam at Packwood Lake and a powerhouse 1,800 feet below the dam that is located south of Packwood, Washington. Packwood produced 77.47 GWh of electricity in FY 2008 versus 97.80 GWh in FY 2007. Due to unusually poor water conditions Packwood experienced its lowest generation levels in seven years. These water conditions reflected the opposite scenario prevalent in FY 2007 which had generation at 6.3 percent above the 30 year average of 92 GWh.

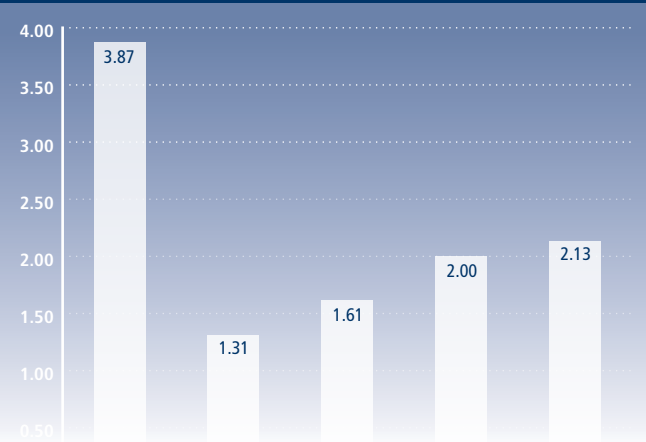
In November 2006, Lewis County was declared a disaster area because of torrential rain and flooding. During this event a large landslide occurred adjacent to the Packwood underground pipeline. Significant repairs to the pipeline support were completed during the year. Expenditures totaled \$1.0 million to install barriers and improve drainage to mitigate the recurrence of another event. The project applied for “Public Assistance Grants” from the Washington State Military Department (Emergency Management Division) and Federal Emergency Management Agency (FEMA) in FY 2007 and the acceptance is pending. Due to the delay in grant acceptance a bank line of credit was established for \$1.3 million while grant acceptance from FEMA is being resolved. To date, \$0.8 million has been borrowed against the line of credit.

Packwood’s performance is measured in several ways, including cost of power. The cost of power for FY 2008 was \$3.87 cents/kWh as compared to \$1.31 cents/kWh in FY2007. The cost of power fluctuates year to year depending on various factors such as outage maintenance and other operating activities. The FY 2008 cost of power increase was due to costs of buying power to meet contract obligations when lower than projected water runoff reduced generation and the costs of the landslide repair.

### Packwood Lake Hydroelectric Project Net Generation - GWhrs



### Packwood Lake Hydroelectric Project Cost of Power - Cents / kWh



## Balance Sheet Analysis

Total assets increased \$1.6 million from FY 2007, with \$1.0 million of the increase due to costs incurred and capitalized for the relicensing effort, \$0.5 million increase to plant related to fish barrier requirements, increase to receivables of \$0.2 million related to energy sales, with the remainder being a component of bond and investment activity. Significant changes to total liabilities included a decrease in Revenue Bonds Payable of \$0.7 million, recognition of the \$0.8 million relating to the line of credit, increase in Deferred Credits of \$2.1 million due to operations, relicensing and bond retirements, with the remainder being amounts due from power purchasers as well as amounts due from other business units related to results of operations. No new debt was issued and the total debt continues to decrease per the current debt schedules. Similar to the previous fiscal year, there was no excess funding accrued in FY 2008. Participants have agreed to retain all excess within the Packwood business unit for relicensing efforts.

Packwood has incurred \$3.4 million in relicensing costs through FY 2008. These costs are

shown as Deferred Charges on the Balance Sheet. The FY 2009 projections call for an additional \$0.5 million in costs to continue the relicensing efforts. The FERC issued a fifty-year operating license to Packwood on March 1, 1960. The current license will expire on February 28, 2010. The final application for the relicensing of Packwood was submitted to FERC on February 22, 2008.

## Statement of Operations Analysis

The agreement with Project Participants (see Note A to the Financial Statements) obligates them to pay annual costs and to receive excess revenues. Accordingly, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized and no equity is accumulated.

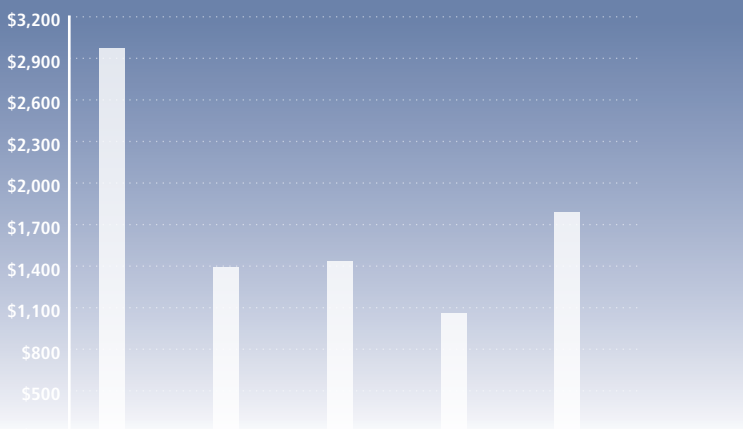
Operating expenses increased \$1.6 million due to slide repair work of \$0.9 million and increased purchased power costs of \$0.7 million related to poor water conditions.

Packwood is obligated to supply a specified amount of power. If power production from Packwood does not supply the required amount of power, the shortfall is provided by purchasing power on the open market. The increase in FY 2008 expenses reflects this requirement. Conversely, if there is excess capacity per the power sales agreement with Benton and Franklin PUDs, Energy Northwest sells the excess on the open market for additional revenues to be included as part of the power purchase agreements with the participants of the Project (see Note E, Long-Term Debt, "Security - Packwood Lake Hydroelectric Project").

Other income and expenses decreased from a net income of \$65k in FY 2007 to \$11k in FY 2008. The decrease was due to lower invested amounts as these funds were used to fund the increased cost of operations for FY 2008. Investment income decreased \$59k from FY 2007 which was offset by a decrease to bond related expenses of \$6k.

### Packwood Lake Hydroelectric Project Total Operating Costs (000's)

■ Operating Expenses  
■ Other Income / Expenses





## NUCLEAR PROJECT NO. 1

---

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

### Balance Sheet Analysis

Under the Debt Optimization Program, long-term debt decreased \$50.0 million from \$1.976 billion in FY 2007 to \$1.926 billion in FY 2008 due to debt restructuring to take advantage of lower interest rates.

### Statement of Operations Analysis

Other Income and Expenses showed a net decrease to non-operating revenues of \$7.7 million from \$113.4 million in FY 2007 to \$105.7 million in FY 2008. There was a recognized decrease to other revenue of \$3.9 million reflecting less surplus sales activity but this was offset by lower bond related expenses of \$8.6 million, decreased costs for decommissioning and plant preservation of \$2.6 million and increased revenues from investment income of \$0.4 million.

## NUCLEAR PROJECT NO. 3

---

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

### Balance Sheet Analysis

Under the Debt Optimization Program, long-term debt decreased \$16.6 million from \$1.853 billion in FY 2007 to \$1.774 billion in FY 2008 due to debt restructuring to take advantage of lower interest rates. Included in the FY 2008 long-term debt is the current portion of \$95.2 million.

### Statement of Operations Analysis

Overall expenses decreased \$3.3 million from FY 2007. Bond related expenses decreased \$3.7 million as a result of the debt restructuring. The remaining change in other expenses was a combination of lower investment income of \$0.2 million due to market conditions and a slight increase of \$0.2 million for treasury and termination activities.

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

### Balance Sheet Analysis

Total assets increased \$3.1 million from \$3.2 million in FY 2007 to \$ 6.3 million in FY 2008. Most of the increase was due to revenue and related cash for sale of the Reardan Twin Buttes Wind Project of \$2.3 million. Other changes of \$0.7 million were due to normal results of operations and reflected nominal changes in receivables from customers and other business units. Liabilities were relatively steady from FY 2007 to FY 2008 showing a small increase of \$15k for the year. Fund Equity increased \$3.1 million from \$1.4 million in FY 2007 to \$4.5 million in FY 2008. The increase was due to the wind mining project revenue offset slightly by a decrease in results of operations.

### Statement of Operations Analysis

Operating Revenues in FY 2008 totaled \$10.5 million as compared to FY 2007 revenues of \$7.6 million, an increase of \$2.9 million. Most of the revenue increase over FY 2007 is attributable to the \$2.3 million sale of the Reardan Twin Buttes Wind Project. The remaining increases to revenues are from calibration laboratory services and leasing revenue of approximately \$0.4 million each offset by a decrease of \$0.2 million in generation development lines.

Net operations for FY 2008 showed an operating profit of \$0.6 million, up \$3.2 million from the FY 2007 operating loss of \$2.6 million which reflects the Reardan project and net business line activity.

Major power generation development activities included converting the Pacific Mountain Energy Center (PMEC) to a Natural Gas Combined Cycle (NGCC) to comply with a new State of Washington CO<sub>2</sub> standard, and seeking new utility investors. The new NGCC project is called Kalama Energy.

Kalama Energy is a 680 MWe NGCC generation plant located in Western Washington. The project development will be based on pre-selling the project with at-cost power options for member utilities and an Energy Northwest O & M agreement. Additional expansion options will be negotiated for future public power resources.

The generation development team had a successful wind development year including the sale of Reardan Twin Buttes Wind Project for \$2.3 million and initiating feasibility and predevelopment activities on two additional projects in the Northwest. The 32.2 MW Nine Canyon Phase III project was successfully constructed and began commercial operation in May 2008.

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 2008, the Business Development Fund received contributions (transfers) of \$2.5 million, up from the \$1.8 million amount in FY 2007.

## NINE CANYON WIND PROJECT

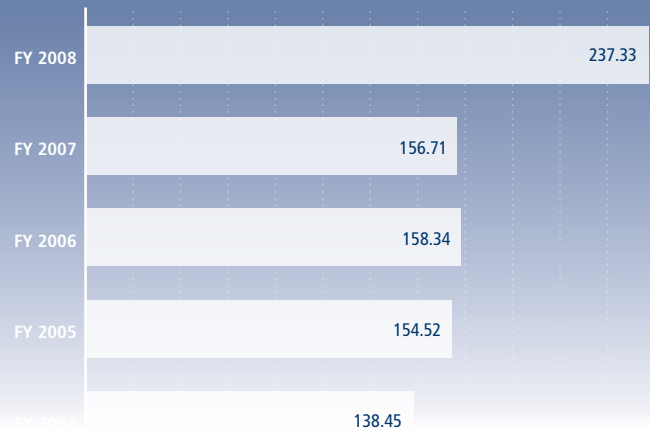
The Nine Canyon Wind Energy Project (Nine Canyon) is owned and operated by Energy Northwest. Nine Canyon is located in the Horse Heaven Hills area southwest of Kennewick, Washington. Electricity generated by Nine Canyon is purchased by Pacific Northwest Public Utility Districts (purchasers). Each purchaser of Phase I has signed a 28-year power purchase agreement with Energy Northwest; each purchaser of Phase II has signed a 27-year power purchase agreement, and each purchaser of Phase III has signed a 23-year power purchase agreement. The agreements are part of the 2nd Amended and Restated Nine Canyon Wind Project Power Purchase Agreement which now have an agreement end date of 2030. Nine Canyon is connected to the Bonneville Power Administration transmission grid via a substation and transmission lines constructed by the 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 a total capacity of 48.1 MW. Phase II of Nine Canyon, which was declared operational in December 2003, includes 12 wind turbines with an aggregate generating capacity of approximately 15.6 MW. Phase III of Nine Canyon was declared operational on May 8, 2008, and 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, which produces enough energy for approximately 39,000 average homes.

Nine Canyon produced 237.33 GWh of electricity in FY2008 versus 156.71 GWh in FY2007. The increase in production was due to an increase in the capacity factor because of higher than projected wind and the addition of the Phase III turbines.

Nine Canyon's performance is measured in several ways, including cost of power. The cost of power for FY 2008 was \$6.05 cents/kWh as compared to \$8.20 cents/kWh in FY 2007. The cost of power fluctuates year to year depending on various factors such as wind totals and unplanned maintenance. The FY 2008 cost of power decrease was mostly due to better than projected wind conditions and the addition of the more efficient Phase III turbines.

### Nine Canyon Wind Project Net Generation - GWhrs



### Nine Canyon Wind Project Cost of Power - Cents / kWh



## Balance Sheet Analysis

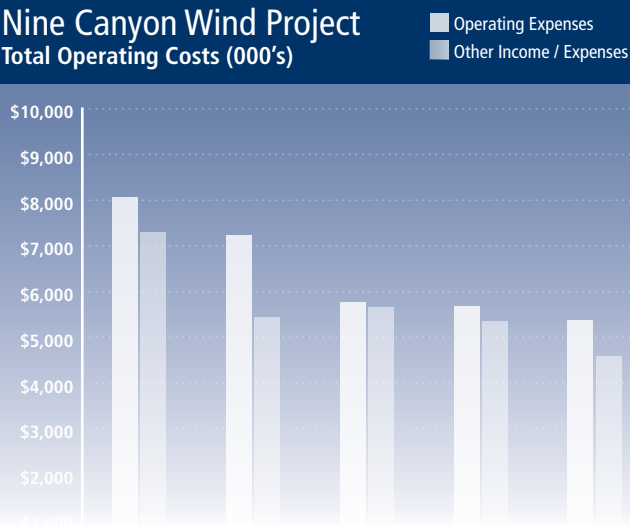
Assets decreased \$3.6 million from \$148.4 million in FY 2007 to \$144.8 million in FY 2008. Utility plant increased \$43.7 million due to Phase III construction and there were decreases to restricted assets involving cash and investments and unamortized debt expense of \$53.8 million associated with the construction costs of Phase III and a \$0.1 million reduction in the Renewable Energy Performance Incentive (REPI) payment accrued. The FY 2008 REPI accrual was \$0.7 million compared to \$0.8 million for FY 2007. The remaining change in assets was an increase of \$6.6 million due to excess funds from the 2006 Revenue Bonds. Construction costs came in under the estimate used for the 2006 bond sale and will be used to pay future costs of the project. There was a small overall decrease to liabilities of \$0.6 million with increases to decommissioning of \$0.4 million, due to Phase III; increase in deferred charges relating to turbine elevators of \$0.3 million with offsets to bond and accrued cost decreases of \$1.3 million. The decrease in Fund Equity was \$2.9 million in FY 2008 as compared to \$5.6 million in FY 2007. The decline experienced in previous years is continuing, though

slowed from previous periods. 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 ten 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.

## Statement of Operations Analysis

Operating Revenues increased from \$6.5 million in FY 2007 to \$12.6 million in FY 2008. The project received revenue from the billing of the project purchasers at an average rate of \$51.83 per MWh for FY 2008. The increase in revenue from FY 2007 was due to a revised rate plan that was implemented in FY 2008. The rate plan was revised to account for REPI funding shortfalls and costs of operations. There was a slight increase in operating expenses of \$0.8 million from \$7.2 million in FY 2007 to \$8.0 million in FY 2008. Change in operating expenses was due to increased depreciation costs of \$0.5 million due to plant additions with the remaining \$0.3 million increase due to miscellaneous operating costs. Other revenue and expenses increased \$1.9 million from FY 2007 to \$7.3 million in FY 2008. Investment income associated with bond funds decreased \$0.2 million due to use of construction funds for Phase III. Bond interest increased \$1.7 million from the previous year based on the debt service schedule for the Phase I, II and III projects. Net losses of \$2.8 million for FY 2008 continued the trend from previous years. This trend is reflected in the declining Fund Equity balance. However, the balance is considerably improved over the loss reported for FY 2007 of \$6.2 million and the trend reflects the revised rate structure.

### Nine Canyon Wind Project Total Operating Costs (000's)



Energy Northwest has accrued, as income (contribution) from the DOE, Renewable Energy Performance Incentive (REPI) payments that enable Nine Canyon to receive funds based on generation as it applies to the REPI bill. The 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 recorded a receivable for the applied REPI funding in the amount of \$0.7 million for FY 2008, representing its share of funded amounts. The payment stream from Nine Canyon participants and the REPI receipts were projected to cover the total costs over the purchase agreement. Permanent shortfalls in REPI funding for the Nine Canyon project led to a revised rate plan to incorporate the impact of this shortfall over the life of the project. The billing rates for the Nine Canyon participants increased 69 percent and 80 percent for Phase I and Phase II participants respectively in FY 2008 in order to cover total Project costs and are 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 the cash requirements of debt repayment and the cost of operations. Phase III started with an initial planning rate of \$49.82 per MWh which will increase at 3 percent for three years. In year four the rate will increase to a rate that will be stabilized over the life of the project. Possible adjustments may be necessary to future rates depending on operating costs and REPI, similar to Phase I and II.

## INTERNAL SERVICE FUND

---

The Internal Service Fund (ISF) (formerly the General Fund) was established in May 1957.

The Internal Service Fund 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 A and Note B to Financial Statements).

### Balance Sheet Analysis

Total Assets for FY 2008 decreased \$5.8 million from \$43.2 million in FY 2007 to \$37.4 million in FY 2008. The three major items for the change were a decrease to the performance fee investment account of \$2.5 million, a decrease to net plant of \$1.7 million due to change in accumulated depreciation, and a decrease of \$2.3 million due from other business units related to end year obligations, which was partially offset by \$0.6 million in fund obligations at year end. Small overall increase of assets for \$0.1 million consisted of cash and investments relating to operations.

The net decrease in Fund Equity and Liabilities is due to a decrease to payroll related expenses of \$1.1 million, \$3.5 million in current liabilities related to Accounts Payables non-outage year activity. Other decreases of \$2.5 million in Fund Equity related to the performance fee drawdown, offset by increases of \$1.3 million related to amounts due to other business units.

### Statement of Operations Analysis

Net Revenues for FY 2008 increased slightly (\$26k) from FY 2007. Investment income decreased \$164k due to lower invested balance relating to the drawdown of the performance fee account and lower yields. Net rental revenues for available buildings at corporate headquarters increased \$182k as lease utilization was considerably higher in FY 2008, with daily operations resulting in the remainder of change for FY 2008.

# BALANCE SHEETS

As of June 30, 2008 (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	2008 Combined Total
<b>Assets</b>									
<b>UTILITY PLANT (NOTE B)</b>									
In service	\$ 3,579,571	\$ 13,559	\$ -	\$ -	\$ 1,327	\$ 133,217	\$ 3,727,674	\$ 47,086	\$ 3,774,760
Not in service			25,253				25,253		25,253
Accumulated depreciation	(2,246,411)	(12,517)	(25,253)		(548)	(20,219)	(2,304,948)	(37,790)	(2,342,738)
	1,333,160	1,042	-	-	779	112,998	1,447,979	9,296	1,457,275
Nuclear fuel, net of accumulated amortization	208,082						208,082		208,082
Construction work in progress	52,539						52,539		52,539
	1,593,781	1,042	-	-	779	112,998	1,708,600	9,296	1,717,896
<b>RESTRICTED ASSETS (NOTE B)</b>									
<b>Special funds</b>									
Cash	8,106		4	37		1	8,148	361	8,509
Available-for-sale investments	82,954		11,855	12,493		1,575	108,877	1,484	110,361
Accounts and other receivables						655	655		655
<b>Debt service funds</b>									
Cash	55,870	7	115	2,328		7,984	66,304		66,304
Available-for-sale investments	106	747	96,457	123,497		11,709	232,516		232,516
Due from other funds	2,010	1,081	1,693				4,784		-
	149,046	1,835	110,124	138,355	-	21,924	421,284	1,845	418,345
<b>LONG-TERM RECEIVABLES (NOTE B)</b>									
	34	-	-	-	-	-	34	-	34
<b>CURRENT ASSETS</b>									
Cash	12,776	2	928	1,038	3,406	1,407	19,557	1,514	21,071
Available-for-sale investments	9,652	2	6,124	7,024	960	5,090	28,852	23,158	52,010
Accounts and other receivables	785	467	2		522		1,776	124	1,900
Due from Participants		875					875		875
Due from other business units	942	217	515		590		2,264	1,462	-
Due from other funds	12,963		6,427	40,207		591	60,188		-
Materials and supplies	96,444						96,444		96,444
Prepayments and other	1,301	59	2		21		1,383	6	1,389
	134,863	1,622	13,998	48,269	5,499	7,088	211,339	26,264	173,689
<b>DEFERRED CHARGES</b>									
Costs in excess of billings	791,302		1,913,071	1,746,070			4,450,443		4,450,443
Unamortized debt expense	12,514		10,077	7,776		2,709	33,076		33,076
Other deferred charges	5,410	3,419					8,829		8,829
	809,226	3,419	1,923,148	1,753,846	-	2,709	4,492,348	-	4,492,348
<b>TOTAL ASSETS</b>	<b>\$ 2,686,950</b>	<b>\$ 7,918</b>	<b>\$ 2,047,270</b>	<b>\$ 1,940,470</b>	<b>\$6,278</b>	<b>\$ 144,719</b>	<b>\$ 6,833,605</b>	<b>\$37,405</b>	<b>\$ 6,802,312</b>

\*Project recorded on a liquidation basis  
See notes to financial statements

## BALANCE SHEETS (CONT'D)

As of June 30, 2008 (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	2008 Combined Total
<b>Fund Equity and Liabilities</b>									
<b>FUND EQUITY</b>									
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ 779	\$ (42,676)	\$ (41,897)	\$ 9,296	\$ (32,601)
Restricted, net						16,260	16,260	1,484	17,744
Unrestricted, net					3,704	5,461	9,165	(4,353)	4,812
	-	-	-	-	4,483	(20,955)	(16,472)	6,427	(10,045)
<b>LONG-TERM DEBT (NOTE E)</b>									
Revenue bonds payable	2,359,765	551	1,863,790	1,811,025		148,435	6,183,566		6,183,566
Unamortized (discount)/premium on bonds - net	95,341	(1)	93,716	(22,208)		5,633	172,481		172,481
Unamortized gain/(loss) on bond refundings	(19,336)	14	(31,404)	(14,555)			(65,281)		(65,281)
	2,435,770	564	1,926,102	1,774,262	-	154,068	6,290,766	-	6,290,766
<b>LIABILITIES- PAYABLE FROM RESTRICTED ASSETS (NOTE B)</b>									
<b>Special funds</b>									
Accounts payable and accrued expenses	112,995		14,270			1,052	128,317	361	128,678
Due to other funds	14,973		8,120	8,871		591	32,555		-
<b>Debt service funds</b>									
Accrued interest payable	51,885	16	44,106	30,064		3,667	129,738		129,738
Due to other funds				31,336			31,336		-
	179,853	16	66,496	70,271	-	5,310	321,946	361	258,416
<b>OTHER NONCURRENT LIABILITIES</b>	9,337	-	-	-	-	-	9,337	-	9,337
<b>CURRENT LIABILITIES</b>									
Current maturities of long-term debt	6,100	690	54,160	95,155		4,315	160,420		160,420
Accounts payable and accrued expenses	36,146	985	512	425	1,795	522	40,385	27,369	67,754
Due to Participants	19,744						19,744		19,744
Due to other funds		1,081					1,081		-
Due to other business units				357		1,105	1,462	2,264	-
	61,990	2,756	54,672	95,937	1,795	5,942	223,092	29,633	247,918
<b>DEFERRED CREDITS</b>									
Advances from Members and others								816	816
Other deferred credits		4,582				354	4,936	168	5,104
	-	4,582	-	-	-	354	4,936	984	5,920
<b>TOTAL LIABILITIES</b>	2,686,950	7,918	2,047,270	1,940,470	1,795	165,674	6,850,077	30,978	6,812,357
<b>TOTAL FUND EQUITY AND LIABILITIES</b>	\$ 2,686,950	\$ 7,918	\$ 2,047,270	\$ 1,940,470	\$ 6,278	\$ 144,719	\$ 6,833,605	\$ 37,405	\$ 6,802,312

\*Project recorded on a liquidation basis  
See notes to financial statements

# STATEMENTS OF OPERATIONS AND FUND EQUITY

For the year ended June 30, 2008 (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	2008 Combined Total
<b>OPERATING REVENUES</b>	\$ 428,994	\$ 2,962	\$ -	\$ -	\$ 10,542	\$ 12,568	\$ 455,066	\$ -	\$ 455,066
<b>OPERATING EXPENSES</b>									
Nuclear fuel	35,873						35,873		35,873
Spent fuel disposal fee	9,036						9,036		9,036
Decommissioning	6,163					74	6,237		6,237
Depreciation and amortization	72,983	35			219	4,159	77,396		77,396
Operations and maintenance	161,079	2,068			12,125	3,734	179,006		179,006
Other power supply expense		697					697		697
Administrative and general	24,088	157				46	24,291		24,291
Generation tax	4,019	16				51	4,086		4,086
<b>TOTAL OPERATING EXPENSES</b>	<b>313,241</b>	<b>2,973</b>	<b>-</b>	<b>-</b>	<b>12,344</b>	<b>8,064</b>	<b>336,622</b>	<b>-</b>	<b>336,622</b>
<b>NET OPERATING REVENUES (EXPENSES)</b>	<b>115,753</b>	<b>(11)</b>	<b>-</b>	<b>-</b>	<b>(1,802)</b>	<b>4,504</b>	<b>118,444</b>	<b>-</b>	<b>118,444</b>
<b>OTHER INCOME AND EXPENSE</b>									
Non-operating revenues			105,706	93,764			199,470	61,540	199,894
Investment income	4,426	85	2,301	2,040	81	449	9,382	368	9,382
Interest expense and discount amortization	(121,464)	(74)	(105,617)	(93,664)		(7,870)	(328,689)		(328,689)
Plant preservation and termination costs			(2,166)	(2,140)			(4,306)		(4,306)
Depreciation and amortization			(6)				(6)	(2,039)	(6)
Decommissioning			(483)				(483)		(483)
Services to other business units								(59,445)	-
Other	1,285		265		2,321		3,871		3,871
<b>TOTAL OTHER INCOME AND EXPENSES</b>	<b>(115,753)</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>2,402</b>	<b>(7,421)</b>	<b>(120,761)</b>	<b>424</b>	<b>(120,337)</b>
<b>NET REVENUES (EXPENSES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>600</b>	<b>(2,917)</b>	<b>(2,317)</b>	<b>424</b>	<b>(1,893)</b>
Distribution and Contributions	-	-	-	-	2,500	(117)	2,383	(2,868)	(485)
Beginning Fund Equity	-	-	-	-	1,383	(17,921)	(16,538)	8,871	(7,667)
<b>ENDING FUND EQUITY</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,483</b>	<b>\$ (20,955)</b>	<b>\$ (16,472)</b>	<b>\$ 6,427</b>	<b>\$ (10,045)</b>

\*Project recorded on a liquidation basis  
See notes to financial statements



# STATEMENTS OF CASH FLOWS

For the year ended June 30, 2008 (Dollars in Thousands)

	Columbia Generating Station	Packwood Lake Project	Nuclear Project No.1*	Nuclear Project No.3*	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2008 Combined Total
<b>CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES</b>								
Operating revenue receipts	\$ 330,971	\$ 2,507	\$ -	\$ -	\$ 5,912	\$ 12,568	\$ -	\$ 351,958
Cash payments for operating expenses	(215,729)	(2,492)			(2,600)	(2,907)		(223,728)
Non-operating revenue receipts			155,413	176,032				331,445
Cash payments for preservation, termination expense			(1,625)	32				(1,593)
Cash payments for services							(2,408)	(2,408)
Net cash provided/(used) by operating and other activities	115,242	15	153,788	176,064	3,312	9,661	(2,408)	455,674
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>								
Proceeds from bond refundings	312,394		331,712	295,350				939,456
Refunded bond escrow requirement	(263,954)		(331,730)	(295,597)				(891,281)
Payment for bond issuance and financing costs	(1,889)	(20)	(2,664)	(2,593)	(1)	(193)		(7,360)
Payment for capital items	(35,741)	(1,615)			(158)	(47,535)	(669)	(85,718)
Receipts from sales of plant assets			1,356					1,356
Nuclear fuel acquisitions	(14,284)							(14,284)
Interest paid on revenue bonds	(115,423)	(70)	(94,979)	(73,716)		(7,435)		(291,623)
Principal paid on revenue bond maturities	(4,280)	(660)	(9,160)			(3,380)		(17,480)
Interest paid on Notes	(516)		(278)					(794)
Net cash provided/(used) by capital and related financing activities	(123,693)	(2,365)	(105,743)	(76,556)	(159)	(58,543)	(669)	(367,728)
<b>CASH FLOWS FROM NON-CAPITAL FINANCE ACTIVITIES</b>								
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Purchases of investment securities	(1,327,660)	(3,795)	(601,228)	(441,029)	(11,223)	(214,618)	(128,345)	(2,727,898)
Sales of investment securities	1,330,149	5,606	550,572	341,428	11,335	263,600	130,877	2,633,567
Interest on investments	4,311	118	2,300	1,936	88	2,033	464	11,250
Net cash provided/(used) by investing activities	6,800	1,929	(48,356)	(97,665)	200	51,015	2,996	(83,081)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(1,651)</b>	<b>(421)</b>	<b>(311)</b>	<b>1,843</b>	<b>3,353</b>	<b>2,133</b>	<b>(81)</b>	<b>4,865</b>
<b>CASH AT JUNE 30, 2007</b>	<b>78,403</b>	<b>430</b>	<b>1,358</b>	<b>1,560</b>	<b>53</b>	<b>7,259</b>	<b>1,956</b>	<b>91,019</b>
<b>CASH AT JUNE 30, 2008 (NOTE B)</b>	<b>\$ 76,752</b>	<b>\$ 9</b>	<b>\$ 1,047</b>	<b>\$ 3,403</b>	<b>\$ 3,406</b>	<b>\$ 9,392</b>	<b>\$ 1,875</b>	<b>\$ 95,884</b>

\*Project recorded on a liquidation basis  
See notes to financial statements

## STATEMENTS OF CASH FLOWS (CONT'D)

For the year ended June 30, 2008 (Dollars in Thousands)

	Columbia Generating Station	Packwood Lake Project	Nuclear Project No.1*	Nuclear Project No.3*	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2008 Combined Total
<b>RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>								
Net operating revenues	\$ 115,753	\$ (11)	\$ -	\$ -	\$ (1,802)	\$ 4,504	\$ -	\$ 118,444
<b>Adjustments to reconcile net operating revenues to cash provided by operating activities:</b>								
Depreciation and amortization	106,981	25			86	4,145		111,237
Decommissioning	6,163					75		6,238
Other	1,935	1,636			2,350	44		5,965
<b>Change in operating assets and liabilities:</b>								
Deferred charges/costs in excess of billings	(98,023)	(22)						(98,045)
Accounts receivable	1,023	(233)			(245)			545
Materials and supplies	(7,612)							(7,612)
Prepaid and other assets	(67)				9	7		(51)
Due from/to other business units, funds and Participants	(6,163)	(1,988)			400	567		(7,184)
Accounts payable	(4,748)	608			14	512		(3,614)
<b>Non-operating revenue receipts</b>			155,413	176,032				331,445
<b>Cash payments for preservation, termination expense</b>			(1,625)	32				(1,593)
<b>Cash payments for services</b>							(2,408)	(2,408)
<b>Receipts for grants/contributions</b>					2,500	(193)		2,307
<b>Net cash provided (used) by operating and other activities</b>	\$ 115,242	\$ 15	\$ 153,788	\$ 176,064	\$ 3,312	\$ 9,661	\$ (2,408)	\$ 455,674

\*Project recorded on a liquidation basis  
See notes to financial statements

# Energy Northwest

## Notes to Financial Statements

### NOTE A - GENERAL

---

#### Organization

Energy Northwest, a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. Membership consists of 19 public utility districts and three cities, Richland, Seattle and Tacoma. All members own and operate electric systems within the State of Washington. Energy Northwest is exempt from federal income tax. Energy Northwest has no taxing authority.

#### Energy Northwest Business Units

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

All electrical energy produced by Energy Northwest 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 publicly owned 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 E).

Energy Northwest operates the Columbia Generating Station (Columbia), a 1,150 MWe (Design Electric Rating, net) generating plant completed in 1984. Energy Northwest has obtained all permits and licenses required to operate Columbia, including a Nuclear Regulatory Commission (NRC) operating license that expires in December 2023. Energy Northwest is in the initial phase of preparing an application to renew the license for an additional 20 years, thus continuing operations to 2043. Submittal of this application is anticipated in the second half of July 2009. The NRC license renewal project is expected to take 18 to 24 months. Costs to date on Columbia relicensing are \$5.4 million.

Energy Northwest also operates the Packwood Lake Hydroelectric Project (Packwood), a 27.5 MWe generating plant completed in 1964. Packwood operates under a fifty-year license from the Federal Energy Regulatory Commission (FERC) that expires on February 28, 2010. Packwood is currently proceeding through the relicensing effort; the initial application package for the relicensing of Packwood was submitted to FERC on February 22, 2008. Costs incurred to date for relicensing are \$3.4 million. The electric power produced by Packwood is sold to 12 Project Participant utilities which pay the costs of Packwood, including the debt service on the Packwood revenue bonds. The Packwood participants are obligated to pay annual costs of Packwood including debt service, whether or not Packwood is operable, until the outstanding bonds are paid or provisions are made for bond retirement, in accordance with the requirements of the bond

resolution. Any revenues in excess of net funding is shared with the participants and disbursed by share percentage to each participant or, by participant decision, retained in the project and applied towards future costs. In 2002, Packwood and its participants entered into a Power Sales Agreement with Benton and Franklin PUDs to guarantee a specified level of power generation from the Packwood project (see Note E, "Security-Packwood Lake Hydroelectric Project").

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 (see Note F, "Nuclear Projects Nos. 1 and 3 Termination"). 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 F, Commitments and Contingencies).

Energy Northwest also manages the Business Development Fund and the Nine Canyon Wind Project (Nine Canyon):

- The Business Development Fund was established in April 1997 to pursue and develop new energy related business opportunities.
- 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 Fiscal Year (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 and began commercial operation in May, adding an additional 14 wind turbines to the Nine Canyon Project and adding an aggregate capacity of 32.2 MWe. Total Phases I, II and

III turbines at the Nine Canyon project are 63 and total capacity for Phases I, II and III 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.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

---

### Basis of Accounting

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 applies Financial Accounting Standards Board (FASB) standards to the extent it does not conflict with Governmental Accounting Standards Board (GASB) standards. Accounts are maintained in accordance with the uniform system of accounts of the Federal Energy Regulatory Commission (FERC). Energy Northwest uses the full accrual basis of accounting where revenues are recognized when earned and expenses recognized when incurred. Revenues and expenses related to principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing and investing activities are considered to be non-operating revenues and expenses. Separate funds and books of account are maintained for each business unit. Payment of obligations of one business unit with funds of another business unit is prohibited, and would constitute violation of bond resolution covenants.

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 under Current Liabilities—Due to other business units, or Current Assets—Due from other business units on the Internal Service Fund Balance Sheet.

The Combined Total column on the financial statements is for presentation only as each Energy Northwest business unit is financed and accounted for separately from all other current and future business units. The FY 2008 Combined Total includes eliminations for transactions between business units as required in Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments,” of the Governmental Accounting Standards Board (GASB).

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 statements and interpretations, 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 Statement of Financial Accounting Standard (SFAS) No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” As such, the guidance under GASB No. 7 and No. 23 is

followed. Such guidance governs the accounting for bond defeasances and refundings. 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.

Energy Northwest’s fiscal year begins on July 1st and ends on June 30th.

### **Utility Plant**

Utility plant is stated at original cost. Plant in service is depreciated by the straight-line method over the estimated useful lives of the various classes of plant, which range from five to 60 years.

During the normal construction phase of a capital facility, which historically has been defined as construction of a generation facility, Energy Northwest’s policy is to capitalize all costs relating to the Project, including interest expense, related administrative and general expense, less any interest income earned. For financing not related to a capital facility, 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. Columbia is a net-billed business unit, therefore costs whether expense or capital, are reimbursed each year. However, if estimated costs are more than inconsequential, an adjustment is made to allocate capitalized interest to the appropriate plant account.

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 were recorded in FY 1995 and were 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. Utility Plant activity for the year ended June 30, 2008, was as follows:

## Nuclear Fuel

All expenditures related to the initial purchase of nuclear fuel for Columbia, including interest, were capitalized and carried at cost. When the fuel is placed in the reactor; the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. Accumulated nuclear fuel amortization (the amortization of the cost of nuclear fuel

## UTILITY PLANT ACTIVITY (Dollars in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Columbia Generating Station</b>				
Generation	\$ 3,545,749	\$ 1,353	\$ -	\$ 3,547,102
Decommissioning	32,469			32,469
Construction Work-in-Progress	26,999	25,540		52,539
Accumulated Depreciation and Decommissioning	(2,174,753)	(71,658)	-	(2,246,411)
<b>UTILITY PLANT, net*</b>	<b>\$ 1,430,464</b>	<b>\$ (44,765)</b>	<b>\$ -</b>	<b>\$ 1,385,699</b>
<b>Packwood Lake Hydroelectric Project</b>				
Generation	\$ 13,098	\$ 461	\$ -	\$ 13,559
Accumulated Depreciation	(12,492)	(25)	-	(12,517)
<b>UTILITY PLANT, net</b>	<b>\$ 606</b>	<b>\$ 436</b>	<b>\$ -</b>	<b>\$ 1,042</b>
<b>Business Development</b>				
Generation	\$ 1,230	\$ 204	\$ (107)	\$ 1,327
Accumulated Depreciation	(496)	(52)	-	(548)
<b>UTILITY PLANT, net</b>	<b>\$ 734</b>	<b>\$ 152</b>	<b>\$ (107)</b>	<b>\$ 779</b>
<b>Nine Canyon Wind Project</b>				
Generation	\$ 73,819	\$ 58,537	\$ -	\$ 132,356
Decommissioning	449	412	-	861
Construction Work-in-Progress	11,177	45,948	(57,125)	-
Accumulated Depreciation and Decommissioning	(16,041)	(4,178)	-	(20,219)
<b>UTILITY PLANT, net</b>	<b>\$ 69,404</b>	<b>\$ 100,719</b>	<b>\$ (57,125)</b>	<b>\$ 112,998</b>
<b>Internal Service Fund</b>				
Generation	\$ 46,765	\$ 321	\$ -	\$ 47,086
Accumulated Depreciation	(35,751)	(2,039)	-	(37,790)
<b>UTILITY PLANT, net</b>	<b>\$ 11,014</b>	<b>\$ (1,718)</b>	<b>\$ -</b>	<b>\$ 9,296</b>

\*Does not include Nuclear Fuel Amount of \$208 million, net of amortization.

assemblies in the reactor used in the production of energy and in the fuel pool for less than six months per FERC guidelines) is \$97.0 million as of June 30, 2008, for Columbia.

The loaned fuel agreement associated with the FY 2007 revenue was completed in FY 2007. A new fuel lease agreement was entered into and is in effect through FY 2009. The agreement provides for an exchange of uranium oxide (U<sub>3</sub>O<sub>8</sub>) for an equivalent amount of uranium hexafluoride (UF<sub>6</sub>) plus the cash value of conversion services which is estimated to be \$13.9 million. Approximately \$0.3 million of the cash value for conversion services is attributable to FY 2008 activity and the remainder attributable to FY 2009 conversion services.

Energy Northwest has a contract with the Department of Energy (DOE) that requires the DOE to accept title and dispose of spent nuclear fuel. Although the courts have ruled that the DOE had the obligation to accept title to spent nuclear fuel by January 31, 1998, currently, there is no known operational date established.

The current period operating expense for Columbia includes a \$9.0 million charge from the DOE for future spent nuclear fuel storage and disposal in accordance with the Nuclear Waste Policy Act of 1982.

Energy Northwest has completed the Independent Spent Fuel Storage Installation (ISFSI) project, which is a temporary dry cask storage until the 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. Twelve casks were issued from the cask inventory account in FY 2008. Spent Fuel is transferred from the Spent Fuel pool to the ISFSI periodically to allow for future refuelings. Current period operating costs include \$34.3 million for nuclear fuel and \$1.6 million dry cask storage costs.

### Restricted Assets

Separate restricted funds have been established for each business unit, in accordance with Project bond resolutions, related agreements or state

law. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions and fuel purchases, extraordinary operation and maintenance costs, termination, decommissioning, hazardous waste disposal, operating reserves, financing, long-term disability and workers' compensation claims.

### Long-Term Receivables

Long-term receivables include an estimate of future discounts for certain goods and services to be provided to Columbia. These amounts are the result of a litigation settlement and subsequent revisions of that settlement.

### Accounts and Other Receivables

Accounts and other receivables for the Internal Service Fund include miscellaneous receivables outstanding from other business units that have not yet been collected. The amounts due to each business unit are reflected in the Due To/From other business unit's account. Accounts and other receivables specific to each business unit are recorded in the residing business unit.

### Asset Retirement Obligation

Energy Northwest adopted SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long Lived Asset," on July 1, 2002. SFAS 143 requires an entity to recognize the fair value of a liability for an asset retirement obligation (ARO), such as nuclear decommissioning and site restoration liabilities, in the period in which it is incurred, rather than using a cost accumulation approach (see Note G, Accounting for Asset Retirement Obligations).

### 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.

The NRC has issued rules to provide guidance to licensees of operating nuclear plants on decommissioning the plants at the end of each plant's operating life. In September 1998, the

NRC approved and published its “Final Rule on Financial Assurance Requirements for Decommissioning Power Reactors.” As provided in this rule, each power reactor licensee is required to report to the NRC the status of its decommissioning funding for each reactor or share of a reactor it owns. This reporting requirement began on March 31, 1999, and reports are required every two years thereafter. Energy Northwest submitted its most recent report to the NRC in March 2007.

Energy Northwest’s current estimate of Columbia’s decommissioning costs in 2007 dollars is \$573.2 million (Columbia-\$570.0 million and ISFSI-\$3.2 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 Washington Energy Facility Site Evaluation Council (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 \$80.6 million in constant dollars (based on the 2007 Study) and is updated biannually along with the decommissioning estimate.

Both decommissioning and site restoration estimates (based on 2007 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, 2008, totaled approximately \$121.6 million and \$17.2 million, respectively. Since September 1996, these amounts have been held and managed by BPA in external trust funds 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 second decommissioning and site restoration plan for the ISFSI. 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, 2008 is \$0.5 million. These contributions will occur through FY 2029; cash payments will begin for decommissioning and site restoration in FY 2025 with equal installments for five years totaling \$2.06 million.

### **Materials and Supplies**

Materials and supplies are valued at cost using a weighted average cost method.

### **Financing Expense, Bond Discount and Deferred Gain and Losses**

Financing expenses and bond discounts are amortized over the terms of the respective bond issues using the bonds outstanding method which Energy Northwest has determined to not be materially different from the effective interest method of bond accounting.

In accordance with GASB No. 23, 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. The balance sheet includes the original deferred amount less recognized amortization expense and is included as a reduction to the new debt.

### **Current Maturities of Revenue Bonds**

Current maturities (less than one year) of revenue bonds payable from restricted assets are reflected as current maturities. Debt with maturities greater than one year is reflected as Long-Term Debt.

### **Accounts Payable and Accrued Expenses**

Liabilities - Payable From Restricted Assets- Columbia includes \$113.0 million for decommissioning and site restoration. Nuclear Project No. 1



includes \$14.3 million for decommissioning and site restoration. Nine Canyon includes \$1.1 million for decommissioning and site restoration. The other large amount of payables from restricted assets relate to accrued interest payable. There was \$129.7 million accrued amongst the five business units (none for the Internal Service Fund) for this item.

**Current Liabilities** - There is \$65.3 million in current maturities of long-term debt for Columbia, Unit 1, Nine Canyon and Packwood. Columbia has \$19.7 million in liabilities to its participants. Internal Service Fund accounts payable and accrued expenses include \$5.1 million for payroll and related benefits, \$17.0 million for compensated absences, and \$5.2 million for outstanding warrants, taxes, and retention withheld. Other business unit accrued costs accounted for the other \$40.7 million and represents general business unit activity.

**Other Non Current Liabilities** - \$9.3 million is recorded for the Columbia deferred cask liability which relates to the storage and disposal of spent fuel.

### **Fair Value of Financial Instruments**

The fair value of financial instruments has been estimated using available market information and certain assumptions. Considerable judgment is required in interpreting market data to develop fair value estimates and such estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

Financial instruments for which the carrying value is considered a reasonable approximation of fair value include: cash, accounts and other receivables, accounts payable and accrued expenses, advances from Members and others, and Due To/From Participants, funds, and other business units. The fair values of investments (see Note C, Cash and Investments) and revenue bonds payable (see Note E, Long-Term Debt) have been estimated based on quoted market prices for such instruments or on the fair market value of financial instruments of a similar nature and degree of risk.

### **Revenues**

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 equity is accumulated. The difference between cumulative billings received and cumulative expenses is recorded as either billings in excess of costs (liability) or costs in excess of billings (asset), as appropriate. Such amounts will be settled during future operating periods.

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 losses and included in fund equity for each period.

Energy Northwest has accrued, as income (contribution) from the DOE, Renewable Energy Performance Incentive (REPI) payments that enable Nine Canyon to receive funds based on generation as it applies to the REPI bill. The 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 recorded a receivable for the applied REPI funding in the amount of \$0.7 million for FY 2008, representing its share of funded amounts. The payment stream from Nine Canyon participants and the REPI receipts were projected to cover the total costs over the purchase agreement. Permanent shortfalls in REPI funding for the Nine Canyon project led to a revised rate plan to incorporate the impact of this shortfall over the life of the project. The rate increases in the billing to the Nine Canyon

participants in order to cover total Project costs occurred in FY 2008 and are projected out to the 2030 proposed project end date.

### Concentration of Credit Risk

Financial instruments which potentially subject Energy Northwest to concentrations of credit risk consist of available-for-sale investments, accounts receivable, other receivables, long-term receivables and costs in excess of billings. Energy Northwest invests exclusively in U.S. Government securities and agencies. Energy Northwest's accounts receivable and costs in excess of billings are concentrated with Project participants and BPA through the net-billing agreements (see Note E, Long-Term Debt, "Security-Nuclear Projects Nos. 1, 3 and Columbia" and "Security - Packwood Lake Hydroelectric Project"). The long-term receivable is with a large and stable company which Energy Northwest considers to be of low credit risk. Other large receivables are secured through the use of letters of credit and other similar security mechanisms or are with large and stable companies which Energy Northwest considers to be of low credit risk. As a consequence, Energy Northwest considers the exposure of the business units to concentration of credit risk to be limited.

### Interest Risk

Energy Northwest's investment policy limits investments to those with maturities of one

year or less, or as designated in specific bond resolutions.

### Statements of Cash Flows

For purposes of the statements of cash flows, cash includes unrestricted and restricted cash balances. Short-term, highly liquid investments are not considered cash equivalents but are classified as available for sale investments.

## NOTE C - CASH AND INVESTMENTS

Cash and investments for each business unit are separately maintained. Energy Northwest's deposits are insured by federal depository insurance or through the Washington Public Deposit Protection Commission. 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. Safekeeping agents, custodians, or trustees hold all investments for the benefit of the individual Energy Northwest business units.

Investments are classified as available-for-sale and are stated at fair value with unrealized gains and losses reported in investment income. Available-for-sale investments at June 30, 2008, are categorized below to give an indication of the types and amounts as well as maturities of investments held by each business unit at year end:

### AVAILABLE-FOR-SALE-INVESTMENTS (Dollars in Thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (1) (2)
Columbia Generating Station	\$ 92,855	\$ 1	\$ (144)	\$ 92,712
Packwood Lake Hydroelectric Project	749	-	-	749
Nuclear Project No. 1	114,446	-	(11)	114,435
Nuclear Project No. 3	143,029	-	(14)	143,015
Business Development Fund	960	-	-	960
Internal Service Fund	24,673	1	(28)	24,646
Nine Canyon Wind Project	18,387	-	(13)	18,374

(1) All investments are in U.S. Government Agencies with the exception of Packwood which holds only U.S. Government Treasury Bills.

(2) All investments have maturities of less than one year.

## NOTE D - RETIREMENT BENEFITS

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 and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, "Accounting for Pensions by State and Local Government Employers."

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 Employee's Retirement System (PERS) Plans 1, 2, and 3 Plan Description

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.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants 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 exercise an option to transfer their membership to Plan 3. PERS participants 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age 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 annual benefit is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of two percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to but not yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Non-vested	49,812
<b>Total</b>	<b>250,838</b>

### Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. 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, 2007, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%**	6.13%**	6.13%***
Employee	6.00%****	4.15%****	****

\*The employer rates include the employer administrative expense fee currently set at 0.16%. This rate change was effective September 1, 2007, previous rate was 0.18%.

\*\*The employer rate for state elected officials is 9.12% for Plan 1 and 6.13% for Plan 2 and Plan 3.

\*\*\*Plan 3 defined benefit portion only.

\*\*\*\*The employee rate for state elected officials is 7.50% for Plan 1 and 4.15% for Plan 2.

\*\*\*\*\*Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both Energy Northwest and the employees make the required contributions. The required employer contribution increased July 1, 2007 from 5.46 percent for all plans to 6.12 percent and then again on September 1, 2007 to the current level of 6.13 percent. For FY 2006 and FY 2007 the rates ranged from 2.44 percent to 5.46 percent. Energy Northwest's required contributions for the years ended June 30 was:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	\$ 201,971	\$ 4,313,031	\$ 1,702,720
2007	\$ 174,813	\$ 3,235,922	\$ 1,269,321
2006	\$ 107,096	\$ 1,458,655	\$ 564,242

In addition to the pension benefits available through PERS, Energy Northwest offered post-employment life insurance benefits to retirees who were eligible to receive pensions under PERS Plan 1, Plan 2 and Plan 3. There are 83 retirees that 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 cost of coverage for retirees increased in January of 2008 from \$2.33 to \$2.82

per \$1,000 of coverage with a maximum limit of \$10,000. Employees who retired prior to January 1, 1995, contribute \$.58 per \$1,000 of coverage while Energy Northwest pays the remainder. The rate increase was not passed along to these retirees as the original resolution did not address future changes to these grandfathered participants. Premiums are paid to the insurer on a current period basis.

The liability for the actuarial value of estimated future premiums, net of retiree contributions is determined annually and was \$0.8 million at June 30, 2008.

During FY 2008, 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 2008 for this and other allocated costs; Columbia at 92 percent, Business Development at 7 percent, and Project 1, Nine Canyon, Packwood and Project 3 receiving the residual amount of one percent.

### 401(k) and 457 Plan Deferred Compensation Plan

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 are participants during the Plan Year. The amount of such an Employer match shall be 50 percent of the maximum salary deferral percentage. During FY 2008 Energy Northwest contributed \$2.0 million in employer matching funds.

## NOTE E - LONG-TERM DEBT

---

Each Energy Northwest business unit is financed separately. The resolutions of Energy Northwest authorizing issuance of revenue bonds for each business unit provide that such bonds are payable from the revenues of that business unit. All bonds issued under Resolutions Nos. 769, 775 and 640 for Nuclear Projects Nos. 1, 3 and Columbia, respectively, have the same priority of payment within the business unit (the "Prior Lien Bonds"). All bonds issued under Resolutions Nos. 835, 838 and 1042 (the "Electric Revenue Bonds") for Nuclear Projects Nos. 1, 3 and Columbia, respectively, are subordinate to the Prior Lien Bonds and have the same subordinated priority of payment within the business unit. Nine Canyon's bonds were authorized by the following resolutions: Resolution No. 1214 2001 Bonds, Resolution No. 1299 2003 Bonds, Resolution No. 1376 2005 Bonds and Resolution No.1482 the 2006 Bonds. The Packwood Bonds were authorized by Resolution 325 for the 1962 Bonds and Resolution 328 for the 1965 Bonds.

During the year ended June 30, 2008, Energy Northwest issued, for Nuclear Projects No. 1 and 3, and Columbia, the Series 2008-A Bonds, Series 2008-B Bonds, Series 2008-D Bonds, and Series 2008-E Bonds. The Series 2008-C Bonds were issued for Columbia, and the 2008-F Bonds were issued for Project 3. The Series 2008-A, 2008-B, 2008-C, 2008-D, and 2008-E Bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are fixed rate bonds with a weighted average coupon interest rate ranging from 4.15 percent to 5.85 percent. The Series 2008-F Bonds issued for Nuclear Project No. 3 are Variable Rate Bonds with a weekly rate reset. These transactions resulted in a net-loss for accounting purposes of \$10.55 million. According to GASB No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," gains and losses on the refundings are deferred and amortized over the remaining life of the old debt or the new debt, whichever is shorter. However, in accordance with GASB 7,

"Advance Refundings Resulting in Defeasance of Debt," an economic gain of \$15.82 million was recognized, based on the present value of debt service comparison.

The Series 2008-A Bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are tax exempt fixed-rate bonds that created savings based on improved interest rates.

The Series 2008-B Bonds, issued for Nuclear Project No. 1, Nuclear Project No. 3 and Columbia are taxable fixed-rate bonds for the purpose of paying costs relating to the issuance of the Series 2008-A, Series 2008-B, and Series 2008-C Bonds, as well as certain costs relating to the refunding of certain outstanding bonds.

The Series 2008-C Bonds issued for Columbia are tax exempt fixed-rate bonds to finance a portion of the cost of certain capital improvements at Columbia.

The Series 2008-D Bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are tax exempt fixed-rate bonds that created savings based on improved interest rates.

The Series 2008-E Bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are taxable fixed-rate bonds for the purpose of paying costs relating to the issuance of the Series 2008-D, Series 2008-E, and Series 2008-F Bonds, as well as certain costs relating to the refunding of certain outstanding bonds.

The Series 2008-F Bonds issued for Nuclear Project No. 3 are variable-rate bonds that created savings based on improved interest rates.

Nuclear Projects Nos. 1 and 3 have long term debt that contains variable rate interest. These rates are set periodically through a weekly rate reset. These rates ranged from 1.080 percent to 7.000 percent during FY 2008.

The Bond Proceeds, Weighted Average Coupon Interest Rates, Net Accounting Loss, Economic Gain, and total defeased bonds for 2008-A, 2008-B, 2008-C, 2008-D, 2008-E, and 2008-F are presented in the following tables:

## Bond Proceeds (\$ in millions)

	Project 1	Columbia	Project 3	Total
2008A	\$ 250.23	\$ 120.18	\$ 15.00	\$ 385.41
2008B	2.16	14.85	0.11	17.12
2008C	-	38.37	-	38.37
2008D	77.23	135.45	68.93	281.61
2008E	2.10	3.55	2.49	8.14
2008F	-	-	208.83	208.83
Total	\$ 331.72	\$ 312.40	\$ 295.36	\$ 939.48

## Total Defeased (\$ in millions)

	Project 1	Columbia	Project 3	Total
2008A	\$ 250.24	\$ 120.19	\$ 15.00	\$ 385.43
2008B	-	-	-	-
2008C	-	-	-	-
2008D	77.23	135.45	68.93	281.61
2008E	-	-	-	-
2008F	-	-	208.83	208.83
Total	\$ 327.47	\$ 255.64	\$ 292.76	\$ 875.87

## Weighted Average Coupon Interest Rate for Refunded Bonds

	2008A	2008B	2008C	2008D	2008E	2008F
Total	5.56%*	-	-	5.08%	-	**

\* The 2008A issue refunded variable rate bonds that are not included.

\*\* The 2008F bond issue refunded variable rate bonds.

## Weighted Average Coupon Interest Rate for New Bonds

	2008A	2008B	2008C	2008D	2008E	2008F
Total	5.11%	5.85%	5.07%	5.00%	4.15%	*

\* The 2008F series bonds are variable rate bonds with weekly rate resets.

## Net Accounting Loss (\$ in millions)

	Project 1	Columbia	Project 3	Total
2008A	\$ (0.88)	\$ (2.22)	\$ (0.26)	\$ (3.36)
2008B	2.14	2.80	0.10	5.04
2008C	-	-	-	-
2008D	0.30	(0.26)	0.55	0.59
2008E	2.08	3.52	1.72	7.32
2008F	-	-	0.96	0.96
Total	\$ 3.64	\$ 3.84	\$ 3.07	\$ 10.55

Energy Northwest did not issue or refund any bonds associated with Packwood or Nine Canyon for FY 2008. In prior fiscal years, Energy Northwest also defeased certain revenue bonds by placing the net proceeds from the refunding bonds in irrevocable trusts to provide for all required future debt service payments on the refunded bonds until their dates of redemption. Accordingly, the trust account assets and liability for the defeased bonds are not included in the financial statements in accordance with GASB statements No. 7 and 23. Including the FY 2008 defeasements, \$327.5 million, \$292.7 million, and \$255.6 million of defeased bonds were not called or had not matured at June 30, 2008, for Nuclear Projects Nos. 1 and 3, and Columbia respectively.

Outstanding principal on revenue and refunding bonds for the various business units as of June 30, 2008, and future debt service requirements for these bonds are presented in the following tables:

## OUTSTANDING LONG-TERM DEBT

As of June 30, 2008 (Dollars in Thousands)

### Columbia Revenue and Refunding Bonds

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1992A	6.30	7-1-2012	\$ 50,000
1994A	(A)	7-1-2009	4,776
	5.40	7-1-2012	100,200
			104,976
1998A	5.75	7-1-2009	20,625
2001A	5.00-5.50	7-1-13/2017	186,600
2001B	5.50	7-1-2018	48,000
2002A	5.20-5.75	7-1-17/2018	157,260
2002B	5.35-6.00	7-1-2018	123,815
2003A	5.50	7-1-10/2015	132,970
2003B	4.15	7-1-2009	4,530
2003F	5.00-5.25	7-1-08/2018	38,740
2004A	5.25	7-1-09/2018	324,350
2004B	5.50	7-1-2013	12,715
2004C	5.25	7-1-08/2018	24,930
2005A	5.00	7-1-15/2018	114,985
2005B	4.11	7-1-2008	1,600
2005C	4.34-4.74	7-1-09/2015	91,890
2006A	5.00	7-1-20/2024	434,210
2006B	5.23	7-1-2011	4,420
2006C	5.00	7-1-20/2024	62,200
2006D	5.80	7-1-2023	3,425
2007A	5.00	7-1-13/2018	77,575
2007B	5.07-5.33	7-1-12/2021	10,665
2007D	5.00	7-1-21/2024	35,080
2008A	5.00-5.25	7-1-14/2018	110,935
2008B	3.60-5.95	7-1-09/2021	14,850
2008C	5.00-5.25	7-1-21/2024	37,240
2008D	5.00	7-1-10/2012	127,510
2008E	4.15	7-1-2009	3,545
<b>Compound interest bonds accretion</b>			6,224
<b>Revenue bonds payable</b>			\$ 2,365,865
<b>Estimated fair value at June 30, 2008</b>			\$ 2,491,535 (B)

(A) Compound Interest Bonds

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Statement of Financial Accounting Standards (SFAS) 107 and does not purport to represent the amounts at which these obligations would be settled.

### Nuclear Project No.1 Refunding Revenue Bonds

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1989B	7.125	7-1-2016	\$ 41,070
1990B	7.25	7-1-2009	3,590
1993B	7.00	7-1-08/2009	15,090
1993C	5.20	7-1-2008	1,985
1996A	6.00	7-1-2008	40,050
1996C	6.00	7-1-2009	8,445
1998A	5.75	7-1-2009	3,750
2001A	4.50-5.50	7-1-10/2013	76,560
2002A	5.50-5.75	7-1-13/2017	248,485
2002B	6.00	7-1-2017	101,950
2003A	5.50	7-1-13/2017	241,455
2003B	4.06	7-1-2009	18,210
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
2005B	4.11	7-1-2008	925
2006A	5.00	7-1-09/2017	308,315
2007A	5.00	7-1-13/2017	51,730
2007B	5.07-5.10	7-1-12/2013	6,740
2007C	5.00	7-1-13/2017	219,020
2008A	5.00-5.25	7-1-13/2017	230,535
2008B	3.60	7-1-2009	2,155
2008D	5.00	7-1-13/2017	72,000
2008E	4.15	7-1-2009	2,095
1993-1A-1	VARIABLE		36,120
1993-1A-2	VARIABLE		39,070
1993-1A-3	VARIABLE		12,810
<b>Revenue bonds payable</b>			\$ 1,917,950
<b>Estimated fair value at June 30, 2008</b>			\$ 2,040,962 (B)

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Statement of Financial Accounting Standards (SFAS) 107 and does not purport to represent the amounts at which these obligations would be settled.



## OUTSTANDING LONG-TERM DEBT (CONT'D)

As of June 30, 2008 (Dollars in Thousands)

### Nuclear Project No.3 Refunding Revenue Bonds

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1989A	(A)	7-1-08/2014	\$ 11,112
1989B	(A)	7-1-08/2014	37,537
	7.125	7-1-2016	76,145
			113,682
1990B	(A)	7-1-08/2010	8,225
1993B	5.65-7.00	7-1-08/2009	23,460
1993C	7.50	7-1-2008	14,150
	(A)	7-1-13/2018	23,963
			38,113
1997A	6.00	7-1-2009	13,585
2001A	5.50	7-1-10/2018	151,380
2001B	5.50	7-1-2018	10,675
2002B	6.00	7-1-2016	75,360
2003A	5.50	7-1-11/2017	241,915
2003B	4.15	7-1-2009	21,575
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
2005B	4.11	7-1-2008	1,060
2006A	5.00	7-1-08/2018	54,760
2006B	5.21	7-1-2008	525
2007A	4.50-5.00	7-1-13/2018	84,465
2007B	5.07	7-1-2012	1,725
2007C	5.00	7-1-12/2018	61,085
2008A	5.25	7-1-2018	13,790
2008B	3.70	7-1-2010	110
2008D	5.00	7-1-09/2017	64,295
2008E	4.15	7-1-2009	2,485
1993-3A-3	VARIABLE		18,205
1998-3A	VARIABLE		11,130
2003D-1	VARIABLE		100,665
2003E	VARIABLE		98,025
2008-F1	VARIABLE		104,415
2008-F2	VARIABLE		104,415
<b>Compound interest bonds accretion</b>			261,328
<b>Revenue bonds payable</b>			\$ 1,906,180
<b>Estimated fair value at June 30, 2008</b>			\$ 1,944,054

(A) Compound Interest Bonds

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Statement of Financial Accounting Standards (SFAS) 107 and does not purport to represent the amounts at which these obligations would be settled.

(C) Auction Rate Certificates that will have a rate of 5.50% through 7/1/2010 and a variable rate thereafter until 7/1/2018.

### Packwood Lake Hydroelectric Project Refunding Revenue Bonds

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1962	3.625	3-1-09/2010	\$ 741
1965	3.75	3-1-09/2012	500
<b>Revenue bonds payable</b>			\$ 1,241
<b>Estimated fair value at June 30, 2008</b>			\$ 1,260

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Statement of Financial Accounting Standards (SFAS) 107 and does not purport to represent the amounts at which these obligations would be settled.

### Nine Canyon Wind Project Refunding Revenue Bonds

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
2001A	4.95	7-1-2008	\$ 1,760
2001B	4.95	7-1-2008	705
2003	3.75-5.00	7-1-08/2023	19,335
2005	4.00-5.00	7-1-08/2023	61,540
2006	4.50-5.00	7-1-10/2030	69,410
<b>Revenue bonds payable</b>			\$ 152,750
<b>Estimated fair value at June 30, 2008</b>			\$ 156,373

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Statement of Financial Accounting Standards (SFAS) 107 and does not purport to represent the amounts at which these obligations would be settled.

<b>Total Bonds Payable</b>			\$ 6,343,986
<b>Estimated fair value at June 30, 2008</b>			\$ 6,634,184

## DEBT SERVICE REQUIREMENTS

As of June 30, 2008 (Dollars in Thousands)

### Columbia Generating Station

Fiscal Year	Principal	Interest	Total
6/30/2008 Balance*	\$ 6,100	\$ 49,251	\$ 55,351
2009	117,176	131,666	248,842
2010	156,795	117,050	273,845
2011	94,395	108,919	203,314
2012	266,810	104,134	370,944
2013	69,090	89,686	158,776
2014-2017	560,800	301,710	862,510
2018-2022	833,215	160,380	993,595
2023-2024	255,260	19,355	274,615
Adjustment **	6,224	(6,224)	-
	\$ 2,365,865	\$ 1,075,927	\$ 3,441,792

\* Principal and interest due July 1, 2008.

\*\* Adjustment for Compound Interest Bonds accretion; Compound Interest Bonds are reflected at their face amount less discount on the balance sheet

### Nuclear Project No. 3

Fiscal Year	Principal	Interest	Total
6/30/2008 Balance*	\$ 64,425	\$ 28,763	\$ 93,188
2009	65,328	107,433	172,761
2010	35,232	104,970	140,202
2011	83,539	95,710	179,249
2012	70,606	92,081	162,687
2013	133,440	96,528	229,968
2014-2017	801,180	246,570	1,047,750
2018	391,101	25,035	416,136
Adjustment **	261,328	(261,328)	-
	\$ 1,906,179	\$ 535,762	\$ 2,441,941

\* Principal and interest due July 1, 2008.

\*\* Adjustment for Compound Interest Bonds accretion; Compound Interest Bonds are reflected at their face amount less discount on the balance sheet

### Nine Canyon Wind Project

Fiscal Year	Principal	Interest	Total
6/30/2008 Balance*	\$ 4,315	\$ 3,667	\$ 7,982
2009	3,705	7,139	10,844
2010	3,965	6,963	10,928
2011	4,260	6,774	11,034
2012	4,575	6,570	11,145
2013	6,930	6,351	13,281
2014-2017	31,310	21,873	53,183
2018-2022	48,495	18,134	66,629
2023-2030	45,195	8,692	53,887
	\$ 152,750	\$ 86,163	\$ 238,913

\* Principal and interest due July 1, 2008.

### Nuclear Project No. 1

Fiscal Year	Principal	Interest	Total
6/30/2008 Balance*	\$ 54,160	\$ 41,040	\$ 95,200
2009	92,045	100,721	192,766
2010	83,890	92,865	176,755
2011	92,550	88,783	181,333
2012	91,140	84,275	175,415
2013	313,435	79,663	393,098
2014-2017	1,190,730	165,357	1,356,087
	\$ 1,917,950	\$ 652,704	\$ 2,570,654

\* Principal and interest due July 1, 2008.

### Packwood Lake Hydroelectric Project

Fiscal Year	Principal	Interest	Total
6/30/2008 Balance***	\$ 690	\$ 46	\$ 736
2009	336	20	356
2010	150	8	158
2011	65	2	67
	\$ 1,241	\$ 76	\$ 1,317

\*\*\* Principal and interest due March 1, 2009.

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

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

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

### **Security - Packwood Lake Hydroelectric Project**

Energy Northwest, Benton County PUD and Franklin County PUD have signed a Power Sales agreement, as amended, which extends the period through October 1, 2008. The agreement became effective November 1, 2002. Benton and Franklin County PUDs agree to pay Energy Northwest in exchange for the total output of electric capacity and energy delivered from the Packwood Generation Project. In addition, the Project is required to supply a specified amount of power to Benton and Franklin County PUDs. If power production does not supply the required amount of power, the Project is required to provide any shortfall by purchasing power on the open market which resulted in \$0.7 million of purchased power in FY 2008. The Packwood participants are obligated to pay annual costs of the Project including debt service, whether or not the Project is operable, until the outstanding bonds are paid or provisions are made for bond retirement, in accordance with the requirements of the bond resolution. The participants also share project revenue to the extent that the amounts exceed project costs.

## **NOTE F - COMMITMENTS AND CONTINGENCIES**

---

### **Nuclear Project No. 1 Termination**

Since the Nuclear Project No. 1 termination, Energy Northwest has been planning for the demolition of Nuclear Project No. 1 and restoration of the site, recognizing the fact that there is no market for the sale of the Project in its entirety and to-date, no viable alternative use has been found. The final level of demolition and restoration will be in accordance with agreements discussed later in Note F under "Nuclear Projects Nos. 1 and 4 Site Restoration."

### **Nuclear Project No. 3 Termination**

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

### **Nuclear Projects Nos. 1 and 4 Site Restoration**

Site restoration requirements for Nuclear Projects Nos. 1 and 4 are governed by site certification agreements between Energy Northwest and the State of Washington and regulations adopted by EFSEC, and a lease agreement with the DOE. Energy Northwest submitted a site restoration plan for Nuclear Projects Nos. 1 and 4 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 G of the financial statements.

### **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 of a communication network in conjunction with BPA for use by the Members and others.

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. As of June 30, 2008 (unaudited), NoaNet has \$18.4 million in network revenue bonds outstanding. 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 \$1.7 million. It is important to note that 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 2008 the Business Development Fund contributed \$223k to NoaNet based on an assessment by the NoaNet members. This equity contribution was reduced to zero at year-end because NoaNet had a negative net equity position of \$11.5 million as of June 30, 2008. Future equity contributions, if any, will be treated the same until NoaNet has a positive equity position. Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, NoaNet Headquarters, 5802 Overlook Ave. NE, Tacoma, WA 98422.

Any information obtained from NoaNet is the responsibility of NoaNet. PwC has not audited or examined any information available from NoaNet; accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

### **Other Litigation and Commitments**

Energy Northwest is involved in 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.

### **Nuclear Licensing and Insurance**

Energy Northwest is a licensee of the Nuclear Regulatory Commission and is subject to routine licensing and user fees, to retrospective premiums for nuclear liability insurance, and to

license modification, suspension, or revocation or civil penalties in the event of violations of various regulatory and license requirements.

Federal law under the Price Anderson Act currently limits public liability claims from a nuclear incident. As of June 30, 2008, the current limit was \$10.8 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. As required by law, Energy Northwest has purchased the maximum commercial insurance available of \$300 million, which is the primary layer of protection. The remaining balance is covered by the industry's retrospective rating plan that uses deferred premium charges to every reactor licensee if a nuclear incident at any licensed reactor in the United States results in claims that exceed the individual licensee's primary insurance layer. The current maximum deferred premium for each nuclear incident is \$100.59 million per reactor, but not more than \$15 million per reactor may be charged in any one year for each incident. Nuclear property damage and decontamination liability insurance requirements are met through a combination of commercial nuclear insurance policies purchased by Energy Northwest and BPA. The total amount of insurance purchased is currently \$2.75 billion. The deductible for this coverage is \$5.0 million per occurrence.

## **NOTE G - ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS**

---

Energy Northwest adopted SFAS No. 143 on July 1, 2002, (see Note B, "Summary of Significant Accounting Policies"). This Statement requires an entity to recognize the fair value of a liability for an ARO, measured at estimated fair value, 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, discounted using a credit-adjusted-risk-free rate, and is 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 fund equity 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 equity is accumulated for the net-billed projects.

Energy Northwest has identified legal obligations to retire generating plant assets at the following business units: Columbia, Nuclear Project No. 1 and Nine Canyon. Decommissioning and site restoration requirements for Columbia and Nuclear Project No. 1 are governed by the NRC regulations and site certification agreements between Energy Northwest and the State of Washington and regulations adopted by the EFSEC and a lease agreement with the DOE (see Notes B and F). Additionally, there are separate lease agreements for land located at Nine Canyon. Leases at these locations are considered operating leases and expenses were \$750k for Columbia, \$7.6k for Nuclear Project No. 1 and \$476k for the Nine Canyon project.

As of June 30, 2008, Columbia has a capital decommissioning net asset value of \$18.1 million and an accumulated liability of \$111.3 million for the generating plant and a net asset value of \$1.2 million and an accumulated liability of \$1.7 million for the ISFSI.

An adjustment was made in FY 2008 for

Nuclear Project No. 1 to account for costs incurred for decommissioning and site restoration. Costs incurred in FY 2008 of \$136k combined with the current year accretion expense of \$0.71 million and revision in future restoration estimates of \$(0.10) million resulted in a small increase to the ARO of \$0.48 million. Nuclear Project No. 1 has a capital decommissioning net asset value of \$0 and an accumulated liability of \$14.3 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, 2008, Nine Canyon has a capital decommissioning net asset value of \$0.9 million and an accumulated liability of \$1.1 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, 2008:

### Asset Retirement Obligation (Millions of Dollars)

#### Columbia Generating Station

Balance at June 30, 2007	\$	105.74
Current year accretion expense		5.53
ARO at June 30, 2008	\$	111.27

#### ISFSI

Balance at June 30, 2007	\$	1.58
Current year accretion expense		0.09
ARO at June 30, 2008	\$	1.67

#### Nuclear Project No. 1

Balance at June 30, 2007	\$	13.79
Less: Restoration costs incurred		(0.14)
Current year accretion expense		0.71
Revision in future restoration estimates		(0.10)
ARO at June 30, 2008	\$	14.27

#### Nine Canyon Wind Project

Balance at June 30, 2007	\$	0.60
Current year accretion expense		0.04
Revision in future restoration estimates		0.41
ARO at June 30, 2008	\$	1.05

## CURRENT DEBT RATINGS (unaudited)

<b>Energy Northwest (Long-Term)</b>	<b>Net-Billed Rating</b>	<b>Nine Canyon Rating</b>
Fitch, Inc.	AA-	A-
Moodys Investors Service, Inc. (Moodys)	Aaa	A3
Standard and Poor's Ratings Services (S & P)	AA-	A-

<b>Variable Rate Debt</b>	<b>S&amp;P</b>	<b>FITCH</b>	<b>MOODYS</b>
<b>Letter of Credit Banks</b>			
Bank of America			
Long-Term	AA+		Aaa
Short-Term	A-1+		VMIG-1
JPMorgan Chase Bank			
Long-Term	AA-	AA	Aaa
Short-Term	A-1+	F1+	VMIG-1
<b>VRDN's</b>			
Liquidity Provider			
Dexia			
Long-Term	AA-	AA-	Aaa
Short-Term	A-1+	F1+	VMIG-1
<b>Bond Insurance (Long-Term)</b>			
Financial Security Assurance	AAA	AAA	Aaa

This report is dedicated to Vera Claussen, our long time friend, Energy Northwest Board Member, and strong supporter of public power.



**LEARN MORE**

about Energy Northwest people and projects on the web at  
<http://www.energy-northwest.com>