

**ENERGY
NORTHWEST**

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

February 5, 2004
GO1-04-0005

10 CFR 50.71(b)

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

Subject: **NUCLEAR PROJECT NO. 1 (WNP-1), DOCKET NO. 50-460
CONSTRUCTION PERMIT CPPR-134
2003 ANNUAL FINANCIAL REPORT**

Dear Sir or Madam:

In accordance with 10 CFR 50.71(b), enclosed is a copy of the Energy Northwest 2003 annual financial report for the subject facility.

Should you have any questions, please call CL Perino at (509) 377-2075.

Respectfully,



DW Coleman
Manager, Regulatory Programs
Mail Drop PE20

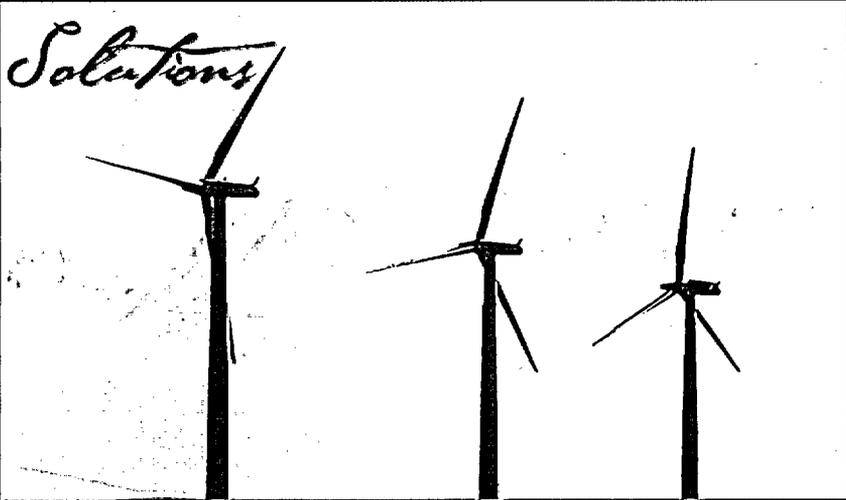
Enclosure: As stated

cc: BS Mallett - NRC RIV
RN Sherman - BPA/1399 w/o
TC Poindexter - Winston & Strawn w/o

14004



Vision



Today and Tomorrow.

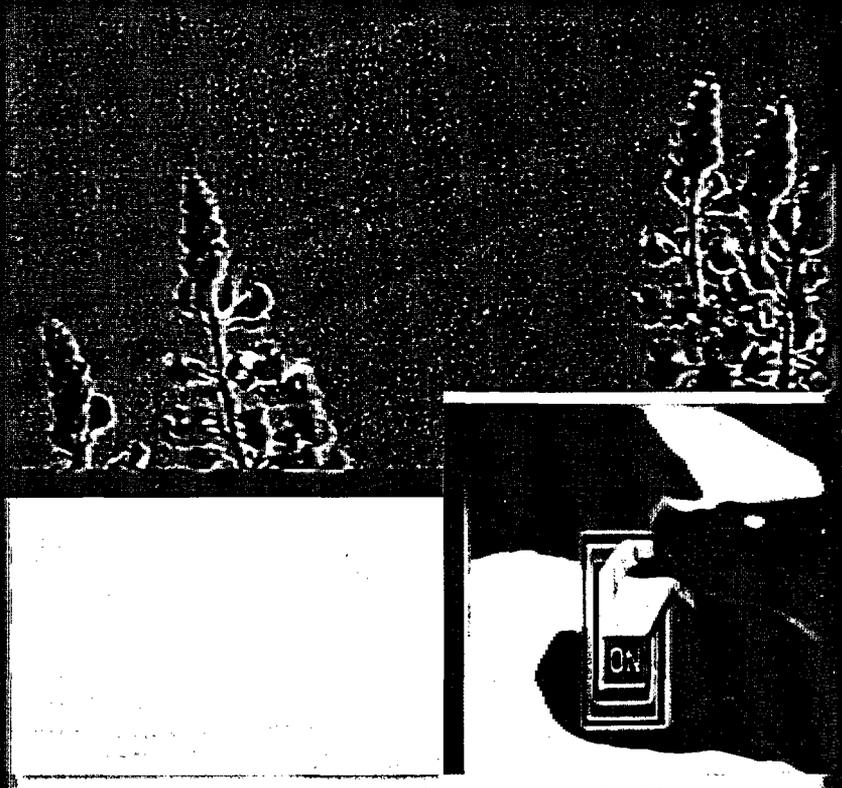
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About Our Company

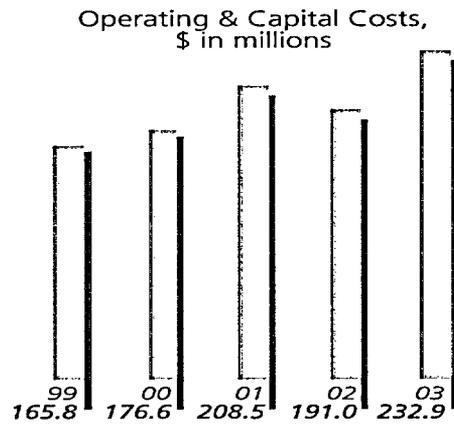
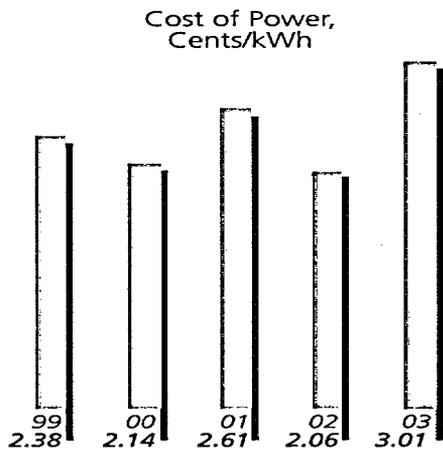
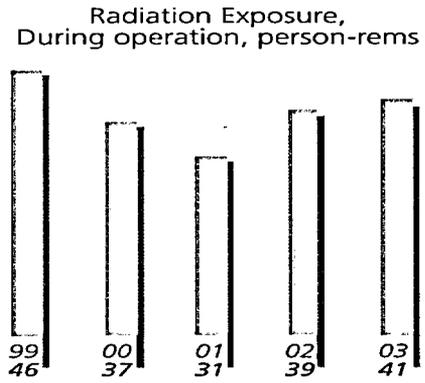
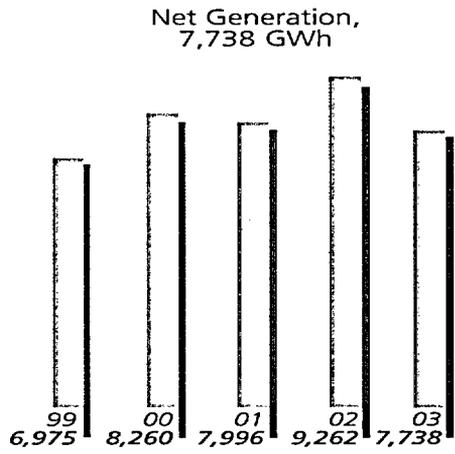
In 1957, a joint operating agency was formed to develop public power projects that individual entities could not develop on their own. Forty-six years later, our mission is still as strong as it was on day one, and is still focused on serving the needs of public power in our region. That's not to say that the way we do business has not changed since day one.

In fact, it's because we've 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.



People & Vision

Operating Highlights - Columbia Generating Station



Solutions

Fly as In Revised

Our Message



John F. Cockburn
Executive Board Chairman



Joseph V. Parrish
Chief Executive Officer

Looking back and ahead . . .

At the end of another successful year of operations, Energy Northwest stands poised to accept new challenges and opportunities to better serve the public power community and the ratepayers of the Pacific Northwest.

During fiscal year 2003, Energy Northwest adopted a new motto that distills its spirit into three words: People. Vision. Solutions. Over the past decade, we have made difficult decisions and necessary investments to enable us to continue serving the public power community well into the future. People with a vision, focused on developing solutions were essential in working through past challenges and creating the organization that exists today.

Take one example: Several of our member utilities wanted access to wind power. Energy Northwest went to the bond market with the support of the nine project participants and then built the 48-megawatt Nine Canyon Wind Project, on time and within budget. As the new fiscal year begins, we're meeting project participants' needs by adding 12 turbines to the site, which will be in operation by the end of this calendar year.

Another example: Columbia Generating Station has been our most important responsibility and is the foundation upon which we built our reputation and credibility. This increased credibility is what allows us to explore and build other kinds of generating resources. In fiscal year 2003, Columbia set a new record of 369 continuous days on line. By comparison, the previous record—set in 1997—was 270 days.

Credit for such achievement rests with the people of Energy Northwest and with our 18 member utilities, and with our governing boards. Without their guidance and willingness to participate in such projects as Nine Canyon, or to endorse explorations into “green” power, many of our successes would have remained dreams.

Three years ago, Energy Northwest had 13 member utilities; today, there are 18. Pacific and Chelan public utility districts rejoined Energy Northwest during this past year. We view this renewed interest as an endorsement of the value Energy Northwest adds to public power, as well as an avenue toward strengthened leadership in public power.

This annual report highlights a number of initiatives worked on throughout the year, including completion of a Board-driven examination of the effectiveness of Energy Northwest leadership in operating Columbia Generating Station; freeing up more than \$315 million in reserves for Bonneville Power Administration through the Debt Optimization Program; continuing to pursue ISO 14001 certification through an approved Environmental Management System; continuing to explore new technologies, such as biomass; and continuing to build on our greatest asset—our people—by providing training and educational opportunities and incentives.

We have built a foundation, tested it, and found it sound. It is our ongoing challenge and commitment to meet the needs of the public power community. If member utilities want more green power, we'll provide it. If they want energy services, we'll supply them. If they want innovative solutions to energy-related problems, we'll fashion them.

And, we'll actively pursue learning and improved performance. A longer than planned refueling outage at Columbia reinforced our belief that we must set ever-higher standards in order to reach our goals and meet the needs of the region.

Energy Northwest will do all this while maintaining its commitment to responsible stewardship of all its assets—financial, environmental, and social; for only through maintaining the trust we've earned over the past decade can we build a better future.

Energy Northwest was created to do the work that public utilities could not do alone. That was our beginning and is our reason for being. Together we can achieve great things. Thank you for the opportunity to serve public power and the ratepayers of the region.

Thank You for the Opportunity.

Executive Board



Edward E. ("Ted") Coates
Incoming Chairman
Retired utility executive
Tacoma, Washington



Dan Gunkel
Vice Chairman
Klickitat County
PUD commissioner
Goldendale, Washington



Darrel Bunch
Secretary
Okanogan County
PUD commissioner
Okanogan, Washington



Amy Solomon
Assistant Secretary
Program officer
Seattle, Washington



Margaret Allen
Attorney
Olympia, Washington



Tom Casey
Grays Harbor County
PUD commissioner
Aberdeen, Washington



Vera Claussen
Grant County
PUD commissioner
Ephrata, Washington



John Cockburn
Outgoing Chairman
Retired bank executive
Seattle, Washington



Larry Kenney
Retired organized
labor executive
Seattle, Washington



Sid Morrison
Retired executive
Zillah, Washington



Roger Sparks
Kittitas County
PUD commissioner
Ellensburg, Washington

People • Vision

Board of Directors



Robert Graves
President
Commissioner,
Benton 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



Bob Boyd
Commissioner,
Chelan County PUD



Tom Casey*
Commissioner,
Grays Harbor County PUD



Mark Crisson
Director of Utilities,
Tacoma Public Utilities



Dan Gunkel*
Commissioner,
Klickitat County PUD



Ronald L. Hatfield
Commissioner,
Pacific County PUD No. 2



Jack Janda
Commissioner,
Mason County PUD No. 1



Parker Knight
Commissioner,
Skamania County PUD



Del Lathim
Commissioner,
Franklin County PUD



Judy Ridge
Commissioner,
Asotin County PUD



Roger Sparks*
Commissioner,
Kittitas County PUD



John Whalen
Commissioner,
Mason County PUD No. 3



Gary Zarker
Superintendent,
Seattle City Light

*Also serves on the executive board
not pictured -

Gregg Caudell,
Commissioner, Ferry County PUD

Raymon Sieler,
Energy Services Director, City of Richland

Solutions

issues are systematically identified, controlled, and monitored. Moreover, an EMS provides mechanisms for responding to changing environmental conditions or requirements, reporting on environmental performance, and reinforces continual improvement. It includes programs to prevent pollution, ensure compliance with all requirements, and strengthen employee awareness of their role in protecting the environment for current and future generations.

These initiatives are in line with Energy Northwest's mission to best serve the ratepayers by providing reliable power and other energy services to the region at the least cost, while protecting the environment.

Nine Canyon Wind Project

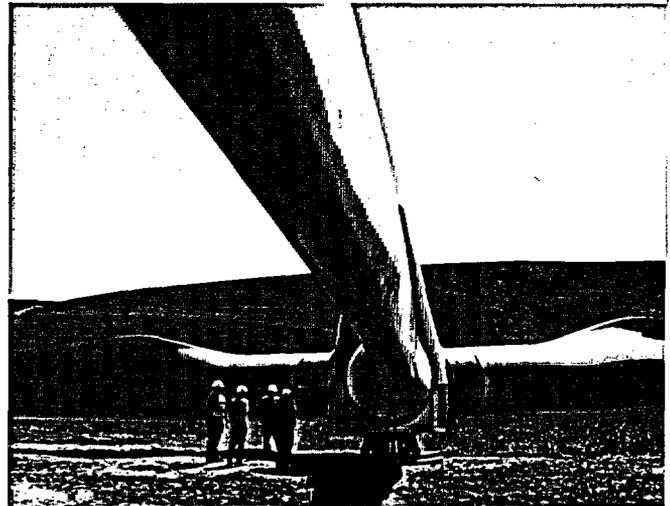
The last of the 37 turbines was erected at the end of August 2002, followed by a period of acceptance testing. Commercial operation of the Nine Canyon Wind Project began in September 2002. Construction of the project was completed on time and within budget. Total generation from the project, between October 1, 2002, and the end of June 2003 was 92,414,478-kilowatt hours of electricity.

By January, the success of the project had produced sufficient interest in a Phase II addition. Energy

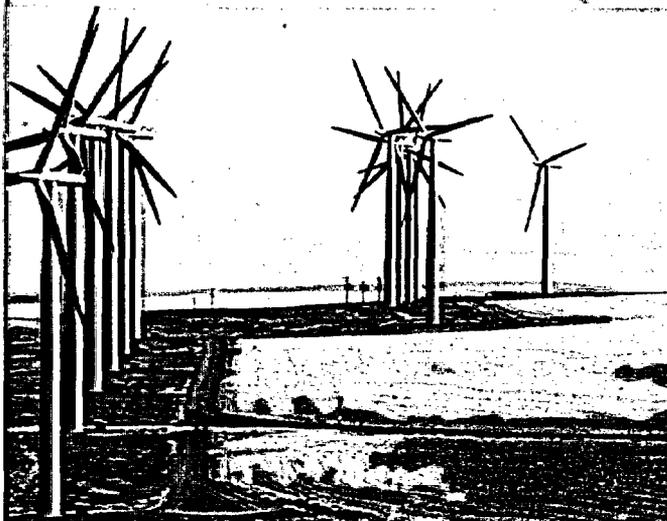
Northwest's Board of Directors approved expansion of the project in April. Also in April, the Executive Board approved a \$21.7 million bond sale to finance construction of Phase II, which will add 12 turbines and 15.6 megawatts, for a total of 49 turbines with a capacity of 63.7 megawatts of renewable energy.

Construction began in mid-May 2003. The same team will complete the expansion—Energy Northwest, RES, Bonus and Benton County PUD. The first two additional turbines were producing power by the end of September 2003. Completion of Phase II is expected by the end of December.

*Top: Nine Canyon visitors stand next to a rotor and three turbine blades, before it's lifted to the top of a wind tower.
Bottom Right: Energy Northwest employees, Dan Porter (left) and Dave Kobus at Nine Canyon.
Bottom Left: Strings of turbines, generating electricity at Nine Canyon Wind Project.*



People • Vision • Solutions



White Bluffs Solar Station

Since the station's dedication in May 2002 through the end of fiscal year 2003, the 242 photovoltaic panels produced 50,737 kilowatt-hours of electrical power. The station's lowest production occurred between November and January; the station reached peak production—33 kilowatts—during June, July, and August. The station has been in continuous operation with the exception of two weeks in June 2002, when the panels were out of service due to a lightning strike that damaged the generation meter at the site, and nine days in April 2003 when a transformer fuse problem shut the station down. Operations and maintenance costs for the photovoltaic panels are very low.

Bonneville Environmental Foundation (BEF) sells "Green Tags" from the station—credit for the displaced air pollution and greenhouse gas emissions—to buyers who want to offset the negative environmental effects of their own direct power consumption. The Tags have been pre-sold through May 2004 to Clark Public Utilities and Puget Sound Energy for their ratepayers who are participating in the utilities' green power programs.

During fiscal year 2003, Energy Northwest received its first yearly Renewable Energy Production Incentive payment of \$0.0176 per kilowatt-hour from the U.S. Department of Energy.

Packwood Lake Hydroelectric Project

Continuing its 39-year history of providing environmentally friendly power, the Packwood Lake Hydroelectric Project produced 91.08 GWh (gigawatt-hours) of electricity during the fiscal year, compared with 81.6 GWh in the previous fiscal year. Last winter's snow pack was approximately 80 percent of average and provided reliable generation throughout the year.

A new 40 MVA (megavolt-ampere) transformer was installed to replace a 30 MVA transformer that failed in December 2001. The new transformer allows the plant to operate without running the transformer at its maximum capacity.

Packwood's annual maintenance outage began October 7 and lasted approximately three weeks. Scheduled outage work was routine with no major projects. The majority of maintenance was focused on improving turbine efficiency.

A one-year power sales agreement was reached with Benton County PUD and Franklin County PUD for Packwood's output in September 2002; that agreement has been extended through September 2004.

Columbia Generating Station

Key indicators of how well a plant is operated often are found in the small tasks performed throughout each station. If a plant is operated well, every small thing will reflect such care. During the fiscal year just ended, Columbia Generating Station set several new records.

First, the station set a new record for continuous days on line. The previous record was 270 days, set in 1997. But on November 21, 2002, the plant surpassed that record, eventually reaching 369 days. In addition, the fiscal year's total generation was the second highest ever at the station during a regular outage year. Prior to the outage, the plant produced 7.7 million megawatt-hours, surpassed only by the 7.9 million megawatt-hours generated in fiscal year 2001.

Second, the station achieved the lowest personnel radiation exposure of all U.S. boiling water reactors during a reporting period that ended last autumn. By comparison, 10 years ago, the station had among the highest cumulative doses.

Third, as of mid-September, the station had operated for four years without a discharge of wastewater containing detectable amounts of radioactive material. Energy Northwest has a state permit that allows the plant to discharge small, regulated amounts of radioactivity to the Columbia River. But, the people at the station set a goal to take all feasible measures to avoid discharging radioactive materials. We've met that goal four years in a row.

Such achievements are important to our employees, of course, but also to the people who own Columbia Generating Station—the ratepayers of the Pacific Northwest. Quality nuclear plants pay attention to everything: from driving down the cost of power to increasing the days on line, from lowering cumulative dose to increasing thermal efficiency.

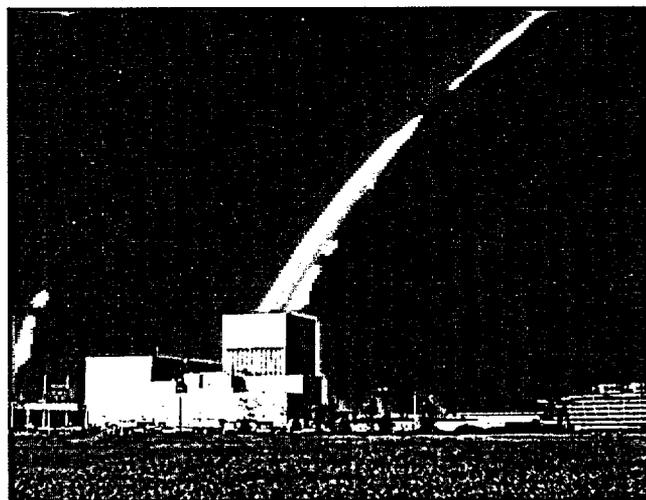
The people of Energy Northwest also have kept another promise to the region—producing much-needed electricity at the lowest cost possible. During the 2003 fiscal year, the cost of power from Columbia Generating Station was nearly half of what it was a decade before, when judged against inflation. And the projected price of power for fiscal year 2004 is lower still.

Several other key initiatives associated with long-term plant operations and reliability were initiated or continued during the fiscal year, including a corrosion mitigation strategy, our 16th refueling outage, and continued work on spent fuel storage.

Top: A double rainbow over Columbia Generating Station following a Spring rain shower.

Bottom Right: Energy Northwest employees, (from left) Dan Ross, Randy Crawford, and Jerry Baker at Packwood Lake Hydroelectric Project.

Bottom Left: Beyond the tailrace sits the Packwood Lake powerhouse.



People • Vision • Solutions



Hydrogen Water Chemistry

The reactor vessel's steel is several inches thick, and well suited to house Columbia Generating Station's nuclear core. However, efforts must be made to ensure the vessel does not become degraded or weakened over time. One concern is the potential for the vessel interior to suffer from intergranular stress corrosion cracking if there are long-term, significant levels of impurities in the cooling water run through the reactor.

One mitigation strategy is to implement a hydrogen water chemistry system. Columbia Generating Station is constructing a Hydrogen Storage and Supply Facility (HSSF) and an underground pipeline from the HSSF to the plant. This system is designed to inject hydrogen into the reactor cooling water, to reduce oxides that can damage the vessel.

Industry experience indicates a two-year construction schedule for this type of project; we expect to meet that schedule, as well. At the end of the fiscal year, the facility design was approximately 95 percent complete and the overall project was 65 percent complete. The project team looks forward to completing final functional testing in early 2004.

R-16 Refueling Outage

The 16th refueling and maintenance outage at Columbia Generating Station was successful when gauged against its most important criterion—preparation for the next two-year generating campaign.

A considerable amount of scheduled maintenance, inspections, repairs, refurbishments, and replacements were completed during the outage, in addition to handling a number of emergent work issues. Because of those emergent issues and schedule slippage, the

outage was extended beyond its original 34-day projection.

Although the outage lasted longer than planned, the decisions made and the actions taken were based on the long-term health of the plant as a whole. Columbia Generating Station is prepared for a solid and safe 23-month run.

Independent Spent Fuel Storage Installation (ISFSI)

One of the critical milestones in preparation for R-16 was the safe loading of five casks with spent fuel. The station's spent fuel pool was nearly full and could not accommodate storage of new fuel bundles that would be placed in the reactor during the outage, or the offloading of spent fuel that would be removed from the reactor core during the outage.

Early in the fiscal year, this project was in full swing, with the project team focused on finalizing training and completing the Nuclear Regulatory Commission's (NRC) "dry run" inspection process. Upon completion of the first cask loading, the senior NRC inspector complimented Columbia's team by noting it was the best first cask loading he had ever witnessed.

The team completed loading the first five casks slightly under budget. Those five casks are managed in a specially built storage site northwest of the plant, which is secured and monitored by Energy Northwest's nuclear security officers.

The ISFSI project won the Columbia River Basin Chapter of the Project Management Institute's "Project of the Year" competition.

ISFSI is now staffed by a new team that will operate and maintain the site, as well as continue loading additional casks with spent fuel.

Enhanced Security

In August, we completed construction and implementation of enhanced security measures and practices at Columbia Generating Station, which had been initiated due to an NRC mandate during fiscal year 2002. Throughout the rest of the year, we hired and trained a number of additional nuclear security officers, responded to subsequent NRC mandates related to access authorization and background reinvestigations, as well as adjusting our security measures in keeping with the Office of Homeland Security's national threat levels.

Nearly two years after the terrorist attacks of September 11, 2001, security at facilities deemed to be critical infrastructure continues to be closely scrutinized by regulators, the media, and the public. Safety and security have been a high priority since the station began operation nearly 20 years ago, and our commitment to keeping our community safe will not waver.

Board Review of Nuclear Programs

At its regular quarterly meeting in January, the Energy Northwest Board of Directors unanimously endorsed the report *Energy Northwest Executive Board Review of Nuclear Programs*.

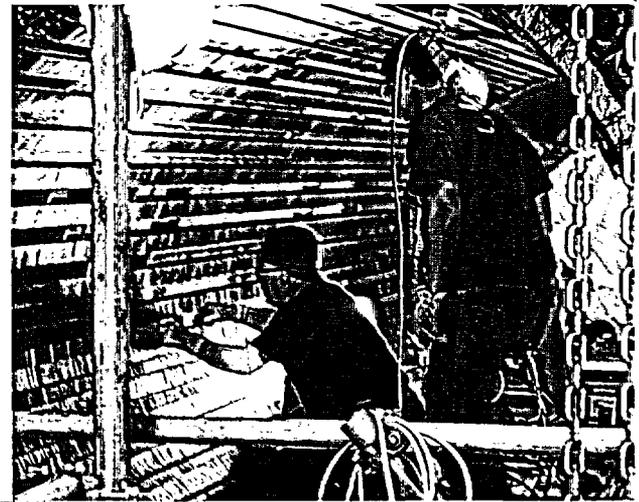
The two-year due diligence study had begun with an examination of the feasibility of completing WNP-1. In the course of the investigation, however, questions arose as to the efficacy of third-party management or sale of Columbia Generating Station. After thorough study, the Executive Board concluded there would be no clear net benefit to the ratepayers of the region under either alternative. Additionally, Energy Northwest's member utilities overwhelmingly opposed both alternatives.

Comparing the performance of Columbia with similar plants was an important part of the *Review of*

Top: Inside the generator core during R-16.

Bottom Right: Outage Management Services staff (from left) John Suing, Suzi Kroma, and Rolly Fuller.

Bottom Left: Turbine Building during R-16.



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Nuclear Programs, and will continue to be. The Executive Board agreed with Bonneville that it is imperative the future cost of Columbia's power be kept as low as possible without compromising either safety or the long-term reliability of plant operations.

A copy of the report is available on our website at www.energy-northwest.com.

WNP-1 Restoration and Potential Reuse

Energy Northwest has been developing a site restoration agreement for the terminated Washington Nuclear Projects (WNP) 1 and 4 located near Columbia Generating Station. When finalized, the agreement between the Bonneville Power Administration, the Washington State Energy Facility Site Evaluation Council, the Department of Energy, and Energy Northwest will call for implementation of a site restoration program in 2023. As part of the agreement BPA will fund the restoration through a trust fund established in 2003 to cover the currently estimated \$45 million restoration costs.

Over the next two years, Energy Northwest will spend approximately \$4 million to remediate any current environmental issues, and protect the site until full restoration can be completed by 2026. While environmental restoration plans are being refined and funded, a simultaneous effort is underway to consider beneficial reuse of the sites.

An ad hoc committee comprised of Energy Northwest board members and staff is assessing potential reuses of the sites. The committee is establishing reuse criteria to maximize the value of the sites for the region's ratepayers while meeting security and emergency response requirements for the adjacent Columbia Generating Station.

Hanford Generating Project (HGP)

Energy Northwest took an historic step in fiscal year 2003 with Board of Directors action clearing the way for demolition and restoration of the HGP site approximately 20 miles north of Columbia Generating Station on the Columbia River. The facility, begun in 1963 and first operational in 1966, used steam from the Department of Energy's N-Reactor to power its generator and produce electricity. The HGP facility ceased operations in 1986 when steam was no longer available from the N-Reactor.

Demolition work was begun in June 2003 and is estimated to be complete in June 2004. Above-ground portions of the facility will be removed and the basement of the structure will be filled with demolition debris. The buried portion of the project will be covered with a waterproof barrier and the surface will be re-vegetated.

In addition to the above-ground structures, the site includes structures within the Columbia River. Funding for demolition of those structures is being sought from the Department of Energy. Upon completion of both the above-ground and river structures demolition efforts, the restored HGP site will be returned to DOE.

Debt Optimization

Energy Northwest has continued its financial campaign to help the Bonneville Power Administration and the ratepayers of the Pacific Northwest. In fiscal year 2003 alone, Energy Northwest sold refinancing bonds with the sole purpose of freeing \$315 million in revenue for Bonneville. Having completed its third year, this Debt Optimization Program has deferred \$678.6 million to-date. If Energy Northwest continues the program, Energy Northwest could defer about \$3 billion in net billing revenue requirements over the next 10 years.

These new bonds substitute lower-interest, Energy Northwest bonds for higher-interest Treasury debt held by Bonneville. In addition, the Debt Optimization Program alters the payment profile of the existing debt. While improving BPA's overall debt profile, Energy Northwest funds also produce an immediate debt interest savings for ratepayers of about \$20 million a year.

Energy Business Services

Zintel Canyon Wind Project

Originally approved as a project in April 2002, Zintel Canyon has not yet been developed. Although Zintel Canyon has the potential for approximately 50 megawatts of wind power, there has not been sufficient interest from potential power purchasers to proceed with development.

Because Energy Northwest is committed to continued development of renewable energy, it will maintain the lease and permits on this site until there is firm interest in developing it as a public power resource.

NoaNet

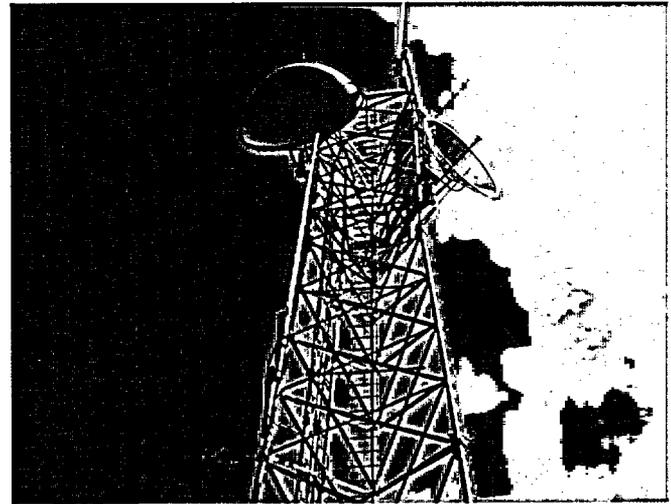
The Northwest Open Access Network (NoaNet) is a non-profit, open access, fiber-optic network developed to bring high-speed broadband communications and services to rural areas of the Northwest. Energy Northwest is a founding member. NoaNet offers access to the network ring licensed from BPA and other broadband providers in the state of Washington.

Early in 2003, Energy Northwest and Benton and Franklin PUDs announced the formation of the Three Rivers Local InterNetwork Exchange, known as TRLINX using the NoaNet network. TRLINX has two locations in

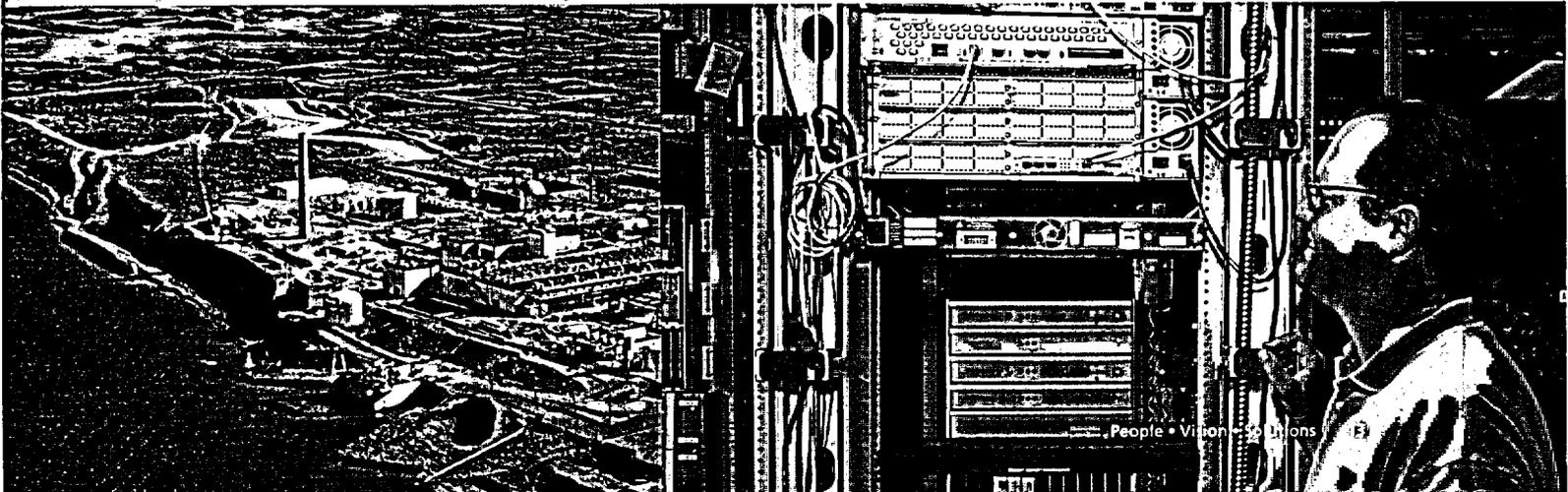
Top: One of Energy Northwest's wireless communication towers.

Bottom Right: Energy Northwest employee, Justin Homer, checks on some broadband and internet connection equipment – part of the NoaNet network.

Bottom Left: The Hanford Generating Project, along the Columbia River, next to N-Reactor.



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the community, one at the Applied Process Engineering Laboratory in North Richland and the other at Franklin County PUD's co-location facility at the PUD office in Pasco. The Benton County PUD broadband network is interconnected at the Franklin County PUD facility as well, making this a community focused solution. TRLINX is a local internetwork exchange that serves as a central hub to route or exchange local Internet-bound traffic, providing direct connections between local entities and Internet Service Providers (ISPs) that allow faster and smarter network performance.

Fuel Cell

Energy Northwest, along with Bonneville Power Administration (BPA) and IdaTech of Bend, Oregon, was involved in a fuel cell demonstration. The fuel cell was available to member utilities for demonstrations at energy fairs and other appropriate events until late 2002 when BPA announced it had terminated its contract with IdaTech. BPA is currently evaluating other fuel cell products for use in the Northwest; Energy Northwest will continue to work with them to develop other distributed generation programs.

Applied Process Engineering Laboratory (APEL)

APEL celebrated five years of service in April 2003. APEL's mission is to provide an incubator environment for new technology and business development in the Tri-Cities. In the five years since APEL opened its doors, 16 companies have been served.

APEL is unique in that it is wholly devoted to science, engineering, and manufacturing enterprises, with an emphasis on technical infrastructure, hardware as opposed to software, as well as health and safety.

Today, APEL tenant companies are devising solutions to pressing issues affecting energy, the environment, health and safety, and national security. Some have already achieved notable successes in their fields of endeavor, including FDA approval of a new prostate cancer treatment, full-scale production of air sampler and contaminant eradication and containment methods and devices, a new fuel processing unit, and production and distribution of a family of dermatological skin products.

APEL is good for business: In addition to being financially self-sustaining, it plays an important role in economic development across Washington and the region. Continuing support from Energy Northwest and other founding contributors to the project, including Pacific Northwest National Laboratory, the Port of Benton, the U.S. Department of Energy, TRIDEC, the City of Richland, and WSU Tri-Cities, has played a pivotal role in APEL's noteworthy achievements over the last five years.

Biomass

Energy Northwest continues its investigation into another renewable energy resource option called biomass. This technology converts various waste products from the food, cattle, wood product, dairy or other similar industries into methane, which in turn can be used to fuel internal combustion engines turning generators. The potential benefits of biomass power to the environment are significant. This technology can reduce odor, ground and surface water contamination, and the release of methane into the atmosphere. Energy Northwest's goal is to add to those benefits the production of clean, affordable electric energy from a renewable fuel source.

Ocean Wave Energy

Although Energy Northwest remains interested in a proposal by the AquaEnergy Group of Mercer Island, Washington, to build an ocean wave energy demonstration project off the Washington Coast, the project has not moved forward due to a lack of funding.

The concept calls for buoys—similar to those used for navigational aids by the Coast Guard—that harvest kinetic energy from ocean swells, convert it to electrical energy and then send it to shore-side substations via submerged cables.

AquaEnergy received some initial aid from the Northwest Energy Innovation Center, of which Energy Northwest is a founding participant. As part of the initial steps toward an ocean wave energy demonstration project, Energy Northwest provided the entrepreneurial firm help in gaining siting permits. Obtaining demonstration project funding is the next critical step.

Northwest Energy Innovation Center

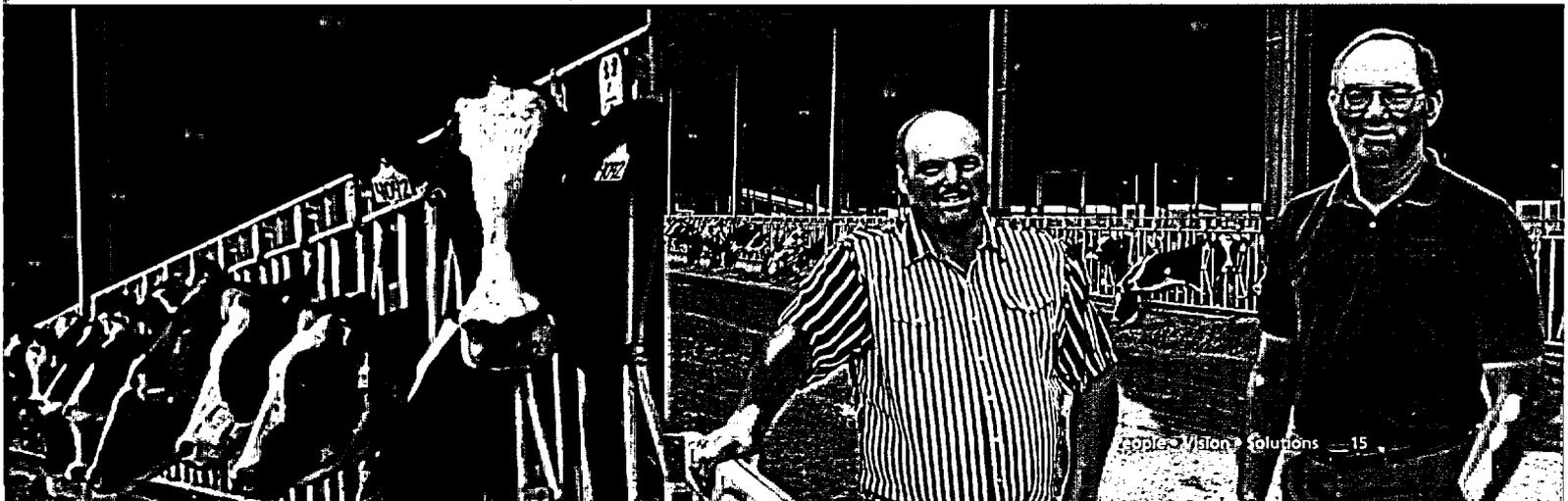
A challenging financial forecast and budgetary cutbacks forced the Bonneville Power Administration to withdraw funding for the Northwest Energy Innovation Center (NEIC) in October 2002. As a result, the Center has ceased all activities requiring financial support until a new funding source has been identified.

Originally, the Center was founded to support renewable energy projects. As a founding member, Energy Northwest provided licensing and permitting expertise to the wave energy demonstration developed by AquaEnergy Group, Inc. It was an excellent

*Top: Environmental Lab Services at work.
Bottom Right: Energy Northwest employee Stan Davison (left) and Farmer Steve DeRuyter at the site of the Biomass Demonstration Project in Franklin County.
Bottom Left: Energy Northwest is participating in a demonstration project that will turn cow manure into electricity.*



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opportunity to explore the potential of an innovative energy resource, and was aligned with our charter to develop projects that one public utility was not able to develop on its own.

Founding members of the Center continue to communicate and share ideas, seeking opportunities to develop renewable energy and distributed generation resources.

Calibration Services

Over the past three years, the Calibration Laboratory has reduced its instrument calibration backlog from over 300 to less than 50, the result of labor contract negotiations, increased laboratory capabilities, and staff commitment. Efforts to decrease the backlog have also resulted in new customers. The Lab recently negotiated a two-year contract extension with Fluor Hanford and signed intra-organizational agreements with Columbia Generating Station that extend service through June 2004.

Demand continues to grow for Energy Northwest's calibration services. In addition to Columbia Generating Station and the Hanford Site, the Calibration Laboratory currently serves 20 external customers. Acquisition of new equipment and specialized training have increased the laboratory's electrical, temperature, and gas flow capabilities, and allowed work that had been previously outsourced to be performed in-house.

Efforts in this and previous years have positioned the laboratory to become a supplier of choice for a growing number of regional clients, as well as gaining referral clients in other parts of the country.

Environmental Services

Since 1992, Energy Northwest's 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.

Operations & Maintenance Services

Grays Harbor Energy Facility

Due to changes in market conditions, Duke Energy North America (DENA) suspended construction on three power plants, including the combustion turbine project in Grays Harbor, early in the fiscal year. With the project partially constructed at the time of that decision, Energy Northwest worked with Duke to preserve the infrastructure. At fiscal year end, Energy Northwest continued to assist DENA by providing oversight of preservation measures for the project while it remains in construction suspension status. In addition, Energy Northwest is maintaining the project's environmental permits and handling some administrative functions related to the project.

Franklin County PUD & Grays Harbor PUD Combustion Turbine

Energy Northwest has an agreement with Franklin County and Grays Harbor PUDs to provide trained on-call personnel to operate the plant as needed. During the past fiscal year, the low cost of power in the region and the relatively high cost of natural gas has limited

the need for the facility to be on line. Therefore, their operation did not need our support.

This 44-megawatt combustion turbine plant is located in Pasco, Washington, and owned by Franklin County PUD and Grays Harbor County PUD.

H.W. Hill Landfill Gas Power Plant

Since October 2001, when Energy Northwest entered into an agreement with Klickitat PUD to jointly operate the station, the facility's material condition and corresponding performance have improved.

Station operators, with Energy Northwest supervision and support, have improved the maintenance program at the station, which has reduced overall operating costs. Daily, monthly, and annual status reports, along with an operating plan and budget, are provided to Klickitat PUD as part of the operations and maintenance services agreement.

Since 2001, station adjusted capacity has increased from approximately 70 percent to almost 95 percent, and on-line time has increased approximately 25 percent.

In 2004, the PUD plans to install a gas cleanup system that should further reduce maintenance costs and initiate contracts for an engine heat recovery system that will increase station capacity by nearly a megawatt.

The H.W. Hill Landfill Gas Power Plant is a 10.5 MW facility that converts landfill methane to electricity and is located near Roosevelt, Washington.

Top: I & C Tech Colin Carson works in the Calibration Laboratory.

Bottom Right: Energy Northwest employees, Don Queen (left) and Jim Emery are responsible for the Calibration Laboratory.

Bottom Left: Energy Northwest provides operations and maintenance services to Klickitat County PUD at the H.W. Landfill Gas Power Plant.



People • Vision • Solutions



Focus on People

Through this look back at fiscal year 2003, we've discussed a number of challenges and accomplishments that, while not possible without the people involved, were more focused on projects, business lines, and generating resources. Here are a few highlights focused on our most important asset—our people—that we've not yet mentioned.

Energy Northwest surpassed an important goal in March. The 15th Leadership Academy class graduated. With this latest class, approximately 98 percent of all managers, supervisors and leads have been through the academy; our goal was 95 percent graduated by June 2003.

At that same time, Energy Northwest separated its training functions to create two training organizations: Operations/Nuclear Training and Corporate Training, Leadership & Development. The former continues to provide existing operations, maintenance, and nuclear training, while the latter is focused on developing current and future leaders of this organization. Energy Northwest is excited about the value this newly-formed organization will bring to the region.

Also in the last fiscal year, Energy Northwest implemented a new Employee Development Program (EDP), to provide incentive and reward employees who take the initiative to continue their professional development. Employees may earn financial incentives by completing approved internal and external training, and earning college credits. In its first year, 185 employees enrolled in the program, 50 of them earned an incentive, and the total payout was approximately \$38,100.

As proof that hard work pays off, Energy Northwest

was recognized by the nuclear industry and the public power community in fiscal year 2003, through receipt of two prestigious awards.

First, the Nuclear Energy Institute (NEI) presented Energy Northwest, in partnership with PPL/Susquehanna, with the Top Industry Practice (TIP) award. The TIP award recognized an innovative and cost-effective approach to plant preventive maintenance and equipment reliability improvement programs. INPO and EPRI, two other industry organizations, also have recognized the value of this approach at both utilities, resulting in many other utilities benchmarking and adopting this approach in whole or in part.

Next, Energy Northwest received the E.F. Scattergood System Achievement Award from the American Public Power Association. This award is given for outstanding achievement by a utility. Energy Northwest was cited for many initiatives, including the development of the Nine Canyon Wind Project, White Bluffs Solar Station, continued excellence in the operation of Columbia Generating Station, plus commitments to employee development and corporate good citizenship. The nomination focused on the long struggle to bring the utility and its nuclear plant through years of turmoil to a new era of responsibility and respectability.

These two awards are in addition to the Project of the Year award for the Independent Spent Fuel Storage Installation (ISFSI) project mentioned earlier in this report.

Again, Energy Northwest's people are its greatest asset and their development will continue to be a priority. Energy Northwest has come a long way in the last decade and that's a testament to the quality of its employees and their dedication to public power.

What's Ahead

As Energy Northwest begins fiscal year 2004, it is faced with ongoing challenges, as well as some new ones. In the coming year, Energy Northwest will continue to focus on personnel and industrial safety through the implementation of a behavior-based safety training program that's been proven effective at other stations throughout the industry.

Energy Northwest is already developing a detailed action plan for improving all areas of its performance at Columbia Generating Station—from equipment reliability issues to the spare parts program, from raising the bar on human performance standards to improving communication with peers, regulators, and other industry organizations.

Energy Northwest is expanding the Nine Canyon Wind Project and is working with a pioneer in biomass electrical generation technology to develop a demonstration facility located in Franklin County. It is also reaching out to members, the public power community, and other potential customers who might benefit from other expertise it has developed over the years.

Energy Northwest remains steadfast in its commitment to being responsible stewards of all its assets, be they financial, environmental, or social. Considering the financial situation in the region, Energy Northwest is very cost conscious, although it will never jeopardize safety and long-term reliability of its assets based on cost considerations alone. Energy Northwest is aggressively moving forward in its pursuit of ISO 14001 certification of its Environmental Management System.

Top: Energy Northwest CEO, Vic Parrish, accepts the E.E. Scattergood award from Mark Crisson of Tacoma Public Utilities at the APPA conference earlier in the year. Bottom Right: Energy Northwest's Corporate Training, Leadership & Development is in the capable hands of (from left) Bryce Linville, Kathy Martin, Lynne Pagel, and Georgia Hammond. Bottom Left: Information Services employees (from left) Paul Homer, Gail Dockter, and Justin Mays keep our computers running.



People • Vision • Solutions



Energy Northwest will continue to focus on its strengths—operating and maintaining its existing power plants and working with members and others in public power to develop new generating resources. The future of electrical generation and power sources is changing. Advanced nuclear reactors have been designed and the technology is just waiting to be tested. Think about nuclear reactors that provide electricity and produce hydrogen for other uses. The much talked about hydrogen economy is slowly making its way into reality; a number of car manufacturers, including

Mercedes-Benz, BMW, Honda, and GMC, already have hydrogen/fuel cell powered cars on the roads across the country.

Energy Northwest's vision is to become the region's preferred source for energy solutions. That means not just developing and operating electrical generation. It means providing other kinds of resources as well, and working with the public power community to develop solutions to the challenges facing the region. Energy Northwest is committed to working each day to meet the region's needs and achieve that vision.

Financial Operating Statistics

For the year ended June 30, 2003 (Dollars in Millions)

Operating Statistics	Columbia Generating Station		Packwood Lake Project	
	FY2003	FY2002	FY2003	FY2002
Net Generation (1)	7,738	9,262	91	82
Plant Availability (2)	81.0%	95.4%	96.2%	81.6%
Plant Capacity (3)	78.5%	92.0%	34.7%	33.9%
Cost of Power (cents/kWh)				
Production Expenses (4)	2.0	1.4	0.73	0.96
Industry Basis (5)	3.01	2.06		
Investment Performance	FY2003	FY2002	CHANGE (%)	
Income	16	25	-36.0%	
Average Balance	558	661	-15.6%	
Rate of Return	2.94%	3.78%	-22.2%	
Bonds Outstanding	FY2003	FY2002	CHANGE (%)	
Nuclear Project No. 1				
Fixed	\$1,665	\$1,995	-16.5%	
Weighted Average	5.6%	5.8%	-3.4%	
Variable	\$ 316	\$ 125	152.8%	
Average Rate	1.1%	3.6%	-31.3%	
Columbia Generating Station				
Fixed (6)	\$1,987	\$1,954	-1.7%	
Weighted Average (7)	5.5%	5.5%	0.0%	
Variable	\$ 102	\$ 114	-10.5%	
Average Rate	1.2%	3.6%	-25.0%	
Nuclear Project No. 3				
Fixed (6)	\$1,098	\$1,462	-33.2%	
Weighted Average (7)	5.6%	5.5%	1.8%	
Variable	\$ 466	\$ 178	161.8%	
Average Rate	1.2%	3.6%	-25.0%	
Packwood Lake Project				
Fixed	\$ 4.3	\$ 4.8	-10.4%	
Weighted Average	3.7%	3.7%	0.0%	
Nine Canyon Wind Project				
Fixed	\$ 92.4	\$ 70.7	30.7%	
Weighted Average	5.3%	5.7%	-7.0%	

(1) Expressed in millions of kWh. Columbia's generation includes BPA economic dispatch credit of: FY2003: 122; FY2002: 336.

(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 of 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 assess-

ment 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 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, 2003, internal control procedures are adequate.

J. Vic Parrish
Chief Executive Officer

A.E. Mouncer
*Vice President, Corporate Services/
General Counsel/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 12 meetings during the fiscal year ended June 30, 2003.

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 Auditors

To the Executive Board of Energy Northwest:

We have audited the accompanying balance sheet of Energy Northwest and the related individual balance sheets of Energy Northwest's business units and internal service fund as of June 30, 2003, 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, Gray's 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, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (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 5, 2003

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 to aid in comparing the basic financial statements for the Fiscal Year ended June 30, 2003, with the basic financial statements for the Fiscal Year ended June 30, 2002. 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) to the extent it does not conflict with Governmental Accounting Standards Board (GASB) standards (see Note B to financial statements).

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

The statements of operations and fund equity report 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 statements of cash flow reflect cash receipts and disbursements and net changes resulting from operating, financing and investment activities. The statements provide insight into what generates cash, where the cash comes from, and what it was used for.

The notes to the financial statements present disclosures that provide for a 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, if applicable.

COLUMBIA GENERATING STATION

The Columbia Generating Station Nuclear Power Plant is owned by Energy Northwest and its Participants and operated by Energy Northwest. The Plant is a 1,153 megawatt boiling water nuclear power station located on the Department of Energy's Hanford Reservation north of Richland, Washington. Columbia produced 7,616 GWh of electricity in Fiscal Year 2003, as compared to 8,926 GWh of electricity in Fiscal Year 2002. This decline in generation is a result of three forced outages during Fiscal Year 2003 along with a scheduled refueling outage which currently occurs every two years.

BALANCE SHEET ANALYSIS - Columbia Generating Station has just completed its first 2-year refueling and maintenance outage in Fiscal Year 2003. Utility Plant in Service increased by \$64,149,000 from \$3,419,489,000 in Fiscal Year 2002 to \$3,483,638,000 in Fiscal Year 2003. The increase includes capitalization of an asset retirement cost of \$31,110,000 due to the adoption of Financial Accounting Standards Board Statement 143 (see Financials Note G). The remaining \$33,039,000 increase is made up of the Independent Spent Fuel Storage Installation (ISFSI) Project, and upgrades to Columbia's Security and Chemical Injection Systems. Construction Work in Progress decreased by \$16,367,000, from \$30,355,000 in Fiscal Year 2002 to \$13,987,000 in Fiscal Year 2003, mainly due to the ISFSI Project along with heightened security improvements being put into service.

Costs in Excess of Billings has increased from \$120.7 million in Fiscal Year 2002 to \$325.8 million in Fiscal Year 2003. This is largely due to refunding current maturities while extending the overall maturities on the refunding debt. The lack of a need for funds to pay off current maturities results in a cost that exceed billings. In addition, the accumulated decommissioning and site restoration accrued costs are not currently billed to Bonneville Power Association (BPA). BPA holds and manages a trust fund for the purpose of funding decommissioning and site restoration (see Note B to the financials, Decommissioning and Site Restoration). The balances in these external trust funds are not reflected on Energy Northwest's Balance Sheet.

The Restricted Assets Special Funds decreased from Fiscal Year 2002 to 2003 by \$96,751,000. The variance increase of \$13,389,000 is due to the fact that the 2003 Bond Issue

established a Columbia Construction Fund to be used for future capital project costs. The decrease of \$110,140,000 is due to the reclassification of Decommissioning and Site Restoration values to be presented in the Deferred Charges, Costs in excess of billings section of the Balance Sheet due to SFAS 143, "Accounting for Obligations Associated with Retirement of Long-Lived Assets" (see Note G). The Debt Service Funds variance of \$84,232,000 from Fiscal Year 2002 to 2003 is attributed to Bond Fund Reserve free-ups. The variance of \$21,443,000 in Current Assets is attributable to the fact that investment rates were down significantly from Fiscal Year 2002 to 2003.

STATEMENT OF OPERATIONS ANALYSIS - Columbia Generating Station is a net-billed Project. Energy Northwest recognizes revenues equal to expense for each period on net-billed projects. No net revenue or loss is recognized and no equity is accumulated. The following changes from Fiscal Year 2002 for Net Operating Revenues are: Operating Revenues needed to cover expenditures are up \$32,952,000 from \$406,995,000 in Fiscal Year 2002 to \$439,947,000 in Fiscal Year 2003. Nuclear fuel expenditures are down, from \$30,311,000 in Fiscal Year 2002 to \$27,061,000 in Fiscal Year 2003, because of reduced generation in an outage year. Less generation in an outage year resulted in less Generation Taxes, down \$961,000, from \$3,198,000 in Fiscal Year 2002 to \$2,237,000 in Fiscal Year 2003, and Spent Fuel Disposal fees reduction of \$1,234,000 from \$8,487,000 in Fiscal Year 2002 to \$7,253,000 in Fiscal Year 2003. Operations and Maintenance expenditures were higher by \$42,480,000, from \$116,832,000 in Fiscal Year 2002 to \$159,312,000 in Fiscal Year 2003. This is the result of a diesel generator and condenser leak unplanned outage along with the scheduled refueling and maintenance outage. Decommissioning expenses

increased \$10,098,000 in Fiscal Year 2003 primarily due to the adoption of Financial Accounting Standards Board Statement 143 for Asset Retirement Obligation. This statement calls for the obligation to be recorded at a rate depreciated over the life of the plant. The amount is a combination of probable cases for accomplishing the required retirement obligations and their associated probabilities. The amount will also be increased each year to account for the accretion value of the obligation. Past estimates were based on the funding statement methodology required under plant license. The amount calculated was then being costed over the life of the plant (see Note B to financial statements for further explanation).

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 rates of return resulting in a decline of \$4,789,243 from \$11,540,483 in Fiscal Year 2002 to \$6,751,239 in Fiscal Year 2003. Additionally, results of the Bond Refunding issues reduced interest expense by \$2,098,215 from \$115,110,462 in Fiscal Year 2002 to \$113,002,247 in Fiscal Year 2003. Amortization of Bond Discount Expense and Amortization of Bond Refunding netted an increased expense of \$180,063 as a result of the Bond Refunding issues.

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 1800 ft. below the dam that is located south of Packwood, Washington. Packwood produced 91.08 GWh of electricity in Fiscal

Year 2003 versus 81.61 GWh in Fiscal Year 2002.

BALANCE SHEET ANALYSIS - Current Assets have increased \$843,000 from \$1,379,000 in Fiscal Year 2002 to \$2,222,000 in Fiscal Year 2003, due to increased sales revenue from greater generation. As a result, Packwood accrued \$830,000 in excess cash that is available to be returned to the Participants in October 2003.

STATEMENT OF OPERATIONS ANALYSIS - The agreement with Project Participants obligates them to pay annual costs and they 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 decreased because of the cost decreases detailed below. Operations and Maintenance along with Administrative and General expenditures decreased \$282,000, from \$1,368,000 in Fiscal Year 2002 to \$1,086,000 in Fiscal Year 2003. This was due to unusually high costs in Fiscal Year 2002 caused by an extended outage and a transformer failure.

Investment Income increased due to the participants electing to leave \$500,000 in excess cash from Fiscal Year 2002 to fund future re-licensing expenditures. Fiscal Year 2002 had \$36,000 compared to \$44,000 in Fiscal Year 2003, an \$8,000 increase.

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 resolutions terminating Nuclear Project No. 1. 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. Energy Northwest wholly owns nuclear Project No. 1. Termination expenses and debt service costs comprise the activity on Nuclear Project No. 1.

BALANCE SHEET ANALYSIS - Under the debt optimization program, long-term debt was decreased by \$124,988,000, from \$2,081,189,000 in Fiscal Year 2002 to \$1,956,201,000 in Fiscal Year 2003, due to principle payments and debt restructuring to take advantage of lower interest rates.

STATEMENT OF OPERATIONS ANALYSIS - Investment Income decreased \$4,103,000, from \$6,669,000 in Fiscal Year 2002 to \$2,566,000 in Fiscal Year 2003, because of historically low rates of return. The average rate of return for Fiscal Year 2002 was 3.78 percent versus the Fiscal Year 2003 average rate of 2.94 percent.

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 resolutions terminating Nuclear Project No. 3. Energy Northwest

is no longer responsible for any site restoration costs as they were transferred with the assets to the Satsop Redevelopment Project (see Note F). The last parcel of land was transferred during this period. The debt service related activities remain and are net-billed.

BALANCE SHEET ANALYSIS - Under the debt optimization program, long-term debt was decreased \$55,590,000, from \$1,817,152,000 in Fiscal Year 2002 to \$1,761,562,000 in Fiscal Year 2003 due to principle payments and debt restructuring to take advantage of lower interest rates.

STATEMENT OF OPERATIONS ANALYSIS - Investment Income decreased \$2,046,000 due to historically low rates of return, from \$5,682,000 in Fiscal Year 2002 to \$3,636,000 in Fiscal Year 2003. In addition, Plant Preservation and Termination costs increased \$3,198,000 due to an IRS arbitrage penalty in Fiscal Year 2003 as compared to Fiscal Year 2002 rebate.

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 business opportunities.

The BDF is managed as an enterprise fund. Three business sectors have been created within the fund: General Services, Generation, and Professional Services. Each sector may have one or more programs that are managed as a unique business activity. A fourth business sector, Business Unit Support, has been created to capture costs associated with developing programs.

STATEMENT OF OPERATIONS ANALYSIS - Operating Revenues in Fiscal Year 2003 totaled \$11,163,000 as compared to Fiscal Year 2002 revenues of \$6,808,000, an increase of \$4,355,000. Energy Northwest has experienced significant growth in several of its business programs. Among the major business program contributors to this growth are: reactor outage services by \$2,095,000, operations and maintenance services by \$1,570,000, and environmental services by \$291,000.

Net Revenues for the Fiscal Year 2003 showed a \$683,000 loss as compared to approximately a \$1,740,000 loss in Fiscal Year 2002.

Two of Energy Northwest's Research and Investigation business projects, Zintel Canyon Wind Project and Wind Mining, accounted for \$366,000 in expenditures with no revenues. Energy Northwest was created to enable Washington public power utilities and municipalities to build and operate generation projects. With the growing interest in renewable energy sources, Energy Northwest is seeking to meet some of this demand with new wind generation projects. The Board of Directors approved an expansion of the Nine Canyon Wind Project as its next wind development site. In Fiscal Year 2003, \$161,000 was expended to begin developing the Nine Canyon Phase II project. The Business Development Fund will be reimbursed from the project, upon commercial operation, for these development costs. In Fiscal Year 2003, Energy Northwest's Nine Canyon Wind Project Phase I was completed and upon commercial operation (September 25, 2002) the development costs totaling \$693,000 were reimbursed to the Business Development Fund. In addition, the participants of the Nine Canyon Wind Project reimbursed the Business Development Fund \$209,000 for Wind Mining expenditures. This

represented 50 percent of all Wind Mining expenditures to date. These costs are for research and investigation of new potential wind sites and expenditures that cannot be directly attributable to any single wind project.

In addition to wind generation, Energy Northwest is working with Soil Search LLC, of Kennewick, Washington, to develop a full-scale biomass power demonstration unit at a dairy farm near Pasco, Washington. This unit is expected to demonstrate a newly developed bioreactor technology produced by Soil Search. This research and development effort may provide a quantum leap in methane production from dairy cow manure. In Fiscal Year 2003, approximately \$370,000 was expended on developing this project.

In Fiscal Year 2003, \$201,000 was spent on sales and marketing efforts and another additional \$1,071,000 was spent on developing the organizational infrastructure to support the growing business. Total operating revenues increased 64 percent in Fiscal Year 2003.

The Business Development Fund receives contributions from the Internal Service Fund to cover cash needs during this startup period. They are not expected to be paid back and are 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. This contract 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, as well.

STATEMENT OF OPERATIONS ANALYSIS - Non-Operating revenues were \$5,259,000 and \$1,479,000 for Fiscal Year 2002 and Fiscal Year 2003, respectively. This decrease of \$3,780,000 is due to the sale of the site in Fiscal Year 2002.

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, Duke Energy Grays Harbor, LLC (DEGH). Energy Northwest recognized a total of \$5,000,000 for the sale of the site in Fiscal Year 2002. BPA was paid \$2,137,000 due under the Hold Period and Option Development Agreements. Revenues in Fiscal Year 2003 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, has already been concluded successfully. This was 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. Energy Northwest was to become the operator of the Grays Harbor Energy Facility. Due to current market conditions, Duke Energy North America has temporarily suspended construction on the Grays Harbor Energy Facility. Energy Northwest and DENA have entered into a contract for site preservation services during this construction suspension time period. DENA 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 in the Horse Heaven Hills area southeast of Kennewick, Washington. Electricity generated by the Project is connected to the Bonneville Power Administration transmission grid via a substation and transmission lines constructed by the Benton County Public Utility District. The total project will produce enough energy capacity for approximately 20,000 average homes.

Phase I of the project consists of 37 wind turbines, each with a maximum generating capacity of approximately 1.3 megawatts of electricity, for a total wind farm capacity of 48 megawatts. 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, purchase the electricity from the Project. Each purchaser of Phase I has signed a 22-year power purchase agreement with Energy Northwest.

Phase II of the Project will consist of an additional 12 wind turbines with an aggregate generating capacity of approximately 15.6 megawatts. As were the Phase I turbines, the Phase II turbines will be manufactured by BONUS Energy A/S, and installed by Renewable Energy Systems (USA), Inc. The engineer-procure-construct contract (EPC Contract) became effective as of May 2003. The first two units of Phase II were in operation by September 30, 2003. Phase II will commence full operation by December 31, 2003. Each purchaser of Phase II has signed a 20-year power purchase agreement with Energy Northwest.

BALANCE SHEET ANALYSIS - Long-term debt in the form of bonds was sold in the amount of \$70,675,000 to finance Phase I and \$21,720,000 for Phase II of the Project. Construction for Phase I has been completed and the Project was declared commercially operational on September 25, 2002. Construction work in progress for Phase II totaled \$3,965,000 for Fiscal Year 2003.

STATEMENT OF OPERATIONS ANALYSIS - Operating Revenues in Fiscal Year 2003 totaled \$3,464,000. The project received revenue from the billing of the project purchasers at a rate of \$35.00 per MWh. Other contribution of funds include \$230,000 from the Renewable Energy Production Incentive (REPI). REPI was created as part of the Energy Policy Act of 1992 to promote increases in the generation and utilization of electricity from renewable energy sources and to further the advances of renewable energy technologies. This program, authorized under section 1212 of the Energy Policy Act of 1992, provides financial incentive payments for electricity produced and sold by new qualifying renewable energy generation facilities.

Operating Costs are expended for debt service and for operational and maintenance items. The agreement with project purchasers anticipates a loss in Fiscal Year 2004 with additional cash needs being paid from existing project reserve funds. The reserve funds were established so that participant payments could start at \$35.00 per MWh and increase at 3 percent per year over 22 years. The payment stream and the REPI receipts are projected to cover the total costs over the entire time frame.

INTERNAL SERVICE FUND

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

BALANCE SHEET ANALYSIS

Restricted investments and cash and available for sale securities decreased \$24.194 million from \$27.103 million in Fiscal Year 2002 to \$2.909 million in Fiscal Year 2003, due to the release of the majority of the Unclaimed Bond Fund and associated liability to Bonneville Power Administration (BPA). The majority of variance, \$22.8 million is due to the disbursement of funds as per terms of the settlement and Indemnification Agreement between BPA and Energy Northwest (BPA Contract No. 03PB-11322).

STATEMENT OF OPERATIONS ANALYSIS

Net Revenues for Fiscal Year 2003 were \$434,000 versus \$5,810,000 for Fiscal Year 2002. The main contributor to this variance of \$5,376,000 is the suspension of the Performance Fee award program by BPA in 2003.

BALANCE SHEETS

As of June 30, 2003 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 1 *	NUCLEAR PROJECT NO. 1 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2003 COMBINED TOTAL
ASSETS										
UTILITY PLANT (NOTE B)										
In service	\$3,483,638	\$ 12,991	\$ -	\$ -	\$ 823	\$ -	\$ 48,478	\$3,545,930	\$ 43,837	\$3,589,767
Accumulated depreciation	(1,874,957)	(12,083)	-	-	(214)	-	(1,630)	(1,888,884)	(29,124)	(1,918,008)
	1,608,681	908	-	-	609	-	46,848	1,657,046	14,713	1,671,759
Nuclear fuel, net of accumulated amortization	121,275							121,275		121,275
Construction work in progress	13,987						3,965	17,952		17,952
	1,743,943	908	-	-	609	-	50,813	1,796,273	14,713	1,810,986
RESTRICTED ASSETS (NOTE B)										
Special funds										
Cash	10		21	3			23	57	1,599	1,656
Available-for-sale investments	31,541	284	19,917	13,407			18,083	83,232	1,310	84,542
Accounts and other receivables			4,178				17	4,195		4,195
Prepayments and other			25					25	274	299
Due from other business units			2,129					2,129		
Debt service funds										
Cash	57,877	2	32,987	27,324			6,053	124,243		124,243
Available-for-sale investments	4,900	743	17,602	23,498			1,325	48,068		48,068
Due from other funds	4,099		4,324	211				8,634		
Other receivables			10					10		10
	98,427	1,029	81,193	64,443	-	-	25,501	270,593	3,183	263,013
LONG-TERM RECEIVABLES (NOTE B)										
	6,591							6,591		6,591
CURRENT ASSETS										
Cash	1,915	4	544	239		5	3	2,710		2,710
Available-for-sale investments	1,658	1,770	16,085	5,761	895	2,209	5,734	34,112	24,604	58,716
Accounts and other receivables	989	374	8		978	561	238	3,148	123	3,271
Due from Participants	841		12	9				862		862
Due from other business units	226		708	2,095	1,542	44	342	4,957	8,813	
Due from other funds	12,750	7	3,072	9,381			90	25,300		
Materials and supplies	70,739							70,739		70,739
Prepayments and other	628	67			51			746	166	912
Nuclear fuel held for sale			4,345					4,345		4,345
Plant & equipment held for sale			1,409					1,409		1,409
	89,746	2,222	26,183	17,485	3,466	2,819	6,407	148,328	33,706	142,964
DEFERRED CHARGES										
Costs in excess of billings	325,818	2,097	1,921,575	1,701,508				3,950,998		3,950,998
Unamortized debt expense	15,271	2	16,531	13,194			4,286	49,284		49,284
Other deferred charges	1						5,110	5,111		5,111
	341,090	2,099	1,938,106	1,714,702	-	-	9,396	4,005,393	-	4,005,393
TOTAL ASSETS	\$2,279,797	\$ 6,258	\$2,045,482	\$1,796,630	\$ 4,075	\$ 2,819	\$ 92,117	\$6,227,178	\$ 51,602	\$6,228,947

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

BALANCE SHEETS (continued)
As of June 30, 2003 (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	2003 COMBINED TOTAL
FUND EQUITY AND LIABILITIES										
FUND EQUITY (DEFICIT)	\$ -	\$ -	\$ -	\$ -	\$ 2,776	\$ 1,848	\$ (2,261)	\$ 2,363	\$ 4,121	\$ 6,484
LONG-TERM DEBT (NOTE E)										
Revenue bonds payable	2,019,765	3,939	1,980,615	1,938,515			92,395	6,035,229		6,035,229
Unamortized discount on bonds - net	32,054	(8)	50,054	(142,111)			730	(59,281)		(59,281)
Unamortized gain/(loss) on bond refundings	(49,023)	33	(74,468)	(34,842)				(158,300)		(158,300)
	<u>2,002,796</u>	<u>3,964</u>	<u>1,956,201</u>	<u>1,761,562</u>	<u>-</u>	<u>-</u>	<u>93,125</u>	<u>5,817,648</u>	<u>-</u>	<u>5,817,648</u>
LIABILITIES - PAYABLE FROM RESTRICTED ASSETS (NOTE B)										
Special funds										
Accounts payable and accrued expenses	48,265		36,970				467	85,702	2,295	87,997
Due to other funds	16,849	4	7,395	9,592			90	33,930		
Other deferred credits					185			185		185
Debt service funds										
Accrued interest payable	16,451	53	42,875	23,396			147	82,922		82,922
Due to other funds		3						3		
	<u>81,565</u>	<u>60</u>	<u>87,240</u>	<u>32,988</u>	<u>185</u>	<u>-</u>	<u>704</u>	<u>202,742</u>	<u>2,295</u>	<u>171,104</u>
OTHER NONCURRENT LIABILITIES	30,701							30,701		30,701
CURRENT LIABILITIES										
Cash Overdrafts					2			2	537	539
Current maturities of long-term debt	129,030	377						129,407		129,407
Accounts payable and accrued expenses	19,746	57		368	886	17	436	21,510	41,314	62,824
Due to Participants	4,125	1,330	2,032	804				8,291		8,291
Due to other business units	11,834	470	9	908	226	127	113	13,687	2,213	
	<u>164,735</u>	<u>2,234</u>	<u>2,041</u>	<u>2,080</u>	<u>1,114</u>	<u>144</u>	<u>549</u>	<u>172,897</u>	<u>44,064</u>	<u>201,061</u>
DEFERRED CREDITS										
Advances from Members and others						827		827	1	828
Other deferred credits									1,121	1,121
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>827</u>	<u>-</u>	<u>827</u>	<u>1,122</u>	<u>1,949</u>
TOTAL LIABILITIES	<u>2,279,797</u>	<u>6,258</u>	<u>2,045,482</u>	<u>1,796,630</u>	<u>1,299</u>	<u>971</u>	<u>94,378</u>	<u>6,224,815</u>	<u>47,481</u>	<u>6,222,463</u>
TOTAL FUND EQUITY (DEFICIT) AND LIABILITIES	<u>\$2,279,797</u>	<u>\$ 6,258</u>	<u>\$2,045,482</u>	<u>\$1,796,630</u>	<u>\$ 4,075</u>	<u>\$ 2,819</u>	<u>\$ 92,117</u>	<u>\$6,227,178</u>	<u>\$ 51,602</u>	<u>\$6,228,947</u>

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

STATEMENTS OF OPERATIONS AND FUND EQUITY

For the year ended June 30, 2003 (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	2003 COMBINED TOTAL
OPERATING REVENUES	\$ 439,947	\$ 1,596	\$ -	\$ -	\$ 11,163	\$ -	\$ 3,464	\$ 456,170	\$ 68,491	\$ 456,604
OPERATING EXPENSES										
Services to other business units									66,552	
Nuclear fuel	27,061							27,061		27,061
Spent fuel disposal fee	7,253							7,253		7,253
Decommissioning	26,505							26,505		26,505
Depreciation and amortization	79,528	365			158		1,834	81,885	1,533	81,885
Operations and maintenance	159,312	922					1,068	161,302		161,302
Administrative & general	26,901	164					33	27,098		27,098
Generation tax	2,237	19					22	2,278		2,278
New business initiatives					11,276			11,276		11,276
Total operating expenses	328,797	1,470	-	-	11,434	-	2,957	344,658	68,085	344,658
NET OPERATING REVENUES (EXPENSES)	111,150	126			(271)		507	111,512	406	111,946
OTHER INCOME & EXPENSE										
Non-operating revenues			138,301	95,718		1,479		235,498		235,498
Investment income	6,751	44	2,566	3,636	36	19	269	13,321	61	13,321
Gain/(loss) on current bond redemption		4						4		4
Interest expense and discount amortization	(119,666)	(174)	(111,279)	(96,223)			(3,154)	(330,496)		(330,496)
Plant preservation and termination costs			(4,817)	(3,131)				(7,948)		(7,948)
Depreciation and amortization			(26)			(19)		(45)		(45)
Revaluation of Site Restoration**			(24,984)					(24,984)		(24,984)
Other	1,765		239		(448)	(1,247)			(33)	309
NET REVENUES (EXPENSES)	-	-	-	-	(683)	232	(2,378)	(2,829)	434	(2,395)
Distribution & Contributions	-	-	-	-	2,048	-	230	2,278	(1,436)	842
Beginning Fund Equity (DEFICIT)	-	-	-	-	1,411	1,616	(113)	2,914	5,123	8,037
ENDING FUND EQUITY (DEFICIT)	\$ -	\$ -	\$ -	\$ -	\$ 2,776	\$ 1,848	\$ (2,261)	\$ 2,363	\$ 4,121	\$ 6,484

* Project recorded on a liquidation basis

**See Note G (SFAS 143)

See notes to financial statements

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2003 (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	2003 COMBINED TOTAL
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES									
Operating revenue receipts	\$ 247,421	\$ 3,498	\$ -	\$ -	\$ 5,231	\$ -	\$ 3,445	\$ -	\$ 259,595
Cash payments for operating expenses	(192,106)	(1,599)					(1,086)		(194,791)
Non-operating revenue receipts			76,785	72,908		1,784		(21,352)	130,125
Cash payments for preservation, termination expense			(54,453)	(42,114)					(96,567)
Cash payments for new business					(4,580)				(4,580)
Net cash provided (used) by operating and other activities	55,315	1,899	22,332	30,794	651	1,784	2,359	(21,352)	93,782
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Proceeds from bond refundings	224,442		487,956	591,604			22,448		1,326,450
Refunded bond escrow requirement	(179,350)		(489,845)	(592,889)					(1,262,084)
Payment for bond issuance and financing costs	(2,380)		(4,149)	(5,137)			(898)		(12,564)
Capital and nuclear fuel acquisitions	(55,264)								(55,264)
Interest paid on revenue bonds	(82,457)	(177)	(151,537)	(152,240)			(3,940)		(390,351)
Principal paid on revenue bond maturities	(21,310)	(532)	(86,116)	(5,870)					(113,828)
Interest paid on Notes	(1,613)		(241)	(418)					(2,272)
Notes Payable	(34,518)								(34,518)
Construction Work in Progress							(18,008)		(18,008)
Net cash provided (used) by capital and related financing activities	(152,450)	(709)	(243,932)	(164,950)	-	-	(398)	-	(562,439)
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchases of investment securities	(1,323,070)	(10,384)	(899,670)	(624,780)	(21,867)	(13,304)	(84,712)	(256,212)	(3,233,999)
Sales of investment securities	1,448,204	9,147	1,130,580	764,522	21,146	11,504	88,356	246,602	3,720,061
Interest on investments	6,275	41	15,773	6,084	36	20	472	1,203	29,904
Receipts from sales of plant assets			6						6
Net cash provided (used) by investing activities	131,409	(1,196)	246,689	145,826	(685)	(1,780)	4,116	(8,407)	515,972
NET INCREASE (DECREASE) IN CASH	34,274	(6)	25,089	11,670	(34)	4	6,077	(29,759)	47,315
CASH AT JUNE 30, 2002	25,528	12	8,463	15,896	32	1	2	30,821**	80,755
CASH AT JUNE 30, 2003 (NOTE B)	\$ 59,802	\$ 6	\$ 33,552	\$ 27,566	\$ (2)	\$ 5	\$ 6,079	\$ 1,062	\$ 128,070

* Project recorded on a liquidation basis

** Reclassification of short term investments in FY02

See notes to financial statements

STATEMENTS OF CASH FLOWS (continued)
For the year ended June 30, 2003 (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	2003 COMBINED TOTAL
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES									
Net operating revenues	\$ 111,150	\$ 126	\$ -	\$ -	\$ (271)	\$ -	\$ 507	\$ -	\$ 111,512
Adjustments to reconcile net operating revenues to cash provided by operating activities:									
Cost/cash incurred in excess of cash/cost	(199,001)	(361)							(199,362)
Depreciation and amortization	105,474	362			48		1,800		107,684
Decommissioning	26,505						26		26,531
Other	(723)				(448)				(1,171)
Change in operating assets and liabilities:									
Accounts receivable	4,105	281			(524)		(8)		3,854
Materials and supplies	1,807								1,807
Prepaid and other assets	(369)	(67)			(42)				(478)
Due from/to other business units, funds and Participants	(1,409)	1,564			(1,001)		(2)		(848)
Accounts payable	7,776	(6)			2,889		36		10,695
Non-operating revenue receipts			76,785	72,908		595			150,288
Cash payments for preservation, termination expense			(54,453)	(42,114)					(96,567)
Cash payments for services						1,189		(21,352)	(20,163)
Cash payments for new business									
Net cash provided (used) by operating and other activities	\$ 55,315	\$ 1,899	\$ 22,332	\$ 30,794	\$ 651	\$ 1,784	\$ 2,359	\$ (21,352)	\$ 93,782

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

OUTSTANDING LONG-TERM DEBT

As of June 30, 2003 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS			
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	5.90-6.10	7-1-2004/2006	12,415
	6.30	7-1-2012	50,000
			<u>62,415</u>
1993A	5.50-5.80	7-1-2004/2008	65,350
			<u>65,350</u>
1993B	5.40-5.65	7-1-2005/2008	54,725
			<u>54,725</u>
1994A	4.80-6.00	7-1-2004/2011	495,695
	(C)	7-1-2009	4,776
	5.40	7-1-2012	100,200
			<u>600,671</u>
1996A	5.50-6.00	7-1-2004/2012	195,385
			<u>195,385</u>
1997A	5.10-5.20	7-1-2010/2012	50,355
			<u>50,355</u>
1997B	5.00-5.50	7-1-2004/2011	30,000
			<u>30,000</u>
1998A	5.00-5.75	7-1-2004/2012	181,285
			<u>181,285</u>
2001A	5.00-5.50	7-1-2013/2017	186,600
			<u>186,600</u>
2001B	5.50	7-1-2018	48,000
			<u>48,000</u>
2002A	5.20-5.75	7-1-2017/2018	157,260
			<u>157,260</u>
2002B	5.35-6.00	7-1-2018	123,815
			<u>123,815</u>
2003A	5.50	7-1-2010/2015	154,490
			<u>154,490</u>
2003B	4.15	7-1-2009	4,530
			<u>4,530</u>
2003F	5.00-5.25	7-1-2007/2018	41,330
			<u>41,330</u>
1997-2A-1	Average Variable 1.2%		51,195
			<u>51,195</u>
1997-2A-2	Average Variable 1.2%		51,190
			<u>51,190</u>
<i>Compound interest bonds accretion</i>			<u>59,763</u>
<i>Revenue bonds payable</i>			<u>2,148,795</u> (B)
<i>Estimated fair value at June 30, 2003</i>			<u>\$2,384,394</u> (D)

(A) Includes amounts due July 1, 2003.

(B) Excludes amounts due July 1, 2003, which were paid as of June 30, 2003.

(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 that will have a rate of 5.50 through 7/1/2009, and a variable rate thereafter until 7/1/2018.

OUTSTANDING LONG-TERM DEBT (continued)
As of June 30, 2003 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
PACKWOOD LAKE PROJECT REVENUE BONDS			
1962	3.625%	3-1-2012	\$ <u>3,191</u> <u>3,191</u>
1965	3.75	3-1-2012	<u>1,125</u> <u>1,125</u>
<i>Revenue bonds payable</i>			\$ <u>4,316</u> (B)
<i>Estimated fair value at June 30, 2003</i>			\$ <u>4,533</u> (D)
NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS			
1989B	7.125	7-1-2016	\$ <u>41,070</u> <u>41,070</u>
1990B	7.25	7-1-2009	<u>3,590</u> <u>3,590</u>
1992A	5.90-6.10	7-1-2004/2006	<u>1,360</u> <u>1,360</u>
1993A	5.30-7.00	7-1-2004/2009	<u>51,330</u> <u>51,330</u>
1993B	5.10-7.00	7-1-2004/2009	<u>37,890</u> <u>37,890</u>
1993C	4.90-5.20	7-1-2004/2008	<u>9,015</u> <u>9,015</u>
1996A	5.50-6.00	7-1-2004/2012	<u>337,790</u> <u>337,790</u>
1996B	5.10-7.00	7-1-2004/2005	<u>19,950</u> <u>19,950</u>
1996C	5.00-6.00 5.50	7-1-2004/2015 7-1-2017	71,690 <u>24,860</u> <u>96,550</u>
1997A	6.00	7-1-2006/2008	<u>20,400</u> <u>20,400</u>
1997B	5.00-5.125	7-1-2004/2017	<u>244,375</u> <u>244,375</u>
1998A	5.00-5.75	7-1-2004/2017	<u>85,290</u> <u>85,290</u>
2001A	4.125-5.50	7-1-2004/2013	<u>82,760</u> <u>82,760</u>
2001B	5.50	7-1-2017	<u>23,600</u> <u>23,600</u> (E)

(A) Includes amounts due July 1, 2003.

(B) Excludes amounts due July 1, 2003, which were paid as of June 30, 2003.

(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 that will have a rate of 5.50 through 7/1/2009 and a variable rate thereafter until 7/1/2018.

OUTSTANDING LONG-TERM DEBT *(continued)*
As of June 30, 2003 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS (Continued)			
2002A	5.5-5.75	7-1-2013/2017	<u>\$ 248,485</u> <u>248,485</u>
2002B	6.00	7-1-2017	<u>101,950</u> <u>101,950</u>
2003A	5.50	7-1-2013/2017	<u>241,455</u> <u>241,455</u>
2003B	4.06	7-1-2009	<u>18,210</u> <u>18,210</u>
1993-1A-1	Average Variable 1.1%		<u>49,430</u> <u>49,430</u>
1993-1A-2	Average Variable 1.1%		<u>49,430</u> <u>49,430</u>
1993-1A-3	Average Variable 1.1%		<u>16,200</u> <u>16,200</u>
2003C	Average Variable 1.1%		<u>200,485</u> <u>200,485</u>
<i>Revenue bonds payable</i>			<u>\$1,980,615</u> (A)
<i>Estimated fair value at June 30, 2003</i>			<u>\$2,222,053</u> (D)

(A) Includes amounts due July 1, 2003.

(B) Excludes amounts due July 1, 2003, which were paid as of June 30, 2003.

(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 that will have a rate of 5.50 through 7/1/2008 and a variable rate thereafter until 7/1/2017.

OUTSTANDING LONG-TERM DEBT (continued)
As of June 30, 2003 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS			
1989A	(C)	7-1-2004/2014	\$ <u>17,107</u> <u>17,107</u>
1989B	(C) 7.125	7-1-2004/2014 7-1-2016	<u>70,580</u> <u>76,145</u> <u>146,725</u>
1990B	(C)	7-1-2004/2010	<u>23,636</u> <u>23,636</u>
1993B	5.10-7.00	7-1-2004/2009	<u>63,090</u> <u>63,090</u>
1993C	4.90-7.50 (C)	7-1-2004/2008 7-1-2013/2018	<u>80,720</u> <u>23,963</u> <u>104,683</u>
1996A	5.50-6.00	7-1-2004/2009	<u>30,735</u> <u>30,735</u>
1997A	5.00-6.00	7-1-2004/2018	<u>107,695</u> <u>107,695</u>
1998A	5.00 5.125	7-1-2004/2005 7-1-2018	<u>16,675</u> <u>53,825</u> <u>70,500</u>
2001A	5.00-5.50	7-1-2004/2018	<u>170,010</u> <u>170,010</u>
2001B	5.00-5.50	7-1-2018	<u>25,675</u> (E) <u>25,675</u>
2002B	6.00	7-1-2016	<u>75,360</u> <u>75,360</u>
2003A	5.50	7-1-2011/2017	<u>241,915</u> <u>241,915</u>
2002B	4.15	7-1-2009	<u>21,575</u> <u>21,575</u>
1993-3A-3	Average Variable 1.2%		<u>22,255</u> <u>22,255</u>
1998-3A	Average Variable 1.2%		<u>144,330</u> <u>144,330</u>
2003D	Average Variable 1.2%		<u>201,065</u> <u>201,065</u>
2003E	Average Variable 1.2%		<u>98,025</u> <u>98,025</u>
<i>Compound interest bonds accretion</i>			<u>374,134</u>
<i>Revenue bonds payable</i>			\$1,938,515 (A)
<i>Estimated fair value at June 30, 2003</i>			<u>\$1,989,747</u> (D)

(A) Includes amounts due July 1, 2003.

(B) Excludes amounts due July 1, 2003, which were paid as of June 30, 2003.

(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 that will have a rate of 5.50 through 7/1/2009 and a variable rate thereafter until 7/1/2018.

OUTSTANDING LONG-TERM DEBT (continued)
As of June 30, 2003 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
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	7-1-2017	20,265
			<u>20,265</u>
2003	3.00-5.00	7-1-2005/2023	21,720
			<u>21,720</u>
<i>Revenue bonds payable</i>			\$ 92,395 (B)
<i>Estimated fair value at June 30, 2003</i>			\$ 104,319 (D)

(A) Includes amounts due July 1, 2003.

(B) Excludes amounts due July 1, 2003, which were paid as of June 30, 2003

(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 that will have a rate of 5.50 through 7/1/2009 and a variable rate thereafter until 7/1/2018.

DEBT SERVICE REQUIREMENTS

As of June 30, 2003 (Dollars in Thousands)

COLUMBIA GENERATING STATION

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2003 Balance*:	\$ -	\$ 16,451	\$ 16,451
2004	123,424	121,823	245,247
2005	101,885	127,770	229,655
2006	94,046	111,783	205,829
2007	151,996	101,243	253,239
2008	146,665	86,448	233,113
2009-2013	887,621	303,787	1,191,408
2014-2018	583,395	125,574	708,969
Adjustment **	59,763	(59,763)	-
	<u>\$ 2,148,795</u>	<u>\$ 935,116</u>	<u>\$ 3,083,911</u>

* Principal and interest due July 1, 2003.

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

PACKWOOD LAKE HYDROELECTRIC PROJECT

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2003 Balance*:	\$ 188	\$ 53	\$ 241
2004	574	151	725
2005	598	130	728
2006	624	108	732
2007	648	85	733
2008	673	63	736
2009-2012	1,011	59	1,070
	<u>\$ 4,316</u>	<u>\$ 649</u>	<u>\$ 4,965</u>

* Principal and interest due July 1, 2003.

DEBT SERVICE REQUIREMENTS (Continued)
As of June 30, 2003 (Dollars in Thousands)

NUCLEAR PROJECT NO. 1

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2003 Balance:*	\$ -	\$ 42,875	\$ 42,875
2004	66,910	103,785	170,695
2005	56,510	100,144	156,654
2006	77,890	97,030	174,920
2007	64,575	92,625	157,200
2008	79,000	88,954	167,954
2009-2013	540,290	374,678	914,968
2014-2017 2018	1,095,440	156,704	1,252,144
	\$ 1,980,615	\$1,056,795	\$ 3,037,410

* Principal and interest due July 1, 2003.

NUCLEAR PROJECT NO. 3

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2003 Balance:*	\$ -	\$ 23,396	\$ 23,396
2004	62,906	96,156	159,062
2005	64,471	94,872	159,343
2006	65,392	93,377	158,769
2007	60,176	93,845	154,021
2008	63,330	90,853	154,183
2009-2013	352,241	411,430	763,671
2014-2018	895,865	236,003	1,131,868
Adjustment **	374,134	(374,134)	
	\$ 1,938,515	\$ 765,798	\$ 2,704,313

* Principal and interest due July 1, 2003.

** 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, 2003 (Dollars in Thousands)

NINE CANYON WIND PROJECT

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2003 Balance:*	\$ -	\$ 147	\$ 147
2004	2,060	5,066	7,126
2005	2,915	4,835	7,750
2006	3,040	4,720	7,760
2007	3,170	4,594	7,764
2008	3,315	4,457	7,772
2009-2013	19,280	19,689	38,969
2014-2018	25,175	13,999	39,174
2019-2023	33,440	5,994	39,434
	\$ 92,395	\$ 63,501	\$ 155,896

* Principal and interest due July 1, 2003.

Notes to Financial Statements

NOTE A – GENERAL

Organization

Energy Northwest, a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 2003, its membership consisted of 15 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, 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 Hydroelectric revenue bonds. The Packwood Participants are obligated to pay annual costs of the Project including debt service, whether or not the Project is operable, until the outstanding bonds are paid or provisions are made for bond retirement, in accordance with the requirements of the bond resolution. The Participants share project revenue as well.

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

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

All electrical energy produced by Energy Northwest net-billed Business Units is ultimately delivered to electrical distribution facilities owned and operated by 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 that have entered into net-billing agreements with Energy Northwest and BPA for participation in one or more of Energy Northwest's Business Units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources as well as BPA's other costs (See Note E).

Energy Northwest also manages the Business Development Fund, Nine Canyon Wind Project, and Grays Harbor Energy Facility Project. 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. Phase I of the project was completed in fiscal year 2003. Phase I of the Project consists of turbines which are rated at 48 MWe. Phase II of the project has been approved and construction is expected to be complete by December 31, 2003. Phase II of the Project will consist of turbines which are rated 15.6 MWe.

The Grays Harbor Energy Facility Project was established in July 1990, to collect advances and contributions to pay the costs of investigating new generating Projects, including the feasibility of a combustion turbine near Satsop, Washington. The 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 option to purchase up to

50 MW of power generated by the facility. Due to current market conditions, Duke Energy North America has temporarily suspended construction of the combustion turbine plant.

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

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 including those paid to Energy Northwest for achieving performance goals related to the operation of the Projects. Certain assets in the Internal Service Fund are also owned by the Fund and operated for the benefit of other Projects. Depreciation relating to fixed assets is charged to the appropriate Business Units based upon direct labor costed to each Project.

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 FY2003 Combined Total includes eliminations for transactions between Business Units as required in Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" of the Governmental Accounting Standards Board (GASB).

Pursuant to 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 Refundings of Debt Reported by Proprietary Activities" conflict with Statement of Financial Accounting Standards (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 in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Certain incurred expenses and revenues are allocated to the Business Units based on specific allocation methods and management considers the allocation methods to be reasonable.

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

Utility Plant

Utility plant is stated at original cost. Plant in service is depreciated by the straight-line method over the estimated

useful lives of the various classes of plant, which range from five to 60 years. The Nuclear Regulatory Commission now grants license extensions. Energy Northwest plans to file and receive extensions. This practice has been acknowledged and accepted by utilities abroad. In prior years, Energy Northwest had calculations for certain long lived assets based on a 40-year useful life. As of July 1, 2002, Energy Northwest is changing the depreciation schedules to reflect a 60-year useful life. This results in a decrease in depreciation expense of approximately \$16 million in Fiscal Year 2003. In addition, the year to year depreciation expense effect is approximately \$16 million per year. The depreciation schedule will reflect this change in Fiscal Year 2003 and prospectively.

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 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, 2003, was as follows:

UTILITY PLANT ACTIVITY *(Amount in Thousands)*

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Columbia				
Generation	\$ 3,419,489	\$ 33,039	\$ -	\$ 3,452,528
Decommission	-	31,110	-	31,110
Construction Work in Progress	30,355	-	(16,368)	13,987
Accumulated Depreciation	(1,786,935)	(78,161)	-	(1,865,096)
Accumulated Amortization	-	(9,861)	-	(9,861)
Utility Plant, net	<u>\$ 1,662,909</u>	<u>\$ (23,873)</u>	<u>\$ (16,368)</u>	<u>\$ 1,622,668</u>
Nine Canyon				
Generation	\$ -	\$ 48,029	\$ -	\$ 48,029
Decommission	-	449	-	449
Construction Work in Progress	48,387	-	(44,422)	3,965
Accumulated Depreciation	-	(1,622)	-	(1,622)
Accumulated Amortization	-	(8)	-	(8)
Utility Plant, net	<u>\$ 48,387</u>	<u>\$ 46,848</u>	<u>\$ (44,422)</u>	<u>\$ 50,813</u>
Packwood				
Generation	\$ 12,855	\$ 137	\$ -	\$ 12,991
Accumulated Depreciation	(11,722)	(362)	-	(12,084)
Utility Plant, net	<u>\$ 1,133</u>	<u>\$ (225)</u>	<u>\$ -</u>	<u>\$ 908</u>
Business Development				
General	\$ 757	\$ 66	\$ -	\$ 823
Accumulated Depreciation	(166)	(48)	-	(214)
Utility Plant, net	<u>\$ 591</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ 609</u>
Internal Service Fund				
General	\$ 43,547	\$ 290	\$ -	\$ 43,837
Accumulated Depreciation	(27,591)	(1,533)	-	(29,124)
Utility Plant, net	<u>\$ 15,956</u>	<u>\$ (1,243)</u>	<u>\$ -</u>	<u>\$ 14,713</u>

Nuclear Fuel

All expenditures related to the purchase of nuclear fuel for Columbia, including interest, are capitalized and carried at cost. When the fuel is placed in the reactor, the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. Accumulated nuclear fuel amortization (the amortization of the cost of nuclear fuel assemblies in the reactor used in the production of energy and in the fuel pool for less than six months per FERC guidelines) is \$103 million as of June 30, 2003, for Columbia.

Energy Northwest has a contract with the Department of Energy (DOE) that requires the DOE to accept title and dispose of spent nuclear fuel. Although the courts have ruled that the DOE had the obligation to accept title to spent nuclear fuel by January 31, 1998, the repository is not expected to be in operation before 2010. The current period operating expense for Columbia includes a \$7.3 million charge for future spent nuclear fuel storage and disposal to be provided by the DOE in accordance with the Nuclear Waste Policy Act of 1982.

Energy Northwest has completed a Project to store the spent fuel in commercially available dry storage casks on a concrete pad at the Columbia site. Spent Fuel will be transferred from the Spent Fuel pool to the Independent Spent Fuel Storage Installation periodically to allow for future refuelings. Current period operating costs include \$23.5 million for nuclear fuel and \$3.6 million accrued dry cask storage costs. \$2.1 million of the \$3.6 million of accrued dry cask storage costs is related to an increase in the estimate of dry cask storage costs. The remaining \$1.5 million is directly related to amortization.

Restricted Assets

In accordance with Project bond resolutions, related agreements or state law, separate restricted funds have been established for each Business Unit. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operations 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.

Asset Retirement Obligation, SFAS 143

Energy Northwest adopted the Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" (SFAS 143) on July 1, 2002. SFAS 143

requires an entity to recognize the fair value of a liability for an asset retirement obligation (ARO), such as nuclear decommissioning and site restoration liabilities, in the period in which it is incurred, rather than using a cost-accumulation approach (See Note G, Accounting Change: Accounting for Asset Retirement Obligations, for discussion regarding the impact of adopting SFAS 143).

Decommissioning and Site Restoration

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

The NRC has issued rules to provide guidance to licensees of operating nuclear plants on decommissioning the plants at the end of each plant's operating life. In September 1998, the NRC approved and published its "Final Rule on Financial Assurance Requirements for Decommissioning Power Reactors." As provided in this rule, each power reactor licensee is required to report to the NRC the status of its decommissioning funding for each reactor or share of a reactor it owns. This reporting requirement began on March 31, 1999, and reports are required every two years thereafter. Energy Northwest submitted its most recent report to the NRC in March, 2003.

Energy Northwest's current estimate of Columbia's decommissioning cost is approximately \$608 million (in 2003 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 cost is approximately \$65 million (in 2003 dollars).

Both decommissioning and site restoration estimates (in 2003 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, 2003, totaled approximately \$74.4 million and \$7.6 million, respectively. Since September 1996, these amounts have been held and managed by BPA in external trust funds in accordance with NRC requirements and site certification agreements.

Materials and Supplies

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

Financing Expense, Bond Discount and Deferred Gain and Losses

Financing expenses and bond discounts are amortized

over the terms of the respective bond issues using the bonds outstanding method.

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 \$508,102 for unclaimed bearer bonds. Columbia includes \$47.8 million for decommissioning and site restoration. Nuclear Project No. 1 includes \$25.9 million for decommissioning and site restoration. The Nine Canyon Wind Project includes \$466,989 for decommissioning and site restoration.

Current Liabilities Internal Service Fund accounts payable and accrued expenses include \$645,558 for payroll and related benefits, \$16 million for compensated absences, and \$7.2 million for outstanding warrants. Columbia includes accrued expenses of \$1.4 million for arbitrage penalty (as defined by the Internal Revenue Code). The Nine Canyon Wind Project includes \$50,000 of accrued

substation costs for Phase II and contract retainage amounts related to construction in the amount of \$175,158.

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/from Participants, funds, and other Business Units. The fair values of investments (see Note C) and revenue bonds payable (see Outstanding Long-Term Debt Schedule) have been estimated based on quoted market prices for such instruments or based on the fair value of financial instruments of a similar nature and degree of risk.

Revenues

Energy Northwest accounts for expenses on an accrual basis and recovers, through various agreements, actual cash requirements for operations and debt service for Columbia, Packwood, Nuclear Project No. 1 and Nuclear Project No. 3. For these Business Units, Energy Northwest recognizes revenues equal to expenses for each period.

No net revenue or loss is recognized, and no equity is accumulated.

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

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

Energy Northwest has accrued as income (contribution) from the Department of Energy, Renewable Energy Performance Incentive (REPI) that enables Nine Canyon Wind Project to receive revenue based on generation as it applies to the REPI bill. Fiscal Year 2003 resulted in an approximate amount of income of \$230,000. The REPI was created as part of the Energy Policy Act of 1992 to promote increases in the generation and utilization of electricity from renewable energy sources and to further the advances of renewable energy technologies. This program, authorized under section 1212 of the Energy Policy Act of 1992, provides financial incentive payments for electricity produced and sold by new qualifying renewable energy generation facilities. Income amounts were recorded upon Energy Northwest's application for participation in the REPI program, and are based on the qualifying generation data submitted to the Department of Energy.

Concentration of Credit Risk

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

Statements of Cash Flows

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

NOTE C – CASH AND INVESTMENTS

Cash and investments for each Business Unit are separately maintained. Energy Northwest's deposits are insured by

federal depository insurance or through the Washington Public Deposit Protection Commission. Energy Northwest resolutions and investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association and Federal Home Loan Banks. All investments are held for the benefit of the individual Energy Northwest Business Units by safekeeping agents, custodians, or trustees.

Investments are classified as available-for-sale and are stated at fair value with unrealized gains and losses reported in investment income. Available-for-sale investments at June 30, 2003, are categorized below to give an indication of the types and amounts as well as maturities of investments held by each Business Unit at year-end (See tables following).

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

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Columbia				
U.S. Government Agencies	\$ 38,099	\$ -	\$ -	\$ 38,099
Total	<u>\$ 38,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,099</u>
Packwood				
U.S. Government Securities	\$ 2,796	\$ 1	\$ -	\$ 2,797
Total	<u>\$ 2,796</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 2,797</u>
Nuclear Project No. 1				
U.S. Government Securities	\$ 255	\$ -	\$ -	\$ 255
U.S. Government Agencies	53,349	\$ -	\$ -	53,349
Total	<u>\$ 53,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,604</u>
Nuclear Project No. 3				
U.S. Government Agencies	\$ 42,666	\$ -	\$ -	\$ 42,666
Total	<u>\$ 42,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,666</u>
Business Development Fund				
U.S. Government Agencies	\$ 895	\$ -	\$ -	\$ 895
Total	<u>\$ 895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 895</u>
CT Project				
U.S. Government Agencies	\$ 2,209	\$ -	\$ -	\$ 2,209
Total	<u>\$ 2,209</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,209</u>
Internal Service Fund				
U.S. Government Agencies	\$ 25,914	\$ 3	\$ -	\$ 25,914
Total	<u>\$ 25,914</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 25,914</u>
Nine Canyon Wind				
U.S. Government Securities	\$ 756	\$ 19	\$ -	\$ 775
U.S. Government Agencies	24,337	30	\$ -	24,367
Total	<u>\$ 25,093</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ 25,142</u>

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

	<u>< 1 year</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>> 10 years</u>	<u>Total</u>
Columbia					
U.S. Government Agencies	\$ 38,099	\$ -	\$ -	\$ -	\$ 38,099
Total	<u>\$ 38,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,099</u>
Packwood					
U.S. Government Securities	\$ 2,797	\$ -	\$ -	\$ -	\$ 2,797
Total	<u>\$ 2,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,797</u>
Nuclear Project No. 1					
U.S. Government Securities	\$ 255	\$ -	\$ -	\$ -	\$ 255
U.S. Government Agencies	53,349	\$ -	\$ -	\$ -	53,349
Total	<u>\$ 53,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,604</u>
Nuclear Project No. 3					
U.S. Government Agencies	\$ 42,666	\$ -	\$ -	\$ -	\$ 42,666
Total	<u>42,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,666</u>
Business Development Fund					
U.S. Government Agencies	\$ 895	\$ -	\$ -	\$ -	\$ 895
Total	<u>\$ 895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 895</u>
CT Project					
U.S. Government Agencies	\$ 2,209	\$ -	\$ -	\$ -	\$ 2,209
Total	<u>\$ 2,209</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,209</u>
Internal Service Fund					
U.S. Government Securities	\$ 25,914	\$ -	\$ -	\$ -	\$ 25,914
Total	<u>\$ 25,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,914</u>
Nine Canyon Wind					
U.S. Government Securities	\$ 775	\$ -	\$ -	\$ -	\$ 775
U.S. Government Agencies	24,367	\$ -	\$ -	\$ -	24,367
Total	<u>\$ 25,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,142</u>

NOTE D – RETIREMENT BENEFITS

Substantially all Energy Northwest full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer, public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Administrative Services Division, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers.

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

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 three plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2, unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in Plan 1 and Plan 2 are vested after completion of five years of eligible service. PERS Plan 3 participants are vested immediately.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee rates, and Plan 3 employer contribution 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 and employer rate for Plan 3 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 for the defined benefit

plan expressed as a percentage of current year covered payroll, as of June 30, 2003, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.32%	1.32%	1.32%**
Employee	6.00%	0.65%	***

* The employer rates include the employer administrative expense fee currently set at 0.22%

** Plan 3 defined benefits portion only.

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

Both Energy Northwest and the employees make the required contributions.

Energy Northwest's required contributions for three years ended June 30, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2003	\$108,239	\$1,077,106	\$95,821
2002	\$147,307	\$1,238,861	N/A
2001	\$410,640	\$ 3,100,152	N/A

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, Plan 2, and Plan 3. One hundred twenty-five 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 with a maximum limit of \$10,000. Employees who retired prior to January 1, 1995, contribute \$.58 per \$1,000 of coverage while Energy Northwest pays the remainder. Premiums are paid to the insurer on a current period basis.

401(k) and 457 Plan Deferred Compensation Plan

Energy Northwest provides a 401(k) Deferred Compensation Plan (the 401(k) Plan), and a 457 Deferred Compensation Plan. Both Plans are defined contribution plans that were established to provide a means for investing savings by employees for retirement purposes. All permanent, full-time employees are eligible to enroll in the Plans. Each participant may elect to contribute pre-tax annual compensation, subject to current Internal Revenue Service limitations. For the 401(k) Plan, Energy Northwest matches 50 percent of the portion of the participant's salary deferral amount, which does not exceed 5 percent of the participant's 401(k) eligible earnings for the 401(k) Plan year. Participants direct the investment of their contributions. Participants are immediately vested in their contributions plus actual earnings thereon. During FY 2003, Energy Northwest contributed \$1,887,237 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, 2003, Energy Northwest issued, for Nuclear Projects 1, 3, and Columbia, the Series 2003-A Bonds, Series 2003-B Bonds, Series 2003-C Bonds, the Series 2003-D Bonds, the Series 2003-E Bonds, and Series 2003-F Bonds. The Series 2003-A Bonds, issued for Nuclear Project No.1, Nuclear Project No. 3, and Columbia are fixed rate bonds with an average coupon interest rate of 5.5 percent. The Series 2003-A Bond Proceeds of \$714.1 million refunded \$714.1 million of outstanding bonds having an average coupon interest rate of 5.59 percent. This transaction resulted in a net loss for accounting purposes of \$757,092 for Nuclear Project 1, a net gain of \$1,866,695 for Nuclear Project 3, and a net gain of \$888,458 for Columbia. According to GASB 7 "Advance Refundings Resulting in Defeasance of Debt," the amortization of the gain and losses on the refundings are calculated based on the shorter of the life of the new debt compared to old debt.

The Series 2003-B Bonds, issued for Nuclear Project No.1, Nuclear Project No. 3, and Columbia, in the aggregate amount of \$44.3 million, are taxable fixed rate bonds with an average coupon interest rate of 4.10 percent. The 2003-B Bond Proceeds of \$44.3 million were used to refund \$32.7 million of outstanding bonds, as well as for the payment of the Cost of Issuance, Underwriter's Discount, and Bond Insurance for all 2003 bonds. This transaction resulted in a net loss for nuclear project No. 1; Nuclear Project No. 2, and Columbia Generating Station of \$17,881,186, \$20,840,140 and \$4,501,741 respectively.

The Series 2003-C Bonds, issued for Nuclear Project No. 1, in an aggregate amount of \$200.5 million, are auction rate Bonds with 7-day and 35-day auction periods. This transaction resulted in a net gain to Nuclear Project No. 3 of \$663,028.

The Series 2003-D Bonds, issued for Nuclear Project No. 3, in an aggregate amount of \$201.1 million, are variable rate demand Bonds with weekly reset periods. This transaction resulted in a net gain to Nuclear Project No. 3 of \$1,186,237.

The Series 2003-E Bonds, issued for Nuclear Project No. 3, in an aggregate amount of \$98.0 million, are variable rate demand Bonds with weekly reset periods. The Series 2003-C/D/E Bonds were used to refund \$499.6 million of outstanding bonds, all of which were called for redemption on July 1, 2003. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt. This transaction resulted in a net loss to Nuclear Project No. 3 of \$203,228.

The Series 2003-F Bonds, issued for Columbia, in an aggregate amount of \$41.3 million, are fixed rate bonds with an average coupon interest rate of 5.08 percent. The Series 2003-F Bonds were issued for the purpose of refunding certain short-term indebtedness, to pay costs of other capital improvements at Columbia, and to pay costs relating to the issuance of the Series 2003-F Bonds.

In prior fiscal years, Energy Northwest also defeased certain revenue bonds by placing the net proceeds from the refunding bonds in irrevocable trusts to provide for all required future debt service payments on the refunded

bonds until their dates of redemption. Accordingly, the trust account assets and liability for the defeased bonds are not included in the financial statements in accordance with GASB Nos. 7 and 23. Including the Fiscal Year 2003 defeasements, approximately \$771,210 million, \$610,200 million, and \$523,740 million of defeased bonds were not called or had not matured at June 30, 2003, for Nuclear Projects No.'s 1, 3, and Columbia, respectively.

During the Fiscal Year ended June 30, 2003, Energy Northwest also issued, for the Nine Canyon Wind Project, the Series 2003 Wind Project Revenue Bonds. The Series 2003 Bonds, in aggregate principal amount of \$21.7 million, are fixed rate bonds with an average coupon interest rate of 4.51 percent. The Series 2003 Bonds were issued to finance the costs of acquiring, constructing and installing Phase II of the Project which consists of an additional 12 wind turbines.

Outstanding revenue bonds for the various Business Units as of June 30, 2003, and future debt service requirements for these bonds are presented at the end of the Financial Section of this report.

The refinancings entered into during the year have resulted in fixed rate debt being defeased by variable rate debt. This has exposed a portion of our outstanding debt to movements in interest rates. Our objective in managing this interest rate exposure is to limit the impact of interest rate changes on earnings and cash flows, and to reduce overall borrowing costs. To achieve these objectives, we maintain a mix of medium and long-term fixed rate debt.

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 total annual costs of the respective Projects, including debt service on bonds relating to each Business Unit, and BPA in turn is obligated to pay the Participants identical amounts by reducing amounts due to BPA by Participants under BPA power sales agreements. The net-billing agreements provide that Participants and BPA are obligated to make such payments whether or not the Projects are completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Projects' output.

On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. The Nuclear Projects Nos. 1 and 3 Project agreements and the net-billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations under the net-billing agreements, ended upon termination of the Projects. Energy Northwest entered into an agreement with BPA to provide for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement among Energy Northwest 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, Benton County PUD, and Franklin County PUD have signed Power Sales agreements which became effective November 4, 2002, and run through October 30, 2003. A subsequent one-year extension has been executed for the period beginning November 1, 2003, and extending through October 30, 2004. Benton and Franklin County PUD's agree to pay Energy Northwest in exchange for the total output of electric capacity and energy delivered from the Packwood Generation Project. The Packwood Participants are obligated to pay annual costs of the Project including debt service, whether or not the Project is operable, until the outstanding bonds are paid or provisions are made for bond retirement, in accordance with the requirements of the bond resolution. The Participants share project revenue as well.

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

Nuclear Project No. 3 Termination

In June 1994, the Nuclear Project No. 3 Owners Committee voted unanimously to terminate the Project. During 1995, a group from Grays Harbor County, Washington, formed the Satsop Redevelopment Project (SRP). The Satsop Redevelopment Project introduced legislation with the State of Washington under Senate Bill No. 6427, which passed and was signed by the Governor of the State of Washington on March 7, 1996. The legislation enables local governments and Energy Northwest to negotiate an arrangement allowing such local governments to assume an interest in the site on which Nuclear Project No. 3 and Nuclear Project No. 5 exists for economic development by transferring ownership of all or a portion of the site to local government entities. This legislation also provides for the local government entities to assume regulatory responsibilities for site restoration requirements and control of water rights. In February 1999, Energy Northwest entered into a transfer agreement with the Satsop Redevelopment Project (SRP) to transfer the real and personal property at the site of Nuclear Project No. 3 and Nuclear Project No. 5. The SRP also agreed to assume regulatory responsibility for site restoration. Therefore, Energy Northwest is no longer responsible to the State of Washington and Washington Energy Facility Site Evaluation Council (EFSEC) for any site restoration costs.

Nuclear Projects Nos. 1 and 4 Site Restoration

Site restoration requirements for Nuclear Projects Nos. 1 and 4 are governed by site certification agreements between Energy Northwest and the State of Washington and regulations adopted by the Washington EFSEC, and

a lease agreement with the 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 was submitted in Fiscal Year 2003. This submittal was used to calculate the Asset Retirement Obligations (ARO) discussed in Note G of the financial statements.

Business Development Fund Interest in Northwest Open Access Network

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

The Business Development Fund has a 7.38 percent interest in NoaNet with an additional 25 percent step-up possible for a maximum 9.23 percent. As of June 30, 2003, NoaNet has \$27 million in outstanding 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) the Business Development Fund could be required to pay is \$2,490,800. It's important to note the Business Development Fund is not obligated to reimburse losses of NoaNet unless an assessment is made to NoaNet's members based on a two-thirds vote of the membership. In Fiscal Year 2003, the Business Development Fund contributed \$119,796 to NoaNet based on an assessment by the NoaNet members. This equity contribution was reduced to zero at year-end because NoaNet had a negative net equity position of \$13.3 million as of June 30, 2003. 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 \$10.6 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 \$300 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 participants) may be assessed up to \$100.6 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 PRONOUNCEMENT

Energy Northwest adopted SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets", on July 1, 2002 (see Note B, Summary of Significant Accounting Policies). This Statement requires an entity to recognize the fair value of a liability for an asset retirement obligation (ARO), measured at

estimated fair value, for legal obligations related to the dismantlement and restoration costs associated with the retirement of tangible long-lived assets, such as nuclear decommissioning and site restoration liabilities, in the period in which it is incurred. Upon initial recognition of the AROs that are measurable, the probability weighted future cash flows for the associated retirement costs, discounted using a credit-adjusted, risk-free rate, are recognized as both a liability and as an increase in the capitalized carrying amount of the related long-lived assets. Capitalized asset retirement costs are depreciated over the life of the related asset with accretion of the ARO liability classified as an operating expense on the statement of operations and fund equity each period. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss if the actual costs differ from the recorded amount. However, with regard to the net-billed Projects, BPA is obligated to provide for the entire cost of decommissioning and site restoration therefore, any gain or loss recognized upon settlement of the ARO results in an adjustment to either the excess of costs (liability) or costs in excess of billings (asset), as appropriate, as no net revenue or loss is recognized, and no equity is accumulated for the net-billed projects.

Energy Northwest has identified legal obligations to retire generating plant assets at the following business units: Columbia Generating Station, Nuclear Project No. 1, and Nine Canyon Wind Project. Decommissioning and site restoration requirements for Columbia and Nuclear Project No. 1 are governed by the Nuclear Regulatory Commission (NRC) regulations and site certification agreements between Energy Northwest and the State of Washington and regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC) and a

lease agreement with the Department of Energy (DOE) (see Notes B and F). Under the current agreement, the Nine Canyon Wind Project has the obligation to remove the generation facilities upon expiration of the lease agreement if requested by the lessors.

Packwood's obligation has not been calculated because the time frame and extent of the obligation was considered under this statement as indeterminate, as a result, no reasonable estimate of the asset retirement obligation can be made. An ARO will be required to be recorded if circumstances change. Management believes that these assets will be used in utility operations for the foreseeable future.

Upon adoption of SFAS 143 on July 1, 2002, Columbia Generating Station recorded an ARO of \$70.222 billion at its net present value of \$31.110 million, and increased depreciable assets by \$21.768 million. Nuclear Project No. 1 recorded an ARO of \$49.612 million at its net present value of \$25.253 million, however, no asset retirement cost was recorded as the project was terminated prior to

the adoption date. Prior obligations recorded with regard to the decommissioning obligation of Columbia and Nuclear Project No. 1 were reversed as of the adoption date. As a result of the net-billing arrangement, the adoption of SFAS 143 for Columbia Generating Station and Nuclear Project No. 1 did not result in a cumulative effect adjustment on the statement of operations and fund equity, rather the net impact resulted in an increase to costs in excess of billings in the amount of \$24.994 million and \$25.253 million, respectively. As of June 30, 2003, Columbia Generating Station has a net asset value of \$21.249 million and an accumulated liability of \$47.754 million. Nuclear Project No. 1 has an accumulated liability of \$41.354 million.

During the year, Nine Canyon Wind Project recorded an ARO of \$458,115 with regard to Phase I of the generation project which began commercial operations in September 2002. As of June 30, 2003, the Nine Canyon Wind Project had a recorded asset retirement cost asset value of \$449,683 with accumulated depreciation of \$8,432 and an ARO asset of \$466,989.

CURRENT DEBT RATINGS (Unaudited)

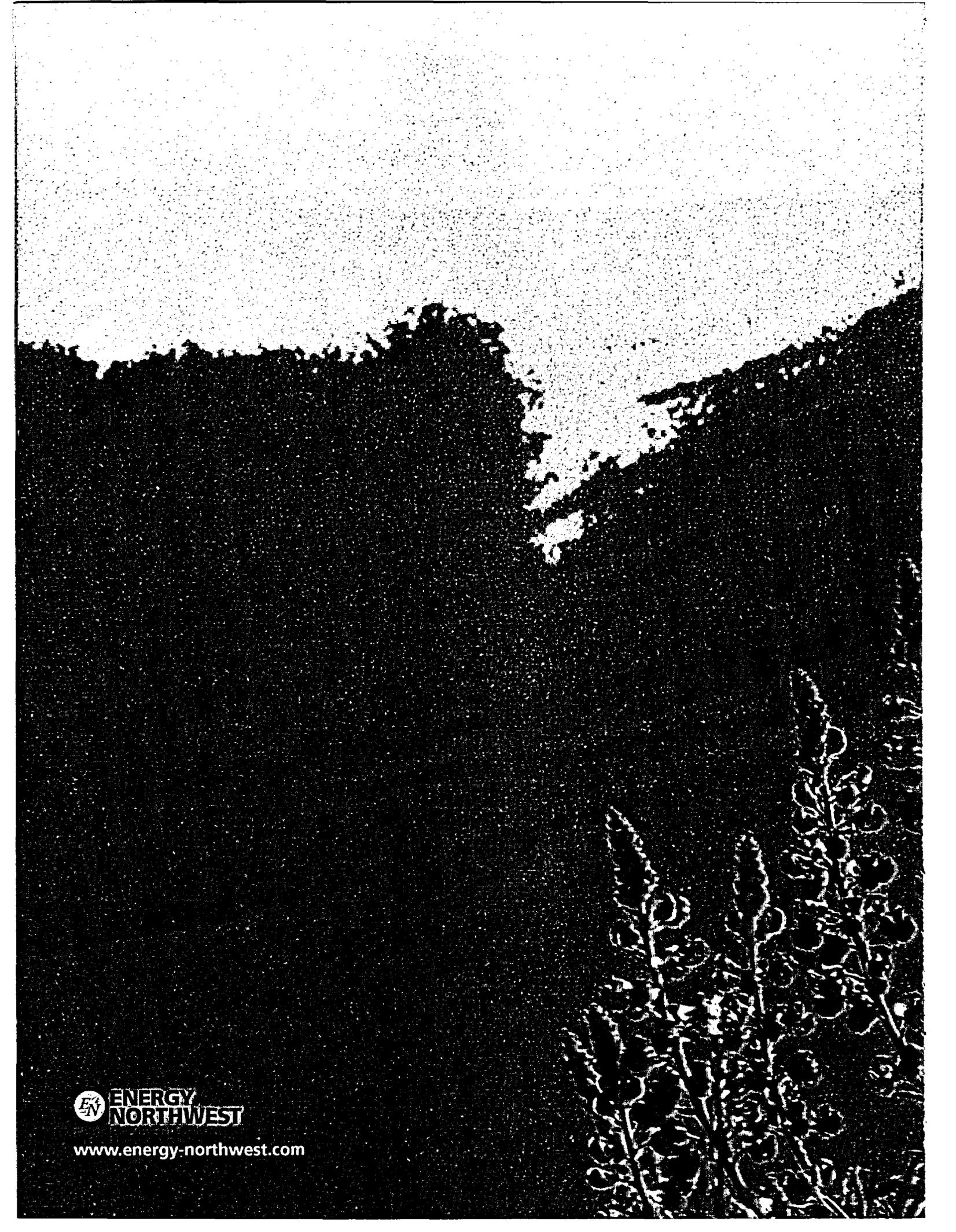
ENERGY NORTHWEST (Long-Term)	NET BILLED RATING			NINE CANYON RATING
Fitch, Inc.	AA-			A-
Moodys Investors Service, Inc. (Moodys)	Aa1			A3
Standard and Poor's Ratings Services (S & P)	AA-			A-
VARIABLE RATE DEBT	S & P	FITCH	MOODYS	
Letter of Credit Banks				
Bank of America				
Long-Term	AA-		Aa1	
Short-Term	A-1+		P-1	
JPMorgan Chase Bank				
Long-Term	AA-	A+	Aa3	
Short-Term	A-1+	F1	VMIG1	
Bond Insurance (Long-Term)				
MBIA Insurance Corporation	AAA	AAA	Aaa	
FSA (Short-Term)				
Credit Suisse First Boston	A-1		P-1	
Dexia	A-1+	F1+	P-1	

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