

**ENERGY
NORTHWEST**

P.O. Box 968 ■ Richland, Washington 99352-0968

February 26, 2002
GO1-02-0023

Docket No: 50-460

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, DC 20555

Gentlemen:

Subject: **NUCLEAR PROJECT NO. 1 (WNP-1)
CONSTRUCTION PERMIT CPPR-134
2001 ANNUAL FINANCIAL REPORT**

In accordance with 10 CFR 50.71(b), enclosed is a copy of the Energy Northwest 2001 annual financial report for the subject facility.

Should you have any questions, please call RA Bresnahan at (509) 372-5730.

Respectfully,



DW Coleman, Manager
Performance Assessment and Regulatory Programs
Mail Drop PE20

Enclosure: As stated

cc: EW Merschoff - NRC RIV
MM Mendonca - NRC w/o
DL Williams - BPA/1399 w/o
TC Poindexter - Winston & Strawn w/o

M004

ENERGY NORTHWEST

A collage of black and white images related to energy production. The collage includes wind turbines, power lines, and industrial structures. The text 'ENERGY NORTHWEST' is at the top, and 'Annual Report 2001' is in the center.

*Annual
Report
2001*

Operating Highlights

Columbia Generating Station

Net Generation, millions of kWh



Operating & Capital Costs, \$ in millions, millions of kWh



Cost of Power, Cents/kWh



Radiation Exposure, During operation, person-rems

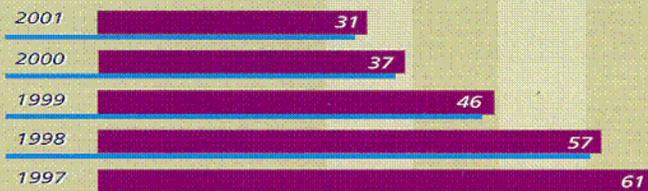
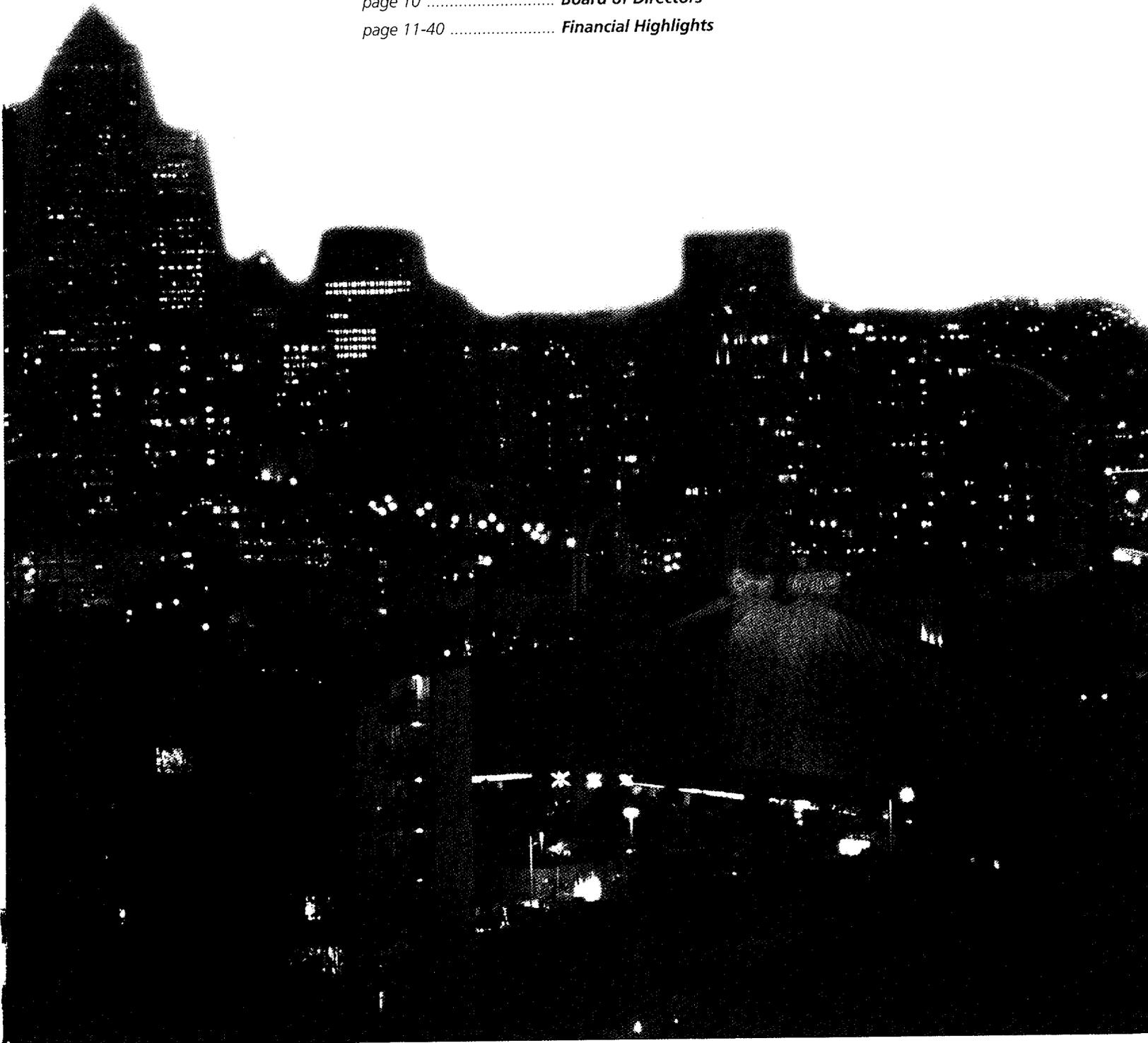


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Executive Board

Leading the way to tomorrow . . .

2002 Incoming Members



Sid Morrison



Amy Solomon



*From left to right
Dan Gunkel, Darrel Bunch, Bob Graves, Margaret Allen,
Vera Claussen, Ted Coates, Larry Kenney, and John Cockburn*

John Cockburn, Chairman

Dan Gunkel, Vice Chairman

Robert Graves, Secretary

Vera Claussen, Assistant Secretary
(also Chairman of Administrative & Public Responsibility
Committee)

Margaret Allen, Member
(also Chairman of Audit, Legal & Finance Committee)

Darrel Bunch, Member

Edward E. (Ted) Coates, Member
(also Chairman of Operations & Construction Committee)

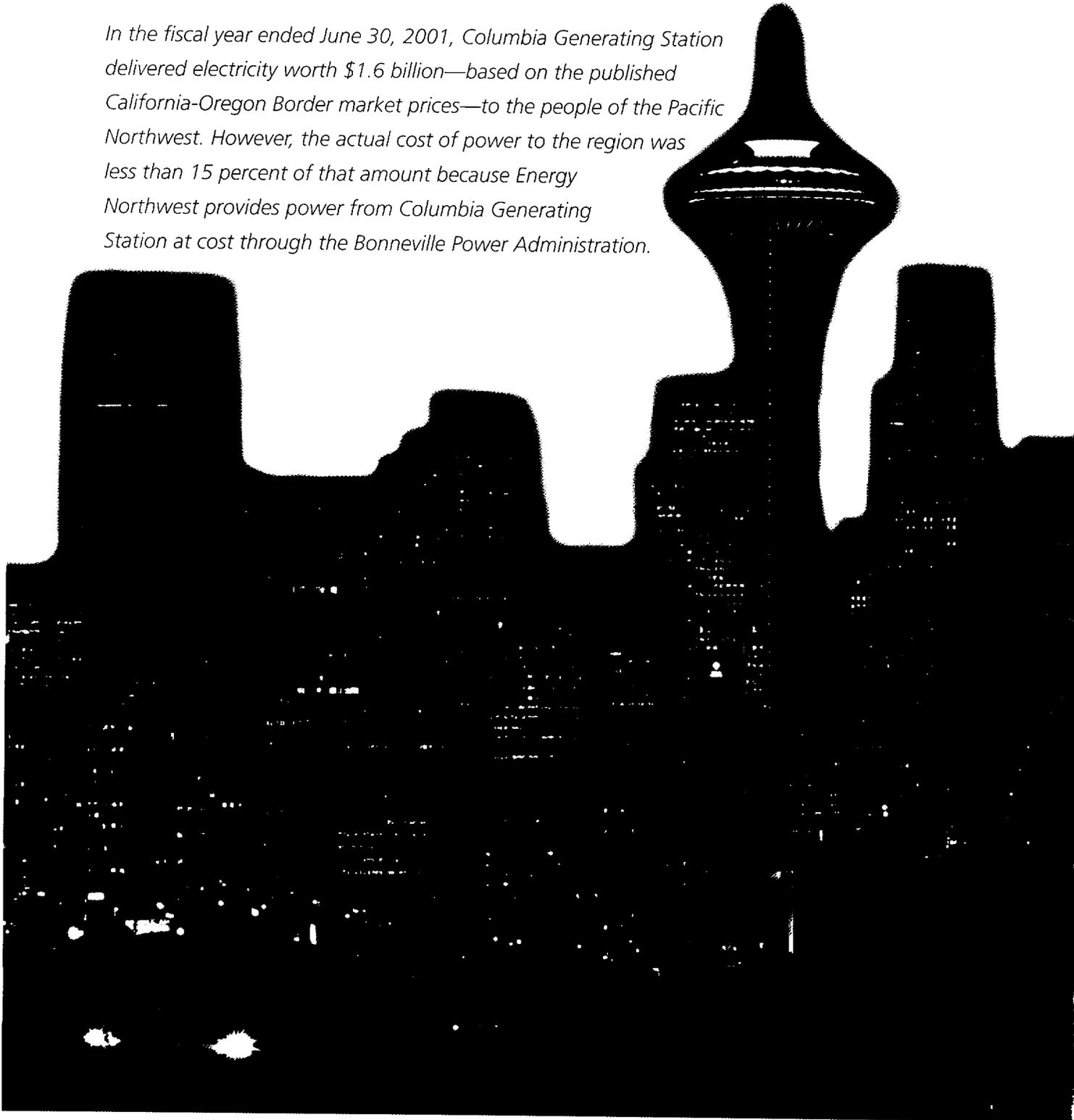
Larry Kenney, Member

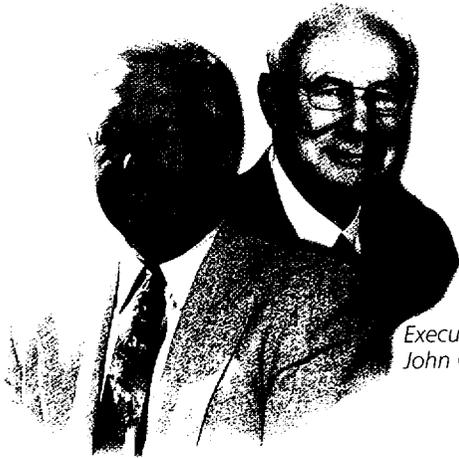
Roger Sparks, Member



Creating Value

In the fiscal year ended June 30, 2001, Columbia Generating Station delivered electricity worth \$1.6 billion—based on the published California-Oregon Border market prices—to the people of the Pacific Northwest. However, the actual cost of power to the region was less than 15 percent of that amount because Energy Northwest provides power from Columbia Generating Station at cost through the Bonneville Power Administration.





*Executive Board Chairman
John Cockburn*

*Chief Executive Officer
Vic Parrish*

At the beginning of this new fiscal year, we have just completed our 15th refueling and maintenance outage (R-15). R-15 prepared Columbia Generating Station to run for its first-ever two-year operating cycle. Two-year operating cycles provide the region with a longer continuous run of available electricity and allow us time to plan outage work more efficiently. Over time, the extended cycle will reduce the cost of power, as well as offer the Bonneville Power Administration more flexibility in

managing the water supply and fish runs through the dam system.

Beyond providing clean, reliable public power to the region from Columbia Generating Station, Energy Northwest continues to operate the environmentally friendly 27-megawatt Packwood Lake Hydroelectric Project. In addition, we are moving ahead with development of a wind farm and a solar energy demonstration facility. The Nine Canyon Wind Farm will provide 48 megawatts electric, with opportunity for expansion, and is expected to be in operation by summer 2002. The White Bluffs Solar Demonstration Facility will be the largest solar panel facility in the northwest.

In partnership with Duke Energy North America, Energy Northwest intends to operate and maintain a 630-megawatt natural gas powered combustion turbine facility at Satsop that is expected to be online in late 2003. A portion of the electricity generated at this facility is committed to the public power community, as well. We invite you to read through this annual report for more information on all of Energy Northwest's projects.

We are proud to have been there for the region during an unprecedented, volatile market year, and especially proud of our staff who made it possible. It is with great energy and unwavering commitment to public power and the ratepayers of the region that we step forward into the new year ahead, focused on our mission of providing much needed electricity to the Pacific Northwest at cost.

Energy...

Generating Resources

Power Market Volatility

The West Coast power market was tumultuous during the 2000-2001 fiscal year. As the fiscal year began, spot prices were near \$300 a megawatt-hour, a substantial jump from prices in the \$30-range just a few months before. But as the fiscal year unfolded, people in the power business were to be shocked repeatedly.

Prices regularly reached \$500 a megawatt-hour in January and February, when the Southwest suffered through several rolling blackouts. Prices of \$1,000 were not uncommon. For generators and retailers alike, the world had turned upside down and only began to right itself as the fiscal year ended and the Federal Energy Regulatory Commission instituted power price caps.

Ironically, public power agencies in California all did remarkably well during the turbulent year, because they had opted out of the restructuring scheme.

Columbia Generating Station, functioning nearly flawlessly, shouldered a large portion of the load as surplus capacity became non-existent during the winter and prices went higher than experts thought possible.

One measure of the station's value is in the replacement cost of its electricity generation—what would it cost the Bonneville Power Administration to buy power, at market prices, to replace that from Columbia Generating Station? Based upon that formula, the replacement value of Columbia Generating Station's power for the fiscal year was \$1.6 billion. By comparison, it cost about \$200 million to operate and maintain the plant during that period.

As a public power generator, Energy Northwest does not earn a profit. That benefit accrues to the people of the Pacific Northwest who saved more than \$1 billion on power purchases to light and heat their homes, businesses, and schools.

Columbia Generating Station

When Columbia Generating Station finished its fiscal year on June 30, it marked the end of one of the most astonishingly successful operating periods in the plant's history.

Columbia Generating Station began the fiscal year with two short forced outages, both caused by unavoidable equipment failure. But when demand rose in January and

February—and other generating resources either in the Northwest or California couldn't meet the call—Columbia Generating Station operated flawlessly, reliably generating 1,150 net megawatts 24 hours a day.

Bonneville publicly confirmed the value of the station when its executives said the plant, which normally produced about 5 percent of the region's power, would contribute 10 percent during calendar year 2001. That's enough power to light one out of every 10 homes, heat one out of every 10 schools and nurture one out of every 10 jobs in the Pacific Northwest.

This tradition of excellence could be seen in other innovative endeavors coming from the men and women of Columbia Generating Station:

- A possible increase in power at the plant continues to be evaluated. By making some modifications to piping, valves and transformers, and replacing the generator, Columbia Generating Station's output could be increased by as much as 150 megawatts with very little corresponding increase in operating costs.

- The end of the fiscal year saw the successful completion of the station's 15th refueling outage and its first outage designed to prepare the plant for a two-year generating campaign. While the outage lasted longer than scheduled, it was one of the shortest in the history of the plant.

- Columbia Generating Station's current operating license is scheduled to expire in December of 2023. However, station managers expect to apply for a 20-year extension of the license, giving the plant an effective generating life of 60 years. Subject to approval by its Executive Board, Energy Northwest expects to seek the extension as soon as the NRC will accept the application.

These endeavors, and others, prompted *The Nuclear Professional* magazine to publish an extensive cover story last winter calling Columbia Generating Station "The Jewel of the Pacific Northwest."

Spent Fuel Storage

Since 1984, Columbia Generating Station has refueled its reactor core fifteen times. The uranium fuel pellets are contained in long tubes, which are bundled into fuel assemblies. When the fuel in each of these assemblies has

exhausted its energy, it is removed from the core and placed in the spent fuel pool, adjacent to the reactor.

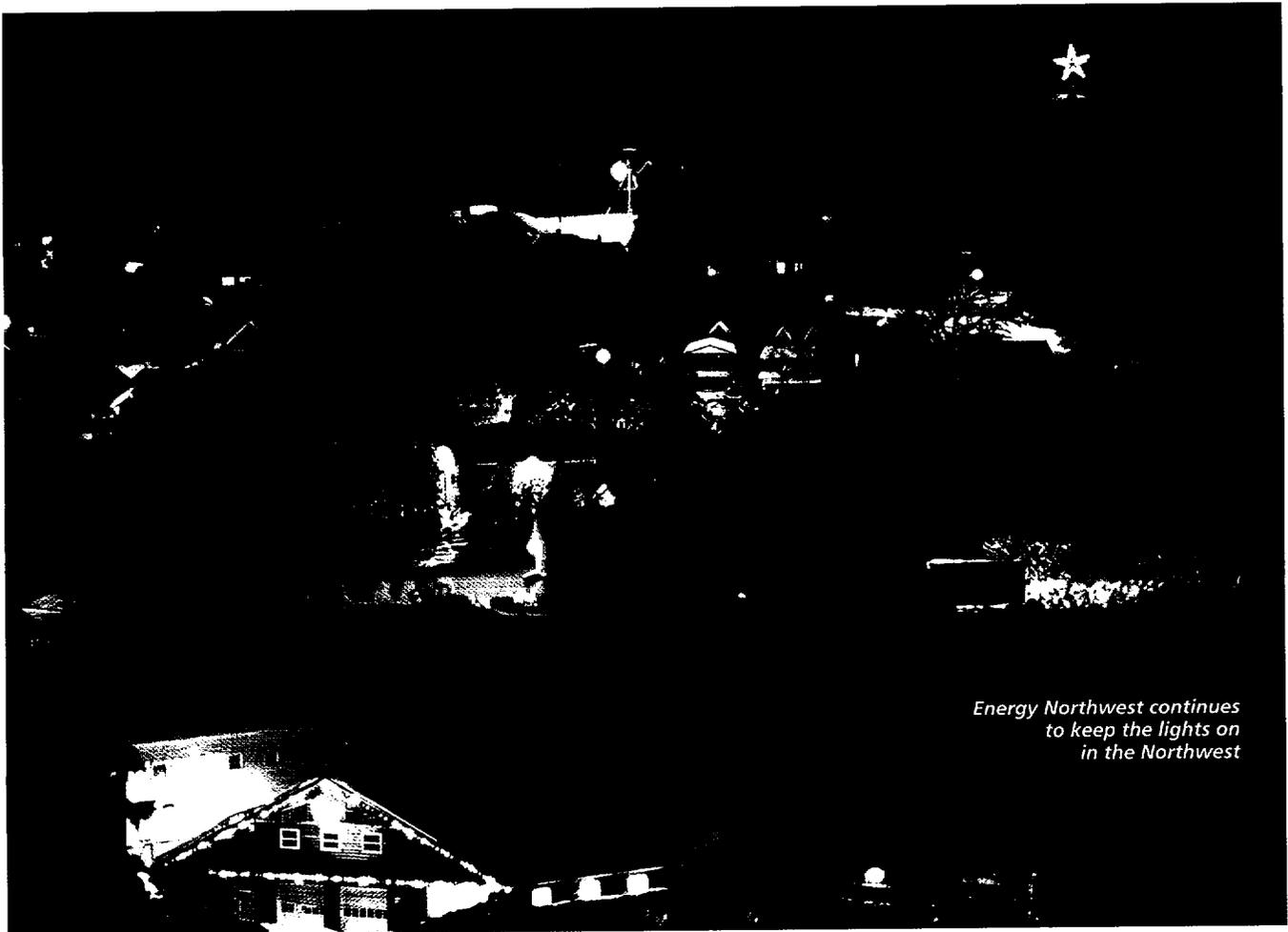
The spent fuel pool has spots for 2,658 bundles. After the July 2001 refueling, the pool contains 2,244 spent fuel bundles. The pool also is used to store various tools and miscellaneous equipment. Under the current configuration, there will not be enough space in the pool to offload spent fuel from the next refueling, now scheduled for spring of 2003.

From the very beginning of the design of Columbia Generating Station, it was assumed that commercial nuclear power plants would transfer their spent fuel to a national spent fuel repository. In 1983, Energy Northwest, along with other U.S. nuclear utilities, signed an agreement with the U.S. Department of Energy (DOE) wherein DOE agreed to provide disposal services for discharged nuclear fuel, beginning on or before Jan. 31, 1998. This agreement was established in accordance with the Nuclear Waste Policy Act of 1982, and was further elaborated by the Nuclear Waste Policy Act of 1999.

Yucca Mountain

To pay for the national facility, utilities have paid into the Nuclear Waste Fund a fee of one-tenth of a cent for every nuclear-generated kilowatt-hour of electricity used. The fund now exceeds \$17 billion. As of the end of fiscal year 2001, Energy Northwest has paid approximately \$96.1 million into this fund.

DOE has focused its investigation on Yucca Mountain, Nevada, with site characterization beginning in 1986, and has spent approximately \$7 billion studying it as a possible underground repository. Although the Secretary of Energy is expected to make a recommendation to the President in late 2001 or early 2002, selection of Yucca Mountain is politically sensitive and it is not clear when or if such a decision will be made. This long delay has forced the nuclear industry to explore alternative methods to store spent fuel from the 103 commercial nuclear power plants that provide one-fifth of the nation's electric power. The solution is called the Independent Spent Fuel Storage Installation (ISFSI), or 'dry cask storage.'



*Energy Northwest continues
to keep the lights on
in the Northwest*

Independent Spent Fuel Storage Installation (ISFSI)

During fiscal year 2001, Energy Northwest began work on the design, licensing and fabrication of up to 22 canisters and casks to meet Columbia Generating Station's need for spent fuel storage through 2010. Each concrete and steel storage cylinder stands about 19 feet tall and is about 11 feet in diameter. The outside cask encases a stainless steel canister that holds the spent fuel. Between the canister and cask is a space to provide air circulation to cool the spent fuel and canister.

Construction of the facilities and the handling system is now under way. A specially designed maintenance shop will house ancillary equipment and garage both a dolly tractor and the tracked crawler vehicle that will carry the loaded casks to the concrete storage pad. During the initial phase of the project, 18 storage-shipment casks will be delivered to the plant and filled with assemblies of spent fuel. Current planning allows for a second phase that would bring total storage capacity to 90 casks.

How it works . . .

An empty cask will be submerged in a corner of the pool and loaded with 68 spent fuel assemblies. The cask will then be removed from the pool, placed on the refueling floor and the water pumped out. A sheet covered with boron, which captures neutrons, is incorporated into the casks to avoid criticality. The lid of the cask will be welded shut, and then the cask will be lowered by crane to ground level and transported by the crawler vehicle to the concrete storage pad.

The ISFSI will allow for the safe and efficient storage of Columbia Generating Station's spent fuel until such time as it can be transported to a national repository. This solution will allow Energy Northwest to continue to provide inexpensive power for ratepayers of the Northwest for many years to come.

WNP-1 Feasibility Study

At the request of Congressmen Doc Hastings and George Nethercutt, Energy Northwest initiated a study to determine the potential feasibility and cost effectiveness of completing WNP-1. The study will be completed in three steps: Bechtel will develop construction cost and timeline estimates; R.W. Beck will review Bechtel's report and provide a power market forecast; and an Independent Review Team will be identified to review and validate the Bechtel and R.W. Beck reports and provide a final analysis of the feasibility of completing the plant. Results of the study will be shared with the region once the full report is complete.

Omaha Public Power District

During 2000, Energy Northwest continued to explore a potential partnership with the Omaha Public Power District (OPPD). The goal was to determine if such a partnership—in the form of a service company—would offer lower costs by identifying efficiencies and sharing common services with OPPD's 514-megawatt Fort Calhoun nuclear plant, located about 25 miles north of Omaha, Nebraska.

In December 2000, Energy Northwest learned that OPPD decided to form an inter-local agreement to operate the Fort Calhoun Station and the Cooper Nuclear Station, owned by Nebraska Public Power District. Surprised and disappointed by the turn of events, Energy Northwest leadership immediately suspended all efforts to develop a service company.

Packwood Lake Hydroelectric Project

During 2001, on behalf of Packwood's stakeholders, Energy Northwest successfully negotiated a revised power purchasing agreement with Bonneville Power Administration. This new agreement is expected to significantly increase revenues that will be reinvested in facility reliability enhancements and other regional power initiatives being undertaken by member utility districts.

The region is in the midst of a serious drought. Lack of snow pack and rainfall has resulted in less than 60 percent of normal production at the Packwood station. The annual maintenance outage is scheduled to begin October 1. Normally a 30-40 day duration, this outage will be extended by three weeks to repair tunnel leakage and make additional reliability and efficiency enhancements. The facility will be back in service and generating electricity by Thanksgiving, when seasonal precipitation should be sufficient to return this valuable resource to the production of environmentally friendly electric power.

Nine Canyon Wind Project

During its regular June meeting, Energy Northwest's Executive Board passed a resolution that allowed Energy Northwest to enter into a construction contract for the Nine Canyon Wind Project. Renewable Energy Systems will construct a turnkey wind farm consisting of thirty-seven 1.3-megawatt turbines on the Nine Canyon location southeast of Finley. Member utilities and other public utility districts will purchase the power from this project. Construction is expected to take place in Spring 2002, with electricity generation in Summer 2002.

White Bluffs Solar Demonstration Facility

On Earth Day (April 2001), Energy Northwest joined the Bonneville Power Administration and the Bonneville Environmental Foundation in a plan to construct on the WNP-1 site the region's largest solar power station.

These organizations, with the addition of a DOE grant coordinated by Washington State University, will invest up to \$250,000 in the first phase, with a generating capacity between 35 and 50 kilowatts. While the annual output of the solar station may seem like a small step in meeting the region's energy needs, White Bluffs will demonstrate the potential of solar power to the Northwest.

While BPA will integrate the power into its system, the Bonneville Environmental Foundation will market the "green" attributes separately in the form of an innovative product—Green Tags—that the environmental foundation developed last year and now sells nationally. Buyers who want to offset the environmental effects of their power consumption, such as CO₂ emissions, buy Green Tags and

own the environmental credits associated with the renewable resource. Their payments to the environmental foundation go to fund the next generation of new renewable energy resources.

NoaNet

NoaNet is a fiber optic network developed to bring high-speed communications access to Northwest utilities and communities. As a member of NoaNet, Energy Northwest began providing broadband communications connections in FY 2002 throughout the Pacific Northwest to assist members in the efficient management of load, conservation and acquisition of electrical energy as well as other utility purposes.

One of the NoaNet ports is located at the Ashe Substation. Energy Northwest sponsors another NoaNet port in Yakima.

Several PUDs are in the process of building out their



left to right

Vic Parrish, Chief Executive Officer

Al Mouncer, Vice President/General Counsel

Rod Webring, Vice President, Operations Support/PIO

Jack Baker, Vice President, Resource Development

Greg Smith, Vice President, Generation

Jerry Kucera, Vice President, Administration/Chief Financial Officer

fiber optic local loops that will ultimately connect with the NoaNet backbone providing the connectivity necessary for delivering state-of-the-art telecommunications services to PUD customers in rural counties.

Energy Northwest is in the process of exploring several business opportunities involving wholesale telecommunication connections for companies and other entities that have expressed interest in connecting to NoaNet.

Fuel Cells

Energy Northwest was the lead agency in what became a successful demonstration project of fuel cells under the auspices of the Bonneville Power Administration. Throughout the year, the fuel cell was demonstrated at Energy Northwest member utilities and other public events. Participating members were: the city of Richland, Klickitat PUD, Grays Harbor PUD, Franklin PUD and Benton PUD.

Fuel cells combine hydrogen with oxygen and harvest electricity created in the process. Because there is no combustion, there are no waste products, other than pure, warm water, which can be used as a heat source.

Grays Harbor Energy Facility

Due to the ever-increasing demand for reasonably priced electricity in our region, Energy Northwest opened discussions with several potential developers interested in building an electrical generating facility at the Satsop site. As a direct result of these efforts, Duke Energy North America, a subsidiary of Duke Energy, was selected to develop the (Satsop) combustion turbine facility.

In January, Energy Northwest's Executive Board approved the sale of the Satsop site to Duke Energy North America. Ground clearing for the 630-megawatt natural gas powered combustion turbine facility, located 29 miles southwest of Olympia, began in June. Construction is expected to begin this fall. Energy Northwest is the intended operator for the facility, which is scheduled to begin commercial operation in late 2003. A portion of the output from the Grays Harbor Energy Facility is committed to public power at cost.

Applied Process Engineering Laboratory

In its third year, the Applied Process Engineering Laboratory (APEL) continues to host companies developing and demonstrating new technologies. Products and services are being developed to detect toxic materials and remove contaminants from the air.

APEL has expanded beyond toxic waste treatment; issues of energy, health and environment are principal areas of focus. APEL hosts several advanced fuel cell projects, a solar energy project and the manufacture of power converters for renewable energy applications. Skin care products are being manufactured for people whose skin is sensitive to common household products. Also, work is underway on fabricating prostate cancer treatment seeds, and in treating warts and other virus-related illnesses without surgery. The old computer center is being converted into a broadband communications center.

Work has begun on a 4,000-square foot expansion of APEL facilities to house equipment and supplies to maintain the four buildings leased to tenants and the surrounding grounds.

Diesel Generator Project

Energy Northwest investigated the development of a diesel generation project that would have been located on the WNP-1 site. The plan was focused on supplying much needed power in the region during the energy crisis—for approximately 6-12 months depending on market conditions. Financial projections indicated that the project would generate some revenues, above the start-up and operations costs, that would be funneled into the resource development budget for use in supporting new renewable electricity generation projects.

Early in the project, however, it became clear that due to unforeseeable changes in weather and market conditions the responsible course of action was to discontinue the project.

Generating Resources— Our People

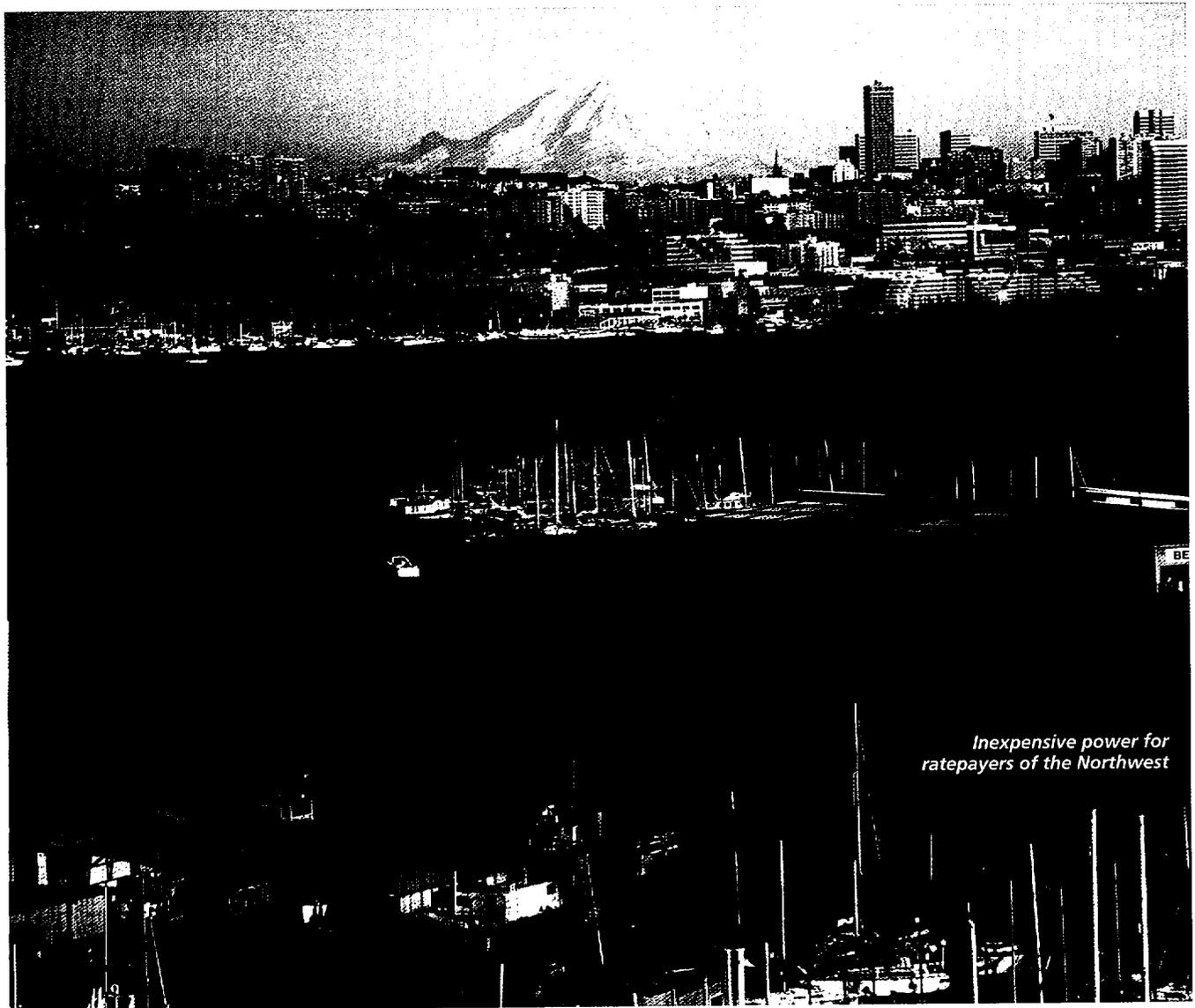
Energy Northwest believes that to be successful over time means managing its resources efficiently and leading its people effectively. With the understanding that employees are the organization's greatest asset, and as such, are the key to continued improvement and success, Energy Northwest is committed to supporting its employees in reaching their educational and career goals, as well as to developing leaders at all levels of the organization.

Energy Northwest offers tuition reimbursement to employees who are working on degrees at accredited community colleges and four-year colleges and universities. In addition, a variety of internal and external training opportunities—from reactor operator training to computer

software classes, and a number of other subjects in between—are made available to employees throughout the organization.

In February 1999, Energy Northwest kicked off its fledgling Leadership Academy. The academy is a five-week, intensive course focused on building the leadership competencies necessary for approaching and dealing with those issues over time. Since its inception, eight classes—130 students—have graduated and the ninth class is scheduled to begin in late July.

Consistent with its focus on developing leadership throughout the organization, Energy Northwest has also initiated a formal succession management program. This program will provide a flow of qualified candidates to fill key positions throughout the organization, ensuring long-term business continuity.



*Inexpensive power for
ratepayers of the Northwest*

Board of Directors

Beverley Cochrane, President
Commissioner, Franklin County PUD

Richard Riley, Vice President
Commissioner, Wahkiakum County PUD

Vera Claussen, Secretary
Commissioner, Grant County PUD

Darrel Bunch, Assistant Secretary
Commissioner, Okanogan County PUD

Tom Casey, Member
Commissioner, Grays Harbor County PUD

Gregg Caudell, Member
Commissioner, Ferry County PUD

Mark Crisson, Member
Director of Utilities, Tacoma Public Utilities

Robert Graves, Member
Commissioner, Benton County PUD

Dan Gunkel, Member
Commissioner, Klickitat County PUD

Parker Knight, Member
Commissioner, Skamania County PUD

Raymon Sieler, Member
Energy Services Director, City of Richland

Roger Sparks, Member
Commissioner, Kittitas County PUD

Gary Zarker, Member
Superintendent, Seattle City Light

2002 Incoming Members

Jack Janda, Member
Commissioner, Mason County PUD No. 1

Don Nuxoll, Member
Commissioner, Asotin County PUD

John Whalen, Member
Commissioner, Mason County PUD No. 3



From left to right

Front Row—Vera Claussen, Beverley Cochrane

Back Row—Bob Graves, Darrel Bunch, Dan Gunkel, Richard Riley, Raymon Sieler

Financial Operating Highlights

For the year ended June 30, 2001 (Dollars in Millions)

Operating Statistics

	COLUMBIA GENERATING STATION				
	FY2001	FY2000	FY1999	FY1998	FY1997
Net Generation (1)	7,996	8,260	6,975	7,502	6,965
Plant Availability (2)	85.1%	88.8%	76.3%	77.9%	83.7%
Plant Capacity (3)	81.8%	79.3%	71.9%	71.9%	60.0%
Cost of Power (cents/kWh)					
Production Expenses (4)	1.99	1.55	1.60	1.59	1.72
Industry Basis (5)	2.61	2.14	2.38	2.30	2.39

	PACKWOOD LAKE PROJECT				
	FY2001	FY2000	FY1999	FY1998	FY1997
Net Generation (1)	64	113	90	98	123
Plant Availability (2)	79.7%	95.0%	91.4%	92.2%	88.5%
Plant Capacity (3)	26.4%	46.8%	37.3%	37.4%	51.9%
Cost of Power (cents/kWh)					
Production Expenses (4)	1.12	0.21	0.23	0.25	0.33

Investment Performance

	FY2001	FY2000	CHANGE
Income	\$ 38.5	\$ 38	1.3%
Average Balance	\$ 631	\$ 664	-5.0%
Rate of Return	6.11%	5.71%	7.0%

Bonds Outstanding

	FY2001	FY2000	CHANGE
Nuclear Project No. 1			
Fixed	\$ 1,956	\$ 2,012	-2.8%
Weighted Average	5.8%	5.8%	0.0%
Variable	\$ 130	\$ 130	0.0%
Average Rate	3.6%	3.7%	-2.7%
Columbia Generating Station			
Fixed (6)	\$ 1,919	\$ 2,074	-7.5%
Weighted Average (7)	5.5%	5.6%	-1.8%
Variable	\$ 121	\$ 121	0.0%
Average Rate	3.6%	3.7%	-2.7%
Nuclear Project No. 3			
Fixed (6)	\$ 1,300	\$ 1,506	-13.7%
Weighted Average (7)	5.5%	5.6%	-1.8%
Variable	\$ 184	\$ 184	0.0%
Average Rate	3.6%	3.7%	-2.7%
Packwood Lake Project			
Fixed	\$ 5.4	\$ 5.8	-8.6%
Weighted Average	3.7%	3.7%	0.0%

- (1) Expressed in millions of kWh. Columbia's generation includes BPA economic dispatch credit of: FY2001: 68; FY2000: 553; FY1999: 0; FY1998: 532; FY1997: 1,151.
(2) Plant availability is defined as the ratio of the sum of source hours and reserve shut down hours to total period hours.
(3) Plant capacity factor is the ratio of the actual energy production over a given period of time to the maximum energy production capability.
(4) Includes operating, maintenance, and fuel amortization costs per the EIA-412 report submitted to the Federal Energy Regulatory Commission (FERC).
(5) Industry cost of power includes expenses associated with operations and maintenance, capital additions, administrative and general, fuel-related costs and estimated cost associated with the economic dispatch generation credit.
(6) Excludes compound interest bonds accretion.
(7) Excludes compound interest bonds.

Management Report on Responsibility for Financial Reporting

The management of Energy Northwest is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis, and include amounts that are based on management's best estimates and judgments.

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

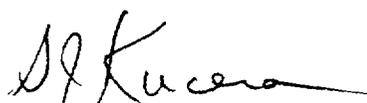
Management has established and maintains internal control procedures that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use of disposition,

and the prevention and detection of fraudulent financial reporting. These control procedures provide appropriate division of responsibility and are documented by written policies and procedures.

Energy Northwest maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, PricewaterhouseCoopers LLP, has considered the internal control structure in order to determine its auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and PricewaterhouseCoopers LLP, concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 2001, internal control procedures are adequate.



J. Vic Parrish
Chief Executive Officer



G.J. Kucera
Vice President,
Administration/Chief Financial Officer

Audit, Legal, and Finance Committee Chairman's Letter

The Executive Board's Audit, Legal and Finance Committee is composed of seven independent directors. Members of the Committee are John F. Cockburn, Chairman; Rudi Bertschi, Ex Officio; Margaret Allen; Vera Claussen; Larry Kenney; Roger Sparks; and Louis Winnard. The Committee held 12 meetings during the fiscal year ended June 30, 2001.

The Committee oversees Energy Northwest's financial reporting process on behalf of the Executive Board. In fulfilling its responsibilities, the Committee discussed with the internal auditor and the independent accountants, the

overall scope and specific plans for their respective audits, and reviewed Energy Northwest's financial statements and the adequacy of Energy Northwest's internal controls.

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



John F. Cockburn
Chairman, Audit, Legal and Finance Committee

Report of Independent Accountants

To the Executive Board of
Energy Northwest

We have audited the accompanying balance sheet of Energy Northwest and the related individual balance sheets of Energy Northwest's internal service fund and business units as of June 30, 2001, and the related statements of operations and of cash flows for the year then ended. Energy Northwest's business units include the Columbia Generating Station, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 3, the Business Development Fund, the CT Project Fund, the Nine Canyon Wind Project Fund, and the Temporary Diesel Generation Project Fund. These general purpose and individual financial statements are the responsibility of Energy Northwest's management. Our responsibility is to express an opinion on these general purpose and individual financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits

to obtain reasonable assurance about whether the general purpose and related individual financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose and related individual financial statements referred to above present fairly, in all material respects, the financial position of Energy Northwest and Energy Northwest's internal service fund and business units as of June 30, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Portland, Oregon

September 12, 2001

Balance Sheets

As of June 30, 2001 (Dollars in Thousands)

	INTERNAL SERVICE FUND	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *
ASSETS				
UTILITY PLANT (NOTE B)				
In service	\$ 43,348	\$ 3,418,892	\$ 12,817	
Accumulated depreciation	(26,022)	(1,692,186)	(11,360)	
	17,326	1,726,706	1,457	
Nuclear fuel, net of accumulated amortization		102,814		
Construction work in progress		17,771		
	17,326	1,847,291	1,457	
RESTRICTED ASSETS (NOTE B)				
Special funds				
Cash	13,887	11	6	\$ 9
Available-for-sale investments	2,454	38,753	280	65,485
Accounts and other receivables	42	93,772		8,139
Prepayments and other	250			1
Debt service funds				
Cash		4,099	3	50
Available-for-sale investments		143,648	748	189,359
Other receivables		1,562		710
	16,633	281,845	1,037	263,753
LONG-TERM RECEIVABLES (NOTE B)				
		5,650		
CURRENT ASSETS				
Cash		196		29
Available-for-sale investments	17,615	33,487	72	15,770
Accounts and other receivables	2,261	4,316	237	
Due from Participants		145	67	435
Due from other business units	3,388	3,899	14	12
Due from other funds		36,918	19	20,569
Materials and supplies		67,319		
Prepayments and other	123	259	1	
Nuclear fuel held for sale				7,561
Plant & equipment held for sale				3,365
	23,387	146,539	410	47,741
DEFERRED CHARGES				
Costs in excess of billings			2,620	1,860,973
Unamortized debt expense		14,597	3	16,297
Other deferred charges		1		1
		14,598	2,623	1,877,271
TOTAL ASSETS	\$ 57,346	\$ 2,295,923	\$ 5,527	\$ 2,188,765

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

NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	COMBUSTION TURBINE PROJECT	NINE CANYON WIND PROJECT	DIESEL GENERATION PROJECT	COMBINED TOTAL (MEMORANDUM ONLY)
\$ 127	\$ 425				\$ 3,475,609
	(119)				(1,729,687)
127	306				1,745,922
					102,814
			\$ 508		18,279
127	306		508		1,867,015
5					13,918
16,096					123,068
26					101,979
					251
34					4,186
171,547					505,302
854					3,126
188,562					751,830
					5,650
32		\$ 4			261
9,389	30	1,682			78,045
	303	22			7,139
346					993
	1,546				8,859
15,353					72,859
					67,319
	9				392
					7,561
					3,365
25,120	1,888	1,708			246,793
1,614,299					3,477,892
12,405					43,302
		881			883
1,626,704		881			3,522,077
\$ 1,840,513	\$ 2,194	\$ 2,589	\$ 508	\$ -	\$ 6,393,365

Balance Sheets (continued)

As of June 30, 2001 (Dollars in Thousands)

	INTERNAL SERVICE FUND	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *
FUND EQUITY AND LIABILITIES				
FUND EQUITY	\$ 1,218			
BILLINGS IN EXCESS OF COSTS		\$ 41,569		
LONG-TERM DEBT (NOTE E)				
Revenue bonds payable		2,087,180	\$ 5,028	\$ 2,086,585
Unamortized discount on bonds - net		(10,085)	(14)	(1,403)
Unamortized gain/(loss) on bond refundings		(49,026)	41	(53,043)
		2,028,069	5,055	2,032,139
LIABILITIES-PAYABLE FROM RESTRICTED ASSETS (NOTE B)				
Special funds				
Accounts payable and accrued expenses	15,717	94,213		77,474
Due to other business units				2,164
Due to other funds		35,022	6	16,847
Debt service funds				
Accrued interest payable		3,362	65	54,807
Due to other funds		1,896	13	3,722
	15,717	134,493	84	155,014
OTHER NONCURRENT LIABILITIES		4,652		
CURRENT LIABILITIES				
Cash overdrafts	2,559			
Current maturities of long-term debt		45,615	343	
Accounts payable and accrued expenses	32,132	40,358	45	705
Due to Participants		1,167		846
Due to other business units	4,422			61
	39,113	87,140	388	1,612
DEFERRED CREDITS				
Advances from Members and others	1			
Other deferred credits	1,297			
	1,298			
COMMITMENTS AND CONTINGENCIES (NOTE F)				
TOTAL LIABILITIES	56,128	2,295,923	5,527	2,188,765
TOTAL FUND EQUITY AND LIABILITIES	\$ 57,346	\$ 2,295,923	\$ 5,527	\$ 2,188,765

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

NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	COMBUSTION TURBINE PROJECT	NINE CANYON WIND PROJECT	DIESEL GENERATION PROJECT	COMBINED TOTAL (MEMORANDUM ONLY)
	\$ 1,911	\$ (47)		\$ (665)	\$ 2,417
					41,569
\$ 2,033,665					6,212,458
(222,801)					(234,303)
(23,245)					(125,273)
1,787,619					5,852,882
					187,404
					2,164
12,763					64,638
36,493					94,727
2,590					8,221
51,846					357,154
					4,652
					2,559
					45,958
454	74	1	\$ 20		73,789
284					2,297
310	209	540	488	665	6,695
1,048	283	541	508	665	131,298
					2,096
		2,095			1,297
		2,095			3,393
1,840,513	283	2,636	508	665	6,390,948
\$ 1,840,513	\$ 2,194	\$ 2,589	\$ 508	\$ -	\$ 6,393,365

Statements of Operations and Fund Equity

For the year ended June 30, 2001 (Dollars in Thousands)

	INTERNAL SERVICE FUND	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *
OPERATING REVENUES		\$ 421,152	\$ 1,741	
OPERATING EXPENSES				
Nuclear fuel		34,204		
Fuel disposal fee		7,542		
Decommissioning		16,246		
Depreciation and amortization		96,026	363	
Operations and maintenance		144,325	1,161	
Administrative & general		16,125	99	
Generation tax		2,497	14	
New business initiatives				
Total operating expenses		316,965	1,637	
NET OPERATING REVENUES (EXPENSES)		104,187	104	
OTHER INCOME & EXPENSE				
Non-operating revenues	\$ 59,480			\$ 119,165
Investment income	383	23,643	95	14,714
Gain/(loss) on current bond redemption			7	(250)
Interest expense and discount amortization		(130,161)	(206)	(126,030)
Plant preservation and termination costs				(6,708)
Depreciation and amortization	(1,482)			(35)
Revaluation of site restoration				(856)
Services to other business units	(57,111)			
Other		2,331		
NET REVENUES (EXPENSES)	1,270	0	0	0
Distribution & Contributions	(1,260)			
Beginning Fund Equity	1,208	0	0	0
ENDING FUND EQUITY	\$ 1,218	\$ 0	\$ 0	\$ 0

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

NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	COMBUSTION TURBINE PROJECT	NINE CANYON WIND PROJECT	DIESEL GENERATION PROJECT	COMBINED TOTAL (MEMORANDUM ONLY)
	\$ 5,218				\$ 428,111
					34,204
					7,542
	210				16,246
					96,599
					145,486
					16,224
					2,511
	5,643				5,643
	5,853				324,455
	(635)				103,656
\$ 97,019		\$ 84			275,748
9,971	12	93			48,911
25					(218)
(105,536)					(361,933)
(1,475)					(8,183)
		(1)			(1,518)
					(856)
					(57,111)
(4)		(223)		\$ (665)	1,439
0	(623)	(47)	\$ 0	(665)	(65)
	1,110				(150)
0	1,424	0	0	0	2,632
\$ 0	\$ 1,911	\$ (47)	\$ 0	\$ (665)	\$ 2,417

Statements of Cash Flows

For the year ended June 30, 2001 (Dollars in Thousands)

	INTERNAL SERVICE FUND	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES				
Net operating revenues		\$ 104,187	\$ 104	
Adjustments to reconcile net operating revenues to cash provided by operating activities:				
Cash/cost incurred in excess of cash/cost		19,782	(356)	
Depreciation and amortization		128,672	359	
Decommissioning		16,246		
Other		2,183		
Change in operating assets and liabilities:				
Accounts receivable		1,988	(112)	
Materials and supplies		(7,070)		
Prepaid and other assets		1,010	2	
Due from/to other business units, funds and Participants		16,156	(271)	
Accounts payable		9,717	(163)	
Non-operating revenue receipts	\$ 3,268			\$ 162,365
Cash payments for preservation, termination expense				(7,371)
Cash payments for services	(2,940)			
Cash payments for new business	(2,063)			
Net cash provided (used) by operating and other activities	(1,735)	292,871	(437)	154,994
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bond refundings		244,124		135,275
Refunded bond escrow requirement		(192,342)		(109,684)
Payment for bond issuance and financing costs		(2,976)		(1,131)
Capital and nuclear fuel acquisitions		(33,571)		
Interest paid on revenue bonds		(113,754)	(208)	(119,520)
Principal paid on revenue bond maturities		(171,480)	(474)	(79,264)
Net cash used by capital and related financing activities		(269,999)	(682)	(174,324)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investment securities	(186,293)	(1,207,615)	(10,826)	(790,524)
Sales of investment securities	186,358	1,166,211	11,781	792,423
Interest on investments	1,856	18,867	134	12,674
Receipts from sales of plant assets				165
Net cash provided (used) by investing activities	1,921	(22,537)	1,089	14,738
NET INCREASE (DECREASE) IN CASH	186	335	(30)	(4,592)
CASH AT JUNE 30, 2000	11,142	3,971	39	4,680
CASH AT JUNE 30, 2001 (NOTE B)	\$ 11,328	\$ 4,306	\$ 9	\$ 88

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

NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	COMBUSTION TURBINE PROJECT	NINE CANYON WIND PROJECT	DIESEL GENERATION PROJECT	COMBINED TOTAL (MEMORANDUM ONLY)
	\$ (635)				\$ 103,656
	127				19,426
					129,158
					16,246
					2,183
	(242)				1,634
	28				(7,070)
					1,040
	435				16,320
	301				9,855
\$ 127,974		\$ 1,570			295,177
(5,180)					(12,551)
					(2,940)
					(2,063)
122,794	14	1,570	0	0	570,071
243,608					623,007
(215,150)					(517,176)
(2,078)					(6,185)
(81,445)					(33,571)
(78,588)					(314,927)
					(329,806)
(133,653)					(578,658)
(508,213)	(1,541)	(2,693)			(2,707,705)
506,018	1,511	1,042			2,665,344
8,529	12	62			42,134
					165
6,334	(18)	(1,589)			(62)
(4,525)	(4)	(19)			(8,649)
4,596	4	23	0	0	24,455
\$ 71	\$ -	\$ 4	\$ -	\$ -	\$ 15,806

Outstanding Long-Term Debt

As of June 30, 2001 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS</u>			
1990A	7.25%	7-1-2006	\$ 35,790
1990C	7.50	7-1-2002	6,310
	(A)	7-1-2004/2005	18,054
			<u>24,364</u>
1991A	6.50-6.60	7-1-2002/2004	53,415
	(A)	7-1-2006/2007	10,267
			<u>63,682</u>
1992A	5.90-6.30	7-1-2004/2009	76,085
	6.25	7-1-2012	14,525
	6.30	7-1-2012	50,000
			<u>140,610</u>
1993A	5.25-6.00	7-1-2002/2010	94,520
	5.75	7-1-2012	10,690
			<u>105,210</u>
1993B	5.10-5.65	7-1-2004/2008	61,645
	5.55	7-1-2010	51,000
			<u>112,645</u>
1994A	4.60-6.00	7-1-2002/2011	511,870
	5.40	7-1-2012	100,200
	(A)	7-1-2009	4,776
			<u>616,846</u>
1996A	5.00-6.00	7-1-2002/2012	196,995
1997A	5.10-6.00	7-1-2004/2012	124,255
1997B	5.00-5.50	7-1-2003/2011	72,270
1997-2A-1, 2	Variable	7-1-2001/2012	120,865
1998A	5.00-5.75	7-1-2002/2012	224,900

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2001, which were paid as of June 30, 2001

(C) Includes amounts due July 1, 2001

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

(E) Auction Rate Certificates thereafter

Outstanding Long-Term Debt (continued)

As of June 30, 2001 (Dollars in Thousands)

COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS (Continued)

2001A	5.00-5.50%	7-1-2013/2017	\$ 186,600	
2001B	5.50	7-1-2009	48,000	
	(E)	7-1-2018	48,000	
<i>Compound interest bonds accretion</i>			59,763	
<i>Revenue bonds payable</i>			\$ 2,132,795	(B)
<i>Estimated fair value at June 30, 2001</i>			\$ 2,228,120	(D)

PACKWOOD LAKE PROJECT REVENUE BONDS

1962	3.625%	3-1-2012	\$ 4,031	
1965	3.75	3-1-2012	1,340	
<i>Revenue bonds payable</i>			\$ 5,371	
<i>Estimated fair value at June 30, 2001</i>			\$ 5,285	(D)

NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS

1989A	7.10%	7-1-2001	\$ 3,705	
1989B	7.15	7-1-2001	5,545	
	7.125	7-1-2016	41,070	
			46,615	
1990A	7.40	7-1-2001	6,925	
1990B	7.10	7-1-2001	7,740	
	7.25	7-1-2009	72,770	
			80,510	
1990C	7.625-7.75	7-1-2001/2003	55,585	
1991A	6.30	7-1-2001	4,745	
1992A	5.60-6.10	7-1-2001/2006	3,765	
	6.25	7-1-2017	63,420	
			67,185	

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2001, which were paid as of June 30, 2001

(C) Includes amounts due July 1, 2001

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

(E) Auction Rate Certificates thereafter

Outstanding Long-Term Debt (continued)

As of June 30, 2001 (Dollars in Thousands)

NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS (Continued)

1993A	5.25-7.00%	7-1-2001/2008	\$	136,965	
	5.75	7-1-2011		80,000	
	5.70	7-1-2017		176,180	
				<u>393,145</u>	
1993B	5.00-7.00	7-1-2001/2010		60,980	
	5.60	7-1-2015		94,635	
				<u>155,615</u>	
1993C	4.60-5.30	7-1-2001/2010		18,455	
	5.40	7-1-2012		66,400	
	5.375	7-1-2015		75,650	
				<u>160,505</u>	
1993-1A-1, 2, 3	Variable	7-1-2001/2017		<u>130,200</u>	
1996A	5.00-6.00	7-1-2001/2012		<u>345,330</u>	
1996B	5.00-6.00	7-1-2001/2005		<u>29,365</u>	
1996C	5.00-6.00	7-1-2001/2015		88,180	
	5.50	7-1-2017		24,860	
				<u>113,040</u>	
1997A	5.00-6.00	7-1-2001/2008		<u>20,575</u>	
1997B	5.00-5.125	7-1-2001/2017		<u>252,200</u>	
1998A	5.00-5.75	7-1-2001/2017		<u>92,970</u>	
2001A	4.00-5.50	7-1-2001/2013		<u>104,770</u>	
2001B	5.50	7-1-2008		23,600	
	(E)	7-1-2017		<u>23,600</u>	
<i>Revenue bonds payable</i>			\$	<u>2,086,585</u>	(C)
<i>Estimated fair value at June 30, 2001</i>			\$	<u>2,208,216</u>	(D)

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2001, which were paid as of June 30, 2001

(C) Includes amounts due July 1, 2001

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

(E) Auction Rate Certificates thereafter

Outstanding Long-Term Debt (continued)

As of June 30, 2001 (Dollars in Thousands)

NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS

1989A	7.10% (A)	7-1-2001 7-1-2003/2014	\$ 3,595 <u>18,668</u> <u>22,263</u>
1989B	7.15 (A) 7.125	7-1-2001 7-1-2004/2014 7-1-2016	12,400 70,580 <u>76,145</u> <u>159,125</u>
1990B	7.375 (A)	7-1-2001 7-1-2001/2010	7,350 <u>38,685</u> <u>46,035</u>
1991A	6.30	7-1-2001	<u>3,990</u>
1993B	5.00-7.00 5.625 5.60 5.60 5.70	7-1-2001/2009 7-1-2012 7-1-2015 7-1-2017 7-1-2018	87,540 14,555 49,095 37,795 20,605 <u>209,590</u>
1993C	4.60-7.50 5.40 (A) 5.375 5.50	7-1-2001/2010 7-1-2012 7-1-2013/2018 7-1-2015 7-1-2018	144,265 105,000 23,963 188,335 20,805 <u>482,368</u>
1993-3A-3	Variable	7-1-2001/2018	<u>24,720</u>
1996A	5.00-6.00	7-1-2001/2009	<u>31,605</u>
1997A	5.00-6.00	7-1-2001/2018	<u>109,650</u>
1997B	5.00	7-1-2002	<u>4,075</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2001, which were paid as of June 30, 2001

(C) Includes amounts due July 1, 2001

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

(E) Auction Rate Certificates thereafter

Outstanding Long-Term Debt (continued)

As of June 30, 2001 (Dollars in Thousands)

NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS (Continued)

1998A	5.00-5.125%	7-1-2001/2018	\$	<u>148,665</u>	
1998-3A	Variable	7-1-2001/2018		<u>159,500</u>	
2001A	4.00-5.50	7-1-2001/2018		<u>208,755</u>	
2001B	5.00	7-1-2003/2004		15,000	
	5.50	7-1-2010		<u>10,675</u>	
	(E)	7-1-2018		<u>25,675</u>	
<i>Compound interest bonds accretion</i>				<u>397,649</u>	
<i>Revenue bonds payable</i>				\$	<u>2,033,665</u> (C)
<i>Estimated fair value at June 30, 2001</i>				\$	<u>1,934,034</u> (D)

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2001, which were paid as of June 30, 2001

(C) Includes amounts due July 1, 2001

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

(E) Auction Rate Certificates thereafter

Debt Service Requirements

As of June 30, 2001 (Dollars in Thousands)

FISCAL YEAR	COLUMBIA GENERATING STATION			PACKWOOD LAKE PROJECT		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/2001						
Balance:*	\$ 7,100	\$ 3,362	\$ 10,462	\$ 172	\$ 65	\$ 237
2002	45,615	110,262	155,877	523	125	648
2003	124,165	107,620	231,785	548	171	719
2004	163,609	112,604	276,213	574	151	725
2005	124,340	116,202	240,542	598	130	728
2006	140,186	98,926	239,112	624	108	732
Balance Through						
2012				2,332	208	2,540
2018	1,468,017	374,874	1,842,891			
Adjustment **	59,763	(59,763)	0			
	\$2,132,795	\$ 864,087	\$2,996,882	\$ 5,371	\$ 958	\$ 6,329

FISCAL YEAR	NUCLEAR PROJECT NO. 1			NUCLEAR PROJECT NO. 3		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/2001						
Balance:*	\$ 85,740	\$ 54,807	\$ 140,547	\$ 70,695	\$ 36,493	\$ 107,188
2002	79,850	113,054	192,904	78,527	81,556	160,083
2003	70,255	108,338	178,593	79,987	79,670	159,657
2004	81,610	104,462	186,072	62,906	91,427	154,333
2005	73,765	99,761	173,526	64,471	91,989	156,460
2006	91,195	95,620	186,815	65,392	90,494	155,886
Balance Through						
2017	1,604,170	601,360	2,205,530			
2018				1,214,038	761,070	1,975,108
Adjustment **				397,649	(397,649)	0
	\$ 2,086,585	\$1,177,402	\$ 3,263,987	\$2,033,665	\$ 835,050	\$2,868,715

* Bond Fund Account balances less accrued investment income

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

Notes to Financial Statements

Note A - General

Organization

Energy Northwest, a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 2001, its membership consisted of 10 public utility districts and the cities of Richland, Seattle and Tacoma. All members own and operate electric systems within the State of Washington. Energy Northwest is exempt from federal income tax. Energy Northwest has no taxing authority.

Energy Northwest Business Units

Energy Northwest operates Columbia Generating Station, a 1,153 MWe (Design Electric Rating, net) generating plant completed in 1984. On April 27, 2000, Energy Northwest's executive board approved a name change from Nuclear Project No. 2 to Columbia Generating Station (Columbia). Energy Northwest has obtained all permits and licenses required to operate Columbia, including a Nuclear Regulatory Commission (NRC) operating license which expires in December 2023. Energy Northwest also operates the Packwood Lake Hydroelectric Project (Packwood), a 27.5 MWe generating plant completed in 1964. Packwood operates under a fifty-year license from the Federal Energy Regulatory Commission (FERC) that expires on February 28, 2010.

Nuclear Project No. 1, a 1,250 MWe plant, was placed in extended construction delay status in 1982, when it was 65 percent complete. Nuclear Project No. 3, a 1,240 MWe plant, was placed in extended construction delay status in 1983, when it was 75 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3 (see Note F - Nuclear Projects Nos. 1 and 3 Termination). In fiscal year 1999, the assets and liabilities of Hanford Generating Project were consolidated into Nuclear Project No. 1. The Hanford Generating Project site is being restored and all funding

requirements are net-billed obligations of Nuclear Project No. 1. Nuclear Project No. 1 is wholly-owned by Energy Northwest. Nuclear Project No. 3 was jointly-owned, 70 percent by Energy Northwest and 30 percent by four investor-owned utilities until fiscal year 1999. In fiscal year 1999, the ownership agreements were terminated and the real and personal property interests were transferred to Energy Northwest. The financial effect of the termination of the ownership agreement was a write-off for Nuclear Project No. 3 of a \$3.7 million receivable from the former joint owners.

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

All electrical energy produced by Energy Northwest business units is ultimately delivered to electrical distribution facilities owned and operated by the 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 business units consist of publicly-owned utilities and rural electric cooperatives located in the western United States who have entered into net-billing agreements with Energy Northwest and BPA for participation in one or more of Energy Northwest's business units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources as well as BPA's other costs. See Note E, Security - Nuclear Projects Nos. 1, 3 and Columbia, for discussion of BPA's obligations with respect to Nuclear Projects Nos. 1, 3 and Columbia.

Energy Northwest also manages the Business Development Fund, Nine Canyon Wind Project, Combustion Turbine (CT) Project, Temporary Diesel Generation Project, and the Internal Service Fund. The Business Development Fund was established in April 1997 to pursue and develop new energy-related business opportunities. The Nine Canyon Wind Project was established in January 2001 for the purpose of exploring and establishing a wind energy project. Finalization of the project agreements and construction of the project are expected to take place in fiscal year 2002. The CT Project was established in July 1990 to collect advances and contributions to pay the costs of investigating new generating projects, including the feasibility of a combustion turbine near Satsop, Washington. The Temporary Diesel Generation Project was established in May 2001 to provide immediate additional electrical

generation using temporary diesel generators. Changing circumstances have since resulted in the stoppage of this project after initial expenditures but prior to finalizing an order for the diesel generators. The negative equity of the Temporary Diesel Generation Project will be absorbed by the Business Development Fund in FY 2002. The Internal Service Fund (formerly General 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. It is also used to account for the performance fees paid by BPA to Energy Northwest for achieving performance goals related to the operation of Columbia.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

Energy Northwest has adopted accounting policies and principles that are in accordance with accounting principles generally accepted in the United States of America. Accounts are maintained in accordance with the uniform system of accounts of the FERC. Separate funds and books of account are maintained for each business unit. Payment of obligations of one business unit with funds of another business unit is prohibited, and would constitute violation of bond resolution covenants.

Energy Northwest maintains an Internal Service Fund for centralized control and accounting of certain fixed assets such as data processing equipment, and for payment and accounting of internal services, payrolls, benefits, administrative and general expenses, and certain contracted services on a cost reimbursement basis. In addition, it is used to account for performance fees paid by BPA to Energy Northwest for achieving performance goals related to the operation of Columbia. The performance fee is a general asset of Energy Northwest not allocable to other funds. Other assets of the Internal Service Fund are owned by Energy Northwest's business units and are held in trust by the Internal Service Fund and reflected as due to and from other business units. Depreciation relating to fixed assets is charged to the appropriate business units based upon an allocation formula. Liabilities of the Internal Service Fund represent accrued payrolls, vacation pay, employee benefits, and common accounts payable which have been charged directly or indirectly to business units and will be funded by the business units when paid. Net amounts owed to or

receivable from Energy Northwest business units are recorded under current liabilities - Due to other business units, or current assets - Due from other business units on the Internal Service Fund balance sheet.

The Combined Total (Memorandum Only) 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. There are no eliminations for transactions between business units in the Combined Total column.

Pursuant to Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," Energy Northwest has elected to apply all Financial Accounting Standards Board statements and interpretations, except for those that conflict with or contradict GASB pronouncements. Specifically, Statement of Governmental Accounting Standard No. 7 and No. 23 conflict with Statement of Financial Accounting Standard (SFAS) No. 125. As such, the guidance under Statement of Governmental Accounting Standard No. 7 and No. 23 is followed. Such guidance governs the accounting for bond defeasances and refundings.

The preparation of Energy Northwest financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and the disclosure 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 and management considers the allocation methods to be reasonable.

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

Utility Plant

Utility plant is stated at original cost. Plant in service is depreciated by the straight-line method over the estimated useful lives of the various classes of plant, which range from five to 40 years.

During the normal construction phase of a project, Energy Northwest's policy is to capitalize all costs relating to the

project, including interest expense (net of interest income), and related administrative and general expense.

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 fiscal year 1995 and is included in Cost in Excess of Billings. Nuclear Project No. 3's utility plant value consists of the land owned by the project. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 1 and 3 have been charged to operations.

Nuclear Fuel

All expenditures related to the purchase of nuclear fuel for Columbia, including interest, are capitalized and carried at cost. When the fuel is placed in the reactor, the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. Accumulated nuclear fuel amortization (the amortization of the cost of nuclear fuel assemblies in the reactor used in the production of energy) is \$106 million as of June 30, 2001, for Columbia.

Energy Northwest has a contract with the Department of Energy (DOE) that requires the DOE to accept title and dispose of spent nuclear fuel. Although the courts have ruled that the DOE had the obligation to accept title to spent nuclear fuel by January 31, 1998, the repository is not expected to be in operation before 2010. Columbia has capacity to store spent fuel in existing facilities until November 2004. To accommodate the spent fuel discharges after this date, Energy Northwest has initiated a project to store the spent fuel in commercially available dry storage casks on a concrete pad at the Columbia site. Effective fiscal year 2000, Energy Northwest began accruing the fuel cask obligations based on the rate of fuel consumption (\$1.4 million for fiscal year 2001). To recognize the cask costs associated with fuel consumed in FY 2000 and prior years, \$25.0 million was charged to operations in fiscal year 2000. Current period operating expense for Columbia includes a \$7.5 million charge for future spent nuclear fuel storage and disposal to be provided by the DOE in accordance with the Nuclear Waste Policy Act of 1982.

Energy Northwest has entered into an agreement to transfer enriched uranium to General Electric Company in exchange for equivalent amounts of uranium at reload enrichments in future years and usage/loan fees. Energy Northwest has transferred approximately 488,151 pounds of UF₆ and 263,137 SWU of Columbia uranium. The exchange agreement has been secured by an irrevocable letter of credit

issued in the amount of the replacement value of the loaned uranium product, adjusted semiannually. The cost of the loaned uranium, \$34 million, is included in the carrying amount of Columbia's nuclear fuel.

Until June 30, 2002, Columbia has an option to purchase the remaining fuel at Nuclear Project No. 1. At June 30, 2001, the market value is \$8.3 million, including escalation.

Restricted Assets

In accordance with project bond resolutions, related agreements, or state law, separate restricted funds have been established for each business unit. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance costs, termination, decommissioning and workers' compensation claims.

Long-Term Receivables

Long-term receivables include minimum guaranteed amounts adjusted annually pertaining to future discounts for certain goods and services to be provided to Columbia as the result of a litigation settlement and subsequent revisions.

Accounts and Other Receivables

Accounts and other receivables for the Internal Service Fund include miscellaneous receivables outstanding for other business units that have not yet been collected. The amounts due to each business unit is reflected in the due to/from other business units account.

Decommissioning and Site Restoration

Energy Northwest established decommissioning and site restoration funds for Columbia and monies are being deposited each year in accordance with an established funding plan.

The NRC has issued rules to provide guidance to licensees of operating nuclear plants on decommissioning the plants at the end of each plant's operating life. In September 1998, the NRC approved and published its "Final Rule on Financial Assurance Requirements for Decommissioning Power Reactors." As provided in this rule, each power reactor licensee is required to report to the NRC the status of its decommissioning funding for each reactor or share of a reactor it owns. This reporting requirement began on March

31, 1999 and reports are required every two years thereafter. Energy Northwest submitted its most recent report to the NRC on March 23, 2001.

Energy Northwest's current estimate of Columbia's decommissioning costs is approximately \$345 million (in 1999 dollars). This current estimate is based on the NRC minimum amount required to demonstrate reasonable financial assurance for a boiling water reactor with the power level of Columbia.

Site restoration requirements for Columbia are governed by the site certification agreements between Energy Northwest and the State of Washington and regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC). Energy Northwest submitted a site restoration plan for Columbia that was approved by the EFSEC on June 12, 1995. Energy Northwest's current estimate of Columbia's site restoration costs is approximately \$54 million (in 1999 dollars).

Both decommissioning and site restoration estimates (in 1999 dollars) 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, 2001, totaled approximately \$68.0 million and \$5.5 million, respectively. Since September 1996, these amounts have been held and managed by BPA in external trust funds in accordance with NRC requirements and site certification agreements.

Energy Northwest's accrued liability for decommissioning and site restoration for Columbia is \$93.7 million as of June 30, 2001. Per the net-billing agreements, BPA is obligated to provide for the entire cost of decommissioning and site restoration. A corresponding receivable has been established within Restricted Assets reflecting amounts owed to Columbia by BPA. The decommissioning and site restoration liability is not based on the funding plan. Annual decommissioning and site restoration expense is accounted for on a pro-rata basis over the life of the plant and is based on the total estimated decommissioning and site restoration costs, adjusted for inflation.

Materials and Supplies

Materials and supplies are valued at cost, using weighted-average methods.

Financing Expense, Bond Discount, and Deferred Gain and Losses

Financing expenses and bond discounts are amortized over the terms of the respective bond issues using the bonds outstanding method.

In accordance with the Statement of Governmental Accounting Standard No. 23 effective for periods after June 15, 1994, losses on debt refundings have been deferred and amortized as a component of interest expense over the shorter of the remaining life of the old or new debt. The balance sheet includes the original deferred amount less recognized amortization expense and is included as a reduction to the new debt.

Current Maturities of Revenue Bonds

Current maturities of revenue bonds payable from restricted assets are reflected in Long-Term Debt. Current maturities of bonds for which funds have not yet been restricted are reflected in Current Liabilities.

Accounts Payable and Accrued Expenses

Restricted Liabilities – Internal Service Fund accounts payable and accrued expenses include \$13.9 million for unclaimed bearer bonds. Columbia includes \$93.7 million for decommissioning and site restoration. Nuclear Project No. 1 includes \$59.2 million for its own site restoration and \$13.5 million for Hanford Generating Project site restoration.

Current Liabilities – Internal Service Fund accounts payable and accrued expenses include \$1.3 million for payroll and related benefits, \$13.6 million for compensated absences, and \$4.5 million for outstanding warrants. Columbia includes \$4.7 million for fuel casks, \$11.9 million for services from one contractor, \$2.2 million for arbitrage rebate (as defined by the Internal Revenue Code) and \$2.6 million for fuel sales tax. Nuclear Project No. 1 includes \$705 thousand for arbitrage rebate. Nuclear Project No. 3 includes \$275 thousand for arbitrage rebate.

Fair Value of Financial Instruments

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

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

Revenues

Energy Northwest accounts for expenses on an accrual basis, and recovers, through various agreements, actual cash requirements for operations and debt service for Columbia, Packwood, Nuclear Project No. 1 and Nuclear Project No. 3. For these business units, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity is accumulated. The difference between cumulative billings received and cumulative expenses is recorded as either billings in excess of costs (liability) or as costs in excess of billings (asset), as appropriate. Such amounts will be settled during future operating periods.

Energy Northwest accounts for revenues and expenses on an accrual basis for the remaining business units. The difference between cumulative revenues and cumulative expenses is recognized as net revenue or losses and included in fund equity for each period.

Deferred Revenues

Advances of \$1.2 million to the CT Project for the sale of land and licenses which is not complete, are included in the Advances from Members and others account and were not included in current year income.

Concentration of Credit Risk

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

Statements of Cash Flows

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

Note C - Cash and Investments

Cash and investments for each business unit are separately maintained. Energy Northwest's deposits are insured by federal depository insurance or through the Washington Public Deposit Protection Commission. Energy Northwest resolutions and investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association and Federal Home Loan Banks. All investments are held for the benefit of the individual Energy Northwest business units by safekeeping agents, custodians, or trustees.

Investments are classified as available-for-sale and are stated at fair value with unrealized gains and losses reported in investment income. Available-for-sale investments at June 30, 2001, are categorized below to give an indication of the types and amounts of investments held by each business unit at year end. (See the following tables)

AVAILABLE-FOR-SALE INVESTMENTS (Dollars in Thousands)

	<i>Amortized Cost</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	<i>Fair Value</i>
Columbia	\$ 66,135	\$ 1,585	\$ (135)	\$ 67,585
U.S. Government Securities	<u>147,337</u>	<u>1,075</u>	<u>(109)</u>	<u>148,303</u>
U.S. Government Agencies	<u>\$ 213,472</u>	<u>\$ 2,660</u>	<u>\$ (244)</u>	<u>\$ 215,888</u>
Total				
Packwood Lake Project				
U.S. Government Securities	<u>\$ 1,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,100</u>
Total	<u>\$ 1,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,100</u>
Nuclear Project No. 1				
U.S. Government Securities	\$ 37,304	\$ 793	\$ 0	\$ 38,097
U.S. Government Agencies	<u>232,052</u>	<u>532</u>	<u>(67)</u>	<u>232,517</u>
Total	<u>\$ 269,356</u>	<u>\$ 1,325</u>	<u>\$ (67)</u>	<u>\$ 270,614</u>
Nuclear Project No. 3				
U.S. Government Securities	\$ 31,722	\$ 690	\$ 0	\$ 32,412
U.S. Government Agencies	<u>164,461</u>	<u>172</u>	<u>(13)</u>	<u>164,620</u>
Total	<u>\$ 196,183</u>	<u>\$ 862</u>	<u>\$ (13)</u>	<u>\$ 197,032</u>
Business Development Fund				
U.S. Government Agencies	\$ 30	\$ 0	\$ 0	\$ 30
Total	<u>\$ 30</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30</u>
CT Project				
U.S. Government Agencies	<u>\$ 1,680</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 1,682</u>
Total	<u>\$ 1,680</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 1,682</u>
Internal Service Fund				
U.S. Government Securities	\$ 11,100	\$ 167	\$ 0	\$ 11,267
U.S. Government Agencies	<u>8,797</u>	<u>5</u>	<u>0</u>	<u>\$ 8,802</u>
Total	<u>\$ 19,897</u>	<u>\$ 172</u>	<u>\$ 0</u>	<u>\$ 20,069</u>

At June 30, 2001, the contractual maturities of available-for-sale investments are:

	<u>< 1 Year</u>	<u>1-5 Years</u>	<u>5-10 Years</u>	<u>> 10 Years</u>	<u>TOTAL</u>
Columbia					
U.S. Government Securities	\$ 17,637	\$ 24,920	\$ 25,028	\$ 0	\$ 67,585
U.S. Government Agencies	103,611	21,678	13,340	9,674	148,303
Total	<u>\$ 121,248</u>	<u>\$ 46,598</u>	<u>\$ 38,368</u>	<u>\$ 9,674</u>	<u>\$ 215,888</u>
Packwood Lake Project					
U.S. Government Securities	\$ 1,100	\$ 0	\$ 0	\$ 0	\$ 1,100
Total	<u>\$ 1,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,100</u>
Nuclear Project No. 1					
U.S. Government Securities	\$ 8,951	\$ 28,432	\$ 0	\$ 714	\$ 38,097
U.S. Government Agencies	205,102	17,934	9,035	446	232,517
Total	<u>\$ 214,053</u>	<u>\$ 46,366</u>	<u>\$ 9,035</u>	<u>\$ 1,160</u>	<u>\$ 270,614</u>
Nuclear Project No. 3					
U.S. Government Securities	\$ 17,922	\$ 13,052	\$ 0	\$ 1,438	\$ 32,412
U.S. Government Agencies	153,944	6,648	4,028	0	164,620
Total	<u>\$ 171,866</u>	<u>\$ 19,700</u>	<u>\$ 4,028</u>	<u>\$ 1,438</u>	<u>\$ 197,032</u>
Business Development Fund					
U.S. Government Agencies	\$ 30	\$ 0	\$ 0	\$ 0	\$ 30
Total	<u>\$ 30</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30</u>
CT Project					
U.S. Government Agencies	\$ 1,682	\$ 0	\$ 0	\$ 0	\$ 1,682
Total	<u>\$ 1,682</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,682</u>
Internal Service Fund					
U.S. Government Securities	\$ 11,267	\$ 0	\$ 0	\$ 0	\$ 11,267
U.S. Government Agencies	8,802	0	0	0	8,802
Total	<u>\$ 20,069</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,069</u>

Note D - Retirement Benefits

Substantially all Energy Northwest full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial

report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Administrative Services Division, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers.

Public Employee's Retirement System (PERS) Plans 1 and 2

Plan Description

PERS is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certificated employees of school districts; and employees of local government. The PERS system includes two plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service.

Plan 1 members are eligible for retirement at any age after completing 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan 2 retirements prior to age 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee rates. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the director of the Department of Retirement Systems based on recommendations by the Office of the State Actuary to continue to fully fund the plan. All employers are required to contribute at the level established by state law. The methods used to determine

the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 Revised Code of Washington.

The required contribution rates expressed as a percentage of current year covered payroll, as of June 30, 2001, were:

	PERS Plan 1	PERS Plan 2
Employer	4.44%*	4.44%*
Employee	6.00%	2.43%

*The employer rates do not include the employer administrative expense fee currently set at 0.23%.

Both Energy Northwest and the employees made the required contributions. Energy Northwest's required contributions for the years ended June 30 were:

	PERS Plan 1	PERS Plan 2
2001	\$410,640	\$3,100,152
2000	\$415,538	\$2,929,576
1999	\$718,527	\$4,697,392

In addition to the pension benefits available through PERS, Energy Northwest offers post-employment life insurance benefits to retirees who are eligible to receive pensions under PERS Plan 1 and Plan 2. One hundred twenty-six retirees have elected to participate in this insurance. In 1994, Energy Northwest's Executive Board approved provisions which continued the life insurance benefit to retirees at 25 percent of the premium for employees who retire prior to January 1, 1995, and charged the full 100 percent premium to employees who retired after December 31, 1994. The life insurance benefit is equal to the employee's annual rate of salary at retirement for non-bargaining employees retiring prior to January 1, 1995. The cost of coverage for employees who retired after January 1, 1995, is \$2.33 per \$1,000 of coverage. Employees who retired prior to January 1, 1995, contribute \$.58 per \$1,000 of coverage while Energy Northwest pays the remainder. Premiums are paid to the insurer on a current period basis.

At the time each employee retires, Energy Northwest accrues a liability for the actuarial value of estimated future premiums, net of retiree contributions. The total liability recorded at June 30, 2001, was \$1.291 million for these benefits.

During fiscal year 2001, pension costs for Energy Northwest employees and post-employment life insurance benefit costs for retirees were calculated and allocated to each business unit based on direct labor dollars. Approximately 92 percent of all such costs were allocated to Columbia during fiscal year 2001.

401(k) Deferred Compensation Plan

Energy Northwest provides a 401(k) Deferred Compensation Plan (the 401(k) Plan). The 401(k) Plan is a defined contribution plan that was established to provide a means for investing savings by employees for retirement purposes. All permanent, full-time employees are eligible to enroll in the Plan. Each participant may elect to contribute up to 17.5% of pre-tax annual compensation, subject to current Internal Revenue Service limitations. Energy Northwest matches 50% of the portion of the participant's salary deferral amount, which does not exceed 3% of the participant's 401(k) eligible earnings for the 401(k) Plan year. Participants direct the investment of their contributions. Participants are immediately vested in their contributions plus actual earnings thereon. During FY 2001, Energy Northwest contributed \$1,030,512 in company matching funds.

Note E - Long-Term Debt

Each Energy Northwest business unit is financed separately. The resolutions of Energy Northwest authorizing issuance of revenue bonds for each business unit provide that such bonds are payable from the revenues of that business unit. All bonds issued under Resolutions Nos. 769, 775 and 640 for Nuclear Projects Nos. 1, 3 and Columbia, respectively, have the same priority of payment within the business unit (the "Prior Lien Bonds"). All bonds issued under Resolution Nos. 835, 838 and 1042 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 (the "Electric Revenue Bonds"). In conjunction with the sale of the Series 2001-A and Series 2001-B Refunding Electric Revenue Bonds, in March and May 2001, respectively, Energy Northwest agreed with the owners of Electric Revenue Bonds not to issue any more Prior Lien Bonds or any other obligations having a lien on parity with the Prior Lien Bonds. The variable rate debt instruments issued for Nuclear Projects Nos. 1, 3 and Columbia are Electric Revenue Bonds.

During the year ended June 30, 2001, Energy Northwest issued, for Nuclear Projects Nos. 1, 3 and Columbia, the Series 2001-A Bonds and the Series 2001-B Bonds. The Series 2001-A Bonds, in the aggregate principal amount of \$500.1 million, are fixed rate bonds with an average coupon interest rate of 5.42%. The Series 2001-A Bonds refunded \$499.5 million of outstanding bonds having an average coupon rate of 5.70%. Remaining debt service on the refunded bonds prior to the refunding was \$162.9 million, \$354.9 million and \$255.7 million for Nuclear Projects Nos. 1, 3

and Columbia, respectively. The debt service on the 2001-A Bonds is \$156.1 million, \$345.1 million and \$330.9 million for Nuclear Projects Nos. 1, 3 and Columbia, respectively. Columbia's debt service increases because the final maturity date was extended from 2012 to 2017. Net proceeds from the Series 2001-A Bonds were deposited in a separate irrevocable trust for each Project under the control of the trustee/escrow agent bank to provide all required future debt service payments on the refunded bonds until the dates of redemption. As a result, the refunded bonds are considered to be defeased and the liability of these bonds has been removed from long-term debt.

The Series 2001-B Bonds, in the aggregate principal amount of \$97.3 million, were issued as "Auction Rate Certificates". The interest rates on the Series 2001-B Bonds ranged from 5.00% to 5.50% for the "Initial Interest Periods". The Series 2001-B Bonds refunded \$101.1 million of outstanding bonds, all of which, except for \$230,000 Nuclear Project No. 3 bonds, matured on July 1, 2001. Net proceeds from the Series 2001-B Bonds were deposited in the Principal Accounts in the Bond Funds and the Debt Service Accounts for each Project under the control of the trustee banks to provide all required remaining deposits for principal payments on the refunded bonds until the dates of redemption.

In prior fiscal years, Energy Northwest also defeased certain revenue bonds by placing the net proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements in accordance with GASB No. 7 and No. 23. Including the fiscal year 2001 defeasements, approximately \$400.9 million, \$170.8 million and \$495.1 million of defeased bonds were not called or had not matured at June 30, 2001, for Nuclear Projects Nos. 1, 3 and Columbia, respectively.

Outstanding revenue bonds for the various business units as of June 30, 2001, and future debt service requirements for these bonds are presented at the end of the Financial section of this report.

In October 2000, Energy Northwest's Executive Board adopted the 2000 Refunding Plan. Under the 2000 Refunding Plan, Energy Northwest expects to continue its "Traditional Refinancing Program" by refinancing higher interest rate outstanding bonds, previously issued for Nuclear Projects Nos. 1, 3 and Columbia, when economically feasible. Additionally, Energy Northwest expects to continue to issue refunding bonds to extend the final maturity of Columbia debt from 2012 to 2018.

Subsequent Event

Energy Northwest's Executive Board, on August 23, 2001, authorized the issuance of Promissory Notes and the execution of Credit Agreements for Nuclear Projects Nos. 1, 3 and Columbia, respectively. Under the Credit Agreements, Energy Northwest may borrow, on a taxable basis to the issuer, up to \$55.6 million, \$55.2 million and \$36.7 million for the purpose of providing a portion of the funds necessary to refund the principal of outstanding bonds maturing on July 1, 2002, for Nuclear Projects Nos. 1, 3 and Columbia, respectively. This transaction anticipates the sale of refunding bonds in the Spring of 2002, the net proceeds of which will pay off the Promissory Notes and all remaining deposits for principal payments on the refunded bonds until their maturity date of July 1, 2002.

Security - Nuclear Projects Nos. 1, 3 and Columbia

Project participants have purchased all of the capability of Nuclear Projects Nos. 1, 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 unit's, Participants are obligated to pay Energy Northwest their pro rata share of total annual costs of the respective projects, including debt service on bonds relating to each business unit, and BPA in turn is obligated to pay the Participants identical amounts by reducing amounts due to BPA by Participants under BPA power sales agreements. The net-billing agreements provide that Participants and BPA are obligated to make such payments whether or not the projects are completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output.

On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. The Nuclear Projects Nos. 1 and 3 project agreements and the net-billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations under the net-billing agreements, ended upon termination of the projects. Energy Northwest entered into an agreement with BPA to provide for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement among Energy Northwest, Puget Sound Power & Light Company, PacifiCorp, Portland General Electric Company and AVISTA Corporation was terminated in fiscal year 1999. The ownership of all real and personal property interests was transferred to Energy Northwest.

Security - Packwood Lake Hydroelectric Project

Energy Northwest and BPA signed an agreement which became effective on October 1, 1996, for the period through July 1, 2001, and states that BPA will pay Energy Northwest in exchange for the project's total output of electric capacity and energy delivered from the project. BPA will pay 17.5 mills per kWh for the first 86,750 megawatt hours delivered to the interconnections and 5 mills per kWh for any energy delivered to the interconnections in excess of 86,750 megawatt hours during the fiscal year. In addition, BPA pays to Energy Northwest its Lewis County PUD No. 1 transmission costs and Energy Northwest receives generation credit for spill requested by BPA. Packwood is now a "certified resource" in BPA's environmental foundation pool. When Packwood's generation is marketed as "green" power, a stipend of 2.5 mills per kWh will be received from BPA. The Packwood participants are obligated to pay annual costs of the project including debt service, whether or not the project is operable, until the outstanding bonds are paid or provision is made for the retirement in accordance with provisions of the bond resolution.

Note F - Commitments and Contingencies

Nuclear Project No. 1 Termination

Since the Nuclear Project No.1 termination, Energy Northwest has been planning for the demolition of Nuclear Project No. 1 and restoration of the site, recognizing the fact that there is no market for the sale of the Project in its entirety and to date, no viable alternative use has been found. A study has been initiated on the feasibility of completing the Project. The study is expected to be completed late in the fall of 2001. Funding for the Project has continued for administrative efforts associated with termination and planning of demolition activities for the Project. Preservation activities have been continued for certain high-value assets to maximize the return on their expected resale. At this time, the eventual disposition of the Project is unknown.

Nuclear Project No. 3 Termination

In June 1994, the Nuclear Project No. 3 Owners Committee voted unanimously to terminate the Project. In February 1999, Energy Northwest entered into a transfer agreement with the Satsop Redevelopment Project (SRP) to transfer the real and personal property at the site of Nuclear Project No. 3 and Nuclear Project No. 5. The SRP also agreed to assume regulatory responsibility for site restoration. Therefore, Energy Northwest is no longer responsible to the State of Washington and Washington EFSEC for any site restoration costs.

Nuclear Projects Nos. 1 and 4 Site Restoration

Site restoration requirements for Nuclear Projects Nos. 1 and 4 are governed by site certification agreements between Energy Northwest and the State of Washington and regulations adopted by the Washington EFSEC, and a lease agreement with the DOE. Energy Northwest submitted a site restoration plan for Nuclear Projects Nos. 1 and 4 to EFSEC on March 8, 1995, which complied with EFSEC requirements to remove the assets and restore the sites by demolition, burial, entombment, or other techniques such that the sites pose minimal hazard to the public. EFSEC approved Energy Northwest's site restoration plan on June 12, 1995. In its approval, EFSEC recognized that there is uncertainty associated with Energy Northwest's proposed plan. Accordingly, EFSEC's conditional approval provides for additional reviews once the details of the plan are finalized.

Based on current estimates for site restoration, Energy Northwest has accrued liabilities of \$59.2 million for Nuclear Project No. 1. Funding for this liability will be provided by BPA. No source of funding has been identified for site restoration of Nuclear Project No. 4, which is located approximately one-half mile from Nuclear Project No. 1. Energy Northwest believes that although Nuclear Project No. 1 has no legal obligation to fund Nuclear Project No. 4, it is possible that claims may be asserted against Nuclear Project No. 1 to pay the costs of site restoration for Nuclear Project No. 4. Energy Northwest currently estimates that the cost of site restoration for Nuclear Project No. 4 is \$40.1 million. Nuclear Project No. 1 has not accrued any costs for Nuclear Project No. 4.

Business Development Fund Interest in Northwest Open Access Network

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

The Business Development Fund has a 7.38% interest in NoaNet with an additional 25% step-up possible for a maximum 9.23%. In July 2001, NoaNet issued \$27 million of bonds. The members are obligated to pay the principal and interest on the bonds when due, in the event and to the extent that NoaNet's Gross Revenue (after payment of costs of Maintenance and Operation) is insufficient for this purpose. The maximum principal share (with step-up) that the Business Development Fund could be required to pay is \$2,490,800.

Other Litigation and Commitments

Energy Northwest is involved in various claims, legal actions and contractual commitments and in certain claims and contracts arising in the normal course of business. Although some suits, claims and commitments are significant in amount, final disposition is not determinable. In the opinion of management, the outcome of such litigation, claims or commitments will not have a material adverse effect on the financial positions of the business units or Energy Northwest as a whole. The future annual cost of the business units, however, may either be increased or decreased as a result of the outcome of these matters.

Nuclear Licensing and Insurance

Energy Northwest is a licensee of the Nuclear Regulatory Commission and is subject to routine licensing and user fees, to retrospective premiums for nuclear liability insurance, and to license modification, suspension, or revocation or civil penalties in the event of violations of various regulatory and license requirements.

The Price Anderson Act currently provides for nuclear liability insurance of over \$9.54 billion per incident, which is covered by a combination of commercial nuclear insurance and mandatory industry self-insurance. Energy Northwest has purchased the maximum commercial insurance available of \$200 million, which is the first layer of protection. The second layer of protection is provided

through a mandatory industry self-insurance plan wherein each licensed nuclear facility required to participate in the plan (currently 106) may be assessed up to \$88.1 million per incident, subject to a maximum annual assessment of \$10 million per year.

Nuclear property damage and decontamination liability insurance requirements are met through a combination of commercial nuclear insurance policies purchased by Energy Northwest and BPA. The total amount of insurance purchased is currently \$2.75 billion. The deductible for this coverage is \$5 million per occurrence.

Note G – New Accounting Pronouncements

The FASB has recently issued SFAS No. 143, Accounting for Obligations Associated with the Retirement of Long-Lived Assets, which is effective for fiscal years beginning after June 15, 2002. Energy Northwest has chosen not to adopt the Statement early. This Statement will require an entity to recognize the fair value of a liability for an asset retirement obligation (ARO), such as nuclear decommissioning and site restoration liabilities, in the period in which it is incurred, rather than using a cost-accumulation approach. Asset retirement costs will be capitalized as part of the cost of the related long-lived asset, then allocated to depreciation expense over the life of that asset. The fair value of the liability will be discounted initially, then accreted with a charge to expense based on the risk-free interest rate in effect

at the time of initial recognition. Upon adoption of the Statement, an entity will use a cumulative-effect approach to recognize transition amounts for any existing ARO liabilities, asset retirement costs, and accumulated depreciation. The impact on Energy Northwest's financial statements is expected to increase Utility Plant by approximately \$325 million and Accounts Payable and accrued expenses by a like amount.

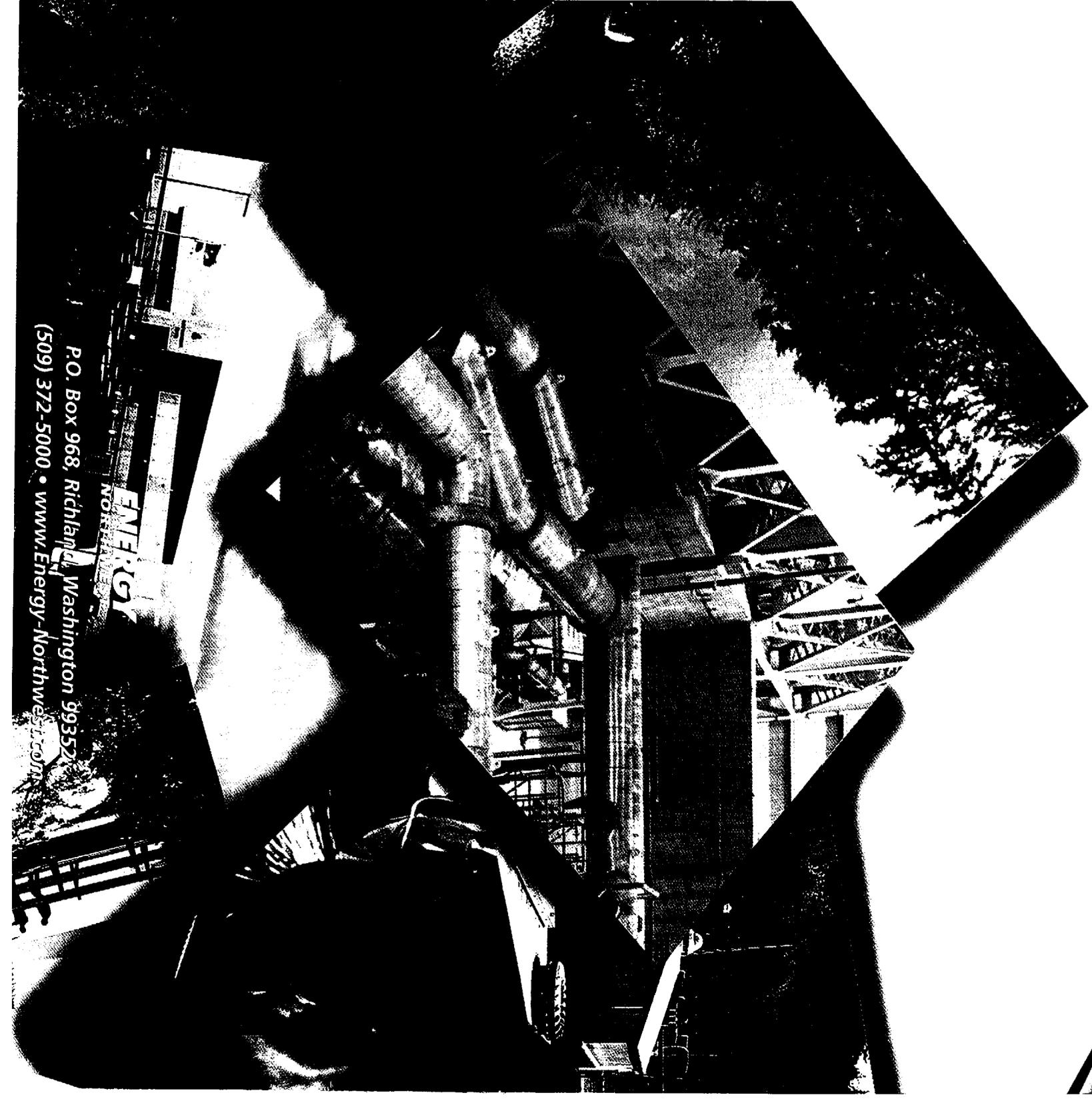
GASB No. 34, Basic Financial Statement and MD&A for State and Local Governments, as amended by GASB Nos. 37 and 38, establishes requirements for the basic financial statements and required supplementary information (RSI) for general purpose governments. Such financial statements and RSI will include 1) Management's discussion and analysis (MD&A), and 2) Basic Financial Statements. MD&A will introduce the basic financial statements and provide an analytical overview of the government's financial activities before the basic financial statements. The basic financial statements will consist of government-wide financial statements (statement of net assets and statement of activities), fund financial statements (a series of statements that focus on information about the government's major funds, including its blended component units), notes to the financial statements and RSI. Interfund activity will be reported separately in the fund financial statements and eliminated in the aggregated government-wide financial statements. This statement is effective for Energy Northwest's fiscal year beginning July 1, 2001, and Energy Northwest has elected not to adopt early.

CURRENT DEBT RATINGS (Unaudited)
ENERGY NORTHWEST (Long-Term)

	<u>RATING</u>	<u>OUTLOOK</u>
Fitch	AA	Stable
Moody's Investors Service, Inc. (Moody's)	Aa1	
Standard and Poor's Rating Services (S & P)	AA	Stable
VARIABLE RATE DEBT	<u>S & P</u>	<u>MOODY'S</u>
Letter of Credit Banks		
Bank of America		
Long-Term	AA-	Aa1
Short-Term	A-1+	P-1
Morgan Guaranty Trust Company		
Long-Term	AA	Aa3
Short-Term	A-1+	P-1
Bond Insurance (Long-Term)		
MBIA Insurance Corporation	AAA	Aaa
Bank Credit Facility (Short-Term)		
Credit Suisse First Boston	A-1+	P-1







ENERGY
NORTHWEST

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