

**ALLOCATION:** A process to spread indirect overhead costs to other business units based on a common cost pool.

**AMORTIZATION:** A method of allocating (accruing) costs to fiscal periods to match costs with the revenues or benefits generated from a specific activity.

**AMORTIZED FINANCING COSTS:** Reflects the capitalized financing costs that were incurred to issue long-term bonds to finance construction of the project or refinance outstanding project bonds, which are being amortized over the life of the bonds.

**ANNUAL BUDGET:** The amount of resources, expressed in dollars, allocated to a specific project for a given fiscal year.

**BASELINE COSTS:** Columbia Generating Station (Columbia) direct and indirect costs not associated with projects. Estimated labor associated with projects has been included in the project line item budgets.

**BILLING STATEMENTS:** A contractual notification to project participants indicating their percentage and dollar share of a net-billed project's annual budget.

**BOND PROCEEDS:** Monies received from the issuance of bonds.

**BOND RESOLUTION:** A resolution passed by Energy Northwest's Board of Directors establishing a plan and system for the acquisition and construction of a particular Energy Northwest project. Each of Energy Northwest's projects has a bond resolution. Among other things, the resolution authorizes the issuance of bonds to construct the project and establishes special rules pertaining to the accounting and funding of each project. Each resolution mandates that separate funds and books of accounts be maintained and strictly prohibits the payment of obligations of one project with funds of another project.

**BOND RETIREMENT:** Funds deposited into the Bond Fund Principal or Bond Fund Retirement accounts used to retire maturing debt or meet sinking fund requirements.

**BPA DIRECT PAY AGREEMENTS:** Energy Northwest and Bonneville entered into an agreement with respect to each Net Billed Project ("Direct Pay Agreements") pursuant to which, beginning May 2006, Bonneville pays at least monthly all costs for each Net Billed Project, including debt service on the Net Billed Bonds, directly to Energy Northwest. Each Participant pays directly to Bonneville all costs associated with its power sales and other contracts with Bonneville instead of making such payments to Energy Northwest. The Net Billing Agreements provide that Energy Northwest is to bill budgeted costs less

amounts payable from sources other than the Net Billing Agreements to Participants. Direct payments received from Bonneville under the Direct Pay Agreements are considered a source other than the Net Billing Agreements and, therefore, the Net Billing Agreements were not amended. In the Direct Pay Agreements, Energy Northwest agrees to promptly bill each Participant its share of the costs of the respective Project under the Net Billing Agreements if Bonneville fails to make a payment when due under the Direct Pay Agreements.

**BUSINESS DEVELOPMENT FUND (BDF):** A special enterprise fund created for the purpose of holding, administering, disbursing and accounting for Energy Northwest costs and revenues generated from new energy-related business opportunities. Created by Executive Board Resolution Number 1006 in April 1997.

**BUSINESS UNIT:** A plan and system authorized by Energy Northwest's Board of Directors. Columbia, WNP-1, WNP-3, Packwood, Business Development Fund, Nine Canyon Wind Project, and General Business Unit are all Business Units. The General Business Unit includes indirect costs that are subsequently allocated to all other business units.

**CAPITAL ADDITIONS:** Includes improvements and modifications that will be made throughout the operating life of the plant that will be necessary to assure plant safety, reliability, efficiency and cost effectiveness.

**CAPITAL COSTS/EQUIPMENT:** Costs related to improvements and modifications to the plant or the purchase of equipment. Generally, an item is considered to be capital equipment if it exceeds \$10K, except computer equipment which is \$1K, in value and has a service life of greater than one year. Capital items are depreciated over their estimated service-lives.

**CONSTRUCTION FUND:** Established pursuant to Bond Fund resolutions, the Construction Fund pays for all costs of construction.

**CONTROLLABLE COSTS:** Controllable costs include operations, maintenance, capital and overhead costs. They exclude costs related to depreciation, fuel, and financing.

**CORPORATE PROGRAMS:** The administration, management and general programs that support Energy Northwest as a business entity are accumulated into a Corporate Program indirect cost pool. The Corporate Program costs are distributed based upon total Operating and Capital costs charged to Energy Northwest projects or other final cost objectives. Corporate Programs include, but are not limited to, accounting, human resources, legal services and general management.

**COST OF POWER:** A measurement, expressed in dollars per megawatt-hour, designed to measure the cost effectiveness of plant operations. Also see Memorandum of Agreement.

**COST-TO-CASH RECONCILIATION:** A schedule depicting how cost numbers, which are used to manage and control Energy Northwest business units, are converted to cash and funding requirements.

**DEBT SERVICE:** Amounts paid or required to be paid into the applicable Bond and Reserve & Contingency Fund for purposes of paying the semi-annual coupon interest and annual bond principal redemption.

**DECOMMISSIONING:** Refers to the plan of dismantlement and site restoration of Columbia. The decommissioning plan for Columbia reflects a 60-year plant life, three years to prepare for protective storage, 60 years of protective storage, and 3.5 years for facility dismantlement and site restoration. A special fund has been established to provide monies necessary to pay for decommissioning.

**DEPRECIATION:** A systematic and rational basis for allocating capital costs over the service life of an asset. Depreciation may be based on estimated service life in years or production capacity. Depreciation can be viewed as the wear and tear of an asset over time.

**ESCALATION:** The dollar amount or percentage rate that costs are expected to increase in future periods due to inflation, changes in labor contracts, tax increases, etc.

**EXCESS WORKING CAPITAL:** The amount in excess of \$3 million that has been designated as the required amount of working capital for the Revenue Fund. To the extent that on June 30, there is more than that amount of monies in the Revenue Fund, such amounts for the current fiscal year are excess amounts to be used to reduce the funding requirements for the project for the subsequent fiscal year.

**FISCAL YEAR:** The twelve-month period July 1 through June 30. Energy Northwest's accounting and budgeting cycle is based on a fiscal year that spans this period.

**FIXED COSTS:** Includes non-variable costs that will be incurred regardless of plant operations, output or conditions (e.g., bond interest, depreciation, decommissioning, etc.).

**FUND:** Established by bond resolutions, a fund is a pool of money set aside to pay specified obligations of the projects. Typically, Energy Northwest project bond resolutions call for construction costs to be paid from the Construction Fund, operations and maintenance costs to be paid from the Revenue Fund,

bond interest payments to be paid from the Interest Account within the Bond Fund, etc. Fund restrictions were established by bond resolutions as a form of security for bondholders.

**FUNDING REQUIREMENTS:** Identification of the amount of cash required for a given budget period to meet business unit needs.

**GENERAL BUSINESS UNIT (GENERAL FUND):** A fund established for accounting purposes to pay multi-project obligations and collect and allocate overhead costs to projects.

**GENERATION TAXES:** Pursuant to RCW 54.28.025, a tax is assessed on Columbia net generation equal to one and one-half percent of the wholesale value of energy produced. An additional surcharge is also assessed pursuant to RCW 82.02.030 equal to seven percent of the generation tax payable.

**INCREMENTAL COSTS:** Includes those costs that are variable in nature and are directly related to the amount of power produced (e.g., nuclear fuel amortization spent fuel disposal fees, generation taxes, etc.).

**INCREMENTAL OUTAGE COSTS:** Includes those costs that are needed to support an outage that are not specific to an individual project (e.g., overtime, supplies and materials).

**INDIRECT COSTS:** Includes costs charged to intermediate cost pools for later allocation. Includes costs associated with Administrative & General (A&G), Information Technology, Organizational Overhead, Employee Benefits, and Absence (see General Business Unit tab for further definition of these cost pools).

**INTEREST EXPENSE:** The interest on outstanding bonds. Funds are transferred monthly from the Revenue Funds to the Bond Fund Interest Accounts in order to pay the semi-annual coupon interest.

**INVENTORY:** Operational spare parts, common stock and general materials and supplies purchased by Energy Northwest and stored in warehouses for later use.

**INVESTMENT INCOME:** Income earned on investment securities.

**MATERIALS:** Included in materials is the cost of office supplies, software, fuels, oils, chemicals, gases, support materials, and resins.

**NET-BILLING:** A payment procedure established by net-billing agreements. More than 100 Northwest utilities have purchased all of the project capability of Nuclear Project No. 1, Columbia and Energy Northwest's 70 percent ownership

share of Nuclear Project No. 3. Project Participants have resold such capability to BPA and, in return, BPA is obligated to pay annual costs of these projects, including debt service, by a procedure referred to as net-billing. Project Participants pay Energy Northwest their respective share of annual costs, and BPA pays Project Participants identical amounts by reducing amounts due to BPA by Participants under power sales agreements.

**NUCLEAR FUEL AMORTIZATION:** Represents the amortization of nuclear fuel costs in a given fiscal year. The cost of nuclear fuel is first capitalized as an asset in order to reflect the value of the unused fuel. At the time the fuel is placed in the reactor, the cost of the fuel is amortized to fiscal periods on the basis of quantity of heat produced.

**NUCLEAR FUEL IN PROCESS:** The cost of nuclear fuel that is being converted, fabricated, enriched, etc. not having reached a finished state.

**OPERATING COSTS:** Includes controllable and incremental costs.

**ORIGINAL BUDGET:** The beginning fiscal year budget for a Business Unit.

**OUTSIDE SERVICES:** Includes the cost of services provided by outside companies. Energy Northwest uses outside services for various functions including data systems, legal assistance, engineering support, craft support, paying agent and trustee fees, health physics and chemistry, maintenance services and radwaste disposal.

**PRIOR YEAR'S RESERVE AND CONTINGENCY FUND SURPLUS:** Annually, funds remaining are to be transferred back to the Revenue Fund to be utilized to reduce the funding requirements of the project for the subsequent fiscal year. Monies deposited in the Reserve and Contingency Fund can be expended only for special purposes.

**PRIVILEGE TAXES:** Pursuant to RCW 54.28.020, a tax is assessed on Packwood and Nine Canyon net generation equal to five percent of the first four mills per kilowatt-hour of revenue obtained from the sale of energy for resale. An additional surcharge is also assessed pursuant to RCW 82.02.030 equal to seven percent of the generation tax payable.

**PROJECT PARTICIPANT:** Municipalities, public utility districts, investor-owned utilities and electric cooperatives that have purchased a share of project output.

**REFINANCING:** An Energy Northwest and BPA program to refund higher coupon outstanding debt issued for Projects 1, 3 and Columbia with the goal of reducing total debt service of the projects over the life of the bonds.

**RESERVE AND CONTINGENCY FUND REQUIREMENT:** Funds equal to 10 to 15 percent of the aggregate required monthly transfers from the Revenue Fund to the Bond Fund Debt Service Accounts are to be transferred monthly from the Revenue Fund to the Reserve and Contingency Fund.

**RISK RESERVE:** A reserve in the budget set aside for unplanned events.

**SPENT FUEL DISPOSAL FEE:** The Nuclear Waste Policy Act of 1982 specifies that a waste disposal of one mill be paid to the United States Department of Energy (DOE) for each kilowatt-hour of electricity generated. In return, DOE will accept and dispose of spent nuclear fuel.

**STRATEGIC PLANNING:** A process undertaken by key managers and staff, approved by the Executive Board, to establish a vision of what Energy Northwest should be in five or more years.