

# **ENERGY NORTHWEST**

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

January 14, 2003  
GO2-03-007

U.S. Nuclear Regulatory Commission  
ATTN: Document Control Desk  
Washington, DC 20555-0001

Subject: **COLUMBIA GENERATING STATION, DOCKET NO. 50-397  
2002 ANNUAL FINANCIAL REPORT**

Dear Sir or Madam:

In accordance with 10 CFR 50.71(b), enclosed is a copy of the Energy Northwest 2002 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

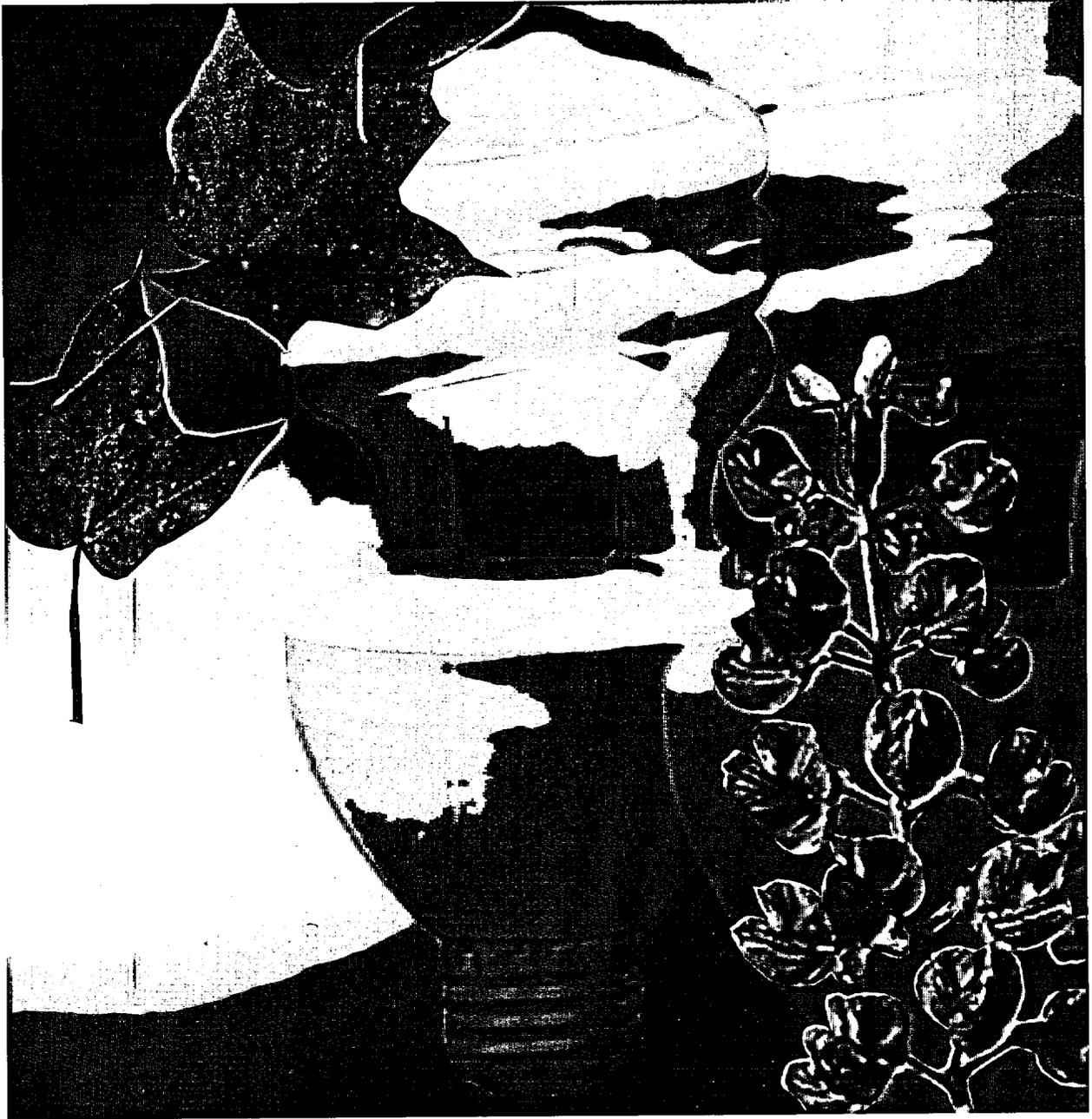
cc: EW Merschhoff - NRC RIV  
BJ Benney - NRC - NRR w/o  
MM Mendonca - NRC w/o  
NRC Sr. Resident Inspector - 988C  
RN Sherman - BPA/1399 w/o  
TC Poindexter - Winston & Strawn w/o

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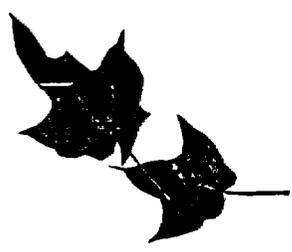
ENERGY NORTHWEST 2002 ANNUAL REPORT

*GENERATING*  
Solutions





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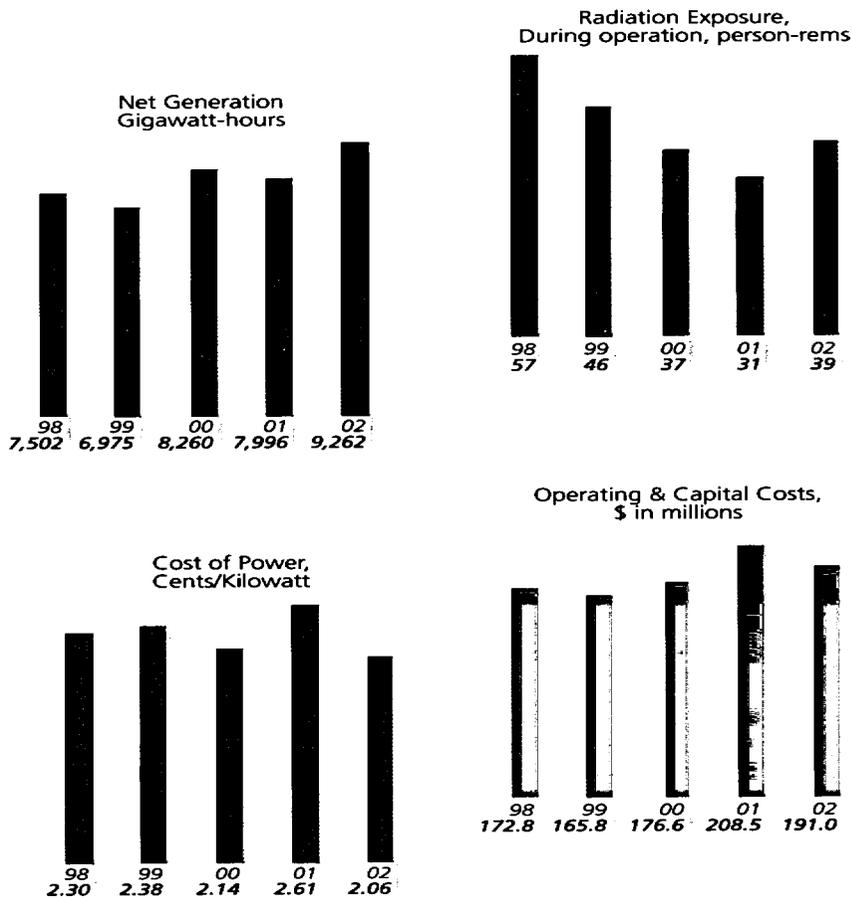
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## OPERATING HIGHLIGHTS - COLUMBIA GENERATING STATION



## FY 2002 In Review . . .



*Joseph V. Parrish  
Chief Executive Officer*



*John F. Cockburn  
Executive Board Chairman*

As Fiscal Year 2002 comes to an end, we at Energy Northwest reflect on what has been an outstanding 12 months and look forward to a bright future.

In 1957, public utility leaders formed a joint operating agency to develop power projects that individual entities could not develop on their own. Forty-five years later, our mission is still strong and still focused on serving the needs of public power in our region. What has changed is the way we do business. In fact, it is because we have been able to effectively adapt to the rapid changes in our industry and respond to better meet the needs of our members that Energy Northwest is the organization it is today.

Several years ago, Energy Northwest set out to redesign itself as an organization—to develop new sources of electricity generation to meet the needs of our region. Although much of the legwork was done in previous years, FY 2002 saw the realization of several new endeavors and the best performance in the history of Columbia Generating Station.

Groundbreaking for the Nine Canyon Wind Project took place in early March, and by the end of June, 10 turbine towers had been erected, three of which had completed testing and were generating

electricity. The full project will be on-line and harnessing the power of wind by early fall.

Adjacent to Nine Canyon is Zintel Canyon—the location identified for our next wind project. Current plans are that the project will produce up to 50 megawatts of electricity. This project was early in the permitting process as the fiscal year ended.

The White Bluffs Solar Station was connected to the grid and dedicated during a ceremony at the end of May. This project produces 38.7 KwDC and was developed as a demonstration project with the Bonneville Power Administration, Bonneville Environmental Foundation and Washington State University.

Energy Northwest has been fortunate to strengthen some key relationships by offering operations and maintenance services on projects like the H. W. Hill Landfill Gas Power Plant and the Franklin County PUD and Grays Harbor County PUD Combustion Turbine Project. These opportunities allow us to better address our member utilities' needs.

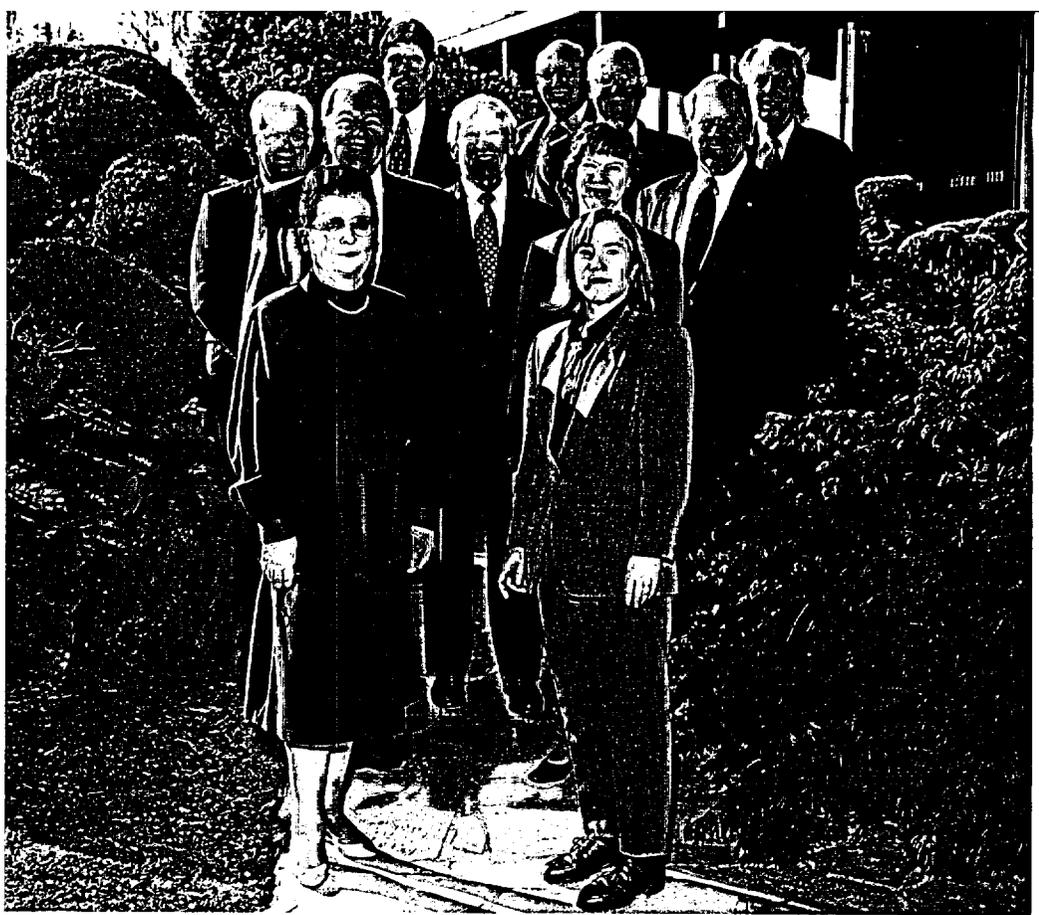
Of course, we would not have been able to explore any of these endeavors were it not for the foundation provided by Columbia Generating Station. FY 2002 was an outstanding year for the station, measuring

the highest generation and lowest dose performance to date. Our excellent staff continues to strive for even better performance.

Each of these projects is a milestone for Energy Northwest—which really means we are better positioned to meet the needs of the region. While we are exploring new sources of generation, and developing and offering our expertise to our members in other areas, our primary focus remains on providing the Pacific Northwest with safe, reliable, at-cost power.

*Thank you for the opportunity.*





*Executive Board Members:*  
*Front row: Vera Claussen,*  
*Amy Solomon*  
*Row 2: Sid Morrison,*  
*Margaret Allen*  
*Row 3: Darrel Bunch, Ted Coates, Bob*  
*Graves*  
*Back row: Dan Gunkel, Roger Sparks,*  
*John Cockburn, Larry Kenney*

*Bottom right*  
*Board of Directors:*  
*Left to right*  
*Tom Casey, Richard Riley,*  
*Darrel Bunch, Dan Gunkel,*  
*John Whalen, Don Nuxoll,*  
*Vera Claussen, Roger Sparks (behind*  
*Vera), Bob Graves, Jack Janda, Beverley*  
*Cochrane*  
*Not pictured: Gregg Caudell,*  
*Mark Crisson, Parker Knight,*  
*Gary Zarker, Ray Sieler*

## EXECUTIVE BOARD

John Cockburn, Chairman  
 Retired Bank Executive  
 Seattle, Washington

Dan Gunkel, Vice Chairman  
 Klickitat County PUD Commissioner  
 Goldendale, Washington

Sid Morrison, Secretary  
 Retired Executive  
 Zillah, Washington

Vera Claussen, Assistant Secretary  
 Grant County PUD Commissioner  
 Ephrata, Washington

Margaret Allen  
 Attorney  
 Olympia, Washington

Darrel Bunch  
 Okanogan County PUD Commissioner  
 Okanogan, Washington

Tom Casey  
 Grays Harbor County PUD  
 Commissioner  
 Aberdeen, Washington  
 (Term began June 16, 2002)

Ted Coates  
 Retired Utility Executive  
 Tacoma, Washington

Larry Kenney  
 Retired Organized Labor Executive  
 Seattle, Washington

Amy Solomon  
 Management Consultant  
 Seattle, Washington

Roger Sparks  
 Kittitas County PUD Commissioner  
 Ellensburg, Washington

Bob Graves  
 Benton County PUD Commissioner  
 Kennewick, Washington  
 (Term ended June 16, 2002)

# 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\*  
Commissioner, Grays Harbor County  
PUD

Gregg Caudell  
Commissioner, Ferry County PUD

Mark Crisson  
Director of Utilities, Tacoma Public  
Utilities

Bob Graves\*  
Commissioner, Benton County PUD

Dan Gunkel\*  
Commissioner, Klickitat County PUD

Jack Janda  
Commissioner, Mason County PUD #1

Parker Knight  
Commissioner, Skamania County PUD

Don Nuxoll  
Commissioner, Asotin County PUD

Raymon Sieler  
Energy Services Director,  
City of Richland

Roger Sparks\*  
Commissioner, Kittitas County PUD

John Whalen  
Commissioner, Mason County PUD #3

Gary Zarker  
Superintendent, Seattle City Light

\* Also serves on the Executive Board  
Bob Graves' Executive Board term  
ended June 16, 2002  
Tom Casey's Executive Board term  
began June 16, 2002



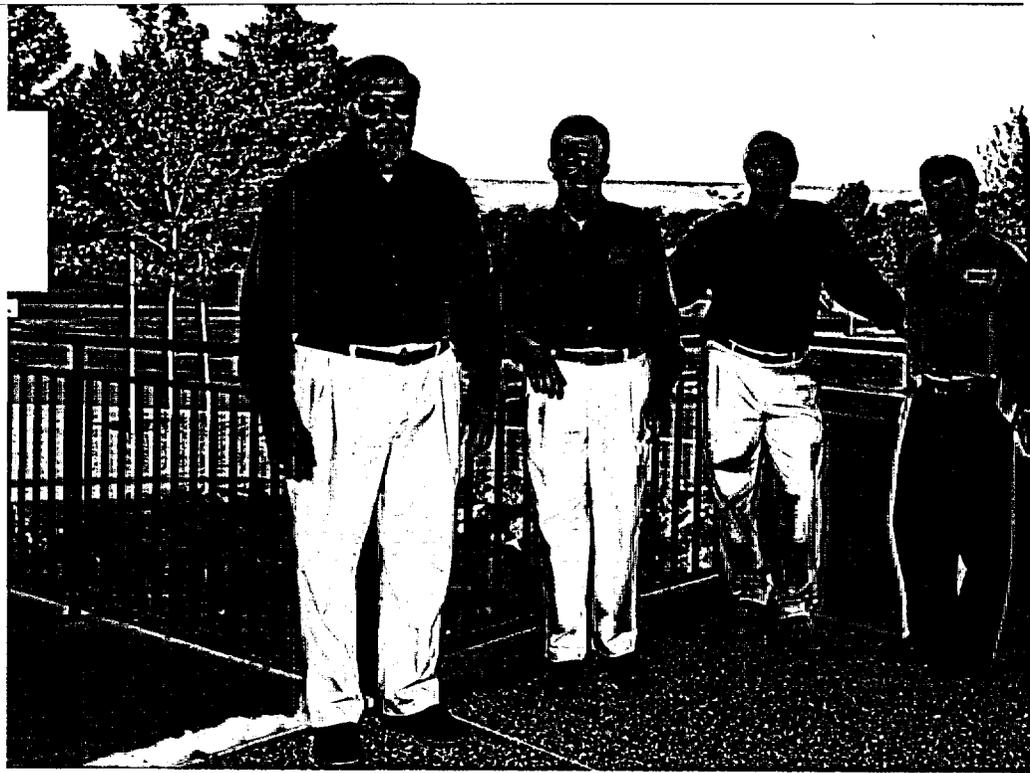
# GENERATING Solutions . . .

## Adversity in the Power Market

Across the West it was a period of adversity for utilities of all sizes, and yet, despite the challenges, it was a gratifying year for Energy Northwest. It was a year in which we demonstrated our value to the region by generating innovative solutions, both in the form of reliable, low-cost electricity and in the form of meeting customer needs.

Even as the unpredictable West Coast power market of previous months ebbed into history, its legacy continued to be felt across the region. The Bonneville Power Administration (BPA) ended the past fiscal year under an umbrella of emergent cost recovery mechanisms and looked to even greater rate increases in the near future. Private utilities faced bond rating reductions or, in one case, the side effects of a massive bankruptcy. A cloud of uncertainty covered the Northwest as utilities that only 12 months earlier girded for a new reality of high prices had to function in a market of some of the lowest prices in a decade. Strategies crafted when the price of power was \$200 a megawatt-hour suddenly were unworkable when the market price descended to \$20. The planning spectrum for all utilities was measured in days or weeks rather than months or years.

Yet amid this turmoil, Energy Northwest held its own—even prospered in relative terms. As a generating utility, Energy Northwest proved its worth during FY 2002. The replacement value of power produced by Columbia Generating Station reached \$1.6 billion, compared to the \$200 million it cost to operate the plant. Next, even as the market suffered through a hangover after the paroxysms of a year earlier, Energy



Northwest continued to expand on a variety of generation fronts.

Through it all, the men and women of Energy Northwest continued to dream, not about the next few years, but about the next few decades. Might Mid-Columbia basalt formations prove an ideal location to store hydrogen produced through electrolysis when hydro power is cheap? Might the skills learned in perfecting a large nuclear power plant be transferable to increasingly efficient operation of the region's hydro resources? Might not Energy Northwest's unique governance and financial structure offer member utilities and others an opportunity to better serve their customers?

## Columbia Generating Station

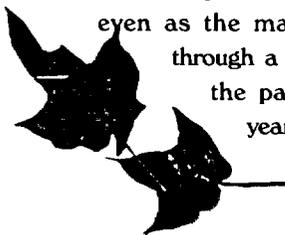
The Energy Northwest answer to such questions carries substance because of our performance with Columbia Generating Station. During the energy shortages of 2001 and into the uncertainties of 2002, Columbia Generating Station and its people stood tall, generating equal amounts of power and of trust.

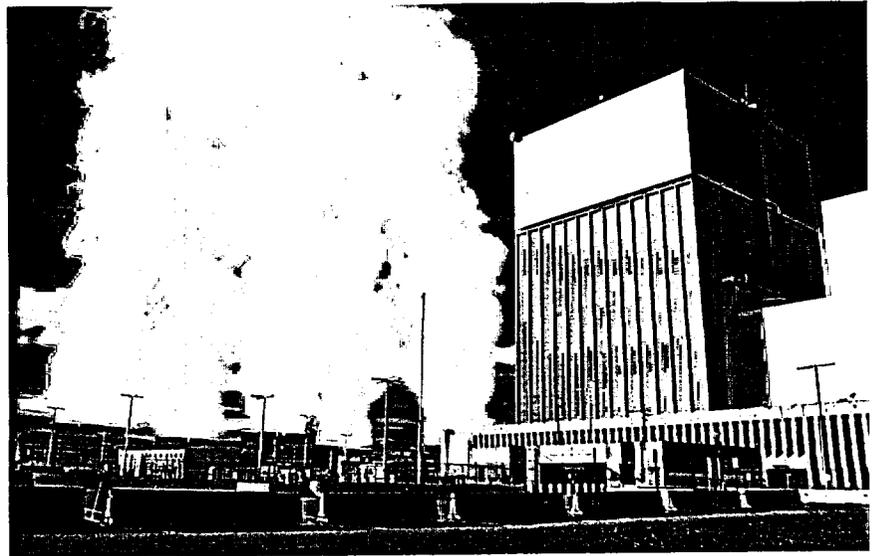
A nuclear power plant is an extremely

complicated machine, one attuned to the highest standards of safety and operating parameters. Even the smallest flaw or error can result in an outage. As the 15<sup>th</sup> refueling evolution lapped over into early July of 2001, the plant appeared to start back up with no problems. Then, at the end of the month, a recirculating pump seal began to fail. Maintenance workers pulled a quick forced outage - seven days - to replace it.

In February of 2002, another quick outage occurred, not necessarily to replace equipment but to allow technicians to understand the idiosyncrasies of a relatively small piece of equipment. Essential to the safety culture of all nuclear power plants is the philosophy that operators must understand each and every process in their domain. In this case, operators found switches in some electrical breaker assemblies that were not operating properly. Rather than operate the plant while sorting out the issue, managers rightly took the conservative course and shut down the station for ten days to investigate, understand, and repair the problem switches.

For the remainder of the fiscal year, Columbia Generating Station ran safely and reliably, powering the region. The plant's commitment to predictable reliability





even extended to the unpredictable. During the spring of 2002, BPA frequently asked Columbia Generating Station to change power output to respond to market and river runoff demands. Energy Northwest fulfilled BPA's request, one day at 45 percent, the next at 100 percent, followed by 65 percent and so on. There probably is no other nuclear power plant in the nation that has followed a fluctuating load profile so faithfully and with such accuracy.

Now firmly settled into its 24-month refueling cycle, Columbia Generating Station ended FY 2002 with a 95.5 percent capacity factor (including economic dispatch credits), generating 9.262 million megawatt-hours equivalent, which was a record for the plant.

### *Independent Spent Fuel Storage Installation (ISFSI)*

The Independent Spent Fuel Storage Installation, located adjacent to Columbia Generating Station, is a dry cask storage system for spent nuclear fuel. It is necessary for continued operation of the plant because the existing spent fuel pool

is rapidly running out of space to store fuel assemblies that have exhausted their useful energy supply.

During FY 2002, Energy Northwest worked with Holtec International, preparing to use its MPC-68 canister and HI-STORM metal and concrete storage overpack design for storing the plant's spent fuel. When completed, the system will allow spent fuel to be loaded and moved out of the reactor building to a secure storage pad next to the plant. Handling equipment has been purchased and two buildings—a maintenance shop and an equipment garage—have been erected. Crew training is ongoing. Although the vendor was late in supplying a few components, the overall project is only slightly behind schedule.

The goal of the project is to load five casks by the end of calendar year 2002. This will put 340 fuel assemblies—68 per canister—into dry storage, which will be enough to accommodate the refueling outage in 2003. The NRC requires the ISFSI project to successfully pass six demonstration exercises prior to cask loading. The first two exercises, completed in late June 2002, went very well. Project managers are confident that all six exercises will be passed and loading will proceed.

*Above left*

*From left to right*

*Executive Management Team*

*Jack Baker, Vice President, Resource Development*

*Rod Webring, Vice President, Operations Support/PIO*

*Vic Parrish, Chief Executive Officer*

*Greg Smith, Vice President, Generation*

*Jerry Kucera, Vice President, Administration/CFO*

*Al Mouncer, Vice President/General Counsel*

*Above right*

*Columbia Generating Station*

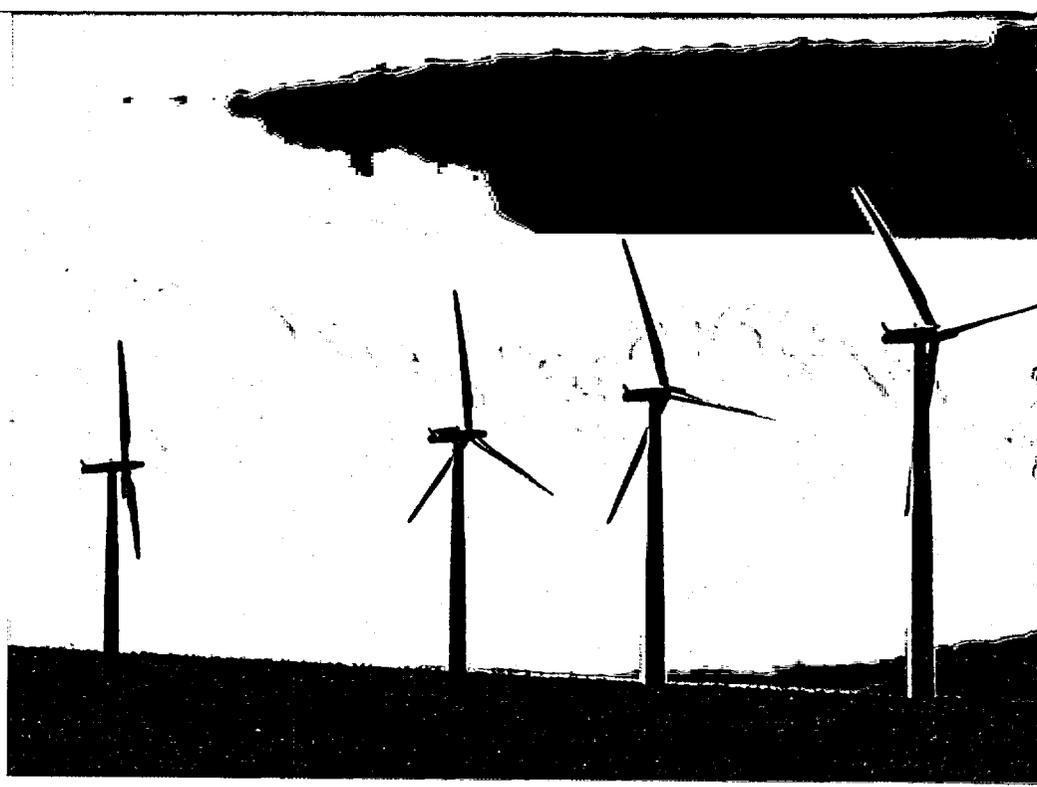


## *WNP-1 Study*

After approximately nine months of work, the WNP-1 Feasibility Study was completed and results presented to the Executive Board and Board of Directors during their April 2002 meetings. The study was executed in three steps: 1) development of construction costs and timelines; 2) development of a power market forecast; and 3) an independent review of the first two segments that would result in a final recommendation.

Bechtel Power Corp. and R.W. Beck conducted the first two portions of the study, while the consulting firm Goldschmidt Imeson conducted the third portion. When the complete study was presented to the Executive Board, it was clear that the cost to complete WNP-1 as a nuclear power plant was too high to be economical. It was equally clear that neither public power, collectively, nor Energy Northwest, alone, would finish the plant.

Goldschmidt Imeson then met with political, regional, and industry leaders to discuss the best potential uses for WNP-1. During the course of those meetings it was made clear that no other entity had an interest in completing WNP-1. As the fiscal year came to a close, Energy Northwest was working with BPA, United States Department of Energy (DOE), and Washington State Energy Facility Site Evaluation Council (EFSEC) to negotiate a mutually beneficial agreement on the level of restoration required for both the WNP-1 and WNP-4 project sites.



## *Packwood Lake Hydroelectric Project*

In 2002, Energy Northwest managed an extensive project to repair tunnel leakage during the annual maintenance outage. The repair was successful and no leaks have been detected since the plant came back on line. After restarting, the facility experienced a transformer failure, which resulted in an extended forced outage. The spare transformer was installed; however, its lower capacity resulted in lowered generation potential for the facility. A new, 40 MVA transformer will be installed during the next outage in October 2002.

The region experienced above-average precipitation through the winter and spring, which will contribute to increased revenues for project participants. Annual generation was 81,610 MWh, approximately 90 percent of average production. When the new transformer is installed, the facility will return to producing larger quantities of environmentally friendly electric power for the ratepayers of the Northwest.

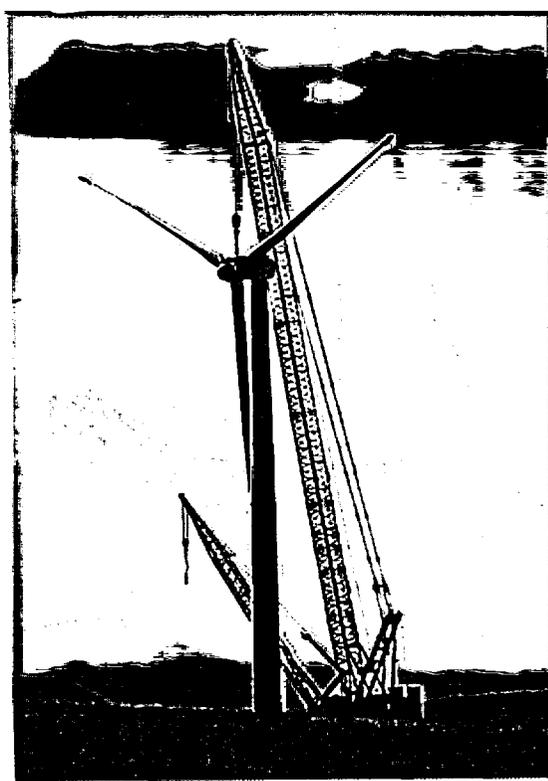
## *Nine Canyon Wind Project*

The Nine Canyon Wind Project has gone from the drawing board to generating power. One by one, the 200-foot tall turbine towers appeared on the site southeast of Kennewick, Washington. As the month of June ended, the first five turbines began producing renewable power for the Northwest.

Working with the contractor, Renewable Energy Systems (RES), Energy Northwest's Resource Development team developed detailed construction plans, including plans to finance the project. On November 9, 2001, the Executive Board approved the sale of \$70,675,000 in bonds. This was a milestone event for Energy Northwest: the first time in over 20 years that the organization had sold bonds without the financial backing of the Bonneville Power Administration. The fact that the bonds were avidly sought and quickly sold was a clear demonstration of the strength and stability of public power in the Northwest.

Immediately after the bond funds were deposited in the project account, Energy Northwest notified RES to begin construction. A modest groundbreaking





ceremony was held at the project site on March 11, 2002. Chill winds buffeted the dignitaries as they viewed the bare hillside. Three and a half months later, the first of the huge turbines was producing power. The entire project began commercial operation in September 2002.

Participating utilities in the Nine Canyon Wind Project are Benton PUD, Chelan PUD, Douglas PUD, Grant PUD, Lewis PUD, Mason PUD No. 3, Okanogan PUD, Grays Harbor PUD and Columbia Generating Station.

### *White Bluffs Solar Station*

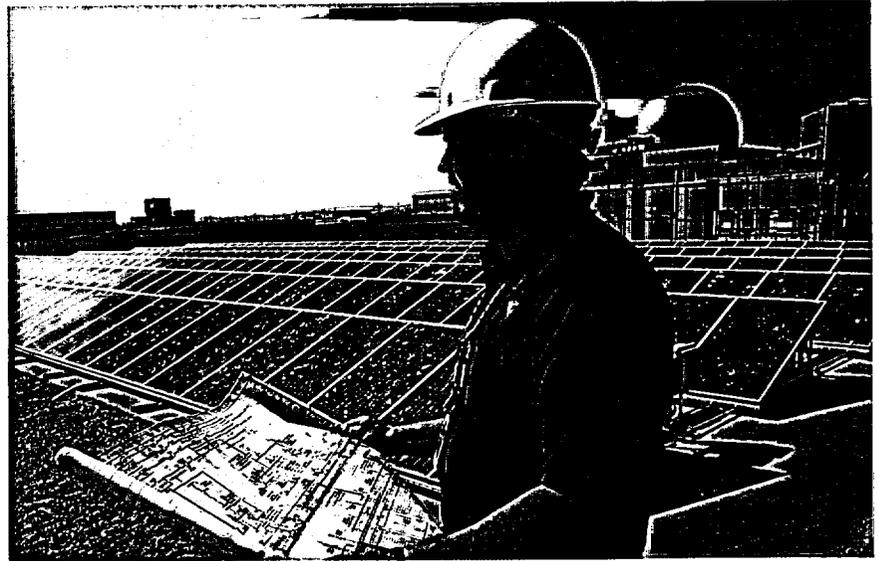
Supporters of renewable energy development gathered on May 30, 2002, to dedicate the White Bluffs Solar Station. White Bluffs is the largest photovoltaic solar power facility constructed in the Pacific Northwest to date. The station has a nameplate rating of 38.7 kilowatts DC and should produce 29.5 kilowatts AC at PVUSA Test Conditions. The system comprises 242 photovoltaic panels.

The station is a collaborative project of three leading energy organizations in the Pacific Northwest and the U.S. Department

of Energy, all of whom contributed funding and support. Energy Northwest owns and operates the station. The Bonneville Power Administration (BPA) integrates the power into its system. And the Bonneville Environmental Foundation (BEF) markets the environmental attributes—the displaced air pollution and greenhouse gas emissions—as a “Green Tags” product to buyers who want to offset negative environmental effects of their own direct power consumption. The Green Tags have been pre-sold for the next two years to Clark Public Utilities and Puget Sound Energy for their ratepayers who are participating in the utilities’ green power programs.

Through BEF, the WallulaGen Corporation of Mercer Island, Washington, also was a funding participant, contributing \$50,000 of the \$230,000 capital costs. WallulaGen is constructing a large gas-fired power plant near Wallula, Washington, and made its contribution as part of a larger mitigation package agreed to with the State of Washington.

The U.S. Department of Energy contributed \$30,000 through its “Brightfields” solar grant program, with the assistance of Washington State University’s Cooperative Extension Energy Service.



*Above left  
Nine Canyon Wind Project  
during construction*

*Above right  
White Bluffs Solar Station with  
engineer Jerry Sims*



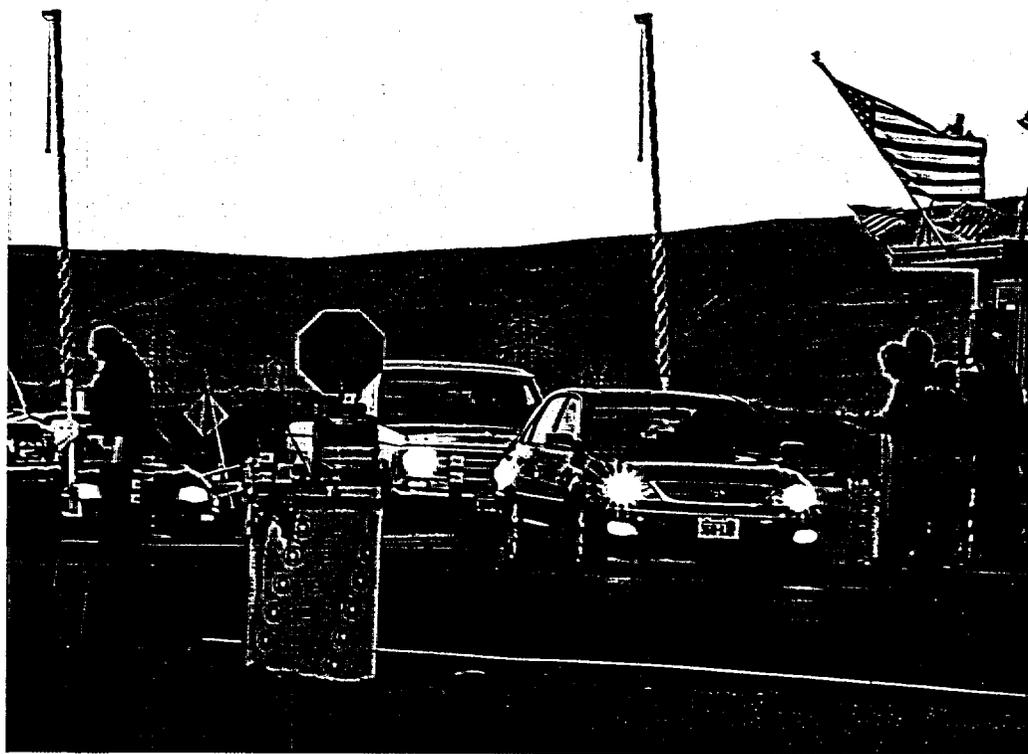
## Environmental Stewardship-ISO Report

Energy Northwest's Executive Board identified environmental stewardship as a top priority in meeting our "public confidence, trust and stewardship" strategic objective. To support this objective, Energy Northwest conducted an assessment of organization-wide environmental programs and performance. Pacific Northwest National Laboratory provided environmental management expertise and assistance during the assessment, which was completed in December 2001. Energy Northwest will be developing and implementing an Environmental Management System (EMS) to provide a means to achieve this worthy goal.

An EMS provides a systematic framework for integrating environmental considerations into all aspects of operations. It is a tool to manage and measure environmental impacts. An EMS can help improve environmental performance, gain community trust, reduce costs, and ensure compliance with the law.

Energy Northwest will develop an EMS based primarily on the International Organization for Standardization (ISO) 14001. It is the most widely endorsed standard for environmental management. Included in the standard's requirements are elements designed to provide consistency in operations and achieve organizational goals.

Once the EMS was agreed on, the team assessed Energy Northwest's environmental stewardship program against it. The results show that although some of our existing programs are strong, we still have room for improvement. Energy Northwest is committed to being a leader in environmental stewardship. As we move forward with this program, we will fully integrate the EMS with other management systems already in place in order to meet this goal.



### Resource Protection

With the tragic events of September 11, 2001, the world was changed forever. So, too, were security programs changed at nuclear power plants across the nation, as facilities considered to be "critical infrastructure" were closely scrutinized as potential threat targets.

Columbia Generating Station's resource protection organization responded immediately, heightening the level of security at the plant. Shortly thereafter, the Nuclear Regulatory Commission (NRC) developed and mandated additional security measures for all nuclear plants, and set a deadline of August 31, 2002, for those measures to be fully in place.

At the close of the fiscal year, we had made significant progress toward implementing the new measures and enhancing existing practices. Hiring a number of additional security officers and constructing a new security barricade around the site are just two of the additional measures underway. We're fully committed to meeting the NRC's end-of-August deadline.

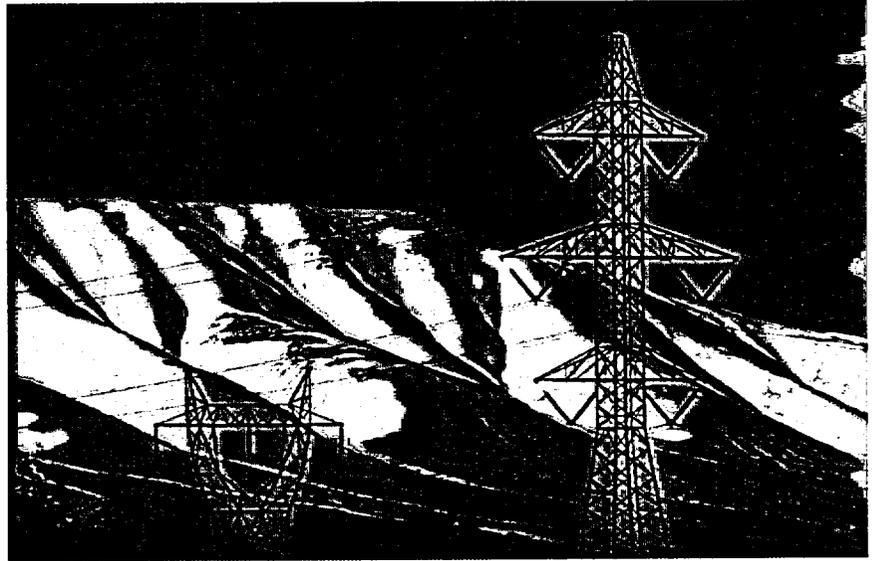
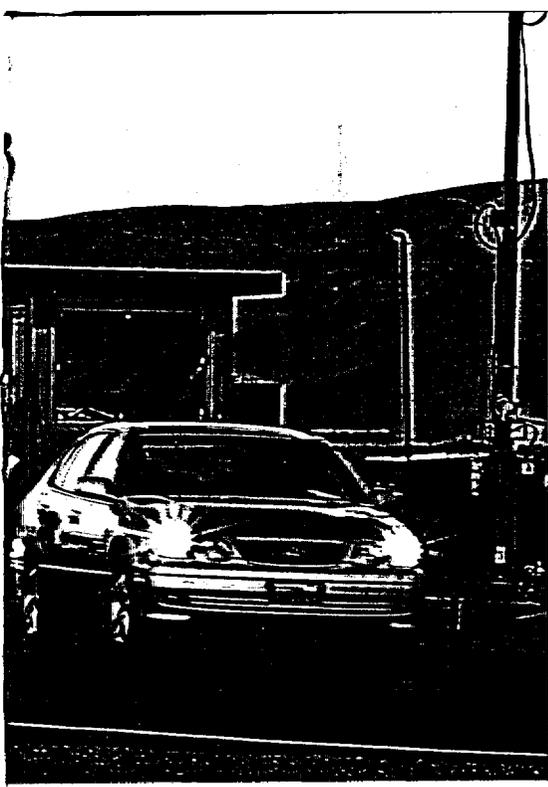
One positive outcome of this situation, however, was a media day, held in mid-February, with a number of local and regional reporters and camera operators on-site interacting directly with members of our resource protection team. It was an excellent opportunity for them to learn first-hand how seriously we take security at Columbia Generating Station.

We continue to work closely with other plants and the NRC to ensure we're implementing "best practices" in our security measures and communicating with a shared understanding of information and events that may affect our operations.

### Debt Optimization Program

The Debt Optimization Program was developed to defer payment on Energy Northwest debt principal and use the funds to pay off higher-interest principal on Bonneville Power Administration's U.S. Treasury debt early. This will free up Bonneville's borrowing authority, which can be used on regional infrastructure improvements. Between 2001-2012, approximately \$3 billion of borrowing





*Above left  
Security Check Point at Columbia  
Generating Station*

*Above right  
Transmission Towers*

authority is expected to be freed up as a result of this program.

Through the program, Energy Northwest bonds are refinanced and the maturity is extended to the 2013-2018 time period. Savings result from a lower interest rate than is available to BPA through the Treasury. This process provides the region with an average annual interest savings of \$20 million for the life of the program. The intended purpose of these funds is to reduce BPA's interest expense.

The Debt Optimization Program is estimated to make an additional \$300 million available during fiscal year 2003.

### *Third Party Participation in Transmission*

Energy Northwest's powers and authorities allow it to issue bonds, and to be involved in transmission. During this fiscal year, the Bonneville Power Administration requested expressions of interest for third party involvement in building or funding several additions to the BPA transmission system. Energy

Northwest responded, submitting five proposals. These proposals differed in approach, and did not center on any particular project on BPA's priority list of projects. Ours was the only public power proposal that potentially addressed a broad range of BPA transmission projects.

Energy Northwest's submittal generated interest at BPA, and discussions continued throughout the summer of 2002.



# RESOURCE Development

## *Zintel Canyon Wind Project*

The Energy Northwest Board of Directors approved a second wind power project during its April 2002 meeting, allowing Energy Northwest to conduct the necessary studies and take preliminary actions to determine project feasibility.

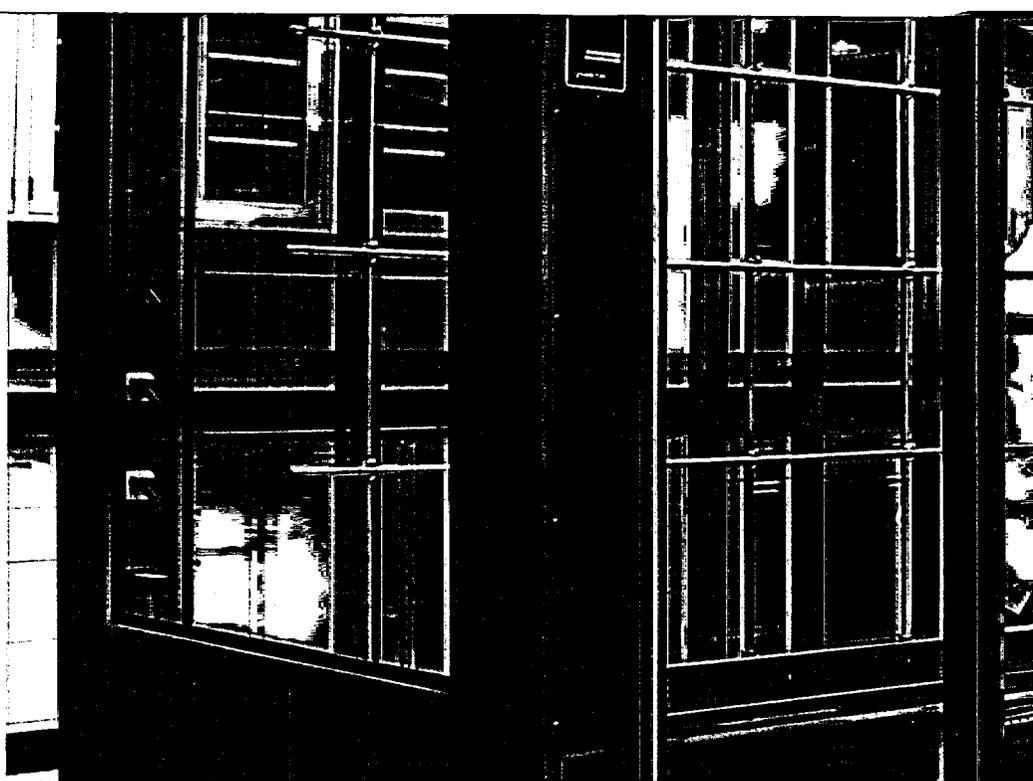
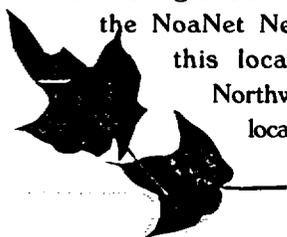
The Zintel Canyon Wind Project has a potential capacity of about 50 megawatts, and will be located adjacent to the Nine Canyon Wind Project, south of Kennewick, Washington.

The first public meeting on the Zintel Canyon Wind Project was held in June 2002, attended by approximately 30 citizens. A few attendees voiced objections to the towers as spoiling their view of the Horse Heaven Hills. This was not unexpected, since the towers at nearby Nine Canyon are now quite visible. Others voiced their strong support of this renewable energy project.

## *NoaNet*

Energy Northwest is a founding member of NoaNet, offering access to a fiber-optic cable network licensed from BPA and other broadband providers.

NoaNet is a non-profit, open access, fiber-optic network developed to bring high-speed broadband communications to rural areas of the Northwest. Energy Northwest supports the NoaNet Point of Presence (POP) at the Ashe Substation near Columbia Generating Station and the Moxee POP near Yakima, Washington. The Ashe POP has been extended into the APEL facility in north Richland, enabling the connection of customers to the network and establishing a "Meet Me" point for the NoaNet Network. From this location, Energy Northwest offers co-location facilities for



customers to lease in support of their broadband needs.

## *Fuel Cells*

Energy Northwest continues its demonstration work with fuel cells gauged to single-home or small subdivision capacity. The current cell, supplied through an agreement with the Bonneville Power Administration and IdaTech of Bend, Oregon, is mounted in an enclosed demonstration trailer and continues to tour among our supporting member utilities. Throughout our work since 2000, we have encountered both the great promise and the great problems ahead in fuel cell development.

## *Applied Process Engineering Laboratory (APEL)*

In its fourth year, APEL continues to host companies developing and demonstrating new technologies. Through the enlightened support of its member

public power utilities, Energy Northwest is actively investing in emerging technologies, and has made a significant commitment to the development of the technology future by establishing and supporting this incubator for research and entrepreneurial endeavors. By leveraging our existing facilities infrastructure and technological talent, Energy Northwest provides a pathway to success for these future technologies.

APEL continues to host companies developing and demonstrating new technologies for treating Hanford contaminated waste sites. Products and services also 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 now 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. Work also is underway on fabricating prostate cancer treatment seeds, and on treating warts and other virus-related illnesses without surgery.

It is clear that APEL is creating jobs in the Northwest and addressing some of the most vexing environmental problems



facing the planet. APEL is a joint venture of Energy Northwest, the Port of Benton, the City of Richland, the Pacific Northwest National Laboratory, the U.S. Department of Energy and others. Energy Northwest receives a modest income from the lease of facilities to APEL, but beyond that, we believe our significant investment in the technology future is in the best interest of our public power membership, our community and our employees.

### *Biomass*

Adhering to its commitment to develop alternative power sources, Energy Northwest has begun the search for biomass generating locations. We have spoken to livestock operations in the Mid-Columbia, in Whatcom County, and in the Quincy, Washington, area, seeking partners for a demonstration project. Biomass involves using manure from dairy or feedlot operations in a digester to produce burnable gases. Such gas is used in an engine that then turns a generator. Not only would a biomass project produce power, it also would burn greenhouse gases that normally would waft into the atmosphere.



### *Wave Energy*

Energy Northwest has teamed with the Northwest Energy Innovation Center and AquaEnergy Group to explore the possibilities of capturing the Pacific's almost unlimited power. AquaEnergy, associated with a Swedish company now harvesting energy from the North Sea, proposes to use buoys anchored off Neah Bay, Washington, as a one-megawatt demonstration project. At the end of fiscal year 2002, Energy Northwest was assisting in the complicated permitting process necessary for any power project on the coast. The Makah Nation is a sponsor of the endeavor, and Clallam County PUD will distribute the power.

*Above left  
APEL Facility hosts companies  
developing new technologies*

*Above right  
Steve Sidwell of Instrumentation  
and Calibration*



## *The Northwest Energy Innovation Center*

In just a few short months of existence, the Northwest Energy Innovation Center has solidified its reputation as a creative leader in renewable generating resources. The center was developed in January 2001, as a consortium of the Bonneville Power Administration, Washington State University, the Pacific Northwest National Laboratory operated by Battelle, and Energy Northwest. Based in Richland, the center made possible Energy Northwest's White Bluffs Solar Station and is leading the way toward our involvement in ocean wave power, reliable tracking mechanisms for solar installations, and an innovative method to create burnable fuel from forest products industry waste.



## *Calibration Laboratory*

Demand continues to grow for Energy Northwest's calibration services. The staff of 18 uses state-of-the-art calibration equipment and techniques to ensure customers' equipment and systems are doing what they say they are doing. The main customer continues to be Columbia Generating Station, but interest from outside customers is growing. In the third year of the Fluor contract, for example, the number of calibrations for the Hanford site was 3,443 compared to 3,400 for Columbia Generating Station during the same 12-month period.

Calibration work also is increasing for the Washington Demilitarization Company at the Umatilla Chemical Depot, in Oregon, and the Lab is doing pre-acceptance testing for the U.S. Air Force through HiLine Engineering. Additionally, the Lab is in the process of gaining a place on the "evaluated suppliers list" of Bechtel for work on the vitrification project at Hanford.

## *Environmental Services*

Since 1992, Energy Northwest Environmental Services staff has provided a wide range of chemical analysis and environmental monitoring services to utility, municipal, commercial, and nuclear customers. Services include ecological evaluations, environmental monitoring, National Pollution Discharge Elimination System (NPDES) permit testing, drinking water analyses, solid and hazardous waste site monitoring, lubrication oil condition testing, and technical consulting.

## *Grays Harbor Energy Facility*

Fiscal Year 2002 saw the finalization of our contract with Duke Energy North America (DNA) to operate and maintain the Grays Harbor Energy Facility—a 630 MW combustion turbine facility under construction near Olympia, Washington. Plans at the end of June 2002 call for the plant to be completed in late summer 2003. Part of the contract stipulates that 50 MW of the plant's output is reserved as "at cost

public power" which Energy Northwest or its members may purchase. Hiring of the 27 Energy Northwest employees who will provide the contracted services is underway, with a plant general manager and a maintenance manager already on board. However, due to current energy market conditions, Duke Energy North America has temporarily suspended construction on the Grays Harbor Energy Facility. Duke Energy is determining the appropriate schedule for the project to resume.

## *Franklin PUD & Grays Harbor PUD CT Project*

As Franklin PUD neared completion of its Franklin PUD/Grays Harbor PUD Generating Facility, a new combustion turbine plant in Pasco, Washington, the utility began looking for a flexible approach to operations and maintenance staffing.

The plant is a peaking plant, expected to run only when it is needed. Staffing such a facility with experienced and trained individuals on a 24-hour-a-day basis is a challenge, since it is impossible to predict into the future when the plant will operate.





Energy Northwest put together a crew of people who were looking for just such a part-time, on-call opportunity. Five individuals completed the necessary training from General Electric, the manufacturer of the turbine generators, at the Franklin PUD operations center.

The 44-megawatt generating station will provide half of its power to Franklin PUD and half to Grays Harbor PUD, providing the stability of added energy resources for their public utilities' ratepayers.

### *Klickitat PUD Partnership*

In December 2001, Energy Northwest and Klickitat County PUD signed a five-year contract defining Energy Northwest's station management and oversight responsibility for the H.W. Hill Landfill Gas Power Plant, located at the Roosevelt Landfill.

The Klickitat facility uses five reciprocating engines to produce 10.5 megawatts of power. The engines burn methane gas given off by decomposing garbage in the landfill. Capacity expansion already is in the planning phase, with



*Above left  
Training Class*

*Above right  
George Noggles of the Calibration Lab*

construction anticipated to begin late in 2002.

Energy Northwest presently has a full-time site supervisor and part-time project manager for the facility, working in partnership with Klickitat PUD employees and management. Energy Northwest also completed a management audit of the plant that has helped to better schedule maintenance activities.

### *Assessing the Hydro System*

Energy Northwest's integration into the Federal Columbia River Power System was perhaps best illustrated by the work we did at six Corps of Engineers dams. As operators of a commercial nuclear power station, Energy Northwest has great experience with performance indicators. We offered that expertise to the Corps to develop individual indicators for sites we visited in the spring of 2002. During the second phase, Energy Northwest will help each site establish its own performance indicator system. These contracts offer the Corps the prospect of reduced power costs from more efficient operations at the dams.



The contracts also lower power costs from Columbia Generating Station, because some of its overhead expense has been absorbed by these contracts with the Corps.

## EMPLOYEE Development

Energy Northwest continues to focus on developing its greatest asset, its employees, through a number of channels. Employees continue to receive tuition reimbursement in pursuit of higher education that will help them achieve greater levels of success in their careers. In addition, Energy Northwest provided more than 8,200 hours of training to employees during the fiscal year just ended.

The Leadership Academy remains a mainstay of our training programs for managers and supervisors. By the end of June 2002, twelve classes of this intensive, five-week training program had been completed. More than 200 graduates are back at work, implementing many of the new tools learned during the Academy. In the coming fiscal year, we expect to have trained 95 percent of all managers and supervisors at Energy Northwest, and will be developing a plan for offering this training to employees at all levels throughout our organization.

The Leadership Academy has had such an impact on so many of our staff, its reputation is becoming widely known throughout the nuclear industry. We've had requests for permission to observe the Academy in session, and expect to be offering the training to students from external organizations in the coming year.

Our succession planning process has made great progress over the past year, as well. A fledgling program at the beginning of fiscal year 2002, we've processed nominations for all management positions throughout the organization and have employees actively working individualized development plans to prepare for future movement into those positions as they come available. Succession planning is a proven method in the business world of ensuring an organization has a strong leadership team in place regardless of potential personnel changes.

## VISION FOR The Future

While some of our service lines have changed over the past year, our vision for the future has not. We continue to focus on becoming the region's most valued energy company. We believe we're taking the right steps, each day, to achieve that vision.

Looking forward to FY 2003, there are a number of things already on the horizon.

We fully expect the focus on security to remain at a heightened level, and are committed to ensuring the safety of this community, Columbia Generating Station, and our employees.

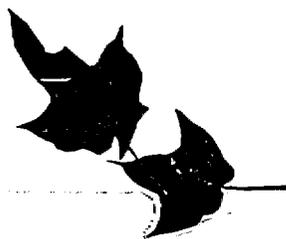
We have an ambitious Columbia Generating Station refueling outage scheduled for May 2003. It will be the first refueling since we implemented our two-year refueling cycle.

We will continue to forge ahead with the permitting process for the Zintel Canyon Wind Project. We will continue to prospect for other potential wind project sites around the state.

We will continue to investigate non-traditional sources of electricity generation, including landfill gas, biomass, wave energy, and the like. We understand the need to be responsible stewards of the environment and the resources we use. We take that responsibility seriously and will be ever vigilant in ensuring that generations to come have access to clean, safe, reliable electricity, and to a clean, safe environment in which to live.

We will continue to work closely with our member utilities to strengthen those critical relationships and provide them with products and services that meet their needs.

And, finally, we will continue to keep the lights on in millions of homes across the Northwest—providing electricity at the cost of production.



# FINANCIAL OPERATING HIGHLIGHTS

For the year ended June 30, 2002 (Dollars in Millions)

Operating Statistics	Columbia Generating Station		Packwood Lake Project	
	FY2002	FY2001	FY2002	FY2001
Net Generation (1)	9,262	7,996	82	64
Plant Availability (2)	95.4%	85.1%	81.6%	79.7%
Plant Capacity (3)	92.0%	81.8%	33.9%	26.4%
Cost of Power (cents/kWh)				
Production Expenses (4)	1.4	1.99	0.96	1.12
Industry Basis (5)	2.06	2.61		
<b>Investment Performance</b>	<b>FY2002</b>	<b>FY2001</b>	<b>CHANGE (%)</b>	
Income	\$ 25	\$ 38.5	(35.1%)	
Average Balance	\$ 661	\$ 631	4.8%	
Rate of Return	3.78%	6.11%	(38.1%)	
<b>Bonds Outstanding</b>	<b>FY2002</b>	<b>FY2001</b>	<b>CHANGE (%)</b>	
Nuclear Project No. 1				
Fixed	\$ 1,995	\$ 1,956	2.0%	
Weighted Average Rate	5.8%	5.8%	0.0%	
Variable	\$ 125	\$ 130	(3.8%)	
Average Rate	1.6%	3.6%	(55.6%)	
Columbia Generating Station				
Fixed (6)	\$ 1,954	\$ 1,919	1.8%	
Weighted Average Rate (7)	5.5%	5.5%	0.0%	
Variable	\$ 114	\$ 121	(5.8%)	
Average Rate	1.6%	3.6%	(55.6%)	
Nuclear Project No. 3				
Fixed (6)	\$ 1,462	\$ 1,300	12.5%	
Weighted Average Rate (7)	5.5%	5.5%	0.0%	
Variable	\$ 178	\$ 184	(3.3%)	
Average Rate	1.6%	3.6%	(55.6%)	
Packwood Lake Project				
Fixed	\$ 4.8	\$ 5.4	(11.1%)	
Weighted Average Rate	3.7%	3.7%	0.0%	
Nine Canyon Wind Project				
Fixed	\$ 70.7	N/A	N/A	
Weighted Average Rate	5.7%	N/A	N/A	

(1) Expressed in millions of kWh. Columbia's generation includes BPA economic dispatch credit of: FY2002: 336; FY2001: 68.

(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 costs associated with the economic dispatch 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 or disposition, and the prevention and detection of fraudulent financial reporting. These control procedures provide for 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, 2002, internal control procedures are adequate.

*J. V. Parrish*  
*Chief Executive Officer*

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

## AUDIT, LEGAL AND FINANCE COMMITTEE

The Executive Board's Audit, Legal and Finance Committee is composed of seven independent directors. Members of the Committee are Margaret Allen, Chairman; Vera Claussen, Larry Kenney, Sid Morrison, Amy Solomon, Roger Sparks, and John Cockburn, Ex Officio. The Committee held 11 meetings during the fiscal year ended June 30, 2002.

The Committee oversees Energy Northwest's financial reporting process on behalf of the Executive Board. In fulfilling its responsibility, 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.

*Margaret Allen*  
*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 business units and internal service fund as of June 30, 2002, and the related statements of operations and 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, Grays Harbor Energy Facility and the Nine Canyon Wind Project. These basic financial statements are the responsibility of Energy Northwest's management. Our responsibility is to express an opinion on these basic financial statements based on our 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Energy Northwest and Energy Northwest's business units and internal service fund as of June 30, 2002, 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.

As described in Note A, Energy Northwest adopted the provisions Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and GASB No. 38, Certain Financial Statements Note Disclosures, as of July 1, 2001.

The Management's Discussion and Analysis (MD&A) listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The information in MD&A has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

*PricewaterhouseCoopers LLP*

Portland, Oregon  
September 6, 2002

*FINANCIAL DATA*

**And Information**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Energy Northwest is a municipal corporation and joint operating agency of the State of Washington. Each Energy Northwest Business Unit is financed and accounted for separately from all other current or future business assets. The following discussion and analysis is organized by Business Unit. The management discussion and analysis of the financial performance and activity is provided as an introduction and an aid in comparing the basic financial statements for the Fiscal Year ended June 30, 2002, with the basic financial statements for the Fiscal Year ended June 30, 2001. Energy Northwest has adopted accounting policies and principles that are in accordance with accounting principles generally accepted in the United States of America. Energy Northwest applies Generally Accepted Accounting Principles (GAAP) and follows Governmental Accounting Standards Board (GASB) Standards (see Note B to financial statements).

The financial statements include a balance sheet; statement of operations and fund equity; a statement of cash flows; schedules of outstanding long-term debt and debt service requirements; and notes to the financial statements. The balance sheet presents the financial position of each Business Unit based on an accrual basis.

The balance sheet reports information about construction work in progress, amount of resources and obligations, restricted accounts and due to/due from balances (see Note B to financial statements) that reflect what is owed to or by each Business Unit.

The statement of operations and fund equity reports information relating to all expenses, revenues and equity that reflect the results of each Business Unit and its related activities over the course of the Fiscal Year. This information aids in benchmarking activities, conducting comparisons to evaluate progress, and whether the Business Unit has successfully recovered its costs.

The statement of cash flows reflects cash receipts and disbursements resulting from operating, financing and investment activities. The statement provides insight into what generates cash, where the cash comes from, and what it was used for.

The notes to the financial statements present disclosures that provide full understanding of the material presented in the financial statements. This includes, but is not limited to, accounting policies, significant balances and activities, material risks, commitments and obligations, and subsequent events, as applicable.

## COLUMBIA GENERATING STATION

The Columbia Generating Station Nuclear Power Plant is owned and operated by Energy Northwest. The Plant is an 1,153 megawatt boiling water nuclear power station located on the United States Department of Energy's Hanford Reservation north of Richland, Washington. Columbia produced 8,925,873 GWhrs of electricity in Fiscal Year 2002, as compared to 7,927,916 GWhrs of electricity in Fiscal Year 2001.

**BALANCE SHEET ANALYSIS** - Columbia Generating Station is in the middle of its first 2-year refueling and maintenance outage cycle. The last outage was completed on July 2, 2001, with the next outage scheduled for May 2003. Fiscal Year 2002 was a non-refueling outage year. Generation was greater and more fuel was burned during Fiscal Year 2002, resulting in a decrease of Nuclear Fuel inventory by \$9,622,000, from \$102,814,000 as of June 30, 2001, to \$93,192,000 as of June 30, 2002. However, due to moving the fuel casks amortization from the Nuclear Fuel inventory to a liability, Nuclear Fuel inventory increased to \$121,260,000. Construction Work in Progress increased by \$12,584,000, from \$17,771,000 as of June 30, 2001, to \$30,355,000 as of June 30, 2002, mainly due to the Independent Spent Fuel Storage Installation (ISFSI) project along with heightened security improvements. Accounts Payable and Accrued Expenses increased \$24,585,000 from \$40,358,000 as of June 30, 2001, to \$64,943,000 as of June 30, 2002, mainly due to the issuance of \$34,518,000 in Notes Payable to reimburse costs of ISFSI, offset by a decrease in Accounts Payable of \$9,933,000 due to outage costs accrued as of June 30, 2001. Long-Term Debt, including the current portion, has increased \$6,402,000, from \$2,073,684,000 as of June 30, 2001, to \$2,080,086,000 as of June 30, 2002, due to the results of the 2002 A and 2002 B Refunding Bond sales.

**STATEMENT OF OPERATIONS ANALYSIS** - Columbia Generating Station is a net billed Project. Columbia Generating Station recognizes revenues equal to expense for each period. No net revenue or loss is recognized and no equity is accumulated. The following changes from Fiscal Year 2001 for Net Operating Revenues are: Operating Revenues needed to cover expenditures are down by \$14,157,000, from \$421,152,000 in Fiscal Year 2001, to \$406,995,000 in Fiscal Year 2002. The decrease in operating revenues can be attributed to the following: Operations and Maintenance expenditures were lower by \$27,493,000, from \$144,325,000 in Fiscal Year 2001, to \$116,832,000 in Fiscal Year 2002. This can be attributed to Fiscal Year 2002 being a non-refueling outage year. Greater generation resulted in an increase of Generation Taxes of \$701,000, from \$2,497,000 in Fiscal Year 2001 to \$3,198,000 in Fiscal Year 2002, and Spent Fuel Disposal Fees of \$945,000, from \$7,542,000 in Fiscal Year 2001 to \$8,487,000 in Fiscal Year 2002. Administrative and General costs increased by \$11,631,000, from \$16,125,000 in Fiscal Year 2001 to \$27,756,000 in Fiscal Year 2002, mainly due to increased regulatory fees paid to the Nuclear Regulatory Commission (NRC), Energy Facility Site Evaluation Council (EFSEC), Institute of Nuclear Power Operations (INPO) and Federal Emergency Management

Agency (FEMA). Also, there was an increase in employee incentive payments as a result of plant operation goals achieved. Nuclear Fuel expenditures are down, from \$34,204,000 in Fiscal Year 2001 to \$30,311,000 in Fiscal Year 2002, because of the write off of fuel that was not fully amortized at the time of refueling in Fiscal Year 2001 of \$3,893,000.

Other Income and Expense changes are the net effects on Columbia Debt (see Note E to financial statements). Investment Income was adversely affected by historically low market interest rates resulting in a decline of \$12,103,000, from \$23,643,000 in Fiscal Year 2001 to \$11,540,000 in Fiscal Year 2002 (See Financial Operating Highlights). Yields during the year were the lowest yields on Treasury Securities since the early 1960's. Additionally, results of the 2002-A and 2002-B Refunding Bond issues reduced interest expense and amortization expenditures by \$8,577,000, from \$130,161,000 in Fiscal Year 2001, to \$121,584,000 in Fiscal Year 2002.

## PACKWOOD LAKE HYDROELECTRIC PROJECT

The Packwood Lake Hydroelectric Project is owned and operated by Energy Northwest. The Project consists of a dam at Packwood Lake and a powerhouse 1,800 feet below the dam and is located south of Packwood, Washington. Packwood produced 81.6 GWhrs of electricity in Fiscal Year 2002, versus 63.6 GWhrs in Fiscal Year 2001.

**BALANCE SHEET ANALYSIS** - Current Assets have increased \$969,000, from \$410,000 as of June 30, 2001, to \$1,379,000 as of June 30, 2002, due to increased sales revenue from greater generation and higher rates paid through the power sales contract with the Bonneville Power Administration (BPA). As a result, Packwood accrued \$951,000 in excess cash to be returned to the Packwood Participants in October 2002.

**STATEMENT OF OPERATIONS ANALYSIS** - The agreement with Packwood Project Participants obligates them to pay annual costs and to receive excess revenues. Accordingly, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized and no equity is accumulated. Revenues increased because of the cost increases detailed below. Operations and maintenance, along with administrative and general expenditures increased \$108,000, from \$1,260,000 in Fiscal Year 2001 to \$1,368,000 in Fiscal Year 2002. This was due to the extended outage to repair tunnel leaks, the significant increase in insurance premiums, and the costs associated with a transformer failure.

Investment income was adversely affected by historically low market interest rates declining \$59,000, from \$95,000 in Fiscal Year 2001 to \$36,000 in Fiscal Year 2002 (See Financial Operating Highlights).

Cash from sales increased in Fiscal Year 2002, because of greater generation and the new power sales contract with BPA at 40mills/kwh (see Note E to financial statements). Negotiations

are underway to sell the power to Benton PUD and Franklin PUD after the scheduled outage in October 2002. This higher rate does not increase revenue because the extra cash is intended to be returned to the Participants.

## **NUCLEAR PROJECT NO. 1**

Nuclear Project No. 1, a 1,250 MWe plant, was placed in extended construction delay status in 1982, when it was 65 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution terminating Nuclear Project No. 1. In Fiscal Year 1999, the assets and liabilities of the 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. Energy Northwest wholly owns Nuclear Project No. 1. Termination expenses and debt service costs comprise the activity of Nuclear Project No. 1.

**BALANCE SHEET ANALYSIS** - Energy Northwest executed two refunding bond sales during Fiscal Year 2002 to implement Bonneville's Debt Optimization Program (see Note E to financial statements). As a result of these two refunding bond sales, Nuclear Project No. 1's long-term debt was increased by \$49,050,000 from \$2,032,139,000 as of June 30, 2001, to \$2,081,189,000 as of June 30, 2002, resulting from the extension of the average life of the debt and taking advantage of historically low interest rates.

**STATEMENT OF OPERATIONS ANALYSIS** - Investment Income decreased \$8,045,000, from \$14,714,000 in Fiscal Year 2001 to \$6,669,000 in Fiscal Year 2002, because of historically low market interest rates. Yields during the year were the lowest yields on Treasury Securities since the early 1960's (See Financial Operating Highlights).

## **NUCLEAR PROJECT NO. 3**

Nuclear Project No. 3, a 1,240 MWe plant, was placed in extended construction delay status in 1983, when it was 75 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution recommending the termination of Nuclear Project No. 3. In June 1994, the Nuclear Project No. 3 Owners Committee voted unanimously to terminate Nuclear Project No. 3. Energy Northwest no longer is responsible for any site restoration costs as they were transferred with the assets to the Satsop Redevelopment Project (see Note F to financial statements). The last parcel of land was transferred during this period. The debt service related activities remain and are net-billed.

**BALANCE SHEET ANALYSIS** - Under Bonneville's Debt Optimization Program (see Note E to financial statements), long-term debt was increased \$29,600,000, from \$1,787,600,000 in Fiscal Year 2001 to \$1,817,200,000 in Fiscal Year 2002, resulting from the extension of the average life of the debt and taking advantage of historically low interest rates. (See Financial Operating

Highlights).

Land recorded at \$127,000 was transferred to the Grays Harbor Energy Facility.

**STATEMENT OF OPERATIONS ANALYSIS** - Investment Income decreased \$4,289,000 due to historically low market interest rates from \$9,971,000 in Fiscal Year 2001 to \$5,682,000 in Fiscal Year 2002 (See Financial Operating Highlights). Yields during the year were the lowest yields on Treasury Securities since the early 1960's. In addition, Plant Preservation and Termination costs decreased \$1,500,000 due to an IRS arbitrage rebate credit.

## **BUSINESS DEVELOPMENT FUND**

The Business Development Fund (BDF) was created by Executive Board Resolution No. 1006 in April 1997, for the purpose of holding, administering, disbursing, and accounting for Energy Northwest costs and revenues generated from engaging in new energy-related business opportunities.

The BDF is managed as an enterprise fund. Four business sectors have been created within the fund: General Services, Generation, Power Sales, and Professional Services. Each sector may have one or more projects that are managed as unique business ventures. A fifth business sector, Business Unit Support, has been created to capture costs associated with developing projects and infrastructure.

**STATEMENT OF OPERATIONS ANALYSIS** - Operating Revenues in Fiscal Year 2002 totaled \$6,808,000 as compared to Fiscal Year 2001 revenues of \$5,218,000, an increase of \$1,590,000. Significant growth has been experienced in several of these business programs. Among the major business program contributors to this growth are: Washington Demilitarization Company for management and engineering support by \$528,000, Klickitat Landfill Gas management and support by \$364,000, Nine Canyon Wind Project for construction support by \$178,000, Environmental Services by \$202,000, and Fluor Calibration Services by \$119,000.

Net Revenues for Fiscal Year 2002 showed a \$1,700,000 loss as compared to approximately a \$600,000 loss in Fiscal Year 2001.

Energy Northwest was created to enable its members, Washington public utility districts and municipalities, to build and operate large commercial scale generation projects. With the growing interest in renewable energy sources, Energy Northwest is seeking to meet some of this regional demand with new wind generation projects.

Energy Northwest began the research and investigation of suitable wind power sites. This effort is referred to as Wind Mining and accounted for \$400,000 in expenditures with no revenues in Fiscal Year 2002. These costs are for research and investigation of new potential wind sites and related expenditures that cannot be directly attributable to a current wind project. As a promising site is identified and approved, such as Zintel Canyon, a new project is created and expenditures related to the new wind project are moved out of the Wind Mining Project to the new wind project.

As Energy Northwest develops wind project power purchase agreements, it will seek approval from the purchasers to reimburse a share of the residual Wind Mining Project costs. The Nine Canyon Purchasers Committee agreed to reimburse the BDF Wind Mining Project for 50% of the residual Wind Mining Project accumulated costs per the agreement.

The first wind project is the Nine Canyon Wind Project. Construction began in Fiscal Year 2002. Later, the Energy Northwest Board of Directors approved the Zintel Canyon Wind Project as the next wind development site. During Fiscal Year 2002, the Zintel Canyon Wind Project accounted for a total of \$150,000 in expenditures with no revenues.

Early in Fiscal Year 2003, the Nine Canyon Wind Project's construction was completed and commercial operation was achieved on September 25, 2002. Nine Canyon Wind Project development costs will be reimbursed in Fiscal Year 2003 to the BDF.

Approximately \$140,000 was spent on marketing efforts and an additional \$340,000 over Fiscal Year 2001 levels was spent on developing the organizational infrastructure to support the growth in business programs. Total operating revenues increased 30% in Fiscal Year 2002 and operational business projects returned an 8% margin.

Looking forward, Operating Revenues are expected to grow 40-50% in Fiscal Year 2003. Net revenues are projected to continue to show a loss in the upcoming year as the business invests in the future, through development of potential new wind sites and increased sales and marketing efforts.

The Business Development Fund receives contributions from the Internal Service Fund to cover cash needs during this startup period. Such cash is not expected to be paid back and is shown as contributions.

## GRAYS HARBOR ENERGY FACILITY

Becoming the operator of the Grays Harbor Energy Facility is a key component in Energy Northwest's strategic plan to eventually own and operate combined cycle gas turbine power plants. A contract with Duke Energy Grays Harbor, LLC (DEGH), will be the first step toward establishing a credible position in the combustion turbine power generation market. It will provide the basis for Energy Northwest to become a major supplier of operations and maintenance services to other public utilities in the Northwest and to become an owner of gas turbine generating facilities.

STATEMENT OF OPERATIONS ANALYSIS - Non-operating revenues were \$84,000 and \$5,259,000 for Fiscal Year 2001 and Fiscal Year 2002, respectively.

On January 15, 2001, Energy Northwest entered into an agreement to sell the Grays Harbor Energy Facility site to the Duke Energy North America (DENA) affiliate, DEGH. As partial compensation for the sale, Energy Northwest received \$1,200,000 during Fiscal Year 2001 which was recorded as deferred income. The final payment of \$3,800,000 was made to Energy Northwest

in January 2002. Upon receipt of the final payment, Energy Northwest recognized the gross proceeds of \$5,000,000 as revenue. In connection with this sale, BPA was paid \$2,137,000 as reimbursement of costs to develop the site. Additional revenues were recorded for reimbursable costs and services provided to DENA.

The actual sale of the land and assets at the site in Grays Harbor County near Elma, Washington, already has been concluded successfully. This was intended to lead to the construction by DEGH of a 630 megawatt combined cycle 2-on-1 gas turbine power plant at the site to be on-line by late 2003. Under the sale agreement, Energy Northwest was to become the operator of the Grays Harbor Energy Facility. However, due to current energy market conditions, Duke Energy North America has temporarily suspended construction on the Grays Harbor Energy Facility. Duke Energy is determining the appropriate schedule for the project to resume.

## NINE CANYON WIND PROJECT

The Nine Canyon Wind Project is owned and operated by Energy Northwest. The Project is located on hills approximately 10 miles southeast of Kennewick, Washington. The Project consists of 37 wind turbines, each with a maximum generating capacity of approximately 1.3 megawatts of electricity, for a total wind project capacity of 48 megawatts. This is enough energy capacity for 15,000 average homes.

Public Utility Districts in the Northwest, whose customers have expressed an interest in purchasing at least a portion of their electricity from green power sources, have purchased the electricity from the Project. The Columbia Generating Station also is a purchaser of a portion of electricity from the Project. Each purchaser has signed a 22-year power purchase agreement with Energy Northwest. Electricity generated by the Project will be connected to the Bonneville Power Administration transmission grid via a substation and transmission lines constructed by the Benton County Public Utility District, and transported to the various purchasers over the Bonneville transmission system.

BALANCE SHEET ANALYSIS - Long-term debt in the form of bonds was sold in the amount of \$70,675,000 in November 2001 to finance the Project. A construction budget of \$59,725,000 was established with the balance of the bond proceeds held in reserves. Construction Work in Progress totaled \$48,387,000 for Fiscal Year 2002 as compared to \$508,000 in Fiscal Year 2001. Construction was completed and the Project was declared to be in commercial operation on September 25, 2002.

## *INTERNAL SERVICE FUND*

The Internal Service Fund (ISF, formerly General Fund) was established in May 1957. The Internal Service Fund provides services to the other funds. This accounts for the central procurement of certain common goods and services for the Business Units on a cost reimbursement basis (see Note A and Note B to the financial statements). This accounts for the performance fees paid by BPA to Energy Northwest for achieving performance goals related to the operation of the Columbia Generating Station.

**BALANCE SHEET ANALYSIS** - Restricted assets and the offsetting restricted liabilities increased \$10,732,000, from \$16,633,000 in Fiscal Year 2001 to \$27,365,000 in Fiscal Year 2002, mainly due to a \$10,000,000 payment to Energy Northwest from one of its paying agent banks for bearer bonds.

**STATEMENT OF OPERATIONS ANALYSIS** - The Fiscal Year 2002 Performance Fee was \$5,900,000 versus \$1,100,000 for Fiscal Year 2001. Goals for the fees are based on generation and cost of power of Columbia Generating Station. Generation of 9,262 GWhrs (includes Economic Dispatch Credit) in Fiscal Year 2002 was near the top of the range of the goal for generation and cost of power of 2.06 cents/kWh was better than the highest goal of 2.07 cents/kWh (as compared to 2.61 cents/kWh for Fiscal Year 2001).

# BALANCE SHEETS

As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
<b>ASSETS</b>										
UTILITY PLANT (NOTE B)										
In service	\$ 3,419,489	\$ 12,854	\$ -	\$ -	\$ 757	\$ -	\$ -	\$ 3,433,100	\$ 43,547	\$ 3,476,647
Accumulated depreciation	(1,786,935)	(11,722)			(166)			(1,798,823)	(27,591)	(1,826,414)
	1,632,554	1,132	-	-	591	-	-	1,634,277	15,956	1,650,233
Nuclear fuel, net of accumulated amortization	121,260							121,260		121,260
Construction work in progress	30,355						48,387	78,742		78,742
	1,784,169	1,132	-	-	591	-	48,387	1,834,279	15,956	1,850,235
RESTRICTED ASSETS (NOTE B)										
Special funds										
Cash	3	2	5	2			1	13	26,858	26,871
Available-for-sale investments	18,159	288	56,966	14,808			1,013	91,234	245	91,479
Accounts and other receivables	110,140		4,627				16	114,783		114,783
Prepayments and other			1					1	262	263
Due from other business units			400					400		
Due from other funds			1,760					1,760		
Debt service funds										
Cash	24,771	8	8,367	15,712			1	48,859		48,859
Available-for-sale investments	122,107	742	215,017	163,427			9,912	511,205		511,205
Due from other funds	3,588		5,477					9,065		
Other receivables	642		220	460			53	1,375		1,375
	279,410	1,040	292,840	194,409	-	-	10,996	778,695	27,365	794,835
LONG-TERM RECEIVABLES (NOTE B)										
	6,201							6,201		6,201
CURRENT ASSETS										
Cash	754	2	91	182	32	1		1,062	3,964	5,026
Available-for-sale investments	21,852	526	13,517	6,156	174	410	17,839	60,474	15,979	76,453
Accounts and other receivables	2,110	655			454	6	26	3,251	6,668	9,919
Due from Participants	163		1,319	1,314			1	2,797		2,797
Due from other business units	2,435	173		127	636	2,155	3,820	9,346	3,207	
Due from other funds	11,071	23		11,968			70	23,132		
Materials and supplies	72,546							72,546		72,546
Prepayments and other	258				9			267	122	389
Nuclear fuel held for sale			6,035					6,035		6,035
Plant & equipment held for sale			1,414					1,414		1,414
	111,189	1,379	22,376	19,747	1,305	2,572	21,756	180,324	29,940	174,579
DEFERRED CHARGES										
Costs in excess of billings	120,734	2,416	1,880,270	1,639,113				3,642,533		3,642,533
Unamortized debt expense	15,960	3	18,487	12,535			3,545	50,530		50,530
Other deferred charges	1							1		1
	136,695	2,419	1,898,757	1,651,648	-	-	3,545	3,693,064	-	3,693,064
<b>TOTAL ASSETS</b>	<b>\$ 2,317,664</b>	<b>\$ 5,970</b>	<b>\$ 2,213,973</b>	<b>\$ 1,865,804</b>	<b>\$ 1,896</b>	<b>\$ 2,572</b>	<b>\$ 84,684</b>	<b>\$ 6,492,563</b>	<b>\$ 73,261</b>	<b>\$ 6,518,914</b>

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

**BALANCE SHEETS (continued)**  
*As of June 30, 2002 (Dollars in Thousands)*

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
<b>FUND EQUITY AND LIABILITIES</b>										
FUND EQUITY	\$ -	\$ -	\$ -	\$ -	1,411	\$ 1,616	\$ -	\$ 3,027	\$ 5,123	\$ 8,150
<b>LONG-TERM DEBT (NOTE E)</b>										
Revenue bonds payable	2,031,090	4,493	2,120,323	2,031,715			70,675	6,258,296		6,258,296
Unamortized discount on bonds - net	4,527	(11)	22,634	(194,273)			8	(167,115)		(167,115)
Unamortized gain/(loss) on bond refundings/redemptions	(52,311)	37	(61,768)	(20,290)				(134,332)		(134,332)
	1,983,306	4,519	2,081,189	1,817,152	-	-	70,683	5,956,849	-	5,956,849
<b>LIABILITIES-PAYABLE FROM RESTRICTED ASSETS (NOTE B)</b>										
Special funds										
Accounts payable and accrued expenses	110,642		70,528					181,170	26,635	207,805
Due to other funds	14,659	10		11,810			70	26,549		
Other deferred credits					135			135		135
Debt service funds										
Accrued interest payable	10,945	59	52,454	35,151				98,609		98,609
Due to other funds		13		158				171		
	136,246	82	122,982	47,119	135	-	70	306,634	26,635	306,549
OTHER NONCURRENT LIABILITIES	31,813							31,813		31,813
<b>CURRENT LIABILITIES</b>										
Current maturities of long-term debt	96,780	355						97,135		97,135
Accounts payable and accrued expenses	64,943	63	1	270	95	2	13,931	79,305	33,127	112,432
Interest payable	139							139		139
Due to Participants	1,293	951	894	685				3,823		3,823
Due to other business units	3,144		1,670	578	255	127		5,774	7,179	
Due to other funds			7,237					7,237		
	166,299	1,369	9,802	1,533	350	129	13,931	193,413	40,306	213,529
<b>DEFERRED CREDITS</b>										
Advances from Members and others						827		827	1	828
Other deferred credits									1,196	1,196
	-	-	-	-	-	827	-	827	1,197	2,024
<b>COMMITMENTS AND CONTINGENCIES (NOTE F)</b>										
TOTAL LIABILITIES	2,317,664	5,970	2,213,973	1,865,804	485	956	84,684	6,489,536	68,138	6,510,764
TOTAL FUND EQUITY AND LIABILITIES	\$ 2,317,664	\$ 5,970	\$ 2,213,973	\$ 1,865,804	\$ 1,896	\$ 2,572	\$ 84,684	\$ 6,492,563	\$ 73,261	\$ 6,518,914

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

# STATEMENTS OF OPERATIONS AND FUND EQUITY

As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
OPERATING REVENUES	\$ 406,995	\$ 1,900	\$ -	\$ -	\$ 6,808	\$ -	\$ -	\$ 415,703	\$ 70,431	\$ 421,513
OPERATING EXPENSES										
Services to other business units									63,025	
Nuclear fuel	30,311							30,311		30,311
Spent fuel disposal fee	8,487							8,487		8,487
Decommissioning	16,408							16,408		16,408
Depreciation and amortization	96,171	366			148			96,685	1,569	96,685
Operations and maintenance	116,832	1,232						118,064		118,064
Administrative & general	27,756	136						27,892		27,892
Generation tax	3,198	16						3,214		3,214
New business initiatives					7,739			7,739		7,739
Total operating expenses	299,163	1,750	-	-	7,887	-	-	308,800	64,594	308,800
NET OPERATING REVENUES (EXPENSES)	107,832	150			(1,079)			106,903	5,837	112,713
OTHER INCOME & EXPENSE										
Non-operating revenues			117,179	93,433		5,259		215,871		215,871
Investment income	11,540	36	6,669	5,682	4	36		23,967	82	23,967
Gain on bond redemption		5						5		5
Interest expense and discount amortization	(121,584)	(191)	(118,686)	(99,182)				(339,643)		(339,643)
Plant preservation and termination costs			(5,051)	67				(4,984)		(4,984)
Depreciation and amortization			(31)			(7)		(38)		(38)
Revaluation of site restoration			(74)					(74)		(74)
Other	2,212		(6)		(665)	(3,625)		(2,084)	(109)	(2,084)
NET REVENUES (EXPENSES)	-	-	-	-	(1,740)	1,663	-	(77)	5,810	5,733
Distribution & contributions	-	-	-	-	1,905	-	-	1,905	(1,905)	
Beginning fund equity	-	-	-	-	1,246	(47)	-	1,199	1,218	2,417
ENDING FUND EQUITY	\$ -	\$ -	\$ -	\$ -	\$ 1,411	\$ 1,616	\$ -	\$ 3,027	\$ 5,123	\$ 8,150

\* Project recorded on a liquidation basis

See notes to financial statements

# STATEMENTS OF CASH FLOWS

As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
<b>CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES</b>									
Operating revenue receipts	\$ 230,994	\$ 2,504	\$ -	\$ -	\$ 1,559	\$ -	\$ -	\$ -	\$ 235,057
Cash payments for operating expenses	(180,796)	(1,365)							(182,161)
Non-operating revenue receipts			98,672	65,915		3,622		2,973	171,182
Cash payments for preservation/termination expense			(10,350)	(1,371)					(11,721)
Cash payments for services						(4,933)		12,427	7,494
Cash payments for new business					(1,387)			(1,560)	(2,947)
Net cash provided (used) by operating and other activities	50,198	1,139	88,322	64,544	172	(1,311)	-	13,840	216,904
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>									
Proceeds from bond refundings	292,982		374,699	81,257			66,980		815,918
Refunded bond escrow requirement	(162,532)		(247,266)						(409,798)
Payment for bond issuance and financing costs	(4,823)		(4,645)	(1,023)					(10,491)
Capital and nuclear fuel acquisitions	(19,755)								(19,755)
Interest paid on revenue bonds	(100,289)	(194)	(112,010)	(76,606)			(2,484)		(291,583)
Principal paid on revenue bond maturities	(134,997)	(521)	(84,255)	(70,695)					(290,468)
Interest paid on notes	(291)		(360)	(398)					(1,049)
Notes payable	34,518								34,518
Construction work in progress							(36,239)		(36,239)
Net cash provided (used) by capital and related financing activities	(95,187)	(715)	(73,837)	(67,465)	-	-	28,257	-	(208,947)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
Purchases of investment securities	(1,125,754)	(5,832)	(937,511)	(665,063)	(1,689)	(6,973)	(204,394)	(211,209)	(3,158,425)
Sales of investment securities	1,178,331	5,376	919,944	676,799	1,545	8,215	175,656	214,467	3,180,333
Interest on investments	13,634	35	9,908	7,010	4	66	483	2,338	33,478
Receipts from sales of plant assets			1,549					58	1,607
Net cash provided (used) by investing activities	66,211	(421)	(6,110)	18,746	(140)	1,308	(28,255)	5,654	56,993
NET INCREASE (DECREASE) IN CASH	21,222	3	8,375	15,825	32	(3)	2	19,494	64,950
CASH AT JUNE 30, 2001	4,306	9	88	71	-	4	-	11,328	15,806
CASH AT JUNE 30, 2002 (NOTE B)	\$ 25,528	\$ 12	\$ 8,463	\$ 15,896	\$ 32	\$ 1	\$ 2	\$ 30,822	\$ 80,756

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

# STATEMENTS OF CASH FLOWS (continued)

As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>									
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>									
Net operating revenues	\$ 107,832	\$ 150	\$ -	\$ -	\$ (1,079)	\$ -	\$ -	\$ -	\$ 106,903
Adjustments to reconcile net operating revenues to cash provided by operating activities:									
Cost incurred in excess of cash	(176,000)	(360)							(176,360)
Depreciation and amortization	124,828	362			43				125,233
Decommissioning	16,408								16,408
Other	2,585				(663)				1,922
Change in operating assets and liabilities:									
Accounts receivable	2,207	(419)			(151)				1,637
Materials and supplies	(5,227)								(5,227)
Prepaid and other assets		1							1
Due from/to other business units, funds and Participants	4,070	1,386			(39)				5,417
Accounts payable	(26,505)	19			2,061				(24,425)
Non-operating revenue receipts			98,672	65,915		3,622		2,973	171,182
Cash payments for preservation/termination expense			(10,350)	(1,371)					(11,721)
Cash payments for services						(4,933)		12,427	7,494
Cash payments for new business								(1,560)	(1,560)
Net cash provided (used) by operating and other activities	\$ 50,198	\$ 1,139	\$ 88,322	\$ 64,544	\$ 172	\$ (1,311)	\$ -	\$ 13,840	\$ 216,904

\* Project recorded on a liquidation basis

See notes to financial statements

**OUTSTANDING LONG-TERM DEBT**  
*June 30, 2002 (Dollars in Thousands)*

<b>SERIES</b>	<b>COUPON RATE</b>	<b>SERIAL OR TERM MATURITIES</b>	<b>AMOUNT</b>
<b>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS</b>			
1990A	7.25%	7-1-2006	\$ 2,115
			<u>2,115</u>
1990C	(C)	7-1-2004/2005	18,054
			<u>18,054</u>
1991A	(C)	7-1-2006/2007	10,267
			<u>10,267</u>
1992A	5.9	7-1-2004/2006	12,415
	6.30	7-1-2012	50,000
			<u>62,415</u>
1993A	5.25-6.00	7-1-2003/2010	78,320
	5.75	7-1-2012	10,690
			<u>89,010</u>
1993B	5.40-5.65	7-1-2005/2008	54,725
	5.55	7-1-2010	51,000
			<u>105,725</u>
1994A	4.70-6.00	7-1-2003/2011	503,965
	(C)	7-1-2009	4,776
	5.40	7-1-2012	100,200
			<u>608,941</u>
1996A	5.50-6.00	7-1-2003/2012	196,210
			<u>196,210</u>
1997A	5.10-5.20	7-1-2010/2012	50,355
			<u>50,355</u>
1997B	5.00-5.50	7-1-2003/2011	72,270
			<u>72,270</u>
1998A	5.00-5.75	7-1-2003/2012	223,305
			<u>223,305</u>
2001A	5.00-5.50	7-1-2013/2017	186,600
			<u>186,600</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

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

(E) Auction Rate Certificates will have the stated rate through the first date listed and a variable rate thereafter until the second stated date

**OUTSTANDING LONG-TERM DEBT (continued)**  
*June 30, 2002 (Dollars in Thousands)*

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<b>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS (continued)</b>			
2001B	5.50	7-1-2009/2018	\$ 48,000 (E) 48,000
2002A	5.20-5.75	7-1-2017/2018	157,260 157,260
2002B	5.35-6.00	7-1-2018	123,815 123,815
1997-2A-1	Variable		56,885 56,885
1997-2A-2	Variable		56,880 56,880
<i>Compound interest bonds accretion</i>			59,763
<i>Revenue bonds payable</i>			\$ 2,127,870 (B)
<i>Estimated fair value at June 30, 2002</i>			\$ 2,272,874 (D)
<b>PACKWOOD LAKE PROJECT REVENUE BONDS</b>			
1962	3.625%	3-1-2012	\$ 3,613 3,613
1965	3.75	3-1-2012	1,235 1,235
<i>Revenue bonds payable</i>			\$ 4,848
<i>Estimated fair value at June 30, 2002</i>			\$ 4,936 (D)
<b>NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS</b>			
1989B	7.125%	7-1-2016	\$ 41,070 41,070
1990B	7.25	7-1-2009	3,590 3,590
1990C	7.75	7-1-2003	14,474 14,474
1992A	5.70-6.10 6.25	7-1-2002/2006 7-1-2017	2,540 63,420 65,960
1993A	5.30-7.00 5.70	7-1-2002/2008 7-1-2017	63,079 176,180 239,259

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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 will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

**OUTSTANDING LONG-TERM DEBT (continued)**  
*June 30, 2002 (Dollars in Thousands)*

<b>SERIES</b>	<b>COUPON RATE</b>	<b>SERIAL OR TERM MATURITIES</b>	<b>AMOUNT</b>
<b>NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS (continued)</b>			
1993B	5.15-7.00	7-1-2002/2010	\$ 53,345
	5.60	7-1-2015	94,635
			<u>147,980</u>
1993C	4.70-5.30	7-1-2002/2010	17,895
	5.375	7-1-2015	75,650
	5.40	7-1-2012	66,400
			<u>159,945</u>
1996A	5.00-6.00	7-1-2002/2012	341,790
			<u>341,790</u>
1996B	5.75-6.00	7-1-2003/2005	29,040
			<u>29,040</u>
1996C	5.00-6.00	7-1-2002/2015	86,955
	5.50	7-1-2017	24,860
			<u>111,815</u>
1997A	6.00	7-1-2006/2008	20,400
			<u>20,400</u>
1997B	5.00-5.125	7-1-2002/2017	250,160
			<u>250,160</u>
1998A	5.00-5.75	7-1-2002/2017	92,125
			<u>92,125</u>
2001A	4.125-5.50	7-1-2002/2013	103,285
			<u>103,285</u>
2001B	5.50	7-1-2008/2017	23,600 (E)
			<u>23,600</u>
2002A	5.50-5.75	7-1-13/2017	248,485
			<u>248,485</u>
2002B	6.00	7-1-2017	101,950
			<u>101,950</u>
1993-1A-1	Variable		53,870
			<u>53,870</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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 will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

**OUTSTANDING LONG-TERM DEBT (continued)**  
*June 30, 2002 (Dollars in Thousands)*

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<b>NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS (continued)</b>			
1993-1A-2	Variable		\$ 53,870
			<u>53,870</u>
1993-1A-3	Variable		17,655
			<u>17,655</u>
<i>Revenue bonds payable</i>			<u>\$ 2,120,323 (A)</u>
<i>Estimated fair value at June 30, 2002</i>			<u>\$ 2,154,241 (D)</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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 will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

**OUTSTANDING LONG-TERM DEBT (continued)**  
*June 30, 2002 (Dollars in Thousands)*

<b>SERIES</b>	<b>COUPON RATE</b>	<b>SERIAL OR TERM MATURITIES</b>	<b>AMOUNT</b>
<b>NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS</b>			
1989A	(C)	7-1-2003/2014	\$ 18,668
			<u>18,668</u>
1989B	(C)	7-1-2004/2014	70,580
	7.125%	7-1-2016	76,145
			<u>146,725</u>
1990B	(C)	7-1-2002/2010	33,299
			<u>33,299</u>
1993B	5.10-7.00	7-1-2002/2009	79,830
	5.625	7-1-2012	14,555
	5.60	7-1-2015	49,095
	5.60	7-1-2017	37,795
	5.70	7-1-2018	20,605
			<u>201,880</u>
1993C	4.70-7.50	7-1-2002/2010	138,405
	5.40	7-1-2012	105,000
	5.375	7-1-2015	188,335
	5.50	7-1-2018	20,805
	(C)	7-1-2013/2018	23,963
			<u>476,508</u>
1996A	5.00-6.00	7-1-2002/2009	31,330
			<u>31,330</u>
1997A	5.00-6.00	7-1-2002/2018	108,670
			<u>108,670</u>
1997B	5.00	7-1-2002	4,075
			<u>4,075</u>
1998A	5.00	7-1-2002/2005	80,330
	5.125	7-1-2018	53,825
			<u>134,155</u>
2001A	5.00-5.50	7-1-2002/2018	205,890
			<u>205,890</u>
2001B	5.00	7-1-2003/2018	5,000 (E)
	5.00	7-1-2004/2018	10,000 (E)
	5.50	7-1-2010/2018	10,675 (E)
			<u>25,675</u>
2002B	6.00	7-1-2016	75,360
			<u>75,360</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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 will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

**OUTSTANDING LONG-TERM DEBT (continued)**  
*June 30, 2002 (Dollars in Thousands)*

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS (continued)</u>			
1993-3A-3	Variable		\$ 23,715
			<u>23,715</u>
1998-3A	Variable		154,730
			<u>154,730</u>
Compound interest bonds accretion			<u>391,035</u>
Revenue bonds payable			\$ 2,031,715 (A)
Estimated fair value at June 30, 2002			<u>\$ 1,916,373 (D)</u>

NINE CANYON WIND PROJECT REVENUE BONDS

2001A	4.00-6.00%	7-1-2004/2023	\$ 50,410
			<u>50,410</u>
2001B	4.30-6.00	7-1-2005/2023	20,265
			<u>20,265</u>
Revenue bonds payable			<u>\$ 70,675</u>
Estimated fair value at June 30, 2002			<u>\$ 77,012 (D)</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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 and these obligations would be settled

(E) Auction Rate Certificates will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

**DEBT SERVICE REQUIREMENTS**  
*As of June 30, 2002 (Dollars in Thousands)*

**COLUMBIA GENERATING STATION**

**PACKWOOD LAKE PROJECT**

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/2002						
Balance:*	\$ 5,580	\$ 9,507	\$ 15,087	\$ 177	\$ 59	\$ 236
2003	102,580	110,136	212,716	540	171	711
2004	123,424	115,062	238,486	574	151	725
2005	101,885	121,009	222,894	598	130	728
2006	94,046	105,022	199,068	624	108	732
2007	149,406	94,483	243,889	648	85	733
2008-2012	975,511	319,618	1,295,129	1,687	124	1,811
2013-2017	198,860	124,137	322,997			
2018	316,815	17,861	334,676			
Adjustment **	59,763	(59,763)	-			
	\$ 2,127,870	\$ 957,072	\$ 3,084,942	\$ 4,848	\$ 828	\$ 5,676

\* 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 the balance sheet

**NUCLEAR PROJECT NO. 1**

**NUCLEAR PROJECT NO. 3**

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/2002						
Balance:*	\$ 131,376	\$ 50,648	\$ 182,024	\$ 78,757	\$ 41,234	\$ 119,991
2003	46,430	110,781	157,211	79,757	86,282	166,039
2004	78,990	107,153	186,143	62,906	98,004	160,910
2005	56,830	103,512	160,342	64,471	96,721	161,192
2006	91,195	100,398	191,593	65,392	95,226	160,618
2007	64,575	95,993	160,568	60,176	95,694	155,870
2008-2012	457,592	415,213	872,805	375,461	429,497	804,958
2013-2017	1,193,335	219,561	1,412,896	676,294	267,212	943,506
2018				177,466	18,026	195,492
Adjustment **				391,035	(391,035)	-
	\$ 2,120,323	\$ 1,203,259	\$ 3,323,582	\$ 2,031,715	\$ 836,861	\$ 2,868,576

\* 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 the balance sheet

**DEBT SERVICE REQUIREMENTS (continued)**  
*As of June 30, 2002 (Dollars in Thousands)*

**NINE CANYON WIND PROJECT**

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
6/30/2002			
Balance*	\$ -	\$ -	\$ -
2003	-	3,940	3,940
2004	2,060	3,940	6,000
2005	2,145	3,856	6,001
2006	2,245	3,764	6,009
2007	2,350	3,661	6,011
2008-2012	13,725	16,418	30,143
2013-2017	18,110	12,182	30,292
2018-2022	24,255	6,239	30,494
2023-2024	5,785	347	6,132
Adjustment **			
	<u>\$ 70,675</u>	<u>\$ 54,347</u>	<u>\$ 125,022</u>

\* 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 the 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 formed in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 2002, its membership consisted of 13 public utility districts and 3 cities, Richland, Seattle and Tacoma. All members own and operate electric systems within the State of Washington. Energy Northwest is exempt from federal income tax. Energy Northwest has no taxing authority.

### Energy Northwest Business Units

Energy Northwest operates Columbia Generating Station (Columbia), a 1,153 MWe (Design Electric Rating, net) generating plant completed in 1984. Energy Northwest has obtained all permits and licenses required to operate Columbia, including a Nuclear Regulatory Commission (NRC) operating license that expires in December 2023.

Energy Northwest 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. The electric power produced by Packwood is sold to 12 utilities, which pay the costs of Packwood, including the debt service on the Packwood revenue bonds. Currently, negotiations are in process for a new power sales agreement.

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 to terminate or recommend termination of Nuclear Projects Nos. 1 and 3 (see Note F - Nuclear Project No. 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 owned by Energy Northwest.

Each Energy Northwest Business Unit is financed and accounted for separately from all other current or future Business Units.

All electrical energy produced by Energy Northwest net billed Business Units ultimately is delivered to electrical distribution facilities owned and operated by BPA as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electric utility systems throughout the Northwest,

including Participants in Energy Northwest's Business Units, for ultimate distribution to consumers. Participants in Energy Northwest's net billed Business Units consist of publicly owned utilities and rural electric cooperatives located in the western United States who have entered into net billing agreements with Energy Northwest and BPA for participation in one or more of Energy Northwest's Business Units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources as well as BPA's other costs. (See Note E, 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, and Grays Harbor Energy Facility. 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 was completed during Fiscal Year 2002. Construction was completed September 25, 2002. The turbines are rated at 48 MWe.

On April 25, 2002, Energy Northwest's Executive Board approved a name change from Combustion Turbine Project to Grays Harbor Energy Facility. The Grays Harbor Energy Facility 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 Project purpose was amended during Fiscal Year 2002 to include the operation and maintenance of a gas fired combustion turbine placed on the Grays Harbor site (owned by Duke Energy Grays Harbor LLC) and included the purchase by Energy Northwest of up to 50MW of power generated by the facility.

The Internal Service Fund (formerly General Fund) was established in May 1957. It currently is used to account for the central procurement of certain common goods and services for the Business Units on a cost reimbursement basis. It also is used to account for the performance fees paid by BPA to Energy Northwest for achieving performance goals related to the operation of Columbia.

The Temporary Diesel Generation Project was established in May 2001 to provide immediate additional electrical generation using temporary diesel generators. Changing circumstances 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 has been absorbed by the Business Development Fund in Fiscal Year 2002 and therefore no longer reported as a separate Business Unit in Fiscal Year 2002.

## 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 Federal Energy Regulatory Commission (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 Business Units. Certain assets in the Internal Service Fund also are owned by the Fund and operated for the benefit of other Business Units. Depreciation relating to fixed assets is charged to the appropriate Business Units based upon assets held by each Business Unit.

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 column on the financial statements is for presentation only as each Energy Northwest Business Unit is financed and accounted for separately from all other current and future Business Units. The Fiscal Year 2002 Combined Total includes eliminations for transactions between Business Units as required by Statement No. 34 of the Governmental Accounting Standards Board (GASB).

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 "Advance Refundings Resulting in Defeasance of Debt" and No. 23 "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities" conflict with Statement of Financial Accounting Standard (SFAS) No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As such, the guidance

under 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 is in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and to disclose 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.

The utility plant and net assets of Nuclear Projects Nos. 1 and 3 have been reduced to their estimated net realizable values due to their 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. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 1 and 3 have been charged to operations. Utility Plant activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Columbia</b>				
Generation	3,418,892	801	(4)	3,419,489
Construction work in progress	17,771	12,584		30,355
Accumulated Depreciation	(1,692,186)	(94,749)		(1,786,935)
Utility Plant, net	1,744,477	(81,564)	(4)	1,662,909
<b>Packwood</b>				
Generation	12,817	37		12,854
Accumulated Depreciation	(11,360)	(362)		(11,722)
Utility Plant, net	1,457	(325)		1,132
<b>Business Development Fund</b>				
General	425	332		757
Accumulated Depreciation	(119)	(47)		(166)
Utility Plant, net	306	285		591
<b>Nine Canyon</b>				
Construction work in progress	508	47,879		48,387
<b>Internal Service Fund</b>				
General	43,348	199		43,547
Accumulated Depreciation	(26,022)	(1,569)		(27,591)
Utility Plant, net	17,326	(1,370)		15,956

## *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. Columbia accumulated nuclear fuel amortization (the amortization of the cost of nuclear fuel assemblies in the reactor used in the production of energy and in the fuel pool for less than six months per FERC guidelines) is \$80 million as of June 30, 2002.

Energy Northwest has a contract with the United States 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. The current period operating expense for Columbia includes a \$8.5 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.

Columbia has the capacity to store spent fuel in the spent fuel pool located in the Reactor Building until May 2003. 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. Current period operating costs include \$28.9 million for nuclear fuel and \$1.4 million accrued dry cask storage costs. Appropriate prior period dry storage casks costs were accrued prior to Fiscal Year 2002.

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 UF<sub>6</sub> 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, \$36 million, is included in the carrying amount on the balance sheet of Columbia's nuclear fuel.

## *Restricted Assets*

In accordance with each Project's 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 from other Business Units that have not yet been collected. The amounts due to each Business Unit are reflected in the due to/from other Business 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 decommissioning 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 \$360 million (in 2001 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 \$56 million (in 2001 dollars).

Both decommissioning and site restoration estimates (in 2001 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, 2002, totaled approximately \$68.0 million and \$6.2 million, respectively. Since September 1996, these amounts have been managed by BPA and held 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 \$110.1 million as of June 30, 2002. 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. Energy Northwest will adopt SFAS No. 143 "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" during Fiscal Year 2003. This statement addresses accounting standards for recognizing and measuring the liability of an asset retirement obligation and the associated asset retirement cost. (See Note G, New Accounting Pronouncements).

### *Materials and Supplies*

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

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

Financing expenses and bond discounts and premiums 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, 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 \$24.6 million for unclaimed bearer bonds. Columbia includes \$110.1 million for decommissioning and site restoration. Nuclear Project No. 1 includes \$59.3 million for its own site restoration and \$9.2 million for Hanford Generating Project site restoration.

Current Liabilities - Internal Service Fund accounts payable and accrued expenses include \$1.2 million for payroll and related

benefits, \$14.4 million for compensated absences, and \$2.7 million for outstanding warrants. Columbia includes accrued expenses of \$1.4 million for fuel casks, \$3.2 million for arbitrage rebate (as defined by the Internal Revenue Service), \$13.9 million for fuel, and \$34.5 million for notes payable for the Independent Spent Fuel Storage Installation. The Nine Canyon Wind Project includes \$5.5 million of accrued substation costs and \$2 million for contract retention.

### *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 non-current liabilities and due to/due from Participants, funds, and other Business Units. The fair values of investments (See Note C, Cash and Investments) 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.

## *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; 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 bond 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 each individual Energy Northwest Business Unit by safe-keeping agents, custodians, or trustees.

Investments are classified as available-for-sale and are stated at fair value with unrealized gains and losses reported as investment income. Available-for-sale investments at June 30, 2002, are categorized below to give an indication of the types and amounts of investments held by each Business Unit at year-end. (See tables on next pages.)

## AVAILABLE-FOR-SALE-INVESTMENTS

(Dollars in Thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Columbia Generating Station</b>				
U.S. Government Securities	\$ 48,938	\$ 1,626	\$ 0	\$ 50,564
U.S. Government Agencies	111,309	249	(4)	111,554
Total	<u>\$ 160,247</u>	<u>\$ 1,875</u>	<u>\$ (4)</u>	<u>\$ 162,118</u>
<b>Packwood Lake</b>				
U.S. Government Securities	\$ 1,556	\$ 0	\$ 0	\$ 1,556
Total	<u>\$ 1,556</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,556</u>
<b>Nuclear Project No. 1</b>				
U.S. Government Securities	\$ 21,464	\$ 335	\$ (1)	\$ 21,798
U.S. Government Agencies	263,711	4	(13)	263,702
Total	<u>\$ 285,175</u>	<u>\$ 339</u>	<u>\$ (14)</u>	<u>\$ 285,500</u>
<b>Nuclear Project No. 3</b>				
U.S. Government Securities	\$ 16,342	\$ 614	\$ 0	\$ 16,956
U.S. Government Agencies	166,851	601	(17)	167,435
Total	<u>\$ 183,193</u>	<u>\$ 1,215</u>	<u>\$ (17)</u>	<u>\$ 184,391</u>
<b>Business Development Fund</b>				
U.S. Government Agencies	\$ 174	\$ 0	\$ 0	\$ 174
Total	<u>\$ 174</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 174</u>
<b>Grays Harbor Energy Facility</b>				
U.S. Government Agencies	\$ 410	\$ 0	\$ 0	\$ 410
Total	<u>\$ 410</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 410</u>
<b>Nine Canyon Wind Project</b>				
U.S. Government Securities	\$ 10,616	\$ 24	\$ (2)	\$ 10,638
U.S. Government Agencies	18,127	0	(1)	18,126
Total	<u>\$ 28,743</u>	<u>\$ 24</u>	<u>\$ (3)</u>	<u>\$ 28,764</u>
<b>Internal Service Fund</b>				
U.S. Government Securities	\$ 4,371	\$ 0	\$ 0	\$ 4,371
U.S. Government Agencies	11,853	0	0	11,853
Total	<u>\$ 16,224</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,224</u>

**AVAILABLE-FOR-SALE-INVESTMENTS (continued)**  
(Dollars in Thousands)

	< 1 year	1-5 years	5-10 years	> 10 years	Total
<b>Columbia Generating Station</b>					
U.S. Government Securities	\$ 9,844	\$ 17,763	\$ 22,957	\$ 0	\$ 50,564
U.S. Government Agencies	106,292	5,262	0	0	111,554
<b>Total</b>	<b>\$ 116,136</b>	<b>\$ 23,025</b>	<b>\$ 22,957</b>	<b>\$ 0</b>	<b>\$ 162,118</b>
<b>Packwood Lake</b>					
U.S. Government Securities	\$ 1,556	\$ 0	\$ 0	\$ 0	\$ 1,556
<b>Total</b>	<b>\$ 1,556</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,556</b>
<b>Nuclear Project No. 1</b>					
U.S. Government Securities	\$ 18,857	\$ 2,941	\$ 0	\$ 0	\$ 21,798
U.S. Government Agencies	263,702	0	0	0	263,702
<b>Total</b>	<b>\$ 282,559</b>	<b>\$ 2,941</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 285,500</b>
<b>Nuclear Project No. 3</b>					
U.S. Government Securities	\$ 3,085	\$ 12,289	\$ 0	\$ 1,582	\$ 16,956
U.S. Government Agencies	146,988	11,740	8,707	0	167,435
<b>Total</b>	<b>\$ 150,073</b>	<b>\$ 24,029</b>	<b>\$ 8,707</b>	<b>\$ 1,582</b>	<b>\$ 184,391</b>
<b>Business Development Fund</b>					
U.S. Government Agencies	\$ 174	\$ 0	\$ 0	\$ 0	\$ 174
<b>Total</b>	<b>\$ 174</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 174</b>
<b>Grays Harbor Energy Facility</b>					
U.S. Government Agencies	\$ 410	\$ 0	\$ 0	\$ 0	\$ 410
<b>Total</b>	<b>\$ 410</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 410</b>
<b>Nine Canyon Wind Project</b>					
U.S. Government Securities	\$ 6,913	\$ 3,725	\$ 0	\$ 0	\$ 10,638
U.S. Government Agencies	18,126	0	0	0	18,126
<b>Total</b>	<b>\$ 25,039</b>	<b>\$ 3,725</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 28,764</b>
<b>Internal Service Fund</b>					
U.S. Government Securities	\$ 4,371	\$ 0	\$ 0	\$ 0	\$ 4,371
U.S. Government Agencies	11,853	0	0	0	11,853
<b>Total</b>	<b>\$ 16,224</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 16,224</b>

## 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 Employees 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, including Energy Northwest. 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 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. 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, 2002, were:

	PERS Plan 1	PERS Plan 2
Employer	1.77%*	1.77%*
Employee	6.00%	0.88%

\* 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
2002	\$ 147,307	\$ 1,238,861
2001	\$ 410,640	\$ 3,100,152
2000	\$ 415,538	\$ 2,929,576

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-one 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, 2002, was \$1.196 million for these benefits.

During Fiscal Year 2002, 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 90 percent of all such costs were allocated to Columbia during Fiscal Year 2002.

### **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 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 5% of the participant's 401(k) eligible earnings for the 401(k) Plan year. Participants direct the investment of their individual contributions. Participants are immediately vested in their contributions plus actual earnings thereon. During Fiscal Year 2002, Energy Northwest contributed \$1,443,977 in employer matching funds.

## **NOTE E - LONG TERM DEBT**

Each Energy Northwest Business Unit is financed separately. The resolutions of Energy Northwest authorizing issuance of revenue bonds for each Business Unit provide that such bonds are payable from the revenues of that Business Unit. All bonds issued under Resolutions Nos. 769, 775, and 640 for Nuclear Projects Nos. 1, 3, and Columbia, respectively, have the same priority of payment within the Business Unit (the "Prior Lien Bonds"). All bonds issued under Resolutions Nos. 835, 838, and 1042 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").

During the year ended June 30, 2002, Energy Northwest issued, for Nuclear Projects Nos. 1, 3, and Columbia, the Series 2002 A Bonds and the Series 2002 B Bonds. The Series 2002 A Bonds, issued for Nuclear Project No. 1 and Columbia, in the aggregate principal amount of \$405.7 million, are fixed rate bonds with an average coupon interest rate of 5.63%. The Series 2002 A Bonds refunded \$401.8 million of outstanding bonds having an average coupon rate of 6.26%. This transaction resulted in net losses for accounting purposes of \$15.7 million and \$8.3 million for Nuclear Project No. 1 and Columbia, respectively. Remaining debt service on the refunded bonds prior to the refunding was \$333.4 million and \$196.6 million for Nuclear Project No. 1 and Columbia, respectively. The debt service on the Series 2002 A Bonds is \$443.7 million and \$300.3 million for Nuclear Project No. 1 and

Columbia, respectively. Debt service increased for Nuclear Project No. 1 because the average life of the Nuclear Project No. 1 Series 2002 A Bonds was extended closer to the final maturity date of 2017. Columbia's debt service increased because the final maturity date was extended from 2009 for the Columbia refunded bonds to 2018 for the Columbia Series 2002 A Bonds. Net proceeds from the Series 2002 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 their dates of redemption. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt.

The Series 2002 B Bonds, issued for Nuclear Projects Nos. 1, 3, and Columbia, in the aggregate principal amount of \$301.1 million, also are fixed rate bonds and have an average coupon interest rate of 5.89%. The Series 2002 B Bonds were used to refund \$329.5 million of outstanding bonds, all of which either matured or were called for redemption on July 1, 2002. Net proceeds from the Series 2002 B Bonds were deposited in the Bond Fund Principal Accounts 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 maturity date or the date of redemption. Certain of the proceeds from the Series 2002 B Bonds were paid to Citibank, N.A. for repayment of the Promissory Notes drawn upon periodically throughout the previous months of the fiscal year.

In prior fiscal years, Energy Northwest also defeased certain revenue bonds by placing the net proceeds from the refunding bonds in irrevocable trusts to provide for all required future debt service payments on the refunded bonds until their dates of redemption. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements in accordance with GASB Nos. 7 and 23. Including the Fiscal Year 2002 defeasements, approximately \$2,108.5 million, \$1,640.7 million and \$2,068.1 million of defeased bonds were not called or had not matured at June 30, 2002, for Nuclear Projects Nos. 1, 3, and Columbia, respectively.

During the Fiscal Year ended June 30, 2002, Energy Northwest also issued, for the Nine Canyon Wind Project, the Series 2001 A Wind Project Revenue Bonds and the Series 2001 B Wind Project Revenue Bonds. The Series 2001 A Bonds, in the aggregate principal amount of \$50.4 million, are fixed rate bonds with an average coupon interest rate of 5.77%. The Series 2001 A Bonds were issued to finance the costs of acquiring, constructing and installing Turbines Nos. 1 through 28 of the Project and certain transmission interconnection facilities. The Series 2001 B Bonds, in the aggregate principal amount of \$20.3 million, are fixed rate bonds with an average coupon interest rate of 5.77%. The Series 2002 B Bonds were issued to finance the costs of acquiring, constructing and installing Turbines Nos. 29 through 37 of the Project. (See Note A)

Outstanding revenue bonds for the various Business Units as of June 30, 2002, and future debt service requirements for these bonds are presented at the end of the Financial Section of this report.

Energy Northwest expects to continue its "Traditional Refinancing Program" as outlined in the September 2001 Refunding Plan by refinancing higher interest rate outstanding bonds, previously issued for Nuclear Projects Nos. 1, 3, and Columbia, when economically feasible. Additionally, the Bonneville Power Administration requested Energy Northwest to help implement Bonneville's Debt Optimization Program. Subject to the annual approval by Energy Northwest's Executive Board, implementation will require Energy Northwest to issue refunding bonds which will 1) extend the final maturity date of Columbia debt to 2018, and 2) extend the average life of the Nuclear Projects Nos. 1 and 3 debt closer to the final maturity dates of 2017 and 2018, respectively.

The issuance of such refunding bonds will roll out principal maturities scheduled to occur through 2012 and defer principal retirement on Energy Northwest debt to the 2013 to 2018 time frame. Reducing net billing requirements for Energy Northwest will free up cash in the Bonneville Fund to be used to accelerate the retirement of the higher cost Federal debt by Bonneville.

The goals and objectives of the Debt Optimization Program were included in the Energy Northwest Refunding Plan-September 2001 adopted by the Energy Northwest Executive Board.

### *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 Units, Participants are obligated to pay Energy Northwest their pro rata share of the 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 the 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 or recommending the termination of Nuclear Projects Nos. 1 and 3. The Nuclear Projects Nos. 1 and 3 Project Agreements and the net billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations under the net billing agreements, ended upon termination of the Projects. Energy Northwest entered into an agreement with BPA to provide for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement among Energy Northwest and private companies was terminated in 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 July 31, 2001, for the period beginning July 1, 2001 to October 1, 2002. BPA will pay Energy Northwest 40 mills per kWh in exchange for the Project's total output of electric capacity and energy delivered from the Project. Under the power sale agreement, Energy Northwest is responsible for the cost of transmission to the BPA delivery point. Packwood is now an "endorsed resource" in BPA's environmental foundation pool. 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 their retirement in accordance with provisions of the bond resolutions.

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

### *Nuclear Project No. 1 Termination*

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

### *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 the Washington Energy Facility Site Evaluation Council (EFSEC) for any site restoration costs, with respect to Nuclear Project No. 3 and Nuclear Project No. 5.

## *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 EFSEC, and a lease agreement with the United States Department of Energy (DOE). Energy Northwest submitted a site restoration plan for Nuclear Projects Nos. 1 and 4 to EFSEC on March 8, 1995, which complied with EFSEC requirements to remove the assets and restore the sites by demolition, burial, entombment, or other techniques such that the sites pose minimal hazard to the public. EFSEC approved Energy Northwest's site restoration plan on June 12, 1995. In its approval, EFSEC recognized that there is uncertainty associated with Energy Northwest's proposed plan. Accordingly, EFSEC's conditional approval provides for additional reviews once the details of the plan are finalized. A new plan with additional details is being prepared for expected submittal within Fiscal Year 2003.

Based on current estimates for site restoration, Energy Northwest has accrued liabilities of \$59.3 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 \$41.3 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 of 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. In Fiscal Year 2002, the Business Development Fund contributed \$146,000 to NoaNet. This equity contribution was reduced to zero at year-end because NoaNet had a negative net equity position of \$9.2 million as of June 30, 2002.

Future equity contributions, if any, will be treated the same until NoaNet has a positive equity position.

## *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 \$9.45 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 105) 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 \$2.25 billion. The deductible for this coverage is \$5 million per occurrence.

## **NOTE G - NEW ACCOUNTING PRONOUNCEMENTS**

Effective July 1, 2001, Energy Northwest, adopted the provisions of GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended by GASB Nos. 37 and 38. The statement establishes new requirements for the basic financial statements and requires supplementary information (RSI) for general purpose governments consisting primarily of a management's discussion and analysis section preceding the basic financial statements. In addition, the statement requires that the statement of cash flows be prepared using the direct method. Adoption of this statement did not have a material impact on the financial position, results of operations or cash flows of Energy Northwest.

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. As required, Energy Northwest will adopt this Statement during its Fiscal Year 2003. The impact of adopting this statement has not yet been determined. This Statement requires an entity to recognize the fair value of a liability for an asset retirement obligation (ARO), such as nuclear decommissioning and site restoration liabilities, in the period in which it is incurred, rather than using a cost-accumulation approach. 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.

*CURRENT DEBT RATINGS (Unaudited)*

<b>ENERGY NORTHWEST (Long-Term)</b>	<u>RATING</u>	<u>OUTLOOK</u>
Fitch Ratings	AA	Negative
Moodys Investors Service, Inc. (Moodys)	Aa1	Stable
Standard and Poor's Ratings Services (S & P)	AA-	Stable
<b>VARIABLE RATE DEBT</b>	<u>S &amp; P</u>	<u>MOODYS</u>
Letter of Credit Banks		
Bank of America		
Long-Term	AA-	Aa1
Short-Term	A-1+	P-1
JPMorgan Chase Bank		
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



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