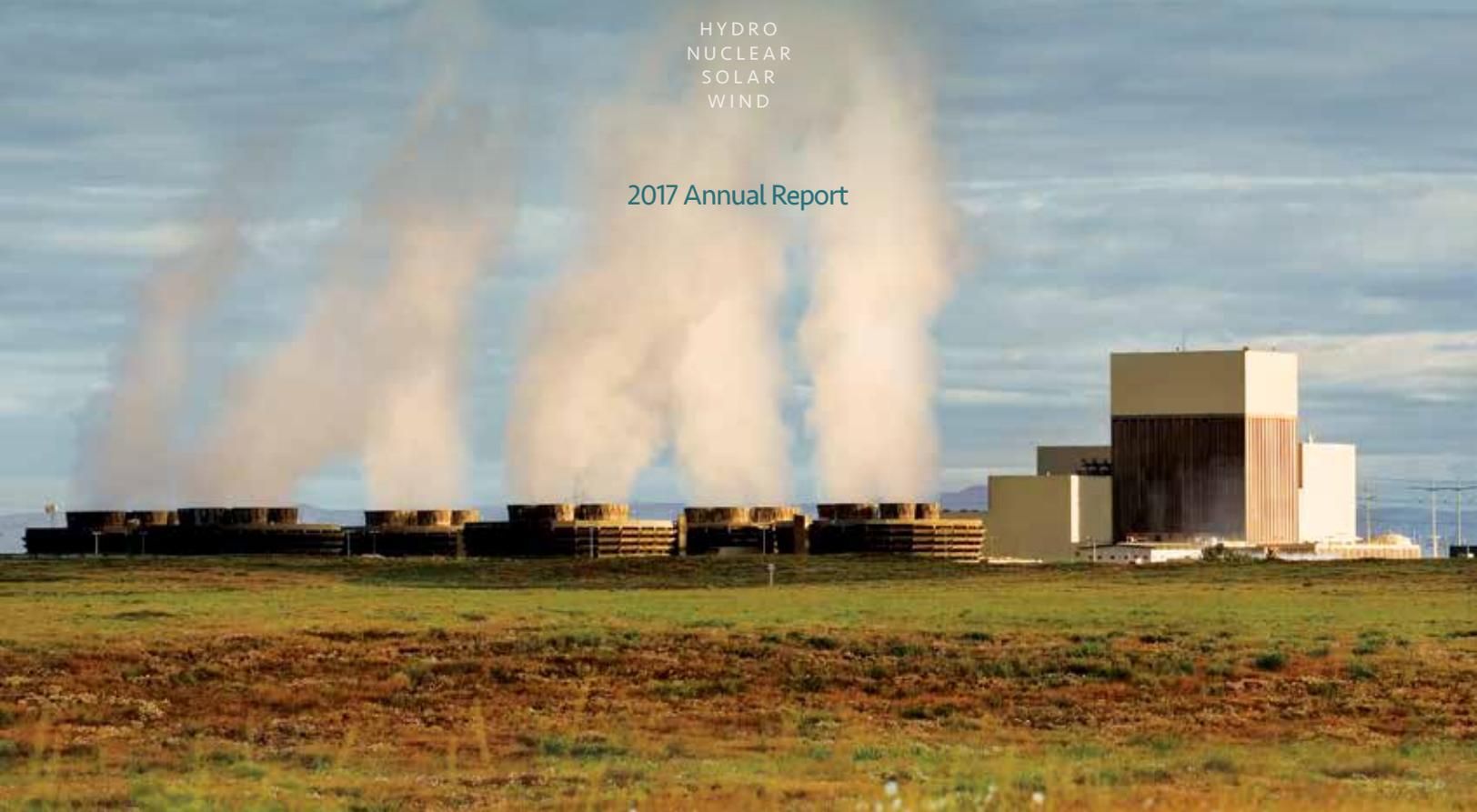




HYDRO
NUCLEAR
SOLAR
WIND

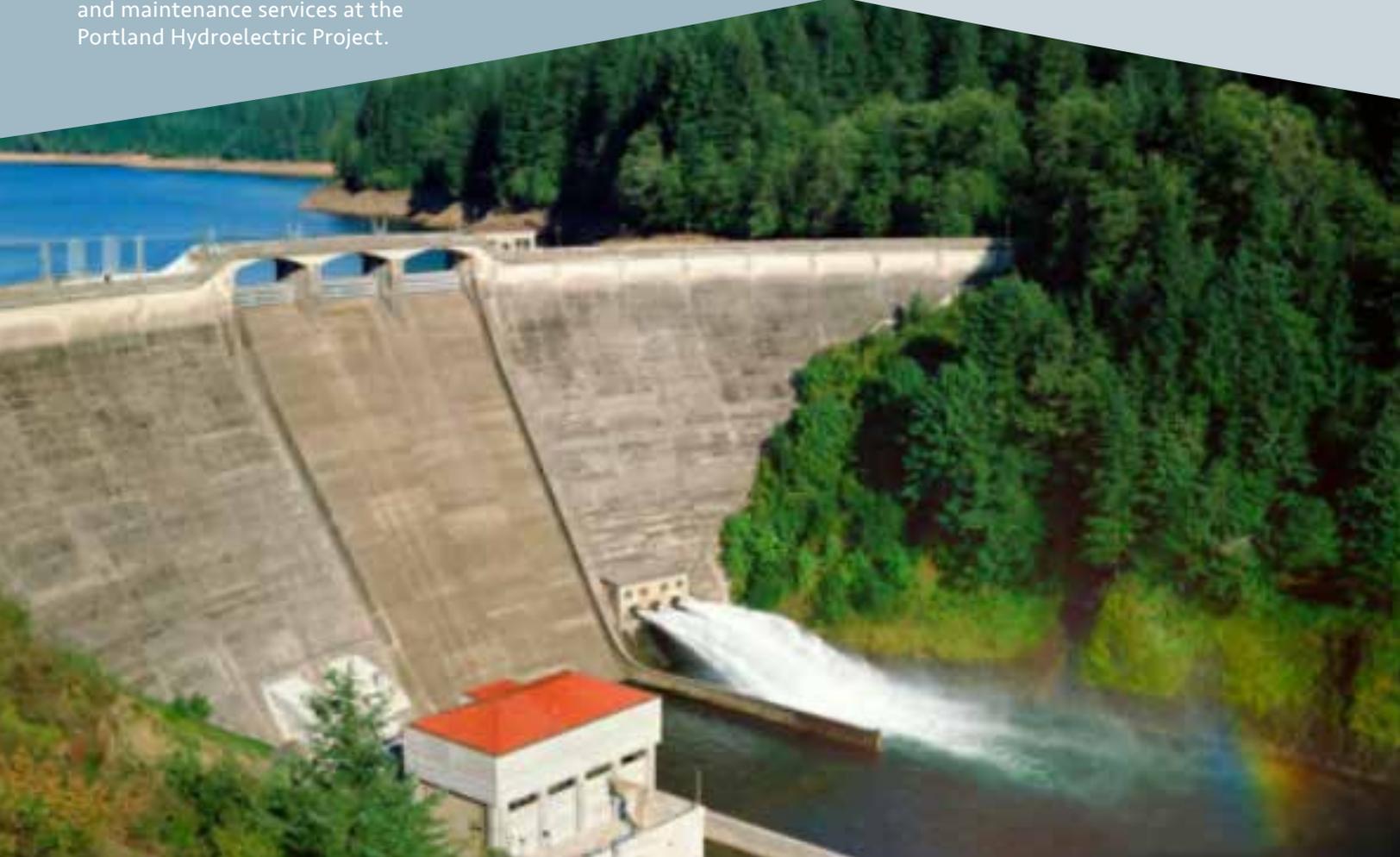
2017 Annual Report



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Energy Northwest signed an intergovernmental agreement with the City of Portland to provide operations and maintenance services at the Portland Hydroelectric Project.



MARK REDDEMANN



SID MORRISON



A Message to our Stakeholders

Energy Northwest continues to provide economic value to the region.

During fiscal year 2017 the EN team achieved significant milestones to ensure continued reliability and efficiency for Columbia Generating Station. Workers completed the 23rd refueling and maintenance outage, originally scheduled for 40 days, two-and-a-half days early with a significant amount of work completed that will increase output during the current two-year cycle.

We also received Nuclear Regulatory Commission permission to proceed with a power uprate. The commission's decision is based on an assessment of leading edge flowmeter technology EN installed during Columbia's 2015 outage. The technology improves measurement accuracy of feedwater flow through the reactor core, allowing operators to run the reactor at higher output. We increased the nuclear station's gross generation capacity from 1,190 megawatts to 1,207 megawatts. That translates into a decreasing cost of power for customers across the region.

Our other generation projects, Packwood Lake Hydroelectric Project and Nine Canyon Wind Project also had a successful year. Nine Canyon turbines set availability records for August, October, February, March, April and June.

The combined generation from these projects enabled a more than \$5.3 million privilege tax payment to Washington state.

Safety

Our agency emphasizes safe work practices – practices which are key to our success. During fiscal 2017, EN received two first-place safety awards. The Northwest Public Power Association recognized the agency in its 2017 safety contest for utilities with more than a million worker hours. The American Public Power Association awarded EN the association's 2016 first-place safety award of excellence for utilities with between one and four million work hours. We are proud of the team for working safely every day.

Recognition

The Association of Washington Business, the state chamber of commerce, named the agency 2016 Employer of the Year for its commitment to not only serving its 27 member utilities, but for its support of employees and surrounding communities. The AWB also recognized EN's outreach to students studying science, technology, engineering and mathematics, also known as STEM.

Additionally, Energy Northwest is currently recognized as a Top 10 Military Friendly Employer by Victory Media, publisher of G.I. Jobs,[®] for its efforts in recruiting veterans.

As a team, we continue to move forward on our initiatives to be a regional leader in clean power generation and energy solutions. It's our team's sustained excellence in performance and focus on innovation that provide public power members and the Pacific Northwest with safe, reliable, cost-effective power.

Respectfully,

Sid Morrison

Chair, Executive Board

Mark Reddemann

Chief Executive Officer

Executive Board

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

SID MORRISON
Chair
Outside Director
Zillah, Wash.



JACK JANDA
Vice Chair
Inside Director
Hoodsport, Wash.



LORI SANDERS
Secretary
Inside Director
Kennewick, Wash.



LINDA GOTT
Assistant Secretary
Inside Director
Shelton, Wash.



MARC DAUDON
Gubernatorial Appointee
Seattle, Wash.



JAMES MOSS
Gubernatorial Appointee
Edgewood, Wash.



SKIP ORSER
Outside Director
Raleigh, N.C.



WILL PURSER
Inside Director
Sequim, Wash.



JOHN SAVEN
Gubernatorial Appointee
Portland, Ore.



TIM SHELDON
Outside Director
Potlatch, Wash.



KATHY VAUGHN
Inside Director
Lynnwood, Wash.



Board of Directors

The Energy Northwest board of directors comprises representatives from each of its Washington state member utilities. The board of directors has final authority on any decision to purchase, acquire, construct, terminate or decommission any plants and facilities of Energy Northwest. Board members represent utilities with strong histories of serving the public power needs of Washington ratepayers. Their experience helps guide the agency as a continuing and effective source of powerful energy solutions.

<p>TERRY BREWER <i>President</i> Commissioner, Grant PUD</p> 	<p>DEAN DAHLIN Commissioner, Lewis County PUD</p> 	<p>JACK JANDA Commissioner, Mason County PUD 1</p> 	<p>DAVE QUINN Commissioner, Cowlitz PUD</p> 
<p>STEVE HOUSTON <i>Vice Chair</i> Commissioner, Okanogan County PUD</p> 	<p>CRAIG FULTON Director of Public Works and Utilities, City of Port Angeles</p> 	<p>MICHAEL JONES Power Supply and Strategic Planning Officer, Seattle City Light</p> 	<p>JUDY RIDGE Commissioner, Asotin County PUD</p> 
<p>ARIE CALLAGHAN <i>Secretary</i> Commissioner, Grays Harbor County PUD 1</p> 	<p>BILL GAINES Director and CEO, Tacoma Public Utilities</p> 	<p>ROBERT JUNGERS Commissioner, Wahkiakum PUD</p> 	<p>SHAN ROWBOTHAM Commissioner, Kittitas County PUD</p> 
<p>CURT KNAPP <i>Assistant Secretary</i> Commissioner, Pend Oreille County PUD</p> 	<p>BILL GORDON Commissioner, Franklin PUD</p> 	<p>JIM MALINOWSKI Commissioner, Clark Public Utilities</p> 	<p>LORI SANDERS Commissioner, Benton PUD</p> 
<p>DOUG AUBERTIN Commissioner, Ferry County PUD</p> 	<p>LINDA GOTT Commissioner, Mason County PUD 3</p> 	<p>DAVE MCKENZIE Commissioner, Skamania County PUD</p> 	<p>DIANA THOMPSON Commissioner, Pacific County PUD 2</p> 
<p>DENNIS BOLZ Commissioner, Chelan County PUD</p> 	<p>DAN GUNKEL Commissioner, Klickitat County PUD</p> 	<p>M.L. NORTON General Manager, Centralia City Light</p> 	<p>KATHY VAUGHN Commissioner, Snohomish County PUD</p> 
<p>KENNETH COLLINS Commissioner, Jefferson County PUD</p> 	<p>ROBERT HAMMOND Energy Services Director, City of Richland Energy Services</p> 	<p>WILL PURSER Commissioner, Clallam County PUD</p> 	

Senior Leadership

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

MARK REDDEMANN
Chief Executive Officer



BRAD SAWATZKE
Chief Operating Officer;
Chief Nuclear Officer



BRENT RIDGE
Vice President for Corporate
Services; Chief Financial Officer



GROVER HETTEL
Vice President for Operations



ALEX JAVORIK
Vice President for Engineering



ANGEL RAINS
Acting General Counsel;
Chief Ethics Officer



JIM GASTON
General Manager for Energy
Services & Development



Sustainability Reporting



ECONOMIC VALUE

Energy Northwest generated more than 9.9 million megawatt-hours of electricity during calendar year 2016 resulting in the agency's largest privilege tax payment to Washington state, more than \$5.3 million. The annual tax is levied on public power electricity producers for the privilege of generating electricity in the state.

Privilege tax payments are distributed to the state school fund, state general fund, and 39 separate jurisdictions within a 35-mile radius of Columbia Generating Station. Set by state statute, these payments benefit local county governments, city governments, fire districts and library districts—directly enhancing quality of life in local communities.

The 37 separate jurisdictions receiving payments within the 35-mile radius of Columbia includes Benton, Franklin, Yakima, Walla Walla and Grant counties; the cities of Kennewick, Richland, Pasco, West Richland, Grandview, Sunnyside, Prosser, Connell, Benton City and Mesa; along with four library and 18 fire districts in the counties receiving payments.

Since Columbia began operating in 1984, EN has paid approximately \$92 million in privilege taxes on its electricity production while creating virtually no greenhouse emissions.

Energy Northwest's privilege tax payment also includes electricity produced at the agency's non-thermal electric power producing sites. Those include Packwood Lake Hydroelectric Project near Packwood, Wash.; Nine Canyon Wind Project, south of Kennewick, and White Bluffs Solar Station near Columbia Generating Station north of Richland. Fifty-six percent of the taxes associated with the non-thermal generation was distributed to Lewis and Benton counties, 33.7 percent to the state school fund and 10.3 percent to the state general fund.

More Value Added

The 2012 extension of Columbia's operating license through 2043 allowed similar extension of bonds and decommissioning fund contributions into a new 20-year license period. It's anticipated the regional cooperation debt, low-cost nuclear fuel purchases, reduced operations and maintenance budgets and other cost-cutting activities (offset by a \$158 million increase in Columbia's capital financing and inventory), will contribute more than \$2.1 billion in regional gross savings between 2012 and 2023.

Regional Cooperation Debt

In 2014, EN and BPA began refinancing low-interest municipal bond debt from Columbia and projects 1 and 3 to pay off the Bonneville Power Administration's higher-interest federal debt. The organizations completed five transactions, leveraging regional debt carrying rates at less than 3.50 percent to pay off BPA's federal debt carrying rates up to 7.15 percent. Extending EN's nuclear debt, allowing the payoff of higher-interest federal debt, as of fiscal year end 2017, has net more than \$1 billion in gross savings to be realized by ratepayers through 2040.

Cost-Effective Operation:

In collaboration with BPA, EN through various industry initiatives, is focused on reducing Columbia's cost of power in order to be regionally competitive while maintaining safe, reliable operation.

Long-Range Planning for Columbia

Columbia's long-range plan forecasts and prioritizes resources required to maintain safe, reliable, predictable and cost-effective operations.

The 10-year operations and maintenance and capital budget forecast is challenged and managed by cross-functional teams, senior leadership and approved by the executive board. Steering committees assigned to mission critical projects ensure schedule and budget success.

Through successful development and management of the 10-year long-range plan, Columbia absorbed increased operating costs through cost reduction efforts and maintained flat capital cost at fiscal 2016 and 2017 levels.

\$26.6
million

Recent support to BPA's rate case reduced Columbia's operations and maintenance costs by \$26.6 million.

Elaine Jones
Energy Services & Development



ENVIRONMENTAL STEWARDSHIP

As an organization, Energy Northwest is committed to doing its part to take care of the environment. Our environmental stewardship policy creates an expectation that employees bring an environmental ethic with them wherever they work. This commitment is realized through the Environmental Management System.

Energy Northwest's EMS program drives the organization to identify, assess, and control the environmental impacts of EN activities and facilities. The EMS is designed to ensure activities and facilities comply with environmental laws, regulations and permits. Furthermore, the EMS program helps improve environmental performance, reduce costs and risks, and earn community trust.

The agency's program is audited annually against the ISO 14001:2004 Environmental Management Standard by NSF International Strategic Registrations, an accredited registrar.

Environmental performance

As part of the EMS program, EN sets annual environmental goals to improve environmental performance and reduce the organization's environmental impact. Fiscal year 2017 goals included reductions in hazardous waste and greenhouse gas emissions, recycling and energy efficiency improvements, implementation of major milestones to transition to a new version of the ISO 14001 standard (ISO 14001:2015), and prevention of spills.

Reduce waste generation (all types)

During fiscal 2017, EN made significant reductions in the generation of hazardous and mixed waste. To reduce the amount of excess chemicals, EN teamed with Benton Franklin Juvenile Justice Center and transferred 2,100 pounds of unwanted paint supply to the Graffiti Abatement Program, which eliminated the disposal in a landfill. Other successes include the transfer of 850 pounds of firefighting foam to the Richland Fire Department.

Energy Northwest's EMS program drives the organization to identify, assess, and control the environmental impacts of EN activities and facilities.



These innovative reduction strategies were driven by EN's Pollution Prevention program, which prioritizes waste minimization through job planning and substitution of products with more environmentally friendly chemicals. When waste must be generated, disposal is only used if reuse and recycle options are unavailable.

Energy efficiency

Energy efficiency projects for fiscal 2017 included replacing inefficient lights with light emitting diode fixtures and installing occupancy sensors in office buildings and warehouses. During fiscal 2017, EN exceeded its target with total energy efficiency improvements of 134.57 megawatt-hours per year.

Reduce greenhouse gas emissions

Energy Northwest remains committed to generating energy in a clean and responsible manner. All project sites generate carbon-free energy. Some operation and maintenance activities, however, generate low amounts of greenhouse gas emissions. As the threat of climate change increases, EN is doing its part by setting a target to reduce greenhouse gas emissions. Actions successfully completed in fiscal 2017 included reducing electrical and fuel consumption, developing Rideshare – a computer-based application – for employees to use installation of electric vehicle charging stations and removing or replacing purchased gases with gases that have lower environmental impact.

ISO 14001 certification

During fiscal 2017 Energy Northwest underwent a successful external, independent recertification audit conducted by NSF-ISR, maintaining EN certification of its EMS to the ISO 14001:2004 standard. The audit resulted in no non-conformances and three opportunities for improvement or optional suggestions for program improvement.

Energy Northwest has committed to transition the EMS to the new ISO 14001:2015 standard. The new standard contains additional requirements including greater senior leadership involvement and life-cycle planning. A transition plan has been developed and all fiscal 2017 actions have been completed. Transition to the new standard is on track for completion by spring of 2018.

Managing environmental risk

The EMS guides the organization to systematically identify, manage, control and monitor environmental impacts through use of the triple bottom-line concept, which balances fiscal responsibility, environmental protection and social responsibility. A fully implemented EMS reduces the environmental risk of operations.

The EMS requires the agency to have operational controls on activities that could significantly impact the environment. Energy Northwest has several controls in place to reduce the risk of operations. For example, Columbia implemented a stormwater pollution prevention plan to help reduce the impact stormwater may have to the groundwater and surrounding surface waters. This plan contains best management practices to prevent stormwater from becoming contaminated with oil or other pollutants from runoff in parking lots and building roofs.

Columbia receives biological opinion

During fiscal 2017, EN worked with the Nuclear Regulatory Commission and National Marine Fisheries Service to complete actions related to the Endangered Species Act Section 7 consultation.

Following this five-year review of Columbia's possible impact on listed endangered species in the Columbia River, NMFS issued a biological opinion and incidental take statement which concluded the power plant's operations have little or no impact on upper Columbia River spring runs of Chinook and Steelhead salmon.

The review included conditions that Columbia complete two fish studies to demonstrate the impact, if any, of Columbia's intake structures. Similar conditions are also included in Columbia's discharge permit, which is issued by Washington state.

A two-year entrainment study that began in spring 2017 looks at whether small juvenile fish pass through the intake structure holes and become entrained in the vault within the tower makeup system pump house. During a second impingement study, a computer model of conditions in the Columbia River, the intake structure, the size and mobility of at-risk fish will assess the potential for small fish to become stuck or "impinged" on the surface of the intake structure. Energy Northwest is managing both of these studies.



Following a five-year review, it was determined Columbia's operations have little or no impact on upper Columbia River spring runs of Chinook and Steelhead salmon.

COMMUNITY ENGAGEMENT & OUTREACH

In addition to the economic benefits EN contributes to the Tri-Cities area in the form of jobs, income and economic output, EN and its nearly 1,100 employees play a major role in the health and welfare of the community. Since its inception 60 years ago, EN has supported local community organizations and non-profit agencies through financial support and volunteerism.



EN employees contribute their time as volunteers and provide financial support – about \$150,000 annually – to numerous organizations in the community:

Benton and Franklin Head Start program

Since 1980, the EN team has brought holiday cheer to more than 11,000 local children in low-income families, by fulfilling wish lists from children in the Benton and Franklin Head Start program. Employees dressed as Santa and elves have delivered thousands of toys and clothing to participating schools.

March of Dimes

Each year the EN March of Dimes campaign raises more than \$25,000 through payroll deductions and other activities, including a site-wide silent auction for items donated by senior leadership, and a community-wide three-mile walk. Donations support neonatal birth centers and local families in need.

United Way

The annual United Way campaign raises tens of thousands of dollars each year to help the community provide hot meals to elderly neighbors, provide disaster relief planning for the community, and support youth development programs, including at-risk programs.



The EN team is also involved with supporting Special Olympics, The American Cancer Society, The Red Cross, Junior Achievement, and Columbia Basin College's Math, Engineering & Science Achievement program. The agency's chapter of Women in Nuclear regularly engages local children with hands-on technical learning activities. The agency also partners with Columbia Basin College to support its nuclear technology associate degree program, which produces a pool of candidates for entry-level technical trade positions within the industry. Subject matter experts from EN help with curriculum development and instruction, and students receive internship opportunities at Columbia Generating Station.

Veteran Hiring

The Washington Employment Security Department recognizes Energy Northwest's commitment to hiring veterans.

Since the 2016 inception of YesVets, a state program aimed at encouraging employers to say "yes" to veterans looking for jobs, EN has recruited 75 veterans from all branches of the service who made the agency their employer of choice. Veterans make up approximately 28 percent of EN's workforce. (Thirty-five percent of 2016's new hires were veterans.)

Energy Northwest continues to expand its partnership with regional military organizations and veterans by participating in job fairs held at military bases. These are opportunities for EN employees to share their nuclear industry career advice with service members, veterans and military spouses preparing

to transition to a different work environment. In many cases, the training and skills acquired by military professionals directly correlate to position requirements and veterans have a strong sense of pride, which fits well with EN's culture of excellence. Victory Media, an organization founded by veterans to help military members transition into civilian careers, also recognizes EN as a "Top 10 Military Friendly Employer."

Employer of the Year

Recognizing EN's veteran recruiting efforts, and as an employer who has implemented innovative job retention, creation and compensation plans that foster a thriving work environment, The Association of Washington Business named EN its 2016 Employer of the Year. The award acknowledges the importance of promoting workforce diversity through hiring programs such as internships and veteran hiring.

Kids Engineering Day

Marie Curie STEM Elementary School in Pasco - what better place to hold Kids Engineering Day in the Tri-Cities than a school named after the physicist and chemist who conducted pioneering research on radioactivity. Volunteers plan and take part in the annual community event attended by more than 300 elementary school children and their parents. Through hands-on activities, EN team members show their passion for the science, technology, engineering and math curriculum.

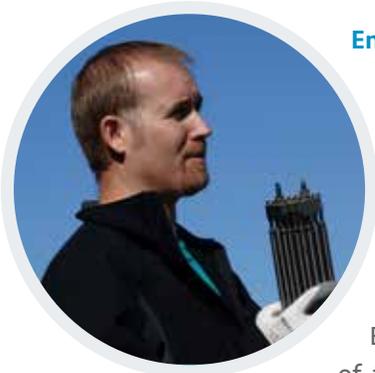
Ricky Mendoza, Operations
U.S. Navy, Electrician's Mate, First Class



More than 600 students, teachers and adult leaders attend the Energy Experience as part of **National Public Power Week.**

Energy Experience

Energy Northwest and its employees are committed to inspiring and supporting the next generation of workers who will develop the energy technologies of tomorrow, and in awarding Energy Northwest as Employer of the Year, AWB recognized EN's outreach to students studying STEM. In particular, AWB singled out EN's participation in the annual Energy Experience, a day of show-and-tell to teach seventh and eighth grade students about the different forms of energy generation, conservation, and options for college and careers in energy and environmental science. More than 600 students, teachers and adult leaders attend the event as part of National Public Power Week.



Nuclear Science Week

Since October 2014, Washington state has celebrated all things nuclear during nuclear science week. EN employees visit local schools, speaking to students who, armed with cell phone cameras, share the visits on social media. In the Washington state 2016 Nuclear Science Week proclamation, Gov. Jay Inslee stated "...nuclear energy in our state and nation is helping to reduce carbon emissions and plays a vital part in the state's diverse mix of environmentally responsible generating resources."



Columbia Fountain

To mark Energy Northwest's 60th anniversary as a public power leader in the Pacific Northwest, EN leadership and employees unveiled a fountain created from a mock nuclear fuel assembly. Columbia Fountain, an outdoor exhibit at the REACH Museum in Richland, stands 15 feet tall, weighs approximately 1,500 pounds, and represents the tremendous benefits nuclear energy brings to the community. The exhibit is a representation of the clean, carbon-free power Columbia Generating Station brings to the region.

Columbia Generating Station

Columbia Generating Station is the third largest power generator in Washington (behind Grand Coulee and Chief Joseph dams), and represents around 13.5 percent of the Bonneville Power Administration's firm energy and 9.7 percent of Bonneville's sustained peak capacity.

Columbia's 1,207 gross megawatts of electric output is enough energy to power the city of Seattle and about 4 percent of all electricity used in the Pacific Northwest. This power is sold at-cost to the Bonneville Power Administration. A percentage of its output is received by 92 Northwest utilities.

During 2016, Columbia sent more than **9.6 million** megawatt-hours of net generation to the grid.

1,207
MWh

A 2017 reactor power uprate increased electrical output for the station.

REFUELING AND MAINTENANCE OUTAGE 23

Columbia Generating Station began a 37-day refueling and maintenance outage May 13 that included several major projects and the loading of 272 new nuclear fuel assemblies into the reactor core.

Outages are an opportunity to add fresh nuclear fuel to Columbia's reactor core, as well as

perform maintenance projects that can best be accomplished only when the reactor is shut down. Projects are undertaken for a variety of reasons, including regulatory commitments, enhancing equipment reliability and improving Columbia's value to the region.





Major R-23 projects

- The agency received approval from the Nuclear Regulatory Commission to proceed with a measurement uncertainty recapture power uprate during the outage. This allowed Columbia to boost its thermal energy output. The reactor power uprate increased the electrical output for the station by approximately 17 MWe.
In 2015, EN installed leading edge flowmeter technology that improved the measurement accuracy of feedwater flow through the reactor core. This allows the reactor to run closer to regulatory limits because measurement of power levels is more precise.
- Columbia's reactor building facade has stood virtually unchanged since 1980. As part of the station's NRC-guided post-Fukushima actions, workers completed installation of a hardened containment vent system. The system includes a 140-foot vent pipe on the exterior of the building. The pipe provides a direct means of venting hydrogen gas from an area of primary containment, known as the wetwell, to outside secondary containment during severe, but unlikely beyond-design-basis accident conditions. Most of this work was completed pre-outage.
- A new low-pressure turbine rotor was installed as part of Columbia's turbine life-cycle plan. The multi-year, \$32 million project will refurbish three low pressure turbines to satisfy the plant's license extension to 2043. Forged in Fukuoka, Japan, the large metal ingot traveled through the Panama Canal to a machining facility in Charlotte, N.C., and then by rail to Columbia, a total distance of more than 14,000 miles. The rotor, fully assembled, weighs about 275,000 pounds.



In all, workers completed 1,450 work orders involving more than 10,300 tasks.



In addition to these major projects, workers replaced 272 of 764 nuclear fuel assemblies. Every two years, approximately a third of Columbia's fuel assemblies are removed from the core and placed in the used fuel pool after spending a total of six years in the reactor core. Energy Northwest continues to utilize a newer design in its fuel assemblies, which increases fuel efficiency, ultimately providing a cost-benefit during future refueling outages.

In all, workers completed about 1,450 work orders involving more than 10,300 tasks during the outage. The total budget for the outage was approximately \$135 million (\$60 million for operations and maintenance, and \$75 million for capital investments).

More than 1,350 skilled outage workers were hired locally and from across the country to support maintenance projects throughout the plant. The added workers joined Columbia's normal work force of nearly 1,000 employees and brought substantial economic value to the region.

The outage ended two and a half days earlier than EN's 40-day commitment to regional stakeholders. The significant amount of work completed will improve efficiency and output throughout the current two-year cycle.



Energy Services & Development

Nine Canyon Wind Project

During fiscal year 2017 Nine Canyon Wind Project achieved a record 99.18 percent adjusted availability rate.

Situated along the hilltops southeast of Kennewick, Nine Canyon is one of the largest publicly-owned wind projects in the nation. Of its 63 wind turbines, 14 are rated at 2.3 megawatts and 49 at 1.3 megawatts.

Each turbine is equipped with its own weather station that monitors wind direction and speed. Motors rotate the turbines into the wind and sophisticated control systems ensure blades turn at the optimal speed to maximize power generation. The turbines are self-starting and begin generating electricity when wind speed reaches eight miles per hour, with full power achieved at about 35 mph. If winds exceed 55 mph on a sustained basis, the turbines shut down automatically and restart when the winds fall below 45 mph.

Nine Canyon utilizes employee expertise acquired in part through wind energy technician training programs at Walla Walla Community College and Columbia Gorge Community College.

White Bluffs Solar Station

White Bluffs Solar Station, a 242-panel demonstration facility, is located at the Industrial Development Complex near Columbia Generating Station in Richland. The collaborative project is funded by EN, the Bonneville Environmental Foundation and the Department of Energy.

Packwood Lake Hydroelectric Project

The 27.5 megawatt Packwood Lake Hydroelectric Project achieved a 99.59 percent adjusted availability rate during fiscal 2017.

Located in the Gifford Pinchot National Forest in Lewis County, approximately 20 miles south of Mt. Rainier, the facility is Energy Northwest's first electric power generation project and began commercial operation in 1964.

The water levels in Packwood Lake are closely monitored to preclude environmental impacts and fish screens protect migrating fish populations.

99.18%

Nine Canyon Wind Project achieved a record adjusted availability rate.





BPA Summer of 17 demand response program

Energy Northwest provided 36 megawatts of load response to support BPA's summer demonstration project.

The goals of the project include demonstrating use of distributed energy resources to shift BPA peak summer loads from June through September.

Demand response uses control and communications technology to shut off, shift the use of, or reduce energy consumption of equipment during peak electrical use. The coordinated decrease or increase of many electric loads at once sustains overall efficiency of a power system and provides flexibility.

As a result, demand response can serve as a cost-effective alternative to building new power generating stations or transmission infrastructure, resulting in cost savings for ratepayers.

Participating utilities include Cowlitz and Columbia River public utility districts, City of Richland Energy Services, Eugene Water & Electric Board and the city of Milton-Freewater.

Horn Rapids Solar Storage and Training Center

ESD met several milestones in the development of the Horn Rapids Solar, Storage and Training Center, a first-of-its-kind photovoltaic solar facility teamed with a battery storage system and technician training facility. The project, located in north Richland, will comprise a 4 megawatt direct-current solar generating array across 20 acres, a 1 MW battery storage system and a training facility for hundreds of members of the International Brotherhood of Electrical Workers.

The executive board gave approval to sign a contract with Washington Department of Commerce for up to a \$3 million grant from the Clean Energy Fund to support the project. Construction is scheduled to begin in fall 2018. The agency is currently working with the City of Richland Energy Services on a long-term agreement in which the city would purchase power generated from the facility.

The Demand Response Aggregated Control System is a custom developed, ready-now communication and control infrastructure.



EVITA

The Electric Vehicle Infrastructure Transportation Alliance is leading the way to design and build a sustainable electric transportation charging infrastructure in southeast Washington. Energy Northwest has worked with several Washington utilities including Kittitas, Benton and Franklin public utility districts, City of Richland Energy Services and charging station provider Greenlots to develop nine charging stations along I-82, I-182, U.S. 395 and I-90. Each station will include one Level 3 station, which is the fastest type of charging station, and one Level 2 station, a slower charging station for vehicles not compatible with the Level 3 station. All charging stations will be located within 1.5 miles of the interchange with amenities nearby.

Solar site

Energy Northwest and Neoen, a French independent renewable energy project developer, signed a lease option agreement in April to lease up to 150 acres of EN property in Benton County for a 20-megawatt photovoltaic solar project. The facility would be the largest utility scale photovoltaic power plant in Washington state. ESD will provide consulting and marketing support. Construction is set to begin in 2019 and Neoen is currently seeking potential customers.

Operations & Maintenance

Energy Northwest supports public power in the areas of operations and maintenance of generating facilities and electric utility automation.

During fiscal 2017, operations and maintenance services renewed a contract with the City of Burbank, Calif., to operate and maintain the Tieton Hydroelectric Project at Rimrock Lake in the Cascades.

EN also provides operations and maintenance services to Olympic View Generating Station, owned by Mason County PUD 3, and recently entered an agreement with the City of Portland to operate and maintain two powerhouses in the Bull Run watershed, which provides the primary domestic water supply for the City of Portland.

Applied Process Engineering Laboratory

Energy Northwest manages the Applied Process Engineering Laboratory as a lease facility for laboratory-based research and development within a controlled operating environment. Approximately 90 percent of the leasable space was occupied during fiscal 2017, with 10 percent available for business start-ups or as specialized testing labs for emerging technologies.

APEL's advisory board represents the major institutions that sponsor APEL and its mission; including the Port of Benton, the Department of Energy, Washington State University Tri-Cities, the Pacific Northwest National Laboratory, City of Richland Energy Services, the Tri-City Development Council and EN. APEL is self-funded through lease revenues.

Calibration Services Laboratory

The Standards Laboratory, located adjacent to Columbia, is a multi-faceted applied physics laboratory performing calibrations in virtually every aspect of metrology, including torque, force, pressure, vacuum, mass, dimensional, electrical, electronic, temperature, humidity, flow, vibration, light and sound.

ENSL is accredited to International Standard ANSI/ISO/IEC 17025 by the American Association for Laboratory Accreditation.

Major laboratory clientele includes Columbia, Bechtel, Washington River Protection Solutions, CH2M Hill, PNNL, AREVA, Columbia Energy & Environmental, High-Line Engineering, Intermech, Energy Solutions and Mid-Columbia Engineering.

ENSL is involved with educational outreach in the Tri-Cities through participation in the annual Science Technology Engineering and Math Conference and World Metrology Day. Participation includes hands-on classroom instruction as well as hosting students at ENSL facilities for work-based learning experiences.

Environmental & Analytical Services Laboratory

Energy Northwest's Environmental and Analytical Services Laboratory provides chemical analysis and environmental monitoring expertise for utility, municipal and residential customers. The laboratory continues to maintain accreditation for wastewater, drinking water, radiochemical analyses and licensure as a clinical laboratory for drug screenings.

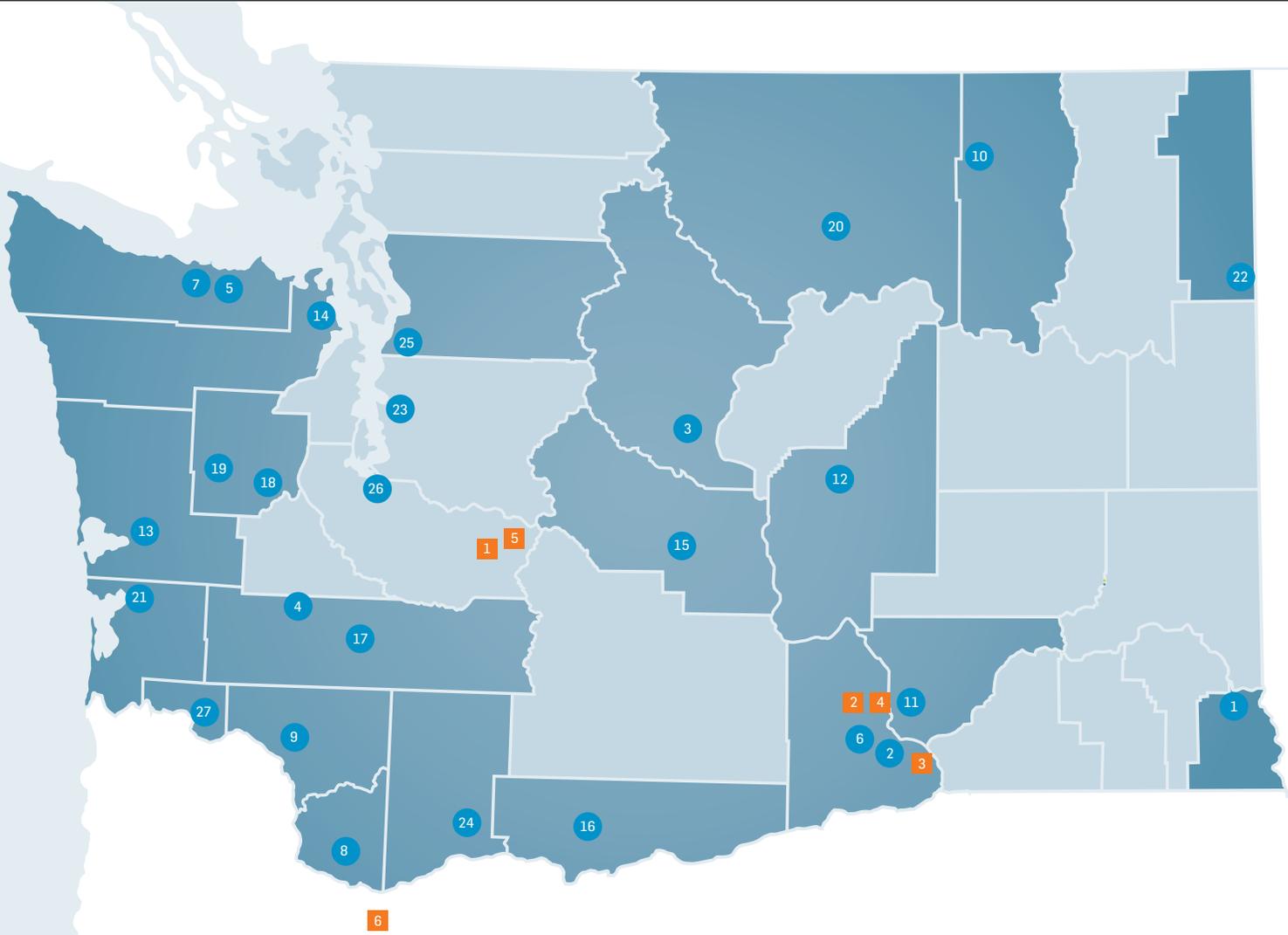
Services provided to Columbia and outside clients include metals quantification, general chemistry, microbiological testing, radiological monitoring, lubricant condition monitoring, material verification, commercial-grade dedication of materials, and aquatic and terrestrial monitoring.

The laboratory staff is involved with educational outreach in the Tri-Cities, including presentations to Delta High School students, serving as judges for local science and technology competitions and participating in the annual STEM conference. Students learn about analytical chemistry, laboratory testing methods, careers in environmental science and the importance of clean energy.

Industrial Development Complex

The Industrial Development Complex is located just east of Columbia and is operated by EN. The IDC is a leasing business line that utilizes available outlying buildings by renting office and warehouse space, as well as former power facilities.





Our Members & Projects

- | | | |
|---|------------------------------|---------------------------------------|
| 1 Asotin County Public Utility District | 12 Grant PUD | 23 Seattle City Light |
| 2 Benton PUD | 13 Grays Harbor County PUD 1 | 24 Skamania County PUD |
| 3 Chelan County PUD | 14 Jefferson County PUD | 25 Snohomish County PUD |
| 4 Centralia City Light | 15 Kittitas County PUD | 26 Tacoma Public Utilities |
| 5 City of Port Angeles | 16 Klickitat County PUD | 27 Wahkiakum County PUD |
| 6 City of Richland Energy Services | 17 Lewis County PUD | 1 Packwood Lake Hydroelectric Project |
| 7 Clallam County PUD | 18 Mason County PUD 1 | 2 Columbia Generating Station |
| 8 Clark Public Utilities | 19 Mason County PUD 3 | 3 Nine Canyon Wind Project |
| 9 Cowlitz PUD | 20 Okanogan County PUD | 4 White Bluffs Solar Station |
| 10 Ferry County PUD | 21 Pacific County PUD 2 | 5 Tieton Hydroelectric Project |
| 11 Franklin PUD | 22 Pend Oreille County PUD | 6 Portland Hydroelectric Project |



MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

Energy Northwest management is responsible for preparing the accompanying financial statements and for their integrity. They were prepared in accordance with Generally Accepted Accounting Principles (GAAP) (applied on a consistent basis, and include amounts that are based on management's best estimates and judgments).

The financial statements have been audited by Baker Tilly Virchow Krause, LLP, Energy Northwest's independent auditors. Management has made available to Baker Tilly Virchow Krause, LLP all financial records and related data, and believes that all representations made to Baker Tilly Virchow Krause, LLP during its audit were valid and appropriate.

Management has established and maintains internal control procedures that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. These control procedures provide appropriate division of responsibility and are documented by written policies and procedures.

Energy Northwest maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, Baker Tilly Virchow Krause, LLP has considered the internal control structure in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and Baker Tilly Virchow Krause, LLP concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 2017, internal control procedures are adequate.

M.E. Reddemann
Chief Executive Officer

B. Ridge
Vice President for Corporate Services; Chief Financial and Risk Officer

AUDIT, LEGAL AND FINANCE COMMITTEE CHAIR'S LETTER

The executive board's Audit, Legal and Finance Committee (committee) is composed of 11 independent directors. Members of the committee are Chair Kathy Vaughn, Marc Daudon, Linda Gott, Jack Janda, Jim Moss, Skip Orser, Will Purser, Lori Sanders, John Saven, Tim Sheldon, and Sid Morrison, ex-officio. The committee held 8 meetings during the fiscal year ended June 30, 2017.

The committee oversees Energy Northwest's financial reporting process on behalf of the executive board. In fulfilling its responsibilities, the committee discussed with the performance auditors and the independent auditors the overall scope and specific plans for their respective audits, and reviewed Energy Northwest's financial statements and the adequacy of Energy Northwest's internal controls.

The committee met regularly with Energy Northwest's performance auditors and convened periodic meetings with the independent auditors to discuss the results of their audit, their evaluations of Energy Northwest's internal controls, and the overall quality of Energy Northwest's financial reporting. The meetings were designed to facilitate any private communications with the committee desired by the performance auditors or independent auditors.

Kathleen R. Vaughn
Chair,
Audit, Legal and Finance Committee



INDEPENDENT AUDITORS' REPORT

To the Executive Board
Energy Northwest
Richland, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Energy Northwest, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Energy Northwest's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Energy Northwest as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Executive Board
Energy Northwest

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The other information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 21, 2017

ENERGY NORTHWEST MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Energy Northwest is a municipal corporation and joint operating agency of the state of Washington. Each Energy Northwest business unit is financed and accounted for separately from all other current or future business assets. The following discussion and analysis is organized by business unit. The management discussion and analysis of the financial performance and activity is provided as an introduction and to aid in comparing the basic financial statements for the fiscal year (FY) ended June 30, 2017, with the basic financial statements for the FY ended June 30, 2016.

Energy Northwest has adopted accounting policies and principles that are in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. Energy Northwest's records are maintained as prescribed by the Governmental Accounting Standards Board (GASB). (See Note 1 to the Financial Statements.)

Because each business unit is financed and accounted for separately, the following section on financial performance is discussed by business unit to aid in analysis of assessing the financial position of each individual business unit. For comparative purposes only, the table on the following page represents a memorandum total only for Energy Northwest, as a whole, for FY 2017 and FY 2016.

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

The Statements of Net Position present the financial position of each business unit on an accrual basis. The Statements of Net Position report financial information about construction work in progress, the amount of

resources and obligations, restricted accounts and due to/from balances for each business unit. (See Note 1 to the Financial Statements.)

The Statements of Revenues, Expenses, and Changes in Net Position provide financial information relating to all expenses, revenues and equity that reflect the results of each business unit and its related activities over the course of the fiscal year. The financial information provided aids in benchmarking activities, conducting comparisons to evaluate progress, and determining whether the business unit has successfully recovered its costs.

The Statements of Cash Flows reflect cash receipts and disbursements and net changes resulting from operating, financing and investing activities. The Statements of Cash Flows provide insight into what generates cash, where the cash comes from, and purpose of cash activity.

The Notes to Financial Statements present disclosures that contribute to the understanding of the material presented in the financial statements. This includes, but is not limited to, Schedule of Outstanding Long-Term Debt and Debt Service Requirements (See Note 4 to the Financial Statements), accounting policies, significant balances and activities, material risks, commitments and obligations, and subsequent events, if applicable.

The basic Financial Statements of each business unit along with the Notes to the Financial Statements and Management Discussion and Analysis should be used to provide an overview of Energy Northwest's financial performance. The following discussion provides comparative financial information for the years ended June 30, 2017 and 2016. 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, 2017 and 2016 (Dollars in thousands)

	2016	2017	Change
Assets			
Current Assets	\$ 424,206	\$ 644,343	\$ 220,137
Restricted Assets			
Special Funds	220,562	169,930	(50,632)
Debt Service Funds	166,234	160,169	(6,065)
Net Plant	1,600,045	1,661,945	61,900
Nuclear Fuel	893,486	891,014	(2,472)
Long-Term Receivables	7	21	14
Other Charges	3,188,539	3,203,592	15,053
TOTAL ASSETS	6,493,079	6,731,014	237,935
DEFERRED OUTFLOWS OF RESOURCES	44,002	46,227	2,225
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 6,537,081	\$ 6,777,241	\$ 240,160
Current Liabilities	\$ 323,919	\$ 546,588	\$ 222,669
Restricted Liabilities			
Special Funds	178	128	(50)
Debt Service Funds	127,030	124,502	(2,528)
Long-Term Debt	5,788,165	5,804,189	16,024
Other Long-Term Liabilities	281,448	292,302	10,854
Other Credits	5,911	6,257	346
Net Position			
Invested in capital assets, net of related debt	(41,342)	(40,216)	1,126
Restricted, net	42,825	18,819	(24,006)
Unrestricted, net	(12,554)	14,112	26,666
TOTAL LIABILITIES AND NET POSITION	6,515,580	6,766,681	251,101
DEFERRED INFLOWS OF RESOURCES	21,501	10,560	(10,941)
TOTAL LIABILITIES, NET POSITION AND DEFERRED INFLOWS	\$ 6,537,081	\$ 6,777,241	\$ 240,160
Operating Revenues	\$ 463,033	\$ 516,112	\$ 53,079
Operating Expenses	351,837	402,523	50,686
Net Operating Revenues	111,196	113,589	2,393
Other Income and Expenses	(106,838)	(109,423)	(2,585)
Beginning Net Position	(15,809)	(11,451)	4,358
ENDING NET POSITION	\$ (11,451)	\$ (7,285)	\$ 4,166

* The beginning net position of the internal service fund has been restated. See note 1 for additional information.

COLUMBIA GENERATING STATION

Columbia Generating Station (Columbia) is wholly owned by Energy Northwest and its participants and operated by Energy Northwest. The plant is a 1,174-megawatt electric (MWe, Design Electric Rating, net) boiling water nuclear power plant located on the Department of Energy's (DOE) Hanford Site north of Richland, Washington.

Columbia produced 8,640 gigawatt-hours (GWh) of electricity in FY 2017, as compared to 9,617 GWh of electricity in FY 2016. The generation for FY 2017 included economic dispatch of 174 GWh and coast down credit of 93 GWh. Both the economic dispatch and coast down credit were due to BPA requested decreases in generation for regional power management. FY 2016 had zero economic dispatch and zero coast down credit since it was not a refueling year. The FY 2017 generation decrease of 10.2 percent was due to FY 2017 being a refueling year (R-23) combined with FY 2016 being the second highest fiscal year generation on record. FY 2017 R-23 generation was 1.1% above the budgeted generation for the year due to consistent and reliable operations. Columbia did have one short down power in December, 2016 as a result of a breaker failure at the BPA Ashe Substation. This loss of generation was made up by continued additional MWe gained as a result of the Leading Edge Flow Meter Project and valve work completed in the FY 2015 refueling outage (R-22). Columbia, as a result of completed work in R-22 and R-23 will be delivering an additional 25 MWe to the grid. The increase is a combination of restoring lost efficiencies and implementing a recent NRC approval for a power increase. The largest increase, approximately 19 MWe comes from the Measurement Uncertainty Recapture (MUR) power uprate. The MUR project benefited from new feed water flow instruments (leading edge flowmeters (LEFM)) installed during R-22. With the improved measurement accuracy of feed water flow provided by LEFM, Columbia can raise power to the new licensed power thermal limit. Additional items that added additional MWe capacity were LEFM transducer work (approximately 2 MWe) and steam and circulating water flow (approximately 4.0 MWe).

Columbia's cost performance is measured by the cost of power indicator. The cost of power for FY 2017 was 5.04 cents per kilowatt-hour (kWh) as compared with 3.65 cents per kWh in FY 2016. The industry cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. The FY 2017 cost of power increase of 38.1 percent was due to the decreased generation levels due to the planned outage (R-23) as compared to the second highest FY generation for FY 2016.

FY 2017 cost of power was 2.99 percent below budget reflecting continued cost control and reliable and predictable operations and generation.

Assets, Liabilities, and Net Position Analysis

The net increase to Utility Plant (plant) and Construction Work In Progress (CWIP) from FY 2016 to FY 2017 (excluding nuclear fuel) was \$69.3 million. The changes to plant and CWIP were comprised of additions to plant of \$184.0 million and a decrease to CWIP of \$35.6 million. Remaining change was the period effect of depreciation of \$79.1 million.

The FY 2017 CWIP balance of \$40.4 million consisted of 10 major projects of at least \$1.0 million: Cyber Security, Independent Spent Fuel Storage Installation Pad Expansion, Shooting Range, Plant Fire Detection Upgrade, Cycle Isolation Monitoring, Reactor Water Cleanup Reclassification, Elevator Modernization, Plant Process Computer Replacement, Upgrade Condensate Booster Pump Trip Logic, and Residual Heat Removal Pump Project. These projects resulted in 82% of the CWIP activity. The remaining 18 percent of CWIP was made up of 21 separate projects.

Current assets increased \$172.8 million in FY 2017 to \$513.4 million. Changes were increases to receivables of \$150.1 million mostly due to an increase in the amount of BPA draw for participant net billing, increases to cash and investments of \$5.2 million, and increases to materials and supplies and prepaid amounts of \$17.5 million.

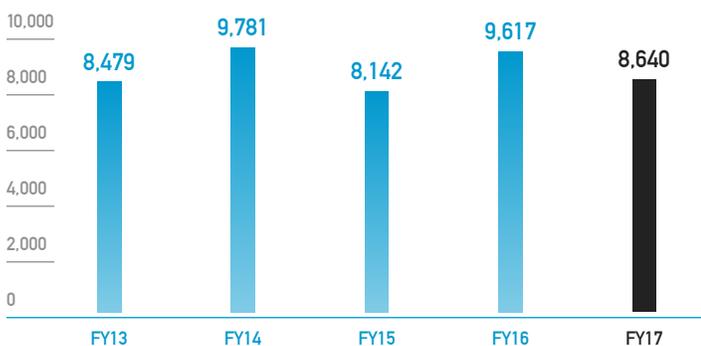
Special funds decreased \$34.4 million to \$139.4 million in FY 2017 due to the FY 2017 bond activity and schedule of construction costs for these funds in FY 2017.

The debt service funds decreased \$1.3 million in FY 2017 to \$75.0 million. The decrease is due to FY 2017 bond restructuring and funding activities associated with the regional cooperation debt program.

Other charges increased \$50.2 million in FY 2017 from \$1,117.7 million to \$1,167.9 million. The increase was Costs in Excess of Billings related to the net effect of payment of current maturities and refunding activity associated with the regional cooperation debt program.

Deferred outflows increased \$3.0 million in FY 2017 from \$39.9 million to \$42.9 million. The changes were an increase of \$9.1 million due to the recognition of a deferred pension outflow in accordance with GASB No. 68 and a decrease of \$6.1 million to unamortized loss on refunding associated with the 2017 bond activity.

Columbia Generating Station
Net Generation - Gwhrs



Columbia Generating Station
Cost of Power - Cents/kWh



Current liabilities increased \$178.7 million in FY 2017 to \$393.2 million. The major reason for the increase (\$155.0 million) was due to the use of notes payable to fund operations and FY 2017 bond interest costs. Other components of the change in current liabilities were decreases to current maturities of debt of \$2.8 million, increase to taxes payable of \$5.4 million due to R-23 refueling year and the effect of fuel assemblies being moved into Washington State, decrease in generation tax of \$0.7 million due to R-23, increase in retention payable of \$2.2 million due to increase of public work contracts, increases due to timing of year end obligations and due to other projects of \$19.7 million, and timing of due to participants that resulted in a decrease of \$0.1 million.

Restricted liabilities increased \$1.0 million in FY 2017 to \$72.8 million reflecting the changes in accrued interest on various bond series.

Long-term debt (Bonds Payable) increased \$74.4 million in FY 2017 from \$3,600.0 million to \$3,674.4 million due to the FY 2017 bond restructuring and funding activities associated with the regional cooperation debt program.

Other long-term liabilities increased \$13.2 million in FY 2017 to \$277.9 million. The increase was due to an increase in the pension liability in accordance with GASB No. 68 of \$5.5 million and an increase in the decommissioning liability of \$7.7 million to reflect the annual updated estimate of the obligation. Costs associated with cask activity are no longer being recorded as a long term liability as all costs have been deemed to be reimbursable under the agreement with DOE and reimbursements, per each approved submittal, will be offset against costs incurred. (See Note 11 to the Financial Statements - Commitments and Contingencies - Other Litigation and Commitments.)

Deferred inflows decreased \$9.6 million from \$19.0 million in FY 2016 to \$9.5 million in FY 2017. A decrease of \$9.3 million was recognized to deferred pension inflow in accordance with GASB No. 68. A decrease to bond refunding inflows of \$0.2 million was due to the FY 2017 bond restructuring and funding activities associated with the regional cooperation debt program. Deferred credits decreased from \$0.3 million in FY 2016 to \$0.1 million in FY 2017 due to unclaimed bearer bond activity.

Revenue and Expenses Analysis

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

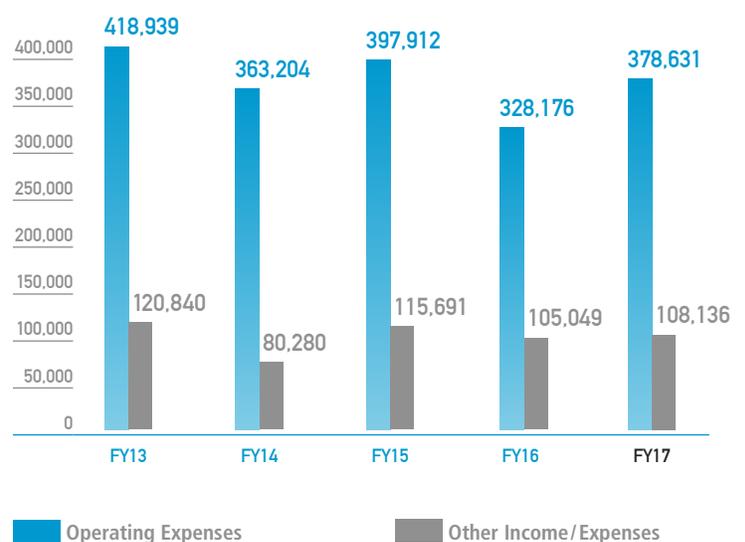
Operating expenses increased \$50.5 million from FY 2016 costs of \$328.2 million to \$378.6 million in FY 2017. The increases in costs were due to FY 2017 being a planned refueling year (R-23) as compared to the non refueling year of FY 2016. The increases were mostly in the operations and maintenance areas increasing \$48.5 million due to the activities associated with R-23. Another large area of increase was related to nuclear fuel; an overall increase of \$8.0 million occurred due to the adjustment credit in FY 2016 (\$13.4 million) for cask expenses, which will no longer be expensed (See Note 11 to the Financial Statements - Commitments and Contingencies - Other Litigation and Commitments.) The offset for FY 2017 in costs of \$5.4 million related to the decreased generation and accounted for the overall net change to nuclear fuel costs of \$8.0 million. Other changes to expenses were small with increases of \$0.4 million for changes to decommissioning as part of the asset retirement obligation estimate (See Note 9 to the Financial Statements - Asset Retirement Obligation (ARO)), \$2.3 million to depreciation to reflect additions of assets and changes to the depreciation

schedule, and \$3.5 million for increased stores and overhead costs associated with R-23 activity. The increase to cost was offset slightly by an decrease of \$11.6 million to pension expense requirements related to GASB No. 68 and a decrease of \$0.7 million to generation tax due to the decreased generation associated with FY 2017 being a planned refueling year (R-23).

Other Income and Expenses increased \$3.1 million from FY 2016 to \$108.1 million net expenses in FY 2017. One component of the change was the FY 2017 \$ 7.2 million gain on spent fuel litigation settlement from the DOE which was \$2.7 million higher than FY 2016. The cask costs were never an intended cost for the facility and only resulted from a failure to perform from the Department of Energy. (See Note 11 to the Financial Statements - Commitments and Contingencies - Other Litigation and Commitments.) Fuel disposal is no longer being recognized as part of the DOE settlement for this reason; any future recoveries from the DOE will be recorded similar to the FY 2016 transaction. Another component of the change was a gain on the scheduled SWU sale related to the TVA fuel contract (See Note 12 to the Financial Statements - Nuclear Fuel). The FY 2017 gain on SWU sale was \$4.7 million, a decrease of \$4.1 million over the FY 2016 SWU sale gain. The remaining changes of \$1.7 million was due to increased bond related expenses of \$1.5 million, decrease in investment income of \$0.4 million, and a small decrease in miscellaneous non-utility expenses of \$0.2 million.

Columbia's total operating revenue increased from \$433.2 million in FY 2016 to \$486.8 million in FY 2017. The increase of \$53.6 million was due to planned refueling and maintenance program (R-23) and the related effect of the net billing agreement on total revenue. (See Note 5 to the Financial Statements - Net Billing.)

Columbia Generating Station
Total Operating Costs (Dollars in thousands)



PACKWOOD LAKE HYDROELECTRIC PROJECT

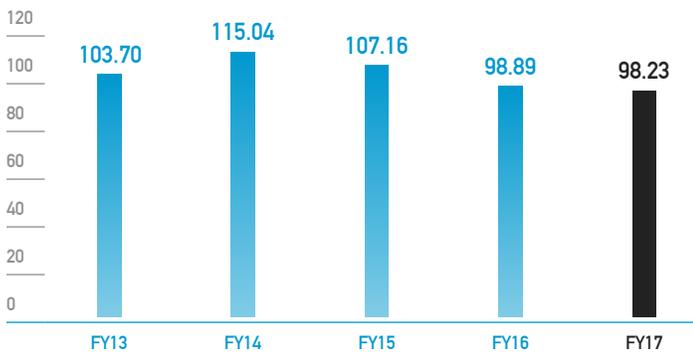
The Packwood Lake Hydroelectric Project (Packwood) is wholly owned and operated by Energy Northwest. Packwood consists of a diversion structure at Packwood Lake and a powerhouse located near the town of Packwood, Washington. The water is carried from the lake to the powerhouse through a five-mile long buried tunnel and drops nearly 1,800 feet in elevation. Packwood produced 98.23 GWh of electricity in FY 2017 versus 98.89 GWh in FY 2016. Though Packwood received a considerably higher snowpack in the winter of 2017, this was preceded by much lower precipitation in the first six months of FY 2017 (Packwood experienced the fifth lowest August on record). The combination of the two events brought the generation near the 10 year average of 99.1 GWh and above the 40 year average of 93.8 GWh. Generation for FY 17 was the 21st best on record compared to FY 2016 which ranked 20th. There continues to be some relief in generation capacity due to the delay in new license requirements (See Note 1 to the Financial Statements) which will eventually lower the generating capacity for Packwood.

Packwood’s cost performance is measured by the cost of power indicator. The cost of power for FY 2017 was \$2.36 cents per kWh as compared to \$2.35 cents per kWh in FY 2016. The cost of power fluctuates year-to-year depending on various factors such as outage, maintenance, generation, and other operating costs. The slight increase in the FY 2017 cost of power of 0.43 percent was a result of the slight decrease in generation discussed above with overall operating costs remaining relatively steady.

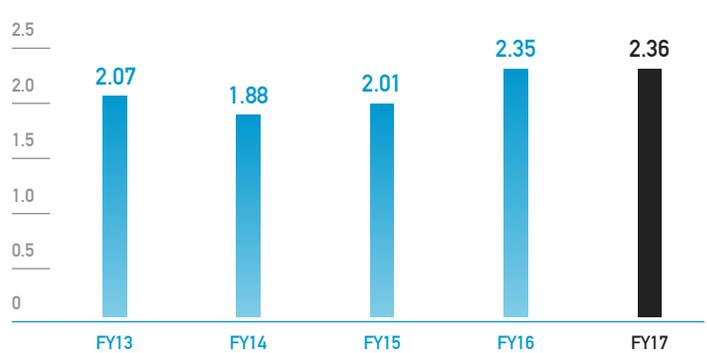
Assets, Liabilities, and Net Position Analysis

Total assets and deferred outflows increased \$214 thousand from FY 2016. The small increase was due to a \$291 thousand increase to cash and investments, a \$200 thousand net increase to plant, a small increase to receivables of \$3 thousand, offset by a decrease in due from other business units of \$320 thousand. Deferred pension outflows increased \$39 thousand. There was an overall increase to liabilities, net position and deferred inflows of \$214 thousand. The increase to total liabilities of \$257 thousand was comprised of an increase to year end accrued costs of \$200 thousand, increase in due to participants of \$286 thousand, increase of \$70 thousand to billings in excess of costs with the increases offset by a decrease of \$244 thousand in unclaimed warrants. There was a decrease to pension liability of \$55 thousand and a decrease of \$44 thousand to deferred pension inflow as a result of recognition of pension liability in accordance with GASB No. 68. Packwood has incurred \$3.7 million in relicensing costs through FY 2017 with no new costs incurred for FY 2017. These costs are shown as Other Charges on the Statement of Net Position. Packwood has been operating under a 50-year license issued by Federal Energy Regulatory Commission (FERC), which expired on February 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on February 22, 2008. On March 4, 2010, FERC issued a one-year extension to operate under the original license which is indefinitely extended for continued operations until a formal decision is issued by FERC and a new operating license is granted. As of June 30, 2017, Packwood continues to be relicensed under this extended agreement.

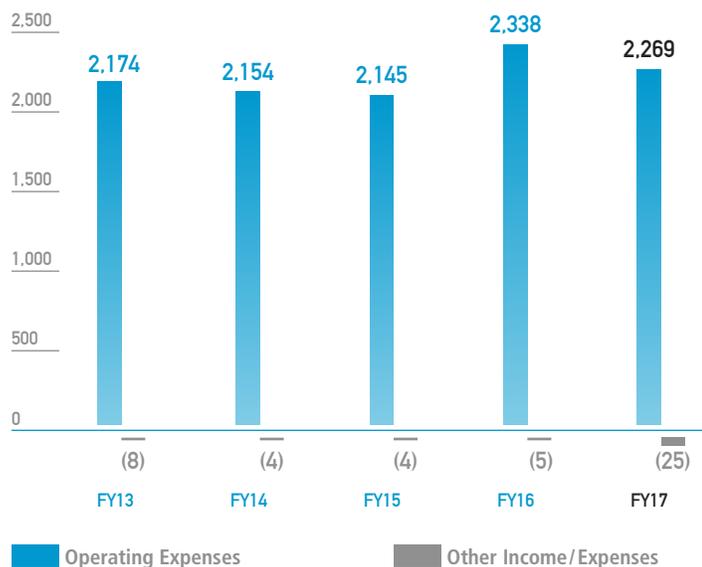
The Packwood Lake Hydroelectric Project
Net Generation - Gwhrs



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



The Packwood Lake Hydroelectric Project
Total Operating Costs (Dollars in thousands)



Revenue and Expenses Analysis

The agreement with Packwood participants obligates them to pay annual costs and to receive excess revenues. (See Note 1 to the Financial Statements.) Accordingly, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized and no net position is accumulated. Operating expenses were steady at \$2.3 million for both FY 2017 and FY 2016. FY 2017 incurred additional transmission and support costs above FY 2016 levels but overall costs for FY 2017 were offset from the FY 2016 costs and completion of the generator disassembly cleaning repair project.

Other Income and Expense increased \$20 thousand in FY 2017. Increase was due to gain on property disposals (miscellaneous equipment) of \$5 thousand, increased investment earnings of \$5 thousand and \$10 thousand of additional interest related to bearer bond account closeout activity.

Packwood participants are obligated to pay annual costs of the project (including any applicable debt service), whether or not the project is operable. The Packwood participants also share project revenue to the extent that the amounts exceed costs. These funds can be returned to the participants or kept within the project. As of June 30, 2017 there is \$6.0 million recorded as deferred revenues in excess of costs that are being kept within the project. Packwood participants are currently taking 100 percent of the project generation; there are no additional agreements for power sales.

NUCLEAR PROJECT NO. 1

Energy Northwest wholly owns Nuclear Project No. 1, a 1,250-MWe plant, which was placed in extended construction delay status in 1982, when it was 65 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution terminating Nuclear Project No. 1. All funding requirements are net-billed obligations of Nuclear Project No. 1. Termination expenses and debt service costs comprise the activity of Nuclear Project No. 1 and are net-billed. (See Notes 5 and 11 to the Financial Statements.)

Assets, Liabilities, and Net Position Analysis

Total Assets and deferred outflows remained relatively steady between fiscal years showing a slight decrease of \$0.6 million. Restricted cash decreased \$9.7 million in FY 2017 to \$22.5 million. Current assets increased \$20.0 million due to increased BPA draw on participant net billing, costs in excess of billing decreased \$10.6 million, and restricted assets decreased \$9.7 million due to FY 2017 bond activity. The remaining changes of \$0.3 million were decreases in unamortized losses on bond refunding which decreased \$0.2 million and a net increase of \$0.1 million in deferred pension outflows.

Long-term debt decreased \$46.2 million from \$841.8 million in FY 2016 to \$795.6 million in FY 2017 along with an increase related to additional premiums on new debt issued during the year of \$31.2 million due to the debt associated with the planned and approved regional cooperation debt program.

Short term debt decreased from \$0.3 million in FY 2016 to \$0 in FY 2017 reflecting the impacts of the FY 2017 bond refunding activity associated with the planned and approved regional cooperation debt program. Current notes payable increased \$19.9 million to fund FY 2017 interest costs. There was a decrease to other long term liabilities of \$2.7 million, represented by a decrease to the decommissioning estimate of \$2.6 million and a decrease to the pension liability of \$0.1 million, in accordance with GASB No. 68. Deferred credits decreased \$0.3 million to reflect changes in bearer bonds. Deferred inflows decreased from \$1.0 million in FY 2016 to \$0 in FY 2017 for unamortized gain on bond refunding reflecting the FY 2017 bond activity.

Revenue and Expenses Analysis

Other Income and Expenses showed a net increase to expenses of \$0.8 million from \$27.6 million in FY 2016 to \$28.4 million in FY 2017. Main driver for the change in expenses was an adjustment to the site restoration plan resulting in an increase to the decommissioning expense of \$4.4 million as compared to the FY 2016 estimate. Other major changes was a decrease in interest expense and amortization of \$5.9 million from FY 2017 bond refunding activity offset by an increase of \$2.4 million reflecting increased restoration work.

NUCLEAR PROJECT NO. 3

Nuclear Project No. 3, a 1,240-MWe plant, was placed in extended construction delay status in 1983, when it was 75 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution terminating Nuclear Project No. 3. Energy Northwest is no longer responsible for any site restoration costs as they were transferred with the assets to the Satsop Redevelopment Project. The debt service related activities remain the responsibility of Energy Northwest and are net-billed. (See Notes 5 and 11 to the Financial Statements.)

Assets, Liabilities, and Net Position Analysis

Long-term debt decreased \$48.4 million from \$1,042.1 million in FY 2016 to \$993.7 million in FY 2017 along with an increase related to additional premiums on new debt issued during the year of \$14.3 million due to the debt refunding activity associated with the planned and approved regional cooperation debt program.

Current debt per the debt maturity schedule decreased \$0.8 million from \$18.1 million in FY 2016 to \$17.3 million in FY 2017 as a result of the FY 2017 refunding activity moving debt out to future periods. Additionally notes payable increased \$24.5 million from \$26 million in FY 2016 to \$50.5 million to fund FY 2017 interest costs. Both of these were associated with the planned and approved regional cooperation debt program.

Other changes to liabilities were decreases to accrued debt service interest payable of \$1.8 million and bearer bond liability of \$0.2 million and increases to accounts payables of \$0.2 million and deferred inflows of \$0.2 million due to unamortized gain on bond refundings.

Revenue and Expenses Analysis

Overall expenses and revenues decreased \$6.6 million in FY 2017 due to decreases in interest expense on long term debt and notes of \$3.4 million and bond related amortized accounts decreasing \$3.2 million.

BUSINESS DEVELOPMENT FUND

Energy Northwest was created to enable Washington public power utilities and municipalities to build and operate generation projects. The Business Development Fund (BDF) was created by Executive Board Resolution No. 1006 in April 1997, for the purpose of holding, administering, disbursing, and accounting for Energy Northwest costs and revenues generated from engaging in new energy business opportunities.

The BDF is managed as an enterprise fund. Five business sectors have been created within the fund: Applied Technology & Innovation, Business Services, Facilities and Leasing, Generation, and Professional Services. A separate line of activity is used as general Business Unit Support. Each line may have one or more programs that are managed as a unique business line activity.

Assets, Liabilities, and Net Position Analysis

Total assets and deferred outflows increased \$1.7 million from \$11.0 million in FY 2016 to \$12.7 million in FY 2017. There was a small decrease to net utility plant of \$0.1 million. The major change in assets was an increase of \$1.5 million to accounts receivables and due from other business units, approximately half of the increase was due to year end reimbursements from other business units and the other half related to increased activities due to the Demand Response startup and Tieton Hydroelectric Project operations and maintenance work. In addition, an increase of \$0.3 million was due to the recognition of a deferred pension outflow in accordance with GASB No. 68. The increases to assets were offset by a slight decrease to total capital (net plant) and restricted cash and investments of \$0.1 million. There was an overall increase to liabilities, net position and deferred inflows of \$1.7 million. Current liabilities decreased \$0.8 million from FY 2017 due to timing of year end outstanding items. Long term liabilities increased \$0.4 million, with an increase to net pension liability of \$0.3 million and an increase to long term liability of \$0.1 million for a relocation agreement. Deferred inflows decreased \$0.3 million to account for the change in net pension liability in accordance with GASB No. 68. The change in net position of \$0.8 million from operations in FY 2017 was similar to the \$0.8 million reflected in FY 2016, which reflects continuing margin achievement from the business sectors and overall control of costs.

Revenue and Expenses Analysis

Operating Revenues in FY 2017 totaled \$8.2 million as compared to FY 2016 revenues of \$8.1 million, an increase of \$0.1 million (1.5 percent). Various projects and timing of work were drivers for the small increase in overall revenue for the Business Development Fund.

The Professional Services business sector revenue increased \$1.0 million, mostly on the increase of work at the Tieton Hydroelectric Project (\$0.8 million increase). The remaining increase of \$0.2 million for the Professional Services line was for various operations and maintenance contracts.

The Business Services line continues to show positive results with an increase of \$0.4 million in FY 2017 attributable to increases in activity for the Calibration Services and Environmental Lab Services.

The Facilities Leasing line had decreased revenues of \$0.2 million due to tenants vacating three buildings at the Industrial Development Complex.

Applied Technology & Innovation is a new business sector for FY 2017 but work performed in previous years was included in the Generation business sector. Revenues specific to the Demand Response Program decreased \$0.9 million in FY 2017. The program achieved slower than anticipated FY 2017 activity but secured the Distributed Energy Resource (DER) agreement with BPA prior to June 30, 2017. The agreement runs through September 30, 2017.

The Generation business sector had marked decreases in revenue due to various projects in different stages of development. Enloe Dam Powerhouse Support Project generated a small amount of revenue (\$55 thousand) in FY 2017 but Energy Northwest consulting support for this Project has been discontinued. Utah Associated Municipal Power Systems (UAMPS) Carbon Free Power had some revenue (\$3 thousand) but is slated for further development as the Modular Nuclear concept grows. Energy Northwest is currently supporting development of two solar projects (Neoen and Horn Rapids Solar Storage and Training (HRSST)). Energy Northwest realized revenue of \$26 thousand. HRSST had no revenue in FY 2017 but received a Department of Commerce grant for development and is partnering with City of Richland for further development of the HRSST Project in FY 2018 and FY 2019. Overall revenue for the Generation business sector totaled \$105 thousand down from \$225 thousand for the above projects in FY 2016.

Overall Business Support showed a decrease of \$0.1 million in allocable revenues for a total decrease in overall revenues of \$0.1 million for the Business Development Fund.

Operating costs increased \$0.3 million from \$8.6 million in FY 2016 to \$8.9 million in FY 2017. Expenses for each Business sector remained relatively steady, with most of the increase tied to development work in the Generation business sector. The modest increase overall was driven by additional business support labor and compensation.

Other Income and Expenses increased \$0.3 million in FY 2017 to \$1.5 million. The change was a result of pension expense requirements related to GASB No. 68. There were no other significant individual item variances.

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 2017 there were no contributions (transfers), which was also the case for FY 2016.

NINE CANYON WIND PROJECT

The Nine Canyon Wind Project (Nine Canyon) is wholly owned and operated by Energy Northwest. Nine Canyon is located in the Horse Heaven Hills area southwest of Kennewick, Washington. Electricity generated by Nine Canyon is purchased by Pacific Northwest Public Utility Districts (purchasers). Each of the purchasers of Phase I, Phase II, and Phase III have signed a power purchase agreement which are part of the 2nd Amended and Restated Nine Canyon Wind Project Power Purchase Agreement which now has an end date of 2030. Nine Canyon is connected to the Bonneville Power Administration (BPA) transmission grid via a substation and transmission lines constructed by Benton County Public Utility District.

Phase I of Nine Canyon, which began commercial operation in September 2002, consists of 37 wind turbines, each with a maximum generating capacity of approximately 1.3 MW, for an aggregate generating capacity of 48.1 MW. Phase II of Nine Canyon, which was declared operational in December 2003, includes 12 wind turbines, each with a maximum generating capacity of 1.3 MW, for an aggregate generating capacity of approximately 15.6 MW. Phase III of Nine Canyon, which was declared operational in May 2008, includes 14 wind turbines, each with a maximum generating capacity of 2.3 MW, for an aggregate generating capacity of 32.2 MW. The total Nine Canyon generating capability is 95.9 MW, enough energy for approximately 39,000 average homes.

Nine Canyon produced 225.95 GWh of electricity in FY 2017 versus 244.62 GWh in FY 2016. The decrease of 7.6 percent was a result of decreased average wind conditions; FY 2016 had the highest average wind speed for history of project at 14.31 miles per hour (mph) while FY 2017 had an average of 14.08 mph which aligns with the normal average wind speed for project history. Capacity factor for FY 2017 was 27.71 percent as compared to 29.87 percent for FY 2016 which is reflective of the decreased wind conditions.

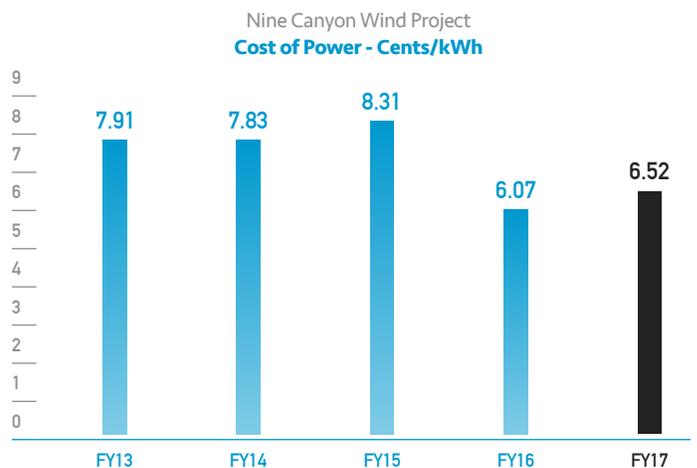
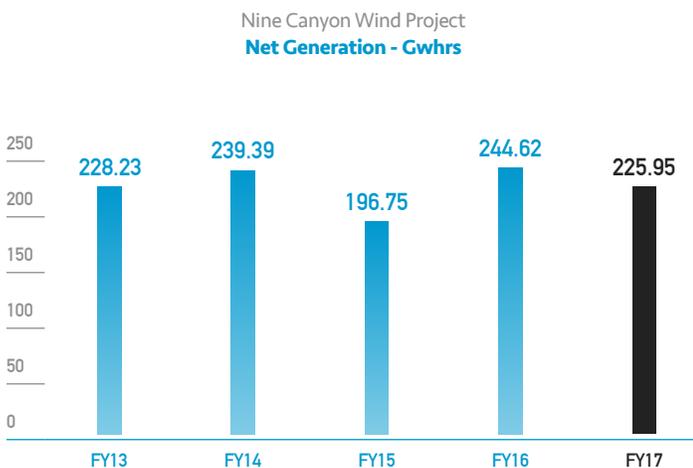
Nine Canyon's cost performance is measured by the cost of power indicator. The cost of power for FY 2017 was \$6.52 cents per kWh as compared to \$6.07 cents per kWh in FY 2016. The cost of power fluctuates year to year depending on various factors such as wind totals and unplanned maintenance and is distinctly different than revenue billed cost of power discussed below in revenue and expense analysis. The increase of 7.4 percent in cost of power for FY 2017 was directly attributable to less favorable wind conditions as compared to conditions for the record setting FY 2016

period. However, administrative non-labor cost reductions of 25 percent (\$64 thousand decrease) and overall cost control (\$10 thousand decrease) over contractor support and materials helped drive the third best historical cost of power on a fiscal year basis.

Assets, Liabilities, and Net Position Analysis

Total assets and deferred outflows decreased \$5.8 million from \$95.4 million in FY 2016 to \$89.6 million in FY 2017. The major driver for the change in assets was a decrease of \$6.8 million in net plant due to accumulated depreciation. The remaining changes consisted of increases to current cash and investments of \$1.7 million, decreases to special and debt service funds of \$0.3 million, decrease of \$0.2 million in account receivables and supplies, a decrease to deferred outflows for unamortized debt expense of \$0.3 million and an increase to deferred pension outflows of \$0.1 million. There was an overall decrease to liabilities, net position and deferred inflows of \$5.8 million. Changes were a decrease to long term debt (including unamortized bond discount/premium) of \$9.2 million, increases to current liabilities of \$0.4 million, increases to long term liabilities of \$0.2 million for pension liability and decommissioning estimates, decrease of \$0.2 million accrued debt service interest and decreases to deferred inflows of \$0.1 million for pensions and \$0.1 million for unamortized gain on bond refunding. The change in net position of \$3.2 million from operations in FY 2017 as compared to an increase of \$3.5 million in FY 2016 reflects the continued positive results of the debt financing efforts and cost reduction/stabilization efforts.

In previous years Energy Northwest has accrued, as income (contribution) from the Department of Energy, Renewable Energy Production Incentive (REPI) payments that enable Nine Canyon to receive funds based on generation as it applies to the REPI legislation. REPI was created to promote increases in the generation and utilization of electricity from renewable energy sources and to further the advances of renewable energy technologies. This program, authorized under Section 1212 of the Energy Policy Act of 1992, provides financial incentive payments for electricity produced and sold by new qualifying renewable energy generation facilities. The payment stream from Nine Canyon participants and the REPI receipts was projected to cover the total costs over the purchase agreement. Continued shortfalls in REPI funding for the Nine Canyon project led to a revised rate plan to incorporate the



impact of this shortfall over the life of the project. The billing rates for the Nine Canyon participants increased 69 percent and 80 percent for Phase I and Phase II participants respectively in FY 2008 in order to cover total project costs, projected out to the 2030 proposed project end date. The increases for FY 2008 were a change from the previous plan where a 3 percent increase each year over the life of the project was projected. Going forward, the increase or decrease in rates will be based on cash requirements of debt repayment and the cost of operations. Phase III started with an initial planning rate of \$49.82 per MWh which increased at 3 percent per year for three years. In year six (FY 2013) the rate was increased to a rate that was expected to be stabilized over the life of the project. In FY 2017 Nine Canyon Participants of all three phases realized a 3 percent decrease in rates driven by debt refinancing efforts and cost reduction/stabilization efforts in recent years. Possible adjustments may be necessary to future rates depending on operating costs and REPI funding, similar to Phase I and II.

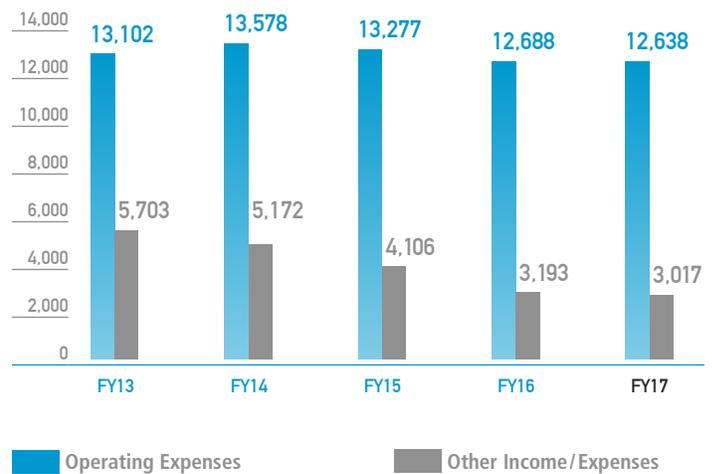
Revenues and Expenses Analysis

Operating revenues decreased \$0.5 million from \$19.3 million in FY 2016 to \$18.8 million in FY 2017. The project received revenue from the billing of the purchasers at an average rate of \$75.16 per MWh for FY 2017 as compared to \$74.70 per MWh for FY 2016. The decrease in rates through costs discussed above helped to limit the overall impact to the average rate due to the lower than anticipated FY 2017 generation (4.2 percent decrease in budgeted generation).

The stabilization of revenue continues to reflect the implementation of the revised rate plan in FY 2014/2015 to account for costs of operations over the remaining life of the project, taking into account the REPI shortfalls in the early years of the project. Operating costs remained relatively steady at \$12.6 million from the previous year reflecting the third best cost of power achievement.

Other income and expenses decreased \$0.2 million from \$3.2 million in net expenses in FY 2016 to \$3.0 million in FY 2017. The decrease of \$0.2 million was mostly attributable to bond activity (\$180 thousand), the remainder of the change (\$20 thousand) was from property disposals of miscellaneous equipment. Net income or change in net position of \$3.2 million for FY 2017 was a direct result of the planned rate structure with projected treasury savings due to refunding and lower than budgeted operating costs.

Nine Canyon Wind Project
Total Operating Costs (Dollars in thousands)



The original plan anticipated operating at a loss in the early years and gradually increasing the rate charged to the purchasers to avoid a large rate increase after the REPI expires. The REPI incentive expires 10 years from the initial operation startup date for each phase. Reserves that were established are used to facilitate this plan. The rate plan in FY 2008 was revised to account for the shortfall experienced in the REPI funding and to provide a new rate scenario out to the 2030 project end date. Energy Northwest did not receive REPI funding in FY 2017 and is not anticipating receiving any future REPI incentives. The results from FY 2017 reflect the revised rate plan scenario and gradual increase in the return of total net position.

INTERNAL SERVICE FUND

The Internal Service Fund (ISF) (formerly the General Fund) was established in May 1957. The ISF provides services to the other funds. This fund accounts for the central procurement of certain common goods and services for the business units on a cost reimbursement basis. (See Note 1 to Financial Statements.)

Assets, Liabilities, and Net Position Analysis

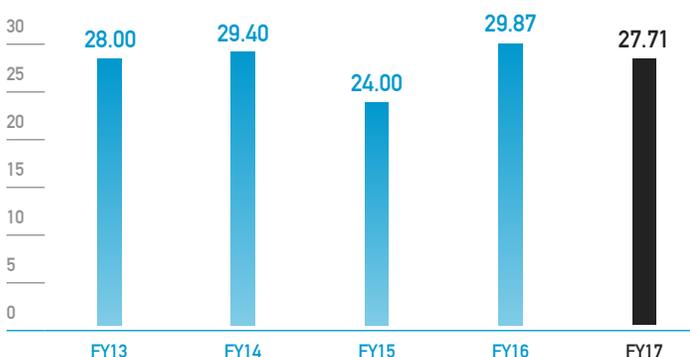
Total assets and deferred outflows increased \$9.4 million from \$49.1 million in FY 2016 to \$58.4 million in FY 2017. There was an increase in due from other business units of \$10.4 million, and decreases to utility plant of \$0.8 million and \$0.2 million to receivables and prepaid expenses. Other asset items remained relatively steady from the previous year.

The net increase in net position and liabilities is due to increases in accounts payable and payroll related liabilities of \$10.0 million due to year-end allocation of related expenses and a decrease to due to other projects of \$0.4 million accounting for the increase in net position of \$0.2 million.

Revenues and Expenses Analysis

Overall results of operations improved \$384k from a net loss of \$236 thousand in FY 2016 to a net income of \$148 thousand in FY 2017. Increase was due a correction of prior period correction (See Note 1V in Notes to Financial Statement), with residual decrease in overall expenses.

Nine Canyon Wind Project
Capacity Factor (%)



CURRENT DEBT RATINGS (Unaudited)

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

STATEMENT OF NET POSITION

As of June 30, 2017 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project Number 1*	Nuclear Project Number 3*	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	Eliminations	2017 Combined Total
ASSETS										
CURRENT ASSETS										
Cash	\$ 28,573	\$ 1,582	\$ 3,097	\$ 3,108	\$ 6,107	\$ 2,790	\$ 45,257	\$ 80	\$ -	\$ 45,337
Investments	-	499	399	-	2,216	9,944	13,058	4,455	-	17,513
Accounts and other receivables	310,154	115	43,022	50,472	1,144	218	405,125	145	-	405,270
Due from other business units	-	126	61	52	715	-	954	22,689	(23,643)	-
Materials and supplies	173,147	-	-	-	-	-	173,147	-	-	173,147
Prepayments and other	1,488	14	3	3	4	33	1,545	1,531	-	3,076
TOTAL CURRENT ASSETS	513,362	2,336	46,582	53,635	10,186	12,985	639,086	28,900	(23,643)	644,343
RESTRICTED ASSETS (NOTE 1)										
Special funds										
Cash	36,340	-	64	4,788	128	1,591	42,911	1,453	-	44,364
Investments	102,995	-	-	-	-	-	102,995	22,386	-	125,381
Accounts and other receivables	165	-	-	-	-	-	165	20	-	185
Debt service funds										
Cash	74,977	-	22,483	43,246	-	19,463	160,169	-	-	160,169
Investments	-	-	-	-	-	-	-	-	-	-
Accounts and other receivables	-	-	-	-	-	-	-	-	-	-
TOTAL RESTRICTED ASSETS	214,477	-	22,547	48,034	128	21,054	306,240	23,859	-	330,099
NON CURRENT ASSETS UTILITY PLANT (NOTE 2)										
In service	4,406,845	15,142	-	-	3,539	134,892	4,560,418	46,226	-	4,606,644
Not in service	-	-	29,415	-	-	-	29,415	-	-	29,415
Construction work in progress	40,419	-	-	-	-	-	40,419	-	-	40,419
Accumulated depreciation	(2,848,019)	(13,133)	(29,415)	-	(2,038)	(81,360)	(2,973,965)	(40,568)	-	(3,014,533)
Net Utility Plant	1,599,245	2,009	-	-	1,501	53,532	1,656,287	5,658	-	1,661,945
Nuclear fuel, net of accumulated depreciation	891,014	-	-	-	-	-	891,014	-	-	891,014
LONG TERM RECEIVABLES	-	-	-	-	-	-	-	21	-	21
TOTAL NONCURRENT ASSETS	2,490,259	2,009	-	-	1,501	53,532	2,547,301	5,679	-	2,552,980
OTHER CHARGES										
Cost in excess of billings	1,167,944	-	936,779	1,095,132	-	-	3,199,855	-	-	3,199,855
Other	-	3,737	-	-	-	-	3,737	-	-	3,737
TOTAL OTHER CHARGES	1,167,944	3,737	936,779	1,095,132	-	-	3,203,592	-	-	3,203,592
TOTAL ASSETS	4,386,042	8,082	1,005,908	1,196,801	11,815	87,571	6,696,219	58,438	(23,643)	6,731,014
DEFERRED OUTFLOWS OF RESOURCES										
Deferred outflows - unamortized loss on bond refunding	13,098	-	-	211	-	1,715	15,024	-	-	15,024
Deferred pension outflows	29,834	103	87	-	914	265	31,203	-	-	31,203
TOTAL DEFERRED OUTFLOWS OF RESOURCES	42,932	103	87	211	914	1,980	46,227	-	-	46,227
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 4,428,974	\$ 8,185	\$ 1,005,995	\$ 1,197,012	\$ 12,729	\$ 89,551	\$ 6,742,446	\$ 58,438	\$ (23,643)	\$ 6,777,241

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

STATEMENT OF NET POSITION As of June 30, 2017 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project Number 1*	Nuclear Project Number 3*	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	Eliminations	2017 Combined Total
LIABILITIES AND NET POSITION										
CURRENT LIABILITIES										
Current maturities of long-term debt	\$ 1,135	\$ -	\$ -	\$ 17,305	\$ -	\$ 7,640	\$ 26,080	\$ -	\$ -	\$ 26,080
Current notes payable	310,000	-	42,871	50,471	-	-	403,342	-	-	403,342
Accounts payable and accrued expenses	56,276	348	455	186	1,588	636	59,489	53,002	-	112,491
Due to participants	3,129	1,337	209	-	-	-	4,675	-	-	4,675
Due to other business units	22,657	-	-	-	-	32	22,689	954	(23,643)	-
TOTAL CURRENT LIABILITIES	393,197	1,685	43,535	67,962	1,588	8,308	516,275	53,956	(23,643)	546,588
LIABILITIES-PAYABLE FROM RESTRICTED ASSETS (NOTE 1)										
Special funds										
Other Liabilities	-	-	-	-	128	-	128	-	-	128
Debt service funds										
Accrued interest payable	73,842	-	22,483	25,942	-	2,235	124,502	-	-	124,502
TOTAL RESTRICTED LIABILITIES	73,842	-	22,483	25,942	128	2,235	124,630	-	-	124,630
LONG-TERM DEBT (NOTE 5)										
Revenue bonds payable	3,488,565	-	795,580	993,725	-	86,540	5,364,410	-	-	5,364,410
Unamortized (discount)/premium on bonds - net	185,868	-	136,774	108,887	-	8,250	439,779	-	-	439,779
TOTAL LONG-TERM DEBT	3,674,433	-	932,354	1,102,612	-	94,790	5,804,189	-	-	5,804,189
OTHER LONG-TERM LIABILITIES										
Pension liability	122,054	421	357	-	3,740	1,085	127,657	-	-	127,657
Decommissioning liability	155,795	-	7,173	-	-	1,514	164,482	-	-	164,482
Other	63	-	-	-	95	-	158	5	-	163
TOTAL OTHER LONG-TERM LIABILITIES	277,912	421	7,530	-	3,835	2,599	292,297	5	-	292,302
OTHER CREDITS										
Advances from members and others	-	5,982	-	-	-	-	5,982	-	-	5,982
Other	74	67	67	67	-	-	275	-	-	275
TOTAL OTHER CREDITS	74	6,049	67	67	-	-	6,257	-	-	6,257
TOTAL LIABILITIES	4,419,458	8,155	1,005,969	1,196,583	5,551	107,932	6,743,648	53,961	(23,643)	6,773,966
DEFERRED INFLOWS OF RESOURCES										
Deferred inflows - unamortized gain on bond refunding	785	-	-	429	-	213	1,427	-	-	1,427
Deferred pension inflows	8,731	30	26	-	268	78	9,133	-	-	9,133
TOTAL DEFERRED INFLOWS OF RESOURCES	9,516	30	26	429	268	291	10,560	-	-	10,560
NET POSITION										
Net investment in capital assets	-	-	-	-	1,500	(47,396)	(45,896)	5,680	-	(40,216)
Restricted	-	-	-	-	-	18,819	18,819	-	-	18,819
Unrestricted	-	-	-	-	5,410	9,905	15,315	(1,203)	-	14,112
NET POSITION	-	-	-	-	6,910	(18,672)	(11,762)	4,477	-	(7,285)
TOTAL LIABILITIES, NET POSITION, AND DEFERRED INFLOWS	\$ 4,428,974	\$ 8,185	\$ 1,005,995	\$ 1,197,012	\$ 12,729	\$ 89,551	\$ 6,742,446	\$ 58,438	\$ (23,643)	\$ 6,777,241

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION As of June 30, 2017 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project Number 1*	Nuclear Project Number 3*	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	2017 Combined Total
OPERATING REVENUE	\$ 486,767	\$ 2,245	\$ -	\$ -	\$ 8,259	\$ 18,841	\$ 516,112	\$ -	\$ 516,112
OPERATING EXPENSES									
Services to other business units	-	-	-	-	-	-	-	-	-
Nuclear fuel, net	46,412	-	-	-	-	-	46,412	-	46,412
Decommissioning	7,766	-	-	-	-	93	7,859	-	7,859
Depreciation and amortization	79,989	101	-	-	261	6,825	87,176	-	87,176
Operations and maintenance	222,077	2,173	-	-	8,723	5,735	238,708	-	238,708
Administrative & general	17,824	(25)	-	-	-	(63)	17,736	-	17,736
Generation tax	4,563	21	-	-	-	48	4,632	-	4,632
Total operating expenses	378,631	2,270	-	-	8,984	12,638	402,523	-	402,523
OPERATING INCOME (LOSS)	108,136	(25)	-	-	(725)	6,203	113,589	-	113,589
OTHER INCOME & EXPENSE									
Other	10,355	5	28,404	35,202	1,523	22	75,511	148	75,659
Gain on DOE Settlement	7,200	-	-	-	-	-	7,200	-	7,200
Investment income	736	20	31	128	33	141	1,089	-	1,089
Interest expense and debt amortization, net of capitalized interest	(126,427)	-	(27,491)	(34,975)	-	(3,179)	(192,072)	-	(192,072)
Plant preservation and termination costs	-	-	(3,520)	(355)	-	-	(3,875)	-	(3,875)
Depreciation and amortization	-	-	(1)	-	-	-	(1)	-	(1)
Decommissioning	-	-	2,577	-	-	-	2,577	-	2,577
Services to other business units	-	-	-	-	-	-	-	-	-
TOTAL OTHER INCOME & EXPENSE	(108,136)	25	-	-	1,556	(3,016)	(109,571)	148	(109,423)
Net Income (Loss)	-	-	-	-	831	3,187	4,018	148	4,166
TOTAL NET POSITION, BEGINNING OF YEAR**	-	-	-	-	6,079	(21,859)	(15,780)	4,329	(11,451)
TOTAL NET POSITION, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ 6,910	\$ (18,672)	\$ (11,762)	\$ 4,477	\$ (7,285)

* Project recorded on a liquidation basis.

** The beginning net position of the internal service fund has been restated. See note 1 for additional information.

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

STATEMENT OF CASH FLOWS

As of June 30, 2017 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project Number 1*	Nuclear Project Number 3*	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2017 Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Operating revenue receipts	\$ 288,382	\$ 2,599	\$ -	\$ -	\$ 3,374	\$ 18,852	\$ -	\$ 313,207
Cash payments for operating expenses	(250,233)	(2,018)	-	-	(3,096)	(5,390)	-	(260,737)
DOE cash settlement	11,732	-	-	-	-	-	-	11,732
Cash received from TVA fuel activities	24,400	-	-	-	-	-	-	24,400
Cash payments for services net of cash received from other units	-	-	-	-	-	-	(125)	(125)
Net cash provided/(used) by operating activities	74,281	581	-	-	278	13,462	(125)	88,477
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from bond refundings	98,209	-	1,497	939	-	-	-	100,645
Principal paid on revenue bond maturities	(3,965)	-	(315)	(18,055)	-	(7,440)	-	(29,775)
Payment for bond issuance and financing costs	(1,716)	(10)	(2,076)	(1,534)	(14)	(54)	-	(5,404)
Proceeds from notes payable	365,000	-	42,871	50,471	-	-	-	458,342
Payment for notes payable	(210,000)	-	(23,000)	(26,000)	-	-	-	(259,000)
Interest paid on bonds	(144,644)	-	(44,611)	(52,342)	-	(4,651)	-	(246,248)
Interest paid on notes	(1,042)	-	(118)	(134)	-	-	-	(1,294)
Payment for capital items	(150,576)	(300)	(1)	-	(84)	(98)	(56)	(151,115)
Nuclear fuel acquisitions	(56,681)	-	-	-	-	-	-	(56,681)
Payments received from BPA for terminated nuclear projects	-	-	16,435	35,512	-	-	-	51,947
Net cash provided/(used) by capital and related financing activities	(105,415)	(310)	(9,318)	(11,143)	(98)	(12,243)	(56)	(138,583)
CASH FLOWS FROM NON-CAPITAL FINANCE ACTIVITIES								
	-	-	-	-	-	-	-	-
CASH FLOWS FROM INVESTING								
Purchases of investment securities	(140,978)	(1,743)	(10,040)	(15,198)	(5,740)	(16,491)	(32,101)	(222,291)
Sales of investment securities	200,990	1,240	9,490	15,000	9,421	21,532	19,945	277,618
Interest on investments	807	24	181	326	80	170	320	1,908
Net cash provided/(used) by investing activities	60,819	(479)	(369)	128	3,761	5,211	(11,836)	57,235
NET INCREASE (DECREASE) IN CASH	29,685	(208)	(9,687)	(11,015)	3,941	6,430	(12,017)	7,129
CASH AT JUNE 30, 2016	110,205	1,790	35,331	62,157	2,294	17,414	13,550	242,741
CASH AT JUNE 30, 2017 (NOTE H)	\$ 139,890	\$ 1,582	\$ 25,644	\$ 51,142	\$ 6,235	\$ 23,844	\$ 1,533	\$ 249,870

* Project recorded on a liquidation basis.

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

RECONCILIATION OF DIRECT CASH FLOW TO STATEMENT OF NET POSITION

Cash unrestricted	\$ 28,573	\$ 1,582	\$ 3,097	\$ 3,108	\$ 6,107	\$ 2,790	\$ 80	\$ 45,337
Cash restricted special funds	\$ 36,340	\$ -	\$ 64	\$ 4,788	\$ 128	\$ 1,591	\$ 1,453	\$ 44,364
Cash restricted debt service funds	\$ 74,977	\$ -	\$ 22,483	\$ 43,246	\$ -	\$ 19,463	\$ -	\$ 160,169
Total Statement of Net Position cash	\$ 139,890	\$ 1,582	\$ 25,644	\$ 51,142	\$ 6,235	\$ 23,844	\$ 1,533	\$ 249,870

STATEMENT OF CASH FLOWS

As of June 30, 2017 (Dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project Number 1*	Nuclear Project Number 3*	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2017 Combined Total
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES								
Net income/loss from operations	\$ 108,136	\$ (25)	\$ -	\$ -	\$ (725)	\$ 6,203	\$ -	\$ 113,589
Adjustments to reconcile net operating revenues to cash provided by operating activities:								
Depreciation and amortization	126,371	101	-	-	261	6,825	-	133,558
Decommissioning	7,760	-	-	-	-	93	-	7,853
Non-operating revenues	-	(5)	-	-	-	(22)	148	121
Other	18,952	(240)	-	-	1,519	271	1,072	21,574
Change in operating assets and liabilities:								
Costs in excess of billings	(37,603)	395	-	-	-	-	-	(37,208)
Accounts receivable	(150,954)	(29)	-	-	(696)	(185)	(367)	(152,231)
Materials and supplies	(17,926)	-	-	-	-	-	-	(17,926)
Prepaid and other assets	372	2	-	-	52	160	253	839
Due from/to other business units	10,404	320	-	-	(630)	6	(11,204)	(1,104)
Change in net pension liability and deferrals	(13,077)	(138)	-	-	(249)	(25)	-	(13,489)
Due from/to participants	-	-	-	-	(31)	-	-	(31)
Accounts payable	21,846	200	-	-	777	136	9,973	32,932
Net cash provided/(used) by operating activities	\$ 74,281	\$ 581	\$ -	\$ -	\$ 278	\$ 13,462	\$ (125)	\$ 88,477
NON-CASH ACTIVITIES								
Capitalized interest	\$ 6,367	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,367
Bond refunding	\$ 128,578	\$ -	\$ 286,350	\$ 187,374	\$ -	\$ -	\$ -	\$ 602,302
Decommissioning liability adjustment	\$ -	\$ -	\$ 2,577	\$ -	\$ -	\$ -	\$ -	\$ 2,577
Excise tax on nuclear fuel acquisitions	\$ 5,657	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,657

* Project recorded on a liquidation basis.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Summary of Operations and Significant Accounting Policies

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

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

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

Energy Northwest maintains seven business units. Each unit is financed and accounted for separately from all other current or future business units, and is accounted for as a major fund for governmental accounting purposes.

All electrical energy produced by Energy Northwest's net-billed business units is ultimately delivered to electrical distribution facilities owned and operated by Bonneville Power Administration (BPA) as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electric utility systems throughout the Northwest, including participants in Energy Northwest's business units, for ultimate distribution to consumers. Participants in Energy Northwest's net-billed business units consist of public utilities and rural electric cooperatives located in the western United States who have entered into net-billing agreements with Energy Northwest and BPA for participation in one or more of Energy Northwest's business units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources, as well as BPA's other costs (See Note 5).

Energy Northwest operates the Columbia Generating Station (Columbia), a 1,174-MWe (Design Electric Rating, net) generating plant completed in 1984. Energy Northwest has obtained all permits and licenses required to operate Columbia. Columbia was issued a standard 40-year operating license by the Nuclear Regulatory Commission (NRC) in 1983. On January 19, 2010 Energy Northwest submitted an application to the NRC to renew the license for an additional 20 years, thus continuing operations to 2043. A renewal license was granted by the NRC on May 22, 2012 for continued operation of Columbia to December 31, 2043.

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

The electric power produced by Packwood is sold to 12 project participant utilities which pay the costs of Packwood. The Packwood participants are obligated to pay annual costs of Packwood including debt service, whether or not Packwood is operable. The participants also share Packwood revenue (See Note 5).

Nuclear Project No. 1, a 1,250-MWe plant, was placed in extended

construction delay status in 1982, when it was 65 percent complete. Nuclear Project No. 3, a 1,240-MWe plant, was placed in extended construction delay status in 1983, when it was 75 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. All funding requirements remain as net-billed obligations of Nuclear Projects Nos. 1 and 3. Energy Northwest is no longer responsible for site restoration costs for Nuclear Project No. 3. (See Note 10)

The Business Development Fund was established in April 1997 to pursue and develop new energy related business opportunities. There are four main business lines associated with this business unit: General Services and Facilities, Generation, Professional Services, and Business Unit Support.

The Nine Canyon Wind Project (Nine Canyon) was established in January 2001 for the purpose of exploring and establishing a wind energy project. Phase I of the project was completed in FY 2003 and Phase II was completed in FY 2004. Phase I and II combined capacity is approximately 63.7 MWe. Phase III was completed in FY 2008 adding an additional 14 wind turbines to Nine Canyon and adding an aggregate capacity of 32.2 MWe. The total number of turbines at Nine Canyon is 63 and the total capacity is 95.9 MWe.

The Internal Service Fund was established in May 1957. It is currently used to account for the central procurement of certain common goods and services for the business units on a cost reimbursement basis.

Energy Northwest's fiscal year begins on July 1 and ends on June 30. In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through September 21, 2017, the date of audit opinion issuance date.

The following is a summary of the significant accounting policies:

A) Basis of Accounting and Presentation: The accounting policies of Energy Northwest conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles this includes all GASB implementation guides, GASB technical Bulletins, and guidance from the American Institute of Certified Public Accountants (AICPA) that is cleared by GASB. The accounting and reporting policies of Energy Northwest are regulated by the Washington State Auditor's Office and are based on the Uniform System of Accounts prescribed for public utilities and licensees by FERC. Energy Northwest uses an accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenues and expenses related to Energy Northwest's operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing and investing activities are considered to be other income and expenses. Separate funds and books of accounts are maintained for each business unit. Payment of the obligations of one business unit with funds of another business unit is prohibited, and would constitute violation of bond resolution covenants (See Note 4).

Energy Northwest maintains an Internal Service Fund for centralized control and accounting of certain capital assets such as data processing equipment, and for payment and accounting of internal services, payroll, benefits, administrative and general expenses, and certain contracted services on a cost reimbursement basis. Certain assets in the Internal Service Fund are also owned by this Fund and operated for the benefit

of other projects. Depreciation relating to capital assets is charged to the appropriate business units based upon assets held by each project.

Liabilities of the Internal Service Fund represent accrued payroll, vacation pay, employee benefits, such as pensions and other post-retirement benefits, and common accounts payable which have been charged directly or indirectly to business units and will be funded by the business units when paid. Net amounts owed to, or from, Energy Northwest business units are recorded as Current Liabilities—Due to other business units, or as Current Assets—Due from other business units on the Internal Service Fund Statement of Net Position.

The combined total column on the financial statements is for presentation only as each Energy Northwest business unit is financed and accounted for separately from all other current and future business units. The FY 2017 Combined Total includes eliminations for transactions between business units as required in GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments".

Issued and Adopted Guidance: GASB Statement No. 82, "Pension Issues—Amendment of GASB No. 67, No. 68, and No. 73." objective is to address certain issues that have been raised with respect to GASB Statements No. 67, "Financial Reporting for Pension Plans," GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." Specifically, this statement addresses issues regarding (1) The presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective in fiscal year 2017. The impact of GASB Statement No. 82 has been implemented.

Issued but not Adopted Guidance: GASB Statement No. 83, "Certain Asset Retirement Obligations." This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). GASB Statement No. 83 is effective in fiscal year 2019 for Energy Northwest. Currently the accounting and reporting for AROs is in compliance with FASB ASC 410, "Asset Retirement and Environmental Obligations." (See Note 10) Energy Northwest plans to early adopt GASB Statement No. 83 in fiscal year 2018.

GASB Statement No. 84, "Fiduciary Activities." The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 is effective for Energy Northwest in fiscal year 2019.

GASB Statement No. 86, "Certain Debt Extinguishment Issues." The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves

accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 is effective for fiscal year 2018 and will impact the reporting of defeased debt for Energy Northwest.

GASB Statement No. 87, "Leases." The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement is effective for Energy Northwest in fiscal year 2020. Energy Northwest is currently evaluating the full impact of this statement.

- B) Utility Plant and Depreciation:** Utility plant is recorded at original cost which includes both direct costs of construction or acquisition and indirect costs.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20 - 60 years
Generation Plant	40 years
Transportation Equipment	6 - 10 years
General Plant and Equipment	5 - 15 years

Group rates are used for assets and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

The utility plant and net position of Nuclear Projects Nos. 1 and 3 have been reduced to their estimated net realizable values due to termination. A write-down of Nuclear Projects Nos. 1 and 3 was recorded in FY 1995 and included in Cost in Excess of Billings. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 1 and 3 have been charged to other income and expense (See Note 10).

- C) Capitalized Interest:** Energy Northwest analyzes the gross interest expense relating to the cost of the bond sale, taking into account interest earnings and draws for purchase or construction reimbursements for the purpose of analyzing impact to the recording of capitalized interest. If estimated costs are more than inconsequential, an adjustment is made to allocate capitalized interest to the appropriate plant account. Capitalized interest costs were \$6.4 million for utility plant with no capitalized interest for fuel.

- D) Nuclear Fuel:** Energy Northwest has various agreements for uranium concentrates, conversion, and enrichment to provide for short-term enriched uranium product and long-term enrichment services. All expenditures related to the initial purchase of nuclear fuel for Columbia, including interest, were capitalized and carried at cost.

- E) Asset Retirement Obligation (ARO's):** In the absence of government-specific guidance that directly addresses ARO's, Energy Northwest has elected to follow Accounting Standards Codification (ASC) 410, Asset Retirement and Environmental Obligations as issued by the FASB. ASC

410 allows Energy Northwest to recognize the fair value of a liability associated with the retirement of a long-lived asset, such as: Columbia Generating Station, Nuclear Project No. 1, and Nine Canyon, in the period in which it is incurred (See Note 9). AROs are included in decommissioning liabilities on the statement of net position. GASB Statement No. 83 "Certain Asset Retirement Obligations," addresses accounting and financial reporting for certain asset retirement obligations (AROs) and is effective fiscal year 2019 for Energy Northwest. Energy Northwest plans to early adopt GASB Statement No. 83 in fiscal year 2018.

F) Decommissioning and Site Restoration: Energy Northwest established decommissioning and site restoration funds for Columbia and monies are being deposited each year in accordance with an established funding plan (See Note 10).

G) Restricted Assets: In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, construction, capital additions and fuel purchases, unplanned operation and maintenance costs, termination, decommissioning, operating reserves, financing, long-term disability, and workers' compensation claims. They are classified as current or non-current assets as appropriate.

When both restricted and unrestricted resources are available for use, it is Energy Northwest's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets classified as restricted on the Statement of Net Position include assets that are designated by management as well as those funds restricted by resolution. Below is representation of these assets as of June 30, 2017. (in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project Number 1	Nuclear Project Number 3	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2017 Combined Total
Designated funds								
Cash	\$ -	\$ -	\$ -	\$ -	\$ 128	\$ -	\$ 1,453	\$ 1,581
Investments	-	-	-	-	-	-	22,386	\$ 22,386
Accounts and other receivables	-	-	-	-	-	-	20	\$ 20
Special funds - Restricted								
Cash	36,340	-	64	4,788	-	1,591	-	\$ 42,783
Investments	102,995	-	-	-	-	-	-	\$ 102,995
Accounts and other receivables	165	-	-	-	-	-	-	\$ 165
Debt service funds - Restricted								
Cash	74,977	-	22,483	43,246	-	19,463	-	\$ 160,169
Investments	-	-	-	-	-	-	-	\$ -
Accounts and other receivables	-	-	-	-	-	-	-	\$ -
Total Restricted Assets	\$ 214,477	\$ -	\$ 22,547	\$ 48,034	\$ 128	\$ 21,054	\$ 23,859	\$ 330,099

H) Cash and Investments: For purposes of the Statement of Cash Flows, cash includes unrestricted and restricted cash balances and each business unit maintains its cash and investments. Short-term highly liquid investments are not considered to be cash equivalents; and are stated at fair value with unrealized gains and losses reported in investment income (See Note 3). Energy Northwest resolutions and investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association and Federal Home Loan Banks. Safe keeping agents, custodians, or trustees hold all investments for the benefit of the individual Energy Northwest business units.

I) Accounts Receivable: The percentage of sales method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a yearly basis. Accounts receivable specific to each business unit are recorded in the residing business unit.

J) Other Receivables: Other receivables include amounts related to the Internal Service Fund from miscellaneous outstanding receivables from other business units which have not yet been collected. The amounts due to each business unit are reflected in Due To/From other business units. Other receivables specific to each business unit are recorded in the residing business unit. No allowances were deemed necessary at the end of the fiscal year. Payments made by members in advance of expenses incurred are included as advances from members in the Statement of Net Position.

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

- L) **Leases:** Consist of separate operating lease agreements. The total of these leases by business unit and their respective amounts paid per year are listed in the table below:

PROJECTS OPERATING LEASE COSTS (Dollars in thousands)

	2018	2019	2020	2021	2022	2023-2027*
Columbia	\$ 666	\$ 666	\$ 666	\$ 666	\$ 666	\$ 3,330
Nuclear Project No. 1	35	35	35	35	35	175
Nine Canyon	676	676	676	676	676	3,380
Business Development Fund	36	36	36	36	36	180
Internal Service Fund	137	137	137	137	137	685
Total	\$ 1,550	\$ 7,750				

* The life of the assets is estimated to be through 2043, which is the year the nuclear plant is currently licensed.

- M) **Long-Term Liabilities:** Consist of obligations related to bonds payable and the associated premiums/discounts and gains/losses. Other noncurrent liabilities are pension liabilities recognized according to GASB Statement No. 68 (See Note 6), and other immaterial liabilities. The table below summarizes activities for all long-term liabilities excluding pension and decommissioning liabilities.

	Balance 6/30/2016	Increase	Decrease	Balance 6/30/2017
Columbia				
Revenue bonds payable	\$ 3,426,005	\$ 191,925	\$ 129,365	\$ 3,488,565
Unamortized (discount)/premium on bonds - net	174,059	34,376	22,567	185,868
Current maturities of long-term debt	3,965	-	2,830	1,135
Other noncurrent liabilities	161	-	98	63
	\$ 3,604,190	\$ 226,301	\$ 154,860	\$ 3,675,631
Nuclear Project No.1				
Revenue bonds payable	\$ 841,785	\$ 239,845	\$ 286,050	\$ 795,580
Unamortized (discount)/premium on bonds - net	105,577	47,397	16,200	136,774
Current maturities of long-term debt	315	-	315	-
	\$ 947,677	\$ 287,242	\$ 302,565	\$ 932,354
Nuclear Project No.3				
Revenue bonds payable	\$ 1,042,130	\$ 156,080	\$ 204,485	\$ 993,725
Unamortized (discount)/premium on bonds - net	94,607	31,837	17,557	108,887
Current maturities of long-term debt	18,055	17,305	18,055	17,305
	\$ 1,154,792	\$ 205,222	\$ 240,097	\$ 1,119,917
Nine Canyon				
Revenue bonds payable	\$ 94,180	\$ -	\$ 7,640	\$ 86,540
Unamortized (discount)/premium on bonds - net	9,822	-	1,572	8,250
Current maturities of long-term debt	7,440	7,640	7,440	7,640
	\$ 111,442	\$ 7,640	\$ 16,652	\$ 102,430
Business Development Fund				
Other noncurrent liabilities	-	95	-	95
	\$ -	\$ 95	\$ -	\$ 95
Internal Service Fund				
Other noncurrent liabilities	5	-	-	5
	\$ 5	\$ -	\$ -	\$ 5

*Does not include pension liabilities and decommissioning liabilities; these items are in notes 6 and 9 respectively.

N) Debt Premium, Discount and Expense: Original issue and reacquired bond premiums, discounts relating to the bonds are amortized over the terms of the respective bond issues using the bonds outstanding method which approximates the effective interest method. In accordance with GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", gains and losses on debt refundings have been deferred and amortized as a component of interest expense over the shorter of the remaining life of the old or new debt. Expenses related to debt issuance are expensed as incurred.

O) Revenue and Expenses: Energy Northwest accounts for expenses and revenues on an accrual basis, and recovers, through various agreements, actual cash requirements for operations and debt service for Columbia, Packwood, Nuclear Project No. 1 and Nuclear Project No. 3. For these business units, Energy Northwest recognizes revenues equal to expenses for each period. Revenues of Nuclear Project No.1 and Nuclear Project No.3 are recorded under other income and expense, as these two business units are terminated nuclear projects. No net revenue or loss is recognized, and no net position is accumulated. The difference between cumulative billings received and cumulative expenses is recorded as either billings in excess of costs (other credits) or as costs in excess of billings (other charges), as appropriate. Such amounts will be settled during future operating periods (See Note 5).

The difference between cumulative revenues and cumulative expenses for Packwood Hydroelectric, Nine Canyon and Business Development is recognized as net income or loss and included in Net Position for each period.

Energy Northwest distinguishes operating revenues and expenses from other income and expense items. Operating revenues and expenses generally result from the Net Billing agreements stated above or from services provided by EN's principle operations. Operating expenses for Energy Northwest include the costs of operating the generation producing facility, related administrative fees, and depreciation on utility plant. All revenues and expenses not meeting this definition are reported as other income or expense.

P) Compensated Absences: Employees earn leave in accordance with length of service. Energy Northwest accrues the cost of personal leave in the year when earned. The liability for unpaid leave benefits and related payroll taxes was \$23.1 million at the end of this fiscal year and is recorded as a current liability.

Q) Use of Estimates: The preparation of Energy Northwest financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Certain incurred expenses and revenues are allocated to the business units based on specific allocation methods that management considers to be reasonable.

R) Deferred Inflows and Outflows: Deferred outflows of resources are defined as the consumption of net assets by Energy Northwest that

are applicable to a future reporting period, and are reported in the statement of financial position in a separate section following assets. Deferred inflows of resources are defined as acquisitions of net assets by Energy Northwest that is applicable to a future reporting period, and are reported in the statement of financial position in a separate section following liabilities.

These amounts consist of losses and gains on bond refundings, subsequent contributions, difference between projected and actual investment income, and other pension related costs (See Note 6) as labeled on the Statement of Net Position.

S) Other Charges and Credits for Resources: Other charges of \$3.7 million relate to the Packwood relicensing effort.

T) Short-Term Debt: A non-revolving loan was established for Project 1, Columbia, and Project 3 in fiscal year 2016 and was subsequently paid in full during fiscal year 2017. The loan paid in full included separate allocations in the amount of \$23.0 million, \$210.0 million, and \$26.0 million for Project 1, Columbia, and Project 3, respectively. One new loan agreement was established in fiscal year 2017 for up to \$500.0 million in total; \$44.0 million for Project 1, \$405.0 million for Columbia, and \$51.0 million for Project 3 to fund interest expense for all three projects as well as operations and maintenance related expenses for Columbia. On June 30, 2017, \$42.9 million, \$310.0 million, and \$50.5 million had been drawn for Project 1, Columbia, and Project 3, respectively. The short-term loan has a final maturity of June 30, 2018. Nine Canyon did not receive short-term financing during fiscal year 2017. These balances are included in current notes payable in the Statement of Net Position.

U) Pensions: For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred Inflows of resources related to pensions, and pension expense, Information about the fiduciary net position of the Washington State Public Employees Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

V) Correction of an Error: In previous periods certain revenues and expenses were incorrectly allocated to Columbia from the Internal Service Fund. Below is the net effect of the correction to the Internal Service Fund:

Net Position – June 30, 2016 (as reported)	\$4,709
Expenses incorrectly allocated to Columbia	(380)
Net Position – June 30, 2016 (as restated)	\$4,329

The effect on net income for the internal service fund in the prior year would have been a decrease of \$130.

The effect on Columbia is a decrease in the costs in excess of billings and a decrease in the amount due to other business units of \$380. The effect on net income in the prior year would have been zero.

SHORT-TERM LIABILITIES

(Dollars in thousands)

	Balance 6/30/2016	Increases	Decreases	Balance Outstanding 6/30/2017	Balance Available at 6/30/2017
Columbia					
Non-Revolver Loan	\$ 155,000	\$ 365,000	\$ 210,000	\$ 310,000	\$ 95,000
Nuclear Project No.1					
Non-Revolver Loan	23,000	42,871	23,000	42,871	1,129
Nuclear Project No.3					
Non-Revolver Loan	26,000	50,471	26,000	50,471	529
Nine Canyon					
Short-term debt	-	-	-	-	-
Packwood					
Short-term debt	-	-	-	-	-
Business Development					
Short-term debt	-	-	-	-	-
Total	\$ 204,000	\$ 458,342	\$ 259,000	\$ 403,342	\$ 96,658

NOTE 2 - Utility Plant

Utility plant activity for the year ended June 30, 2017 was as follows:

	Balance 06/30/2016	Capital Acquisitions	Sale or Other Dispositions	Balance 06/30/2017
Columbia				
Generation	\$ 4,208,081	\$ 184,026	\$ (30)	\$ 4,392,077
Decommissioning	14,768	-	-	14,768
Construction Work-in-Progress	75,990	414,328	(449,899)	40,419
Accumulated Depreciation and Decommissioning	(2,768,938)	(79,111)	30	(2,848,019)
Utility Plant, net*	\$ 1,529,901	\$ 519,243	\$ (449,899)	\$ 1,599,245
Packwood				
Generation	\$ 14,866	\$ 295	\$ (19)	\$ 15,142
Construction Work-in-Progress	-	753	(753)	-
Accumulated Depreciation	(13,057)	(95)	19	(13,133)
Utility Plant, net	\$ 1,809	\$ 953	\$ (753)	\$ 2,009
Business Development				
Generation	\$ 3,347	\$ 192	\$ -	\$ 3,539
Construction Work-in-Progress	-	646	(646)	-
Accumulated Depreciation	(1,783)	(255)	-	(2,038)
Utility Plant, net	\$ 1,564	\$ 583	\$ (646)	\$ 1,501
Nine Canyon				
Generation	\$ 134,007	\$ 87	\$ (63)	\$ 134,031
Decommissioning	861	-	-	861
Construction Work-in-Progress	-	708	(708)	-
Accumulated Depreciation and Decommissioning	(74,579)	(6,843)	63	(81,359)
Utility Plant, net*	\$ 60,289	\$ (6,048)	\$ (708)	\$ 53,533
Internal Service Fund				
Generation	\$ 46,285	\$ 111	\$ (170)	\$ 46,226
Construction Work-in-Progress	-	4,655	(4,655)	-
Accumulated Depreciation	(39,803)	(934)	169	(40,568)
Utility Plant, net	\$ 6,482	\$ 3,832	\$ (4,656)	\$ 5,658

* Does not include Nuclear Fuel, net of amortization

NOTE 3 - Investments

Interest rate risk: In accordance with its investment policy, Energy Northwest manages its exposure to declines in fair values by limiting investments to those with maturities as designated in specific bond resolutions to coincide with expected use of the funds.

Credit risk: Energy Northwest's investment policy restricts investments to debt securities and obligations of the U.S. Treasury, U.S. government agencies Federal National Mortgage Association and the Federal Home Loan Banks, certificates of deposit and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), and general obligation debt of state and local governments and public authorities recognized with one of the three highest credit ratings (AAA, AA+, AA, or equivalent). This investment policy is more restrictive than the state law.

Concentration of credit risk: Energy Northwest's investment policy has restrictions on concentration of credit risk. No limits of concentration are set on U.S. Treasury related to securities or cash holdings. Excluding the exceptions noted, no more than 50% of the entity's total Investment portfolio will be invested in a single security type or with a single financial Institution.

Custodial credit risk, deposits: For a deposit, this is the risk that in the event of bank failure, Energy Northwest's deposits may not be returned to it. Energy Northwest's demand deposit interest bearing accounts and certificates of deposits are covered up to \$250,000 by Federal Depository Insurance (FDIC) while time and savings deposit non-interest bearing accounts are covered up to an additional \$250,000 by FDIC. All interest and non-interest bearing deposits are covered by collateral held in a multiple financial institution collateral pool administered by the Washington state Treasurer's Local Government Investment Pool (PDPC). Under state law, public depositories under the PDPC may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. All deposits are insured by collateral held in the multiple financial institution collateral pool. State law requires deposits may only be made with institutions that are approved by the PDPC.

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

Fair Market Value: Energy Northwest investments have been adjusted to reflect available market values as of June 30, 2017 obtained from available financial industry valuation sources. Energy Northwest categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All EN fair market measurements are quoted at Level 2.

NOTE 4 - Long-Term Debt

Each Energy Northwest business unit is financed separately. The resolutions of Energy Northwest authorizing issuance of revenue bonds for each business unit provide that such bonds are payable from the revenues of that business unit. All bonds issued under resolutions Nos. 769, 775 and 640 for Nuclear Projects Nos. 1, 3 and Columbia, respectively, have the same priority of payment within the business unit (the "prior lien bonds"). No prior lien bonds remain outstanding related to Columbia authorized under resolution No. 640. No prior lien bonds remain outstanding related to Project 1 authorized under resolution No. 769. All bonds issued under resolutions Nos. 835, 838 and 1042 (the "electric revenue bonds") for Nuclear Projects Nos. 1, 3 and Columbia, respectively, are subordinate to the prior lien bonds and have the same subordinated priority of payment within the business unit. Nine Canyon's bonds were authorized by the following resolutions: Resolution No. 1214 (2001 Bonds), Resolution No. 1299 (2003 Bonds), Resolution No. 1376 (2005 Bonds), Resolution No. 1482 (2006 Bonds), Resolution No. 1722 (2012 Bonds), Resolution No. 1789 (2014 Bonds), and Resolution No. 1824 (2015 Bonds). No 2001, 2003, 2005, or 2006 Nine Canyon bonds remained outstanding as of June 30, 2017 under Resolution Nos. 1214, 1299, 1376, and 1482 respectively.

During the year ended June 30, 2017, Energy Northwest issued, for Project 1, Columbia, and Project 3, 2017-A and 2017-B fixed-rate bonds. The Project 1, Columbia, and Project 3 bonds were issued with a coupon interest rate ranging from 1.90 percent to 5.0 percent.

The Series 2017-A bonds issued for Project 1, Columbia, and Project 3 are tax-exempt fixed-rate bonds. Series 2017-B bonds issued for Project 1, Columbia, and Project 3 are taxable fixed-rate bonds. These bonds were issued in majority to refund prior Project 1, Columbia, and Project 3 bonds.

AVAILABLE-FOR-SALE INVESTMENTS (Dollars in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (1) (2)
Columbia	\$ 103,059	\$ -	\$ (64)	\$ 102,995
Packwood	500	-	(1)	499
Nuclear Project No. 1	400	-	(1)	399
Nuclear Project No. 3	-	-	-	-
Business Development Fund	2,222	-	(6)	2,216
Internal Service Fund	26,876	10	(45)	26,841
Nine Canyon Wind	9,960	-	(16)	9,944

(1) All investments are in U.S. Government backed securities including U.S. Government Agencies and Treasury Bills.

(2) The majority of investments have maturities of less than 1 year. Approximately \$12.4 million have a maturity beyond 1 year with the longest maturity being December 10th, 2021.

Investment Type	Rating	June 30, 2017
Federal Home Loan Bank	AA+	29%
Federal National Mortgage Assn.	AA+	36%
U.S. Treasury	AA+	35%
		100%

The 2017-A, and 2017-B refunding bonds resulted in a combined economic gain of \$0.2 million, \$4.4 million, and \$0.7 million for Project 1, Columbia, and Project 3, respectively.

Energy Northwest also defeased certain revenue bonds by placing the net proceeds from the refunding bonds in irrevocable trusts to provide for all required future debt service payments on the refunded bonds until the dates of redemption. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the financial statement. In FY 2017 defeasements included \$286.1 million, \$179.8 million, and \$195.9 million for Project 1, Columbia, and Project 3, respectively.

The Weighted Average Coupon Interest Rates and Total Defeased Bonds for Project 1, Columbia, and Project 3 2017-A and 2017-B are presented in the following tables:

WEIGHTED AVERAGE COUPON INTEREST RATE FOR REFUNDED BONDS

	2017A	2017B
Project 1	4.79%	0.98%
CGS	4.47%	1.19%
Project 3	4.63%	0.98%
Total	4.67%	1.11%

WEIGHTED AVERAGE COUPON INTEREST RATE FOR NEW BONDS

	2017A	2017B
Project 1	5.00%	2.15%
CGS	4.98%	3.19%
Project 3	5.00%	2.47%
Total	4.99%	2.74%

TOTAL DEFEASED (Dollars in thousands)

	2017A	2017B	Total
Project 1	\$ 285,090	\$ 960	\$ 286,050
CGS	\$ 124,965	\$ 3,265	\$ 128,230
Project 3	\$ 186,280	\$ 900	\$ 187,180
Total	\$ 596,335	\$ 5,125	\$ 601,460

2017 REFUNDING RESULTS

Outstanding principal on revenue and refunding bonds for the various business units as of June 30, 2017, and future debt service requirements for these bonds are presented in the following tables:

2017-A (Tax-Exempt) Transaction	Columbia	Project 1	Project 3
Cash Flow Difference			
Old debt service cash flows	\$ 132,222	\$ 285,090	\$ 186,943
New debt service cash flows	164,351	359,683	228,024
Net Cash Flow Savings (Dissavings)	\$ (32,129)	\$ (74,593)	\$ (41,081)
Economic Gain / Loss			
Present value of old debt service cash flows	\$ 128,744	\$ 283,807	\$ 186,040
Present value of new debt service cash flows	124,325	283,599	185,344
Economic Gain (Loss)	\$ 4,419	\$ 208	\$ 696

2017-B (Taxable) Transaction	Columbia	Project 1	Project 3
Cash Flow Difference			
Old debt service cash flows	\$ 3,265	\$ 960	\$ 900
New debt service cash flows	4,639	1,117	1,122
Net Cash Flow Savings (Dissavings)	\$ (1,374)	\$ (157)	\$ (222)
Economic Gain / Loss			
Present value of old debt service cash flows	\$ 3,247	\$ 956	\$ 896
Present value of new debt service cash flows	3,266	960	900
Economic Gain (Loss)	\$ (19)	\$ (4)	\$ (4)

COLUMBIA REVENUE AND REFUNDING BONDS (Dollars in thousands)

Series	Coupon Rate (%)	Serial or Term Maturities	Original Issue Amount	Amount Outstanding
2006A	5.00	7-1-2020	434,210	50,000
2006D	5.80	7-1-2023	3,425	3,425
2007B	5.33	7-1-20/2021	10,665	9,935
2008A	5.00-5.25	7-1-17/2018	110,935	16,840
2008B	5.95	7-1-20/2021	14,850	12,025
2008C	5.00-5.25	7-1-21/2024	37,240	28,240
2009A	4.00-5.00	7-1-17/2018	116,425	54,270
2009B	6.80	7-1-23/2024	18,515	9,780
2009C	4.25-5.00	7-1-20/2024	69,170	41,235
2010B	3.75-4.25	7-1-20/2024	16,005	16,005
2010C	4.52-5.12	7-1-20/2024	75,770	75,770
2010D	5.61-5.71	7-1-23/2024	155,805	155,805
2011A	4.00-5.00	7-1-17/2023	311,245	263,970
2011B	4.19-5.19	7-1-19/2024	29,920	29,920
2011C	3.55	7-1-2019	4,600	4,600
2012A	5.00	7-1-18/2021	441,240	441,240
2012D	4.00-5.00	7-1-25/2044	34,140	34,140
2012E	2.15-4.14	7-1-18/2037	748,515	723,030
2014A	4.00-5.00	7-1-18/2040	517,720	485,020
2014B	1.79-4.05	7-1-18/2030	90,520	56,775
2015A	4.00-5.00	7-1-21/2038	330,460	330,460
2015B	1.38-3.84	7-1-18/2038	329,175	323,625
2015C	5.00	7-1-30/2031	38,525	38,525
2016A	5.00	7-1-18/2032	89,055	89,055
2016B	1.65-3.2	7-1-19/2028	4,085	4,085
2017A	4.00-5.00	7-1-18/2035	188,130	188,130
2017B	1.90-3.39	7-1-20/2029	3,795	3,795

Revenue bonds payable	\$ 3,489,700
Estimated fair value at June 30, 2017	\$ 3,821,407

NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS

(Dollars in thousands)

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

Revenue bonds payable	\$ 795,580
Estimated fair value at June 30, 2017	\$ 952,006

NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS

(Dollars in thousands)

Series	Coupon Rate (%)	Serial or Term Maturities	Original Issue Amount	Amount Outstanding
1993C	5.75	7-1-17/2018	522,853	7,407 (A)
2007C	5.00	7-1-2018	61,085	10,230
2008A	5.25	7-1-2018	13,790	13,790
2009A	5.00-5.25	7-1-2018	116,055	91,365
2010A	5.00	7-1-2018	279,980	154,245
2011A	4.00-5.00	7-1-2018	92,285	92,285
2012A	5.00	7-1-2018	67,885	67,885
2014C	5.00	7-1-2028	72,305	72,305
2015A	4.00-5.00	7-1-18/2026	79,040	76,790
2015B	1.38	7-1-2018	33,545	16,265
2015C	5.00	7-1-2026	26,675	26,675
2016A	5.00	7-1-18/2027	198,535	198,535
2016B	1.65-3.05	7-1-19/2027	5,420	5,420
2017A	5.00	7-1-18/2028	154,435	154,435
2017B	1.90-2.94	7-1-20/2025	1,645	1,645

Compound interest bonds accretion	21,753
Revenue bonds payable	\$ 1,011,030
Estimated fair value at June 30, 2017	\$ 1,124,637

(A) Compound interest bonds

NINE CANYON WIND PROJECT REVENUE AND REFUNDING BONDS

(Dollars in thousands)

Series	Coupon Rate (%)	Serial or Term Maturities	Original Issue Amount	Amount Outstanding
2012	3.00-5.00	7-1-17/2023	13,750	9,500
2014	5.00	7-1-17/2023	36,750	29,785
2015	4.00-5.00	7-1-17/2030	54,895	54,895

Revenue bond payable	\$ 94,180
Estimated fair value at June 30, 2017	\$ 103,878

Total bonds payable	\$ 5,390,490
Estimated fair value at June 30, 2017	\$ 6,001,928

DEBT SERVICE REQUIREMENTS As of June 30, 2017 (Dollars in thousands)

COLUMBIA

FISCAL YEAR*	PRINCIPAL	INTEREST	TOTAL
6/30/2017 Balance:**	\$ 1,135	\$ 73,842	\$ 74,977
2018	425,605	148,438	574,043
2019	417,255	133,019	550,274
2020	357,510	117,679	475,189
2021	358,680	102,968	461,648
2022	362,330	88,591	450,921
2023-2027	683,485	263,989	947,474
2028-2032	476,220	169,094	645,314
2033-2037	323,560	61,054	384,614
2038-2042	77,985	7,016	85,001
2043-2044	5,935	383	6,318
	\$ 3,489,700	\$ 1,166,073	\$ 4,655,773

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

** Principal and Interest due July 1, 2017.

NUCLEAR PROJECT NO. 3

FISCAL YEAR*	PRINCIPAL	INTEREST	TOTAL
6/30/2017 Balance:**	\$ 17,305	\$ 25,942	\$ 43,247
2018	481,205	48,513	529,718
2019	1,350	25,460	26,810
2020	740	25,437	26,177
2021	0	25,424	25,424
2022	0	25,423	25,423
2023-2027	338,125	112,790	450,915
2028	172,305	8,615	180,920
	\$ 1,011,030	\$ 297,604	\$ 1,308,634

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

** Principal and Interest due July 1, 2017.

NOTE 5 - Net Billing

Security - Nuclear Projects Nos. 1 and 3 and Columbia

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

NUCLEAR PROJECT NO. 1

FISCAL YEAR*	PRINCIPAL	INTEREST	TOTAL
6/30/2017 Balance:**	\$ -	\$ 22,483	\$ 22,483
2018	0	39,375	39,375
2019	1,280	39,375	40,655
2020	1,635	39,353	40,988
2021	0	39,323	39,323
2022	0	39,322	39,322
2023-2027	627,320	162,965	790,285
2028	165,345	8,267	173,612
	\$ 795,580	\$ 390,463	\$ 1,186,043

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

** Principal and Interest due July 1, 2017.

NINE CANYON WIND PROJECT

FISCAL YEAR*	PRINCIPAL	INTEREST	TOTAL
6/30/2017 Balance:**	\$ 7,640	\$ 2,235	\$ 9,875
2018	8,010	4,105	12,115
2019	8,425	3,705	12,130
2020	8,835	3,296	12,131
2021	9,295	2,855	12,150
2022	9,755	2,404	12,159
2023-2027	27,330	6,302	33,632
2028-2030	14,890	1,207	16,097
	\$ 94,180	\$ 26,109	\$ 120,289

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

** Principal and Interest due July 1, 2017.

On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. The Nuclear Projects Nos. 1 and 3 project agreements and the net-billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations under the net-billing agreements, ended upon termination of the projects. Energy Northwest previously entered into an agreement with BPA to provide for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement among Energy Northwest and private companies was terminated in FY 1999. (See Note 10)

Security - Packwood Lake Hydroelectric Project

Power produced by Packwood is provided to the 12 member utilities. The member utilities pay the annual costs, including any debt service, of Packwood

and are obligated to pay these annual costs whether or not Packwood is operational. The Packwood participants also share project revenue to the extent that the amounts exceed project costs.

NOTE 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions as of and for the fiscal year ended June 30, 2017 (in thousands):

Pension Liabilities	\$	127,657
Pension Assets	\$	-
Deferred Inflows of Resources	\$	9,133
Deferred Outflows of Resources	\$	31,203
Pension Expense	\$	2,278

State Sponsored Pension Plans - Substantially all of Energy Northwest's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov

Public Employees Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of Energy Northwest and municipal courts; employees of local governments, and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 - provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the

age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) were as follows for the fiscal year ended June 30, 2017:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%

Energy Northwest's actual contributions to the plan were \$6,818 thousand for the fiscal year ended June 30, 2017.

PERS Plan 2/3 - provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3% for each year before age 65, or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 - defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions - The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows fiscal year ended June 30, 2017:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
PERS Plan 2/3	6.23%	6.12%	Varies
PERS Plan 1 UAAL	4.77%		
Administrative Fee	0.18%		
Total	11.18%	6.12%	Varies

Energy Northwest's actual contributions to the plan were \$8,862 thousand for the fiscal year ended June 30, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015 to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements

in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions in 2016 since the 2015 valuation.

- The assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Best estimates as of June 30, 2016:

Asset Class	Target Allocation	Percent Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

Sensitivity of NPL

The table below presents Energy Northwest's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what Energy Northwest's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate at June 30, 2017 (in thousands).

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 70,121	\$ 58,148	\$ 47,845
PERS 2/3	127,981	69,510	(36,184)

The pension liability has been allocated to the business units based on the percentages listed in Note 1. The total pension liability for each unit as of June 30, 2017 is as follow (in thousands):

	Energy Northwest's proportionate share of the PERS Plan 1 net pension liability:	Energy Northwest's proportionate share of the PERS Plan 2/3 net pension liability:	Total
Columbia	\$ 55,595	\$ 66,459	\$ 122,054
Packwood	192	229	421
Business Development	1,704	2,036	3,740
Nine Canyon	494	591	1,085
Nuclear Project No. 1	162	195	357
Total	\$ 58,147	\$ 69,510	\$ 127,657

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017 Energy Northwest reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2016 in thousands):

PERS 1	\$ 58,147
PERS 2/3	\$ 69,510
Total	\$ 127,657

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	1.24%	1.08%	-0.16%
PERS 2/3	1.60%	1.38%	-0.22%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by

the DRS in the *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the fiscal year ended June 30, 2017, Energy Northwest's recognized pension expense as follows (in thousands):

PERS 1	\$ (5,737)
PERS 2/3	7,766
Expenses	249
Total	\$ 2,278

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017, Energy Northwest reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1:		
Differences Between Expected and Actual Economic Experience	\$ 1,464	\$ -
Changes of Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Paid to PERS Subsequent to the Measurement Date	6,818	-
Effect of Change in the Employer's Proportionate Share	-	-
Total PERS 1	\$ 8,282	\$ -
PERS 2/3		
Differences Between Expected and Actual Economic Experience	\$ 3,701	\$ 2,295
Changes of Actuarial Assumptions	718	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	8,506	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	150	47
Contributions Paid to PERS Subsequent to the Measurement Date	8,862	-
Effect of Change in the Employer's Proportionate Share	984	6,791
Total PERS 2/3	\$ 22,921	\$ 9,133
Total All Plans	\$ 31,203	\$ 9,133

Deferred outflows of resources related to pensions resulting from Energy Northwest's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30	PERS 1	PERS 2/3
2018	(360)	(1,641)
2019	(360)	(1,638)
2020	1,344	4,583
2021	840	3,624
2022	-	-
Thereafter	-	-
Total	\$ 1,464	\$ 4,928

NOTE 7 - Deferred Compensation Plans

Energy Northwest provides a 401(k) deferred compensation plan (401(k) plan), and a 457 deferred compensation plan. Both plans are defined contribution plans that were established to provide a means for investing savings by employees for retirement purposes. All permanent, full-time employees are eligible to enroll in the plans. Participants are immediately vested in their contributions and direct the investment of their contribution. Each participant may elect to contribute pre-tax annual compensation, subject to current Internal Revenue Service limitations.

For the 401(k) plan, Energy Northwest may elect to make an employer matching contribution for each of its employees who is a participant during the plan year. The amount of such an employer match shall be 50 percent of the maximum salary deferral percentage. During FY 2017 Energy Northwest contributed \$3.8 million in employer matching funds while employees contributed \$12.7 million.

NOTE 8 - Nuclear Licensing and Insurance

Nuclear Licensing

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

Nuclear Insurance

Nuclear insurance includes liability coverage, property damage, decontamination and premature decommissioning coverage and accidental outage and/or extra expense coverage. The liability coverage is governed by the Price-Anderson Act (Act), while the property damage, decontamination and premature decommissioning coverage are defined by the Code of Federal Regulations. Energy Northwest continues to maintain all regulatory required limits as defined by the NRC, Code of Federal Regulations and the Act. The NRC requires Energy Northwest to certify nuclear insurance limits on an annual basis. Energy Northwest intends to maintain insurance against nuclear risks to the extent such insurance is available on reasonable terms and in an amount and form consistent with customary practice. Energy Northwest is self-insured to the extent that losses (i) are within the policy deductibles,

(ii) are not covered per policy exclusions, terms and limitations, (iii) exceed the amount of insurance maintained, or (iv) are not covered due to lack of insurance availability. Such losses could have an effect on Energy Northwest's results of operations and cash flows. All dollar figures noted below are as of June 30, 2017.

American Nuclear Insurance (ANI) Coverage: The Act provides financial protection for the public in the event of a significant nuclear generation plant incident. The Act sets the statutory limit of public liability for a single nuclear incident at \$13.44 billion. Energy Northwest addresses this requirement through a combination of private insurance and an industry-wide retrospective payment program called Secondary Financial Protection (SFP). Energy Northwest has \$450 million of liability insurance as the first layer of protection. If any US nuclear generation plant has a significant event which exceeds the plant's first layer of protection, every operating licensed reactor in the US is subject to an assessment up to \$127.3 million not including state insurance premium tax. Assessments are limited to \$18.96 million per reactor, per year, per incident, excluding tax. The SFP is adjusted at least every 5 years to account for inflation and any changes in the number of operating plants. The SFP and liability coverage are not subject to any deductibles.

NEIL Coverage: The Code of Federal Regulations requires nuclear generation plant license-holders to maintain at least \$1.06 billion nuclear decontamination and property damage insurance and requires the proceeds thereof to be used to place a plant in a safe and stable condition, to decontaminate it pursuant to a plan submitted to and approved by the NRC before the proceeds can be used for plant repair or restoration or to provide for premature decommissioning. Energy Northwest has aggregate coverage in the amount of \$2.75 billion which is subject to a \$5 million deductible per accident.

The Agency anticipates exposure to a variety of risks of loss as a normal part of conducting business (for example: torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation). These anticipated risks of losses are covered through a combination of self insurance, commercial property and liability insurance, nuclear property and liability insurance, professional services liability insurance, Directors & Officers (including employment practices liability) insurance, and fiduciary insurance. Claims for loss to the Agency are infrequent and have not exceeded the liability policy limits in the past three years.

NOTE 9 - Asset Retirement Obligation (ARO)

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

to the net-billed projects, BPA is obligated to provide for the entire cost of decommissioning and site restoration; therefore, any gain or loss recognized upon settlement of the ARO results in an adjustment to either the billings in excess of costs (liability) or costs in excess of billings (asset), as appropriate, as no net revenue or loss is recognized, and no net position is accumulated for the net-billed projects.

Energy Northwest has identified legal obligations to retire generating plant assets at the following business units: Columbia, Nuclear Project No. 1 and Nine Canyon. Decommissioning and site restoration requirements for Columbia and Nuclear Project No. 1 are governed by the NRC regulations and site certification agreements between Energy Northwest and the state of Washington and regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC) and a lease agreement with the Department of Energy ("DOE"). (See Notes 1 & 10)

As of June 30, 2017, Columbia has a capital decommissioning net asset value of zero and an accumulated liability of \$153.2 million for the generating plant, and for the Independent Spent Fuel Storage Installation (ISFSI) a net asset value of \$1.0 million and an accumulated liability of \$2.5 million.

As of June 30, 2017, Nuclear Project No. 1 has a capital decommissioning net asset value of zero and an accumulated liability of \$7.2 million.

Under the current agreement, Nine Canyon has the obligation to remove the generation facilities upon expiration of the lease agreement if requested by the lessors. The Nine Canyon Wind Project recorded the related original ARO in FY 2003 for Phase I and II. Phase III began commercial operation in FY 2008 and the original ARO was adjusted to reflect the change in scenario for the retirement obligation, with current lease agreements reflecting a 2030 expiration date. As of June 30, 2017, Nine Canyon has a capital decommissioning net asset value of \$0.4 million and an accumulated liability of \$1.5 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, 2017. The balance is included in the accounts payable and accrued expense balances for each unit. ISFSI is included in Columbia's balance:

Asset Retirement Obligation (Dollars in thousands)

Columbia Generating Station	
Balance at Beginning of the Year	\$ 145,551
Current year accretion expense	7,613
ARO Ending Balance	\$ 153,164
ISFSI	
Balance at Beginning of the Year	\$ 2,409
Current year accretion expense	116
ARO Ending Balance	\$ 2,525
Nuclear Project No. 1	
Balance at Beginning of the Year	\$ 9,750
Current year accretion expense	(2,577)
ARO Ending Balance	\$ 7,173
Nine Canyon Wind Project	
Balance at Beginning of the Year	\$ 1,454
Current year accretion expense	60
ARO Ending Balance	\$ 1,514

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

NOTE 10 - Decommissioning and Site Restoration

The NRC has issued rules to provide guidance to licensees of operating nuclear plants on providing financial assurance for decommissioning plants at the end of each plant's operating life (See Note 9). In September 1998, the NRC approved and published its "Final Rule on Financial Assurance Requirements for Decommissioning Power Reactors." As provided in this rule, each power reactor licensee is required to report to the NRC the status of its decommissioning funding for each reactor or share of a reactor it owns. This reporting requirement began March 31, 1999, and reports are required every two years thereafter. Energy Northwest submitted its most recent report to the NRC for Columbia decommissioning in March 2017 and ISFSI decommissioning in December 2015.

Energy Northwest's estimate of Columbia's plant decommissioning costs in FY 2017 dollars is \$479.4 million and estimate of Columbia's ISFSI decommissioning costs in FY 2015 dollars is \$6.1 million). This estimate, which is updated biannually with the last update for the plant decommissioning occurring in fiscal year 2017 and for the ISFSI in fiscal year 2015, is based on the NRC minimum amount (based on NRC 2016 study for the plant and NRC 2013 study for the ISFSI) required to demonstrate reasonable financial assurance for a boiling water reactor with the power level of Columbia.

Site restoration requirements for Columbia are governed by the site certification agreements between Energy Northwest and the state of Washington and by regulations adopted by the EFSEC. Energy Northwest submitted a site restoration plan for Columbia that was approved by the EFSEC on June 12, 1995. Energy Northwest's current estimate of Columbia's site restoration costs is \$102.7 million in constant dollars and is updated biannually along with the decommissioning estimate. Both decommissioning and site restoration estimates 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, 2017, totaled approximately \$261.4 million and \$42.3 million, respectively. The fair value of cash and investment securities in the site restoration fund for Nuclear Project No. 1 is \$31.7 million. Since September 1996, these amounts have been held in an irrevocable trust that recognizes asset retirement obligations according to the fair value of the dismantlement and restoration costs of certain Energy Northwest assets. The trustee is a domestic U.S. bank that certifies the funds for use when needed to retire the asset. The trusts are funded by BPA ratepayers and managed by BPA in accordance with NRC requirements and site certification agreements; the balances in these external trust funds are not reflected on Energy Northwest's balance sheet.

Energy Northwest established a decommissioning and site restoration plan for the ISFSI in 1997. Beginning in FY 2003, an annual contribution is made to the Energy Northwest Decommissioning Fund. These contributions are held by Energy Northwest and not held in trust by BPA. The fair market value of cash and investments as of June 30, 2017, is \$1.7 million. These contributions will occur through FY 2044; cash payments will begin for decommissioning and site restoration in FY 2045.

NOTE 11 - Commitments and Contingencies

Nuclear Project No. 1 Termination

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

Nuclear Project No. 3 Termination

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

Nuclear Project No. 1 Site Restoration

Site restoration requirements for Nuclear Project No. 1 are governed by site certification agreements between Energy Northwest and the state of Washington and regulations adopted by EFSEC, and a lease agreement with DOE. Energy Northwest submitted a site restoration plan for Nuclear Project

No. 1 to EFSEC on March 8, 1995, which complied with EFSEC requirements to remove the assets and restore the sites by demolition, burial, entombment, or other techniques such that the sites pose minimal hazard to the public. EFSEC approved Energy Northwest's site restoration plan on June 12, 1995. In its approval, EFSEC recognized that there is uncertainty associated with Energy Northwest's proposed plan. Accordingly, EFSEC's conditional approval provides for additional reviews once the details of the plan are finalized. A new plan with additional details was submitted in FY 2003. This submittal was used to calculate the ARO discussed in Note 10.

Business Development Fund Interest in Northwest Open Access Network

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

The Business Development Fund had a 6.66 percent interest in NoaNet's revenue bonds with a potential mandate of an additional 25 percent step-up possible for a maximum 6.83 percent on outstanding revenue bonds. NoaNet paid off the revenue bonds by December 31, 2016 relieving Energy Northwest of any potential financial obligation. 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. Baker Tilly has not audited or examined any information available from NoaNet; accordingly, Baker Tilly does not express an opinion or any other form of assurance with respect thereto.

Other Litigation and Commitments

Energy Northwest is a party to various claims and legal actions arising in the normal course of business. The following is a discussion of certain litigation and claims relating to the Net Billed Projects to which Energy Northwest is a party:

Energy Northwest v. United States of America (DOE). On August 28, 2014, Energy Northwest and the United States entered into a Settlement Agreement ("Settlement Agreement") under Energy Northwest v. United States, No. 11-447C (Fed. Cl. filed July 7, 2011). In addition to settling litigation for the U.S. Department of Energy's ("DOE") continuing breach of contract for its failure to dispose of spent nuclear fuel and high-level radioactive waste, the Settlement Agreement provided that Energy Northwest could be reimbursed by the government for its allowable expenses, as defined in the Settlement Agreement, related to DOE's continued failure to accept used nuclear fuel under the Standard Contract Energy Northwest signed with DOE in 1983. The Settlement Agreement also settled the litigation filed by Energy Northwest in the U.S. Court of Federal Claims in July 2011 for damages incurred between September 1, 2006, and June 30, 2012 in the amount of \$23.6 million. Energy Northwest received \$48.7 million in 2011 under the first action that resulted in a Stipulation for Entry of Final Judgment in Favor of Plaintiff Energy Northwest which covered damages prior to September 1, 2006.

Under the Settlement Agreement, Energy Northwest is required to submit a claim for reimbursement to DOE annually for each year, July 1, 2012 through December 31, 2016. The claim submission deadline is January 31 of the following calendar year. After submission, DOE has a set time to review

and request additional information from Energy Northwest. At the end of the review period, Energy Northwest can accept DOE's determination and be paid the amount determined by DOE or Energy Northwest can reject the determination and proceed to binding arbitration.

Under the Settlement Agreement, Energy Northwest submitted its first claim to DOE by the deadline. The first claim covers Fiscal Years 2013 through 2014 (a catch-up claim). Energy Northwest was reimbursed \$15,143,888.14 in September 2015. In early 2016, Energy Northwest submitted its second claim for costs incurred from July 1, 2014 to June 30, 2015. DOE agreed to pay and Energy Northwest accepted the sum of \$4,531,664 in full satisfaction of the claim for costs incurred by Energy Northwest for the time period. Payment from the Judgment Fund was received in fall 2016. The third claim for costs incurred between July 1, 2015 and June 30, 2016, was submitted January 1, 2017. Energy Northwest received confirmation that it would receive \$7,200,184.33 in reimbursed costs on June 6, 2017. The reimbursement was received by Energy Northwest on June 26, 2017.

NOTE 12 - Nuclear Fuels

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

DOE and Energy Northwest have entered into an agreement for the transfer of the DUF6 to Energy Northwest. The agreement addresses delivery and transfer of title of the DUF6, return of residual DUF6 after enrichment, storage of the EUP, and payment of DOE's costs. The costs for the handling of the DUF6 and storage of the EUP were anticipated to be \$5 million or less. As of December 31, 2015, Energy Northwest had removed all EUP stored with DOE to a commercial facility in New Mexico. Energy Northwest had recorded \$0.9 million in total charges to the DOE for delivery of the DUF6, storage and loading of the EUP, which is capitalized as cost of the fuel being purchased.

Under the Depleted Uranium Enrichment Program (DUEP), Energy Northwest purchased from USEC all of the Separative Work Units (SWU) contained in the EUP. Upon finalization of the program, Energy Northwest had purchased a total of 481.6 MTU of EUP from USEC at a cost of \$687.2 million, which is recorded in nuclear fuel, net of accumulated amortization, as of June 30, 2013. There have been no additional purchases since the conclusion of the program in May of 2013.

Energy Northwest and TVA have entered into an agreement for the sale and purchase of a portion of the SWU and Feed Component of the EUP. The sales under the agreement are expected to total approximately \$730 million. The payment for the third delivery of 150,000 SWU was received August 30, 2016 for \$24.3 million. The total gain reported for the sale was \$4.6 million reported on the Statements of Revenues, Expenses, and Changes in Net Position under Other. The remaining sales under this agreement are scheduled to take place between July 2017 and September 2022.

Energy Northwest has a contract with DOE that requires DOE to accept title and dispose of spent nuclear fuel. Although the courts have ruled that DOE had the obligation to accept title to spent nuclear fuel by January 31, 1998, currently, there is no known date established when DOE will fulfill this legal obligation and begin accepting spent nuclear fuel. On November 19, 2013, the D.C. Circuit Court ordered the DOE to submit to Congress a proposal to reduce the current waste disposal fee to zero, unless and until there is a viable disposal program. On January 3, 2014, the DOE filed a petition for rehearing which was denied by the D.C. Circuit Court on March 18, 2014. Also, on January 3, 2014, the DOE submitted a proposal to Congress to reduce the current waste disposal fee to zero. On May 9, 2014, the DOE notified Energy Northwest that the waste disposal fee will remain in effect through May 15, 2014, after which time the fee will be set to zero. Until such time as a new fee structure is in effect, Energy Northwest will not accrue any further costs related to waste disposal fees. When the fuel is placed in the reactor the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. The amount moved to spent fuel for cooling decreased \$86.0 million.

The current period operating expense for Columbia was \$41.2 million for amortization of fuel used in the reactor. There were no DOE spent fuel disposal charges.

Energy Northwest has an Independent Spent Fuel Storage Installation (ISFSI), which is a temporary dry cask storage facility to be used until DOE completes its plan for a national repository. ISFSI will store the spent fuel in commercially available dry storage casks on a concrete pad at the Columbia site. There were no casks issued from inventory in fiscal year 2017. Spent fuel is transferred from the spent fuel pool to the ISFSI periodically to allow for future refueling. The next ISFSI loading campaign is scheduled for March of 2018 for a total of 9 casks.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ENERGY NORTHWEST'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (Dollars in thousands) (Unaudited)

Measurement Date Ended June 30	PERS 1				PERS 2/3			
	2016	2015	2014	2013	2016	2015	2014	2013
Proportion of the net pension liability (asset)	1.08%	1.24%	1.22%	1.19%	1.38%	1.60%	1.55%	1.55%
Proportionate share of the net pension liability (asset)	\$ 58,147	\$ 65,005	\$ 61,291	\$ 71,094	\$ 69,510	\$ 57,017	\$ 31,410	\$ 66,351
Covered-employee payroll	310	351	439	772	128,634	154,080	144,158	139,637
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	18757.42%	18519.94%	13961.50%	9209.07%	54.04%	37.00%	21.79%	47.52%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	61.19%	55.70%	85.82%	89.20%	93.29%	84.60%

SCHEDULE OF ENERGY NORTHWEST'S CONTRIBUTIONS (Dollars in thousands) (Unaudited)

Fiscal year ended June 30	PERS 1										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$ 38	\$ 35	\$ 32	\$ 43	\$ 57	\$ 70	\$ 88	\$ 104	\$ 245	\$ 202	\$ 175
Contributions in Relation to the Contractually Required Contribution	(38)	(35)	(32)	(43)	(57)	(70)	(88)	(104)	(245)	(202)	(175)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 343	\$ 310	\$ 351	\$ 439	\$ 772	\$ 996	\$ 1,610	\$ 1,933	\$ 2,894	\$ 3,297	\$ 3,964
Contributions as a percentage of covered employee payroll	11.08%	11.29%	9.12%	9.79%	7.38%	7.03%	5.47%	5.38%	8.47%	6.13%	4.41%
Fiscal year ended June 30	PERS 2/3										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$ 15,642	\$ 14,306	\$ 12,787	\$ 11,906	\$ 9,041	\$ 8,760	\$ 6,533	\$ 6,225	\$ 9,522	\$ 6,016	\$ 4,505
Contributions in Relation to the Contractually Required Contribution	(15,642)	(14,306)	(12,787)	(11,906)	(9,041)	(8,760)	(6,533)	(6,225)	(9,522)	(6,016)	(4,505)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 142,140	\$ 128,634	\$ 154,080	\$ 144,158	\$ 139,637	\$ 134,777	\$ 133,276	\$ 123,367	\$ 124,301	\$ 105,464	\$ 104,971
Contributions as a percentage of covered employee payroll	11.00%	11.12%	8.30%	8.26%	6.47%	6.50%	4.90%	5.05%	7.66%	5.70%	4.29%
PERS Plan 1 UAAL*	\$ 6,780	\$ 6,106	\$ 5,679	\$ 5,342	\$ 3,021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Notes to Schedules

Energy Northwest implemented GASB 68 for the year ended June 30, 2015. There were no changes in actuarial assumptions between the valuation date of June 30, 2013 and the measurement date of June 30, 2014. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report rolled forward to the current measurement date of June 30, 2015.

*DRS allocates certain portion of contributions from PERS Plan 2/3 to PERS Plan 1 in order to fund its unfunded actuarially accrued liability (UAAL).