ENERGY NORTHWEST
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P.O. Box 968 • Richland, WA • 99352-0968

November 11, 2005
GO2-05-183

10 CFR 50.71(b)

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

Subject: **COLUMBIA GENERATING STATION, DOCKET NO. 50-397**
2005 ANNUAL FINANCIAL REPORT

Dear Sir or Madam:

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

There are no commitments being made to the NRC by this letter. Should you have any questions, please call GV Cullen at (509) 377-6105.

Respectfully,

D. W. Coleman

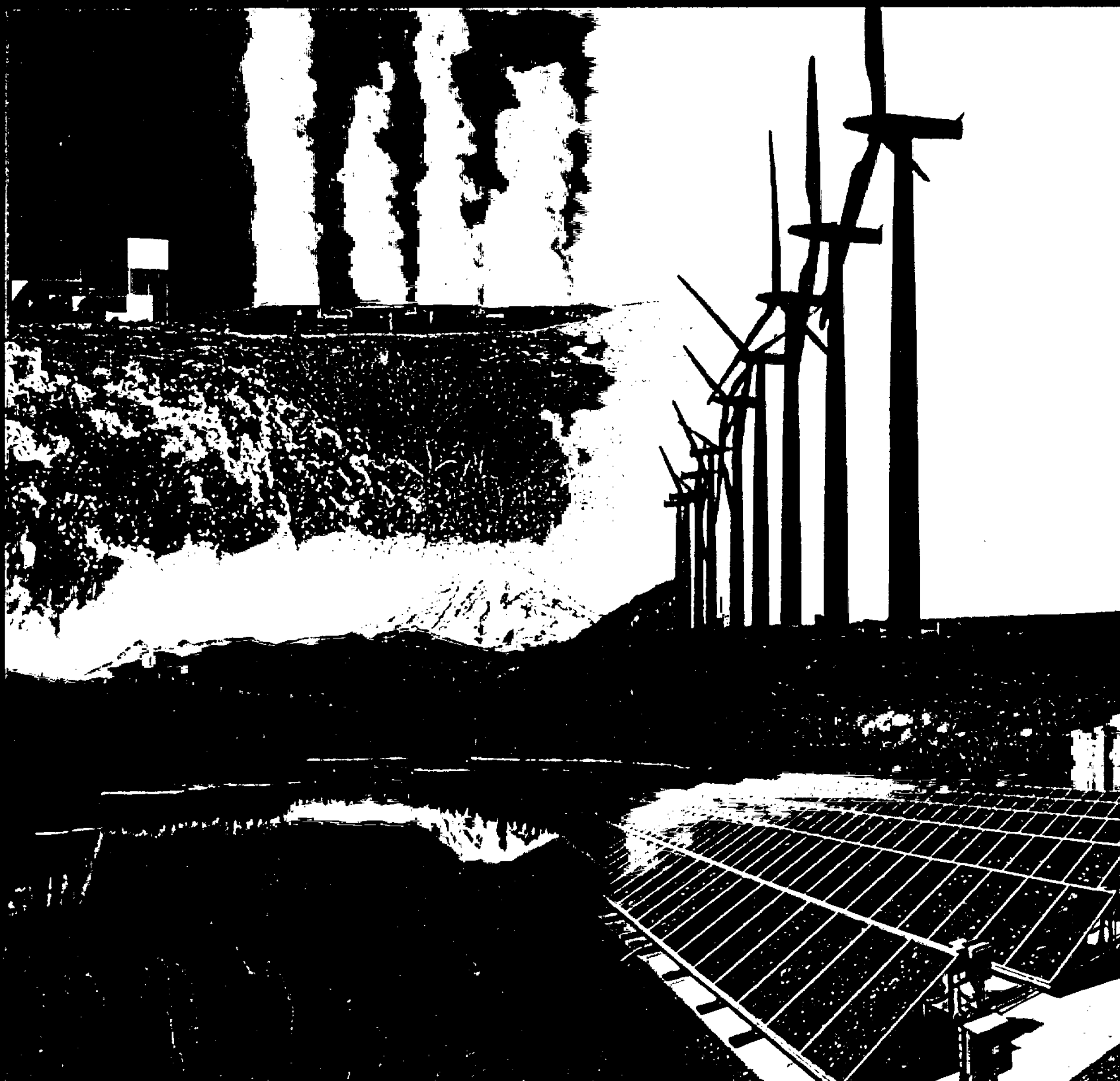
DW Coleman
Manager, Regulatory Programs
Mail Drop PE20

Enclosure: As stated

cc: BS Mallett - NRC RIV
BJ Benney - NRC - NRR w/o
NRC Sr. Resident Inspector - 988C
RN Sherman - BPA/1399 w/o
WA Horin - Winston & Strawn w/o

M004

2005 Annual Report



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Management Report on Responsibility for Financial Reporting

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

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

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

Energy Northwest maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, PricewaterhouseCoopers LLP has considered the internal control structure in order to determine their 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, 2005, internal control procedures are adequate.

J.V. Parrish
Chief Executive Officer

A.E. Mouncer
Vice President,
Corporate Services/General Counsel/CFO

Audit, Legal and Finance Committee Chairman's Letter

The Executive Board's Audit, Legal and Finance Committee is composed of six independent directors. Members of the Committee are Larry Kenney, Chairman; Vera Claussen; Sid Morrison; Jack Janda, David Remington, Amy Solomon; Roger Sparks; and Ted Coates, Ex Officio. The Committee held 10 meetings during the fiscal year ended June 30, 2005.

The Committee oversees Energy Northwest's financial reporting process on behalf of the Executive Board. In fulfilling its responsibilities, the Committee discussed with the internal auditor and the independent accountants, the overall scope and specific plans for their respective audits, and reviewed Energy Northwest's financial statements and the adequacy of Energy Northwest's internal controls.

The Committee met regularly with Energy Northwest's internal auditor and independent accountants 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 accountants.

Larry Kenney
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, 2005, and the related statement of operations and fund equity and of cash flows for the year then ended. Energy Northwest's business units include the Columbia Generating Station, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 3, the Business Development Fund, Grays Harbor Energy Facility, and the Nine Canyon Wind Project. These basic financial statements are the responsibility of Energy Northwest's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from 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, 2005, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 20, 2005

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Financial Data And Information

Fiscal Year 2005

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, 2005 with the basic financial statements for the Fiscal Year ended June 30, 2004. Energy Northwest has adopted accounting policies and principles that are in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. Energy Northwest applies GAAP to the extent it does not conflict with Governmental Accounting Standards Board (GASB) standards (see Note B to the Financial Statements).

The financial statements include the Balance Sheets; Statements of Operations and Fund Equity; Statements of Cash Flows; Supplementary Schedules of Outstanding Long-Term Debt and Debt Service Requirements; and Notes to Financial Statements for each of the Business Units. The Balance Sheets present the financial position of each Business Unit based on an accrual 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 the financial statements) that reflect what is owed by each Business Unit.

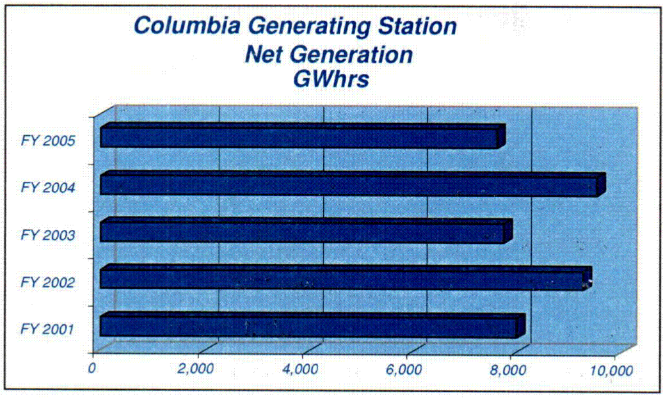
The Statements of Operations and Fund Equity reports information relating to all expenses, revenues and equity that reflect the results of each Business Unit and its related activities over the course of the Fiscal Year. The information provided aids in benchmarking activities, conducting comparisons to evaluate progress, and determining whether the Business Unit has successfully recovered its costs.

The Statements of Cash Flows reflects 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.

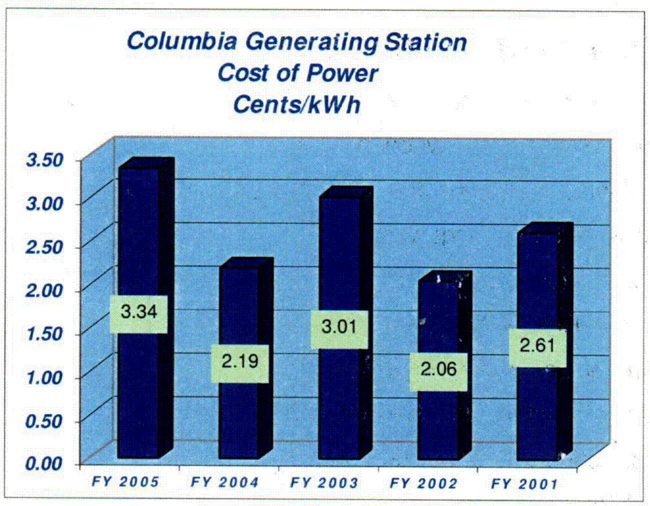
The Notes to Financial Statements present disclosures that contribute to the understanding of the material presented in the financial statements. This includes but is not limited to, accounting policies, significant balances and activities, materials risks, commitments and obligations and subsequent events, if applicable.

Columbia Generating Station

The Columbia Generating Station Nuclear Power Plant (Columbia) is owned by Energy Northwest and its Participants and operated by Energy Northwest. The Plant is a 1,153 megawatt (MWe) boiling water nuclear power station located on the Department of Energy's Hanford Reservation, north of Richland, Washington. Columbia Generating Station (CGS) completed more than a year of continuous generation, setting a station record for operating a total of 393 days extending partially into Fiscal Year (FY) 2005 (July 3, 2003 to July 30, 2004). Columbia produced 7,599 GWh of electricity in FY 2005, as compared to 9,520 GWh of electricity in FY Year 2004, which included economic dispatch of 0 GWh and 16 GWh respectively. Columbia successfully completed its second two-year refueling and maintenance outage (R-17) in June of 2005. CGS completed R-17 within the 35 day budget with costs totaling $52.9 million. However there were three forced outages in FY 2005, in addition to the R-17 planned outage, that resulted in the decreased generation levels in FY 2005 from FY 2004 levels.



Energy Northwest's performance is measured in several ways, including cost of power at Columbia Generating Station. The industry cost of power fluctuates somewhat year to year depending on various factors such as refueling outages and other planned activities.



Balance Sheet Analysis

Increase to total Plant in Service and Construction Work In Progress (CWIP) from FY 2004 to FY 2005 was $24.4 million. The total increase was mostly a result of $15.9 million spent on the Nuclear Regulatory Commission (NRC) Mandated Security Project. The NRC, after the September 11, 2001 terrorist attacks, mandated heightened security improvements to all nuclear facilities. These improvements were substantially completed in 2005. Energy Northwest spent $10.3 million on this project in FY 2005 with a two year project cost of $15.9 million. Other major components of the change in plant and CWIP were upgrades to the Station Security System Computer, which runs all of the security systems inside the protected area of CGS ($5.4 million); Jet Pump Clamps, which modified seals to reduce fatigue and extend continued operation out 20 years past R-17 ($2.0 million).

Nuclear fuel, net of accumulated amortization, increased $24.1 million from FY 2004 to $126.1 million for FY 2005. During FY 2005, CGS purchased $51.0 million of nuclear fuel, which was offset by current year amortization of $26.9 million. The fuel purchases were associated with the R-18 and R-19 maintenance and refueling planned outages in FY 2007 and FY 2009.

The Restricted Assets Special Funds increased $65.7 million from FY 2004 levels to $117.2 million in FY 2005. This was due to additional financing for future fuel purchases associated with the two year refueling and maintenance outages and capital improvements. It is expected this increase will supply necessary funding for the next two refueling outages (R-18 and R-19 in FY 2007 and FY 2009). The increase in restricted assets was partially offset by the $19.4 million in Construction fund spending.

The Debt Service Funds increased $11.2 million in FY 2005 to $32.9 million. The increase was due to interest payable being larger in FY 2005 than in FY 2004.

Long-term receivables and current assets remained relatively stable from FY 2004 to FY 2005. The long term receivable account increased slightly due to an FY 2004 adjustment to a $3.3 million reclassification made for a 1992 Settlement Agreement with a third party. The estimate made in FY 2005 was in anticipation of the R-17 related discounts that would be forthcoming in the next year; however the amounts received in FY 2005 were lower than originally estimated.

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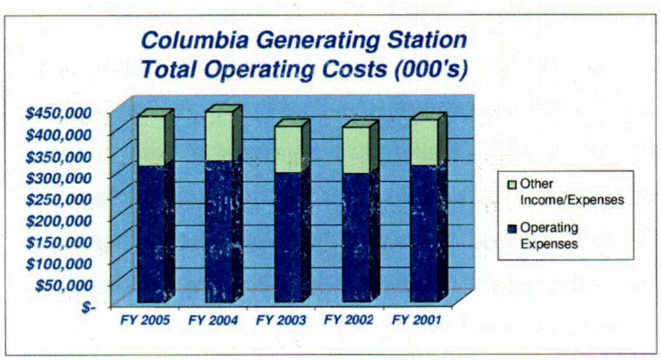
Costs in Excess of Billings have increased $69.3 million in FY 2005 from $494.3 million to $563.2 million, largely due to refunding current maturities while extending the overall maturities on the refunding debt. In addition, the accumulated decommissioning and site restoration accrued costs are not currently billed to Bonneville Power Administration (BPA). BPA holds and manages a trust fund for the purpose of funding decommissioning and site restoration (see Note B to the financial statements, Decommissioning and Site Restoration). The balances in these external trust funds are not reflected on Energy Northwest's Balance Sheet.

Long-Term Debt increased $217.6 million in FY 2005 from $2.05 billion to $2.27 billion, which was a result of the FY 2005 Bond Issue. As explained above, in FY 2005, new debt was issued for various CGS construction projects, fuel purchases, as well as being issued as part of the Debt Optimization Plan Debt (see Note E to the financial statements).

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 revenues or loss is recognized and no equity is accumulated.

As a whole, the operating revenues and expenses remained relatively the same from FY 2004 to FY 2005, with overall Operating Revenues needed to cover expenditures decreasing slightly from last year.



Four individual components of operating expenses related to the successful completion of R-17 and the three unplanned outages were:

- Nuclear Fuel—Decreased from $35.3 million in FY 2004 to $28.6 million in FY 2005;
- Fuel Disposal Fee—Decreased from $9.0 million in FY 2004 to $7.2 million in FY 2005;
- Generation tax—Decreased from $3.2 million in FY 2004 to $2.3 million in FY 2005;
- Operations and Maintenance—Increased from $129.6 million in FY 2004 to $178.7 million (see R-17 costs discussed above) in FY 2005;

The first three points were a result of lower generation while the fourth point was a result of increased wages due to R-17.

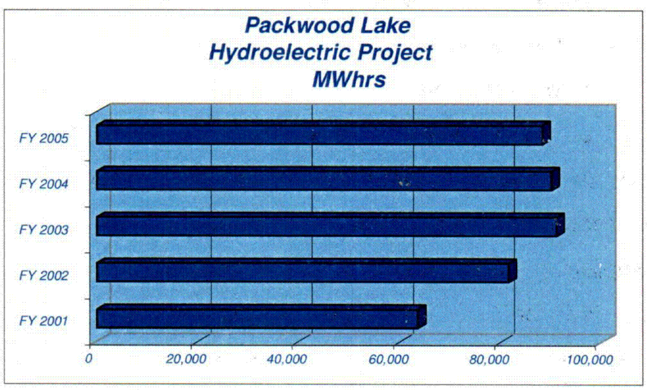
Other major changes in CGS operations were:

- Administrative & General—Decreased from $21.6 million to $18.6 million reflecting the continuing concerted effort to reduce overall costs for CGS;
- Decommissioning—Decreased from $43.0 million to $5.4 million because FY 2004 included an increase to the value of the Asset Retirement Obligation (ARO), which was offset by an increase to Cost in Excess of Billings in compliance with the Net Billing Agreement. The amount is a combination of probable cases for accomplishing the required retirement obligations and their associated probabilities. The liability will also be increased each year to account for the accretion value of the obligation. This yearly accretion value is the amount represented by the FY 2005 value of $4.8 million. (See Note G to the financial statements for further explanation).

Other Income and Expense changes are the net effects on Columbia Debt (see Note E to the financial statements). Investment Income was affected by favorable rates in FY 2005 resulting in an increase of $2.3 million from FY 2004 income to $4.2 million in FY 2005. Additionally, interest expense increased slightly in FY 2005 from $114.2 million to $116.3 million due to $461.7 million of new debt issued in FY 2004 at a 3.75% to 5.5% interest rate. Amortization of Bond Discount Expense and Amortization of Bond Refunding netted a decrease in expense of $1.9 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 powerhouse 1800 feet below the dam that is located south of Packwood, Washington. Packwood produced 88.31 GWh of electricity in FY 2005 versus 90.03 GWh in FY 2004.



Balance Sheet Analysis

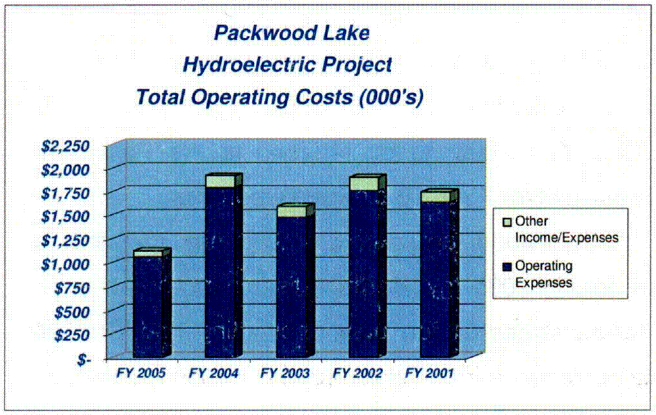
Current Assets have decreased $.3 million from $2.3 million in FY 2004 to $2.0 million in FY 2005. Majority of the decrease was due to timing of power sales. There were no significant changes to current liabilities other than a decrease in due to other business units of $649K from $682K in FY 2004 to $33K in FY 2005. No new debt was issued and the total debt continues to decrease per the current debt schedules. As a result of operations, Packwood accrued $338K in excess funding that has been agreed to by participants in October of 2005, to be returned to the Packwood business unit for FY 2006 operating reserves.

Packwood incurred $.6 million in re-licensing costs for FY 2005. These costs are shown as other deferred charges on the Balance Sheet. The FY 2006 projections are for an additional $.6 million in costs to continue the re-licensing efforts. The Federal Regulatory Commission (FERC) issued a 50-year operating license to Packwood on March 1, 1960. The current license will expire on February 28, 2010.

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:

- Total Operating Expenses decreased $.7 million, from $1.8 million in FY 2004 to $1.1 million in FY 2005. Major drivers for this change were:
  - Decrease to Depreciation and Amortization of $.3 million as the majority of the plant assets continue to become completely depreciated
  - Operations and Maintenance, along with Administrative and General expenditures, decreased $.4 million from $1.4 million in FY 2004 to $1.0 million in FY 2005. This was due to the decreased operations and maintenance costs due to insurance savings and completion of annual outage under budget.



Nuclear Project No. 1

Nuclear Project No. 1, a 1,250 MWe plant, was placed in extended construction delay status in 1982, when it was 65 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution terminating Nuclear Project No. 1. In FY 1999, the assets and liabilities of the Hanford Generating Project were consolidated into Nuclear Project No. 1. The Hanford Generating Project site restoration activities were completed on May 19, 2004. 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 increased $4.6 million from $1.961 billion in FY 2004 to $1.966 billion in FY 2005, due to debt restructuring to take advantage of lower interest rates.

Statement of Operations Analysis

Investment Income increased $1.2 million from $1.3 million in FY 2004 to $2.5 million in FY 2005, as rates of return began to increase from historical lows.

Nuclear Project No. 3

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

Balance Sheet Analysis

Under the debt optimization program, long-term debt was increased $24.7 million from $1.790 billion in FY 2004 to $1.814 million in FY 2005 due to debt restructuring to take advantage of lower interest rates.

Statement of Operations Analysis

Investment Income increased $1.0 million, from $0.9 million in FY 2004 to $1.9 million in FY 2005, as rates of return began to increase from historical lows.

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.

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Statement of Operations Analysis

Operating Revenues in FY 2005 totaled $8.1 million as compared to FY 2004 revenues of $14.7 million, a decrease of $6.6 million. The Department of Energy (DOE) and Energy Northwest had an agreement for the completion of restoration and cleanup of the Hanford Generating Project. Under the agreement DOE would be billed for 50% of the restoration and cleanup efforts. The project was completed in FY 2004 with Energy Northwest recognizing revenue of $3.8M. The reduction in intra-company business was the other driver to decreased revenues.

Total operating revenues decreased 45% in FY 2005; however net revenues for the FY 2005 showed a $697K loss as compared to a $987K loss in FY 2004.

Other Income and Expenses includes $2.4 million of Energy Business Services overhead that were credited to this account. The offset debit to this entry resides as an operating expense. Other income and expenses, less these overheads, was approximately $0.6 million.

Energy Northwest was created to enable Washington public power utilities and municipalities to build and operate generation projects. Three of Energy Northwest's Research and Investigation business projects, BioEnergy Solutions, Wind Mining and Integrated Gasification Combined Cycle (IGCC), accounted for $1.1 million in expenditures with no revenues.

Energy BioEnergy Solutions is a business line of Energy Northwest that in FY 2005 worked on a full-scale biomass power test unit at a dairy farm near Pasco, Washington which was unable to meet expectations for biogas production. The business line is in the process of evaluating options for moving forward. In FY 2005, approximately $0.4 million was expended on developing this project.

Wind Mining efforts continued in FY 2005 with approximately $0.3 million being expended. These efforts are to explore, site and demonstrate wind resources for potential new wind sites.

Initial investigation into developing an Integrated Gasification Combined Cycle (IGCC) project was kicked off in FY 2005, with approximately $0.4 million expended. In July 2005, Energy Northwest's Board of Directors passed a resolution to pursue permitting and possible construction of an Integrated Gasification Combined Cycle (IGCC) power plant in western Washington. The proposal calls for a 600 MW power plant, designed to operate on a "synthesis gas" with regulated emissions similar to a natural gas plant. The clean-burning synthesis gas can be produced by gasifying rather than burning a variety of carbon-based feed stocks including petroleum coke and coal. Initial operation of the completed plant could be as early as 2011.

The Business Development Fund receives contributions from the Internal Service Fund to cover cash needs during this startup period. Initial startup costs are not expected to be paid back and are shown as contributions. As an operating business unit, requests can be made to fund incurred operating expenses. In FY 2005, the Business Development Fund received contributions (transfers) of $1.7 million.

Grays Harbor Energy Facility

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 FY 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 50MW of power generated by the facility.

In September 2002, due to market conditions, Duke Energy North America (DENA) placed the project in "Construction Suspension." In February 2004, DENA announced it has no intention to complete the facility with their own funds. Per the agreement with DENA, if construction was not restarted by August 31, 2004, such that the project reaches substantial completion eleven months later, or if the project fails to achieve commercial operation by December 31, 2005, Energy Northwest may request payment of approximately $5 million and dissolution of the O&M contract. Energy Northwest received this payment in March of 2005. Remaining cash and investments were transferred to the Internal Service Fund – Performance Fee Account in June of 2005. All obligations of this fund have been completed and the fund was dissolved by the Executive Board in July 2005.

Statement of Operations Analysis

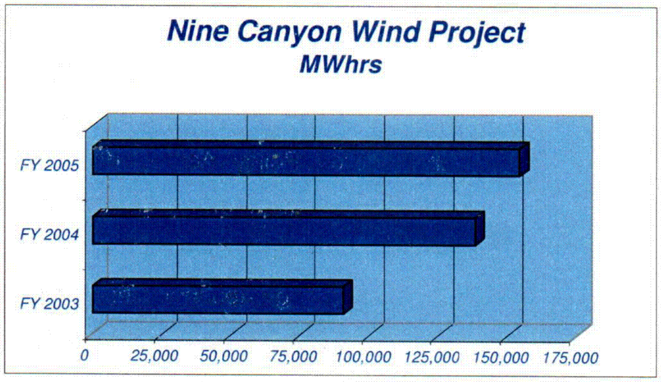
Non-Operating revenues were $0.4 million and $4.9 million for FY 2004 and FY 2005 respectively, with the increase due to the dissolution of O&M contract discussed above.

Nine Canyon Wind Project

The Nine Canyon Wind Energy Project is owned and operated by Energy Northwest. The Project is located in the Horse Heaven Hills area southwest of Kennewick, Washington. Electricity generated by the Project is purchased by Pacific Northwest Public Utility Districts whose customers have expressed an interest in purchasing at least a portion of their electricity from green power sources. Each purchaser of Phase I has signed a 22-year power purchase agreement with Energy Northwest and each purchaser of Phase II has signed a 20-year power purchase agreement. 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.

Phase I of the project, which began commercial operation in September 2002, consists of 37 wind turbines, each with a maximum generating capacity of approximately 1.3 megawatts of electricity, for a total wind capacity of 48.1 megawatts. Phase II of the project, which was declared operational December 31, 2003, includes an additional 12 wind turbines with an aggregate generating capacity of approximately 15.6 megawatts. The total project generating capability is approximately 63.7 megawatts, which produces enough energy capacity for approximately 26,000 average homes.

Nine Canyon Wind Project produced 154.52 GWh of electricity in FY 2005 versus 138.44 GWh in FY 2004.



The turbines are installed in rows with about 500 feet between turbines. Each three-blade turbine consists of a tubular steel tower approximately 200 feet in height, three 100-foot turbine blades attached to a rotor, and a nacelle that houses a generator, gear box and braking mechanism.

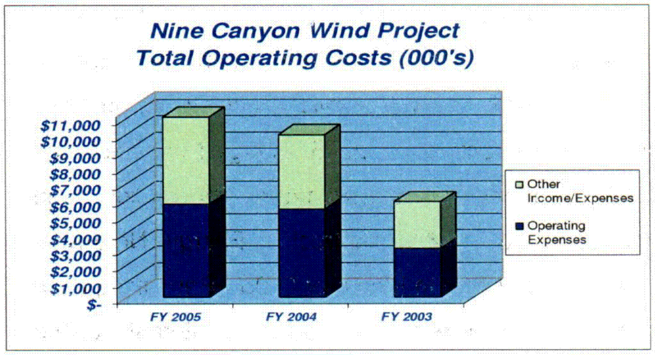
Balance Sheet Analysis

Receivables increased by $0.7 million corresponding to the increased size of the Renewable Energy Performance Incentive (REPI) payment accrued. The Fund Equity decreased by $2.7 million because the original plan anticipated operating at a loss in the early years and gradually increasing the rate charged to the purchasers to avoid a large rate increase after the REPI expires in ten years. Reserves that were established are used to facilitate this plan. Long-term debt decreased by $3.6 million due to the effects of the refinancing of the Phase I debt in January 2005.

Statement of Operations Analysis

Operating Revenues increased $0.9M from $5.3M in FY 2004 to $6.2M in FY 2005. This was due to a full year of operation of Phase II of the project in FY 2005 as well as a planned billing increase to project participants of 3%. The project received revenue from the billing of the project purchasers at an average rate of $35.09 per MWh for FY 2005. Energy Northwest has accrued as income (contribution) from the DOE, REPI payments that enable the Nine Canyon Wind Project to receive funds based on generation as it applies to the REPI bill. 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. The Nine Canyon Wind Project recorded a receivable for sixty-eight percent of the applied REPI funding in the amount of $2.3 million for FY 2005. The payment stream and the REPI receipts were projected to cover the total costs over the life of the purchase agreement. Permanent shortfalls in REPI funding will lead to increases in the billing of the Project participants in order to cover total Project costs.

The agreement with project purchasers anticipates a loss in FY 2006 with additional cash needs being paid from existing project reserve funds. The reserve funds were established so that the participant payments would increase at a rate of three percent per year over the life of each power purchaser agreement. Operating Costs are expended for debt service and for operational and maintenance items.



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).

Balance Sheet Analysis

The FY 2005 Balance Sheet increased $1.3 million from FY 2004. The net increase in Assets is primarily from a $0.5 million increase in Net Plant in Service and a $1.0 million increase in Current Assets. The net increase in Fund Equity and Liabilities is from a $4.9 million increase in Fund Equity offset by a $3.6 million decrease in Liabilities.

The increase in the Net Plant in Service is primarily due to the purchase of new Computer Equipment. The net change in Current Assets was a result of Interfund Transfers due to other Funds that are eliminated in the Combining of the Financial Statements and changes in cash and investment mix. The increase in

C-06

Fund Equity of $4.9 million is primarily due to dissolution and transfer of Grays Harbor business unit assets. The decrease in Current Liabilities is composed of a $.7 million increase in Accounts Payable offset by a $3.5 million decrease in Interfund Transfers due to other Funds that are eliminated in the Combining of the Financial Statements. The increase in Accounts Payable is primarily comprised of an increase in accrued costs, primarily related to contractor work incurred during R-17, but not paid by June 30, 2005.

Statement of Operations Analysis

Net Revenues for FY 2005 increased $0.1 million as rates of return on investments began to increase from historical lows.

BALANCE SHEETS

As of June 30, 2005 (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	2005 COMBINED TOTAL
ASSETS										
UTILITY PLANT (NOTE B)										
In service	$ 3,500,570	$ 12,991	$ -	$ -	$ 925	$ -	$ 68,486	$ 3,582,972	$ 46,029	$ 3,629,001
Not in service			25,253					25,253		25,253
Accumulated depreciation	(2,029,594)	(12,442)	(25,253)		(364)		(7,942)	(2,075,595)	(31,768)	(2,107,363)
	1,470,976	549	-	-	561	-	60,544	1,532,630	14,261	1,546,891
Nuclear fuel, net of accumulated amortization	126,143							126,143		126,143
Construction work in progress	36,784							36,784		36,784
	1,633,903	549	-	-	561	-	60,544	1,695,557	14,261	1,709,818
RESTRICTED ASSETS (NOTE B)										
Special funds										
Cash	17,393	1	180	313			1,806	19,693	1,468	21,161
Available-for-sale investments	99,804	285	12,367	12,073			1,645	126,174	1,254	127,428
Accounts and other receivables							2,299	2,299		2,299
Debt service funds										
Cash	32,187	8	37,160	19,087			100	88,542		88,542
Available-for-sale investments	701	743	8,469	9,192			6,455	25,560		25,560
	150,085	1,037	58,176	40,665	-	-	12,305	262,268	2,722	264,990
LONG-TERM RECEIVABLES (NOTE B)	3,527							3,527		3,527
CURRENT ASSETS										
Cash	89	1	535	25	363		464	1,477	3,070	4,547
Available-for-sale investments	4,629	1,691	5,939	5,575	305			18,139	27,589	45,728
Accounts and other receivables	1,583	218	34		1,659			3,494	76	3,570
Due from Participants	6		1					7		7
Due from other business units	4,555		17	133				4,705	780	
Due from other funds	16,353	13	9,728	9,717			149	35,960		
Materials and supplies	77,801						226	78,027		78,027
Prepayments and other	681	56			70			807	182	989
Nuclear fuel held for sale			1,095					1,095		1,095
	105,697	1,979	17,349	15,450	2,397		839	143,711	31,697	133,963
DEFERRED CHARGES										
Costs in excess of billings	563,566	643	1,948,519	1,784,811				4,297,539		4,297,539
Unamortized debt expense	15,063	1	14,275	11,986			1,961	43,286		43,286
Other deferred charges		638					4,894	5,532		5,532
	578,629	1,282	1,962,794	1,796,797	-	-	6,855	4,346,357	-	4,346,357
TOTAL ASSETS	$ 2,471,841	$ 4,847	$ 2,038,319	$ 1,852,912	$ 2,958	$ -	$ 80,543	$ 6,451,420	$ 48,680	$ 6,458,655

* *Project recorded on a liquidation basis*

See notes to financial statements

BALANCE SHEETS *(Continued)*

As of June 30, 2005 (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	2005 COMBINED TOTAL
FUND EQUITY AND LIABILITIES										
FUND EQUITY	$ -	$ -	$ -	$ -	$ 1,862	$ -	$ (8,245)	$ (6,383)	$ 11,835	$ 5,452
LONG-TERM DEBT (NOTE E)										
Revenue bonds payable	2,243,235	2,546	1,971,850	1,922,165			89,960	6,229,756		6,229,756
Unamortized discount							3,750	3,750		3,750
on bonds - net	69,928	(4)	52,097	(81,239)			(6,311)	34,471		34,471
Unamortized gain/(loss) on bond refundings	(41,148)	25	(58,073)	(26,753)				(125,949)		(125,949)
	2,272,015	2,567	1,965,874	1,814,173	-	-	87,399	6,142,028	-	6,142,028
LIABILITIES- PAYABLE FROM RESTRICTED ASSETS (NOTE B)										
Special funds										
Accounts payable and accrued expenses	97,130		13,307				529	110,966	1,807	112,773
Due to other funds	15,976	6	9,370	9,076			149	34,577		
Other deferred credits			1,275		185			1,460		1,460
Debt service funds										
Accrued interest payable	32,512	39	45,272	27,638				105,461		105,461
Due to other funds	377	7	358	641				1,383		
	145,995	52	69,582	37,355	185	-	678	253,847	1,807	219,694
OTHER NONCURRENT LIABILITIES	25,659							25,659		25,659
CURRENT LIABILITIES										
Current maturities of long-term debt		615						615		615
Accounts payable and accrued expenses	22,111	101	1,086	190	854		20	24,362	29,426	53,788
Due to Participants	6,061	1,479	1,777	1,194				10,511		10,511
Due to other business units		33			57		691	781	4,704	
	28,172	2,228	2,863	1,384	911		711	36,269	34,130	64,914
DEFERRED CREDITS										
Advances from Members and others									1	1
Other deferred credits									907	907
	-	-	-	-	-		-		908	908
TOTAL LIABILITIES	2,471,841	4,847	2,038,319	1,852,912	1,096		88,788	6,457,803	36,845	6,453,203
TOTAL FUND EQUITY AND LIABILITIES	$ 2,471,841	$ 4,847	$ 2,038,319	$ 1,852,912	$ 2,958	$ -	$ 80,543	$ 6,451,420	$ 48,680	$ 6,458,655

** Project recorded on a liquidation basis*

See notes to financial statements

STATEMENTS OF OPERATIONS AND FUND EQUITY

For the year ended June 30, 2005 (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	2005 COMBINED TOTAL
OPERATING REVENUES	$ 430,570	$ 1,121	$	$	$ 8,099	$	$ 6,178	$ 445,968	$ -	$ 446,162
OPERATING EXPENSES										
Services to other business units										
Nuclear fuel	28,570							28,570		28,570
Spent fuel disposal fee	7,241							7,241		7,241
Decommissioning	5,397						58	5,455		5,455
Depreciation and amortization	76,866	28			229		3,569	80,692		80,692
Operations and maintenance	178,659	825			10,429		1,987	191,900		191,900
Administrative & general	18,637	185					28	18,850		18,850
Generation tax	2,315	19					33	2,367		2,367
Total operating expenses	317,685	1,057	-	-	10,658	-	5,675	335,075		335,075
NET OPERATING REVENUES(EXPENSES)	112,885	64	-	-	(2,559)	-	503	110,893		111,087
OTHER INCOME & EXPENSE										
Non-operating revenues			94,316	89,962		4,927		189,205	53,741	189,205
Investment income	4,160	64	2,453	1,938	99	50	295	9,059	197	9,059
Gain on bond redemption		4						4		4
Interest expense and discount amortization	(116,306)	(132)	(104,995)	(89,766)			(5,644)	(316,843)		(316,843)
Plant preservation and termination costs			(9,331)	(2,134)				(11,465)		(11,465)
Depreciation and amortization	(3,500)		(14)			25		(3,489)	(1,507)	(3,489)
Revaluation of Site Restoration			12,866					12,866		12,866
Services to other business units									(52,237)	
Other	2,761		4,705		1,763	(187)		9,042	0	9,042
NET REVENUES(EXPENSES)	-	-	-	-	(697)	4,815	(4,846)	(728)	194	(534)
Distribution & Contributions+A4	-	-	-	-	1,995	(6,171)	2,124	(2,052)	4,660	2,608
Beginning Fund Equity	-	-	-	-	564	1,356	(5,523)	(3,603)	6,981	3,378
ENDING FUND EQUITY	$ -	$ -	$ -	$ -	$ 1,862	$ -	$ (8,245)	$ (6,383)	$ 11,835	$ 5,452

* *Project recorded on a liquidation basis*

See notes to financial statements

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2005 *(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	2005 COMBINED TOTAL
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES									
Operating revenue receipts	$ 360,724	$ 2,895	$ -	$ -	$ 5,194	$ -	$ 5,980	$ -	$ 374,793
Cash payments for operating expenses	(204,911)	(1,626)			(8,134)		162		(214,509)
Non-operating revenue receipts			101,919	73,968		5,088			180,975
Cash payments for preservation, termination expense			(31,266)	(15,312)					(46,578)
Cash payments for services						(1,441)		209	(1,232)
Cash payments for new business									0
Receipts (payments) for grants/contributions						(4,864)		4,864	0
Net cash provided (used) by operating and other activities	155,813	1,269	70,653	58,656	(2,940)	(1,217)	6,142	5,073	293,449
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Proceeds from bond refundings	218,784		80,317	143,011			65,581		507,693
Refunded bond escrow requirement	(127,148)		(80,836)	(142,618)			(64,014)		(414,616)
Payment for bond issuance and financing costs	(2,177)		(677)	(1,010)			(1,135)		(4,999)
Capital and nuclear fuel acquisitions	(73,055)	(638)			(43)		1		(73,735)
Interest paid on revenue bonds	(97,788)	(137)	(97,349)	(62,111)			(6,867)		(264,252)
Principal paid on revenue bond maturities		(590)					(3,290)		(3,880)
Interest paid on Notes	(1,371)		(663)	(892)					(2,926)
Notes Payable							(165)		(165)
Construction Work in Progress							(2,060)		(2,060)
Net cash provided (used) by capital and related financing activities	(82,755)	(1,365)	(99,208)	(63,620)	(43)	-	(11,949)	-	(258,940)
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchases of investment securities	(1,285,492)	(9,720)	(556,245)	(412,852)	(36,170)	(9,925)	(58,685)	(136,301)	(2,505,390)
Sales of investment securities	1,221,104	9,806	583,591	415,375	39,413	11,060	62,075	131,792	2,474,216
Interest on investments	4,287	47	2,508	1,931	102	51	264	476	9,666
Receipts from sales of plant assets			6,115						6,115
Net cash provided (used) by investing activities	(60,101)	133	35,969	4,454	3,345	1,186	3,654	(4,033)	(15,393)
NET INCREASE(DECREASE) IN CASH	12,957	37	7,414	(510)	362	(31)	(2,153)	1,040	19,116
CASH AT JUNE 30, 2004	36,712	(27)	30,461	19,935	1	31	4,523	3,498	95,134
CASH AT JUNE 30, 2005 (NOTE B)	$ 49,669	$ 10	$ 37,875	$ 19,425	$ 363	$ -	$ 2,370	$ 4,538	$ 114,250

* *Project recorded on a liquidation basis*

See notes to financial statements

STATEMENTS OF CASH FLOWS *(Continued)*

For the year ended June 30, 2005 *(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	2005 COMBINED TOTAL
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITES									
Net operating revenues (expenses)	$ 112,885	$ 64	$ -	$ -	$ (2,559)	$ -	$ 503	$ -	$ 110,893
Adjustments to reconcile net operating revenues to cash provided by operating activities:									
Depreciation and amortization	103,765	25			118		3,560		107,468
Decommissioning	5,398						58		5,456
Other	3,251	638			1,763		(270)		5,382
Change in operating assets and liabilities:									
Deferred charges/costs in excess of billings	(69,516)	(23)							(69,539)
Accounts receivable	2,646	237			409		1,537		4,829
Materials and supplies	(6,320)								(6,320)
Prepaid and other assets	(254)	2			24		(1)		(229)
Due from/to other business units, funds and Participants	3,125	286			(2,886)		860		1,385
Accounts payable	833	40			191		(105)		959
Non-operating revenue receipts			101,919	73,968		5,088			180,975
Cash payments for preservation, termination expense			(31,266)	(15,312)					(46,578)
Cash payments for services						(1,441)		209	(1,232)
Receipts (payments) for grants/contributions						(4,864)		4,864	0
Net cash provided(used) by operating and other activities	$ 155,813	$ 1,269	$ 70,653	$ 58,656	$ (2,940)	$ (1,217)	$ 6,142	$ 5,073	$ 293,449

* *Project recorded on a liquidation basis*

See notes to financial statements

OUTSTANDING LONG-TERM DEBT

As of June 30, 2005 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
COLUMBIA GENERATING STATION REFUNDING REVENUE BONDS			
1990A	7.25	7-1-2006	$ 2,115
			2,115
1991A	(A)	7-1-06/2007	10,267
			10,267
1992A	6.10	7-1-2006	11,345
	6.30	7-1-2012	50,000
			61,345
1993A	5.70-5.80	7-1-06/2008	36,490
			36,490
1993B	5.50-5.65	7-1-06/2008	39,330
			39,330
1994A	4.80-6.00	7-1-06/2007	89,950
	(A)	7-1-2009	4,776
	5.40	7-1-2012	100,200
			194,926
1996A	5.60-6.00	7-1-06/2012	165,635
			165,635
1997A	5.10-5.20	7-1-10/2012	50,355
			50,355
1997B	5.00-5.50	7-1-06/2011	20,000
			20,000
1998A	5.00-5.75	7-1-06/2012	161,785
			161,785
2001A	5.00-5.50	7-1-13/2017	186,600
			186,600
2001B	5.50	7-1-2018	48,000
			48,000
2002A	5.20-5.75	7-1-17/2018	157,260
			157,260
2002B	5.35-6.00	7-1-2018	123,815
			123,815

OUTSTANDING LONG-TERM DEBT *(Continued)*

As of June 30, 2005 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
COLUMBIA GENERATING STATION REFUNDING REVENUE BONDS (Continued)			
2003A	5.50	7-1-10/2015	$ 154,490
			154,490
2003B	4.15	7-1-2009	4,530
			4,530
2003F	5.00-5.25	7-1-07/2018	41,330
			41,330
2004A	3.75-5.25	7-1-08/2018	422,350
			422,350
2004B	5.50	7-1-2013	12,715
			12,715
2004C	5.25	7-1-07/2018	26,620
			26,620
2005A	5.00	7-1-15/2018	114,985
			114,985
2005B	4.11	7-1-2008	1,600
			1,600
2005C	4.34-4.74	7-1-9/2015	91,890
			91,890
1997-2A-1	VARIABLE		45,045
			45,045
1997-2A-2	VARIABLE		45,040
			45,040
Compound interest bonds accretion			24,717
Revenue bonds payable			$ 2,243,235
Estimated fair value at June 30, 2005			$ 2,222,214 (B)

(A) Compound Interest Bonds

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

OUTSTANDING LONG-TERM DEBT *(Continued)*

As of June 30, 2005 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
PACKWOOD LAKE PROJECT REVENUE BONDS			
1962	3.625	3-1-2012	$ 2,271
1965	3.75	3-1-2012	890
Revenue ponds payable			$ 3,161
Estimated Fair Value at June 30, 2005			$ 3,222 (B)

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

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO.1 REFUNDING REVENUE BONDS			
1989B	7.125	7-1-2016	$ 41,070
			41,070
1990B	7.25	7-1-2009	3,590
			3,590
1993A	7.00	7-1-07/2008	15,325
			15,325
1993B	5.60-7.00	7-1-07/2009	25,570
			25,570
1993C	5.00-5.20	7-1-06/2008	5,675
			5,675
1996A	5.70-6.00	7-1-06/2012	291,745
			291,745
1996C	5.20-6.00	7-1-06/2015	70,840
	5.50	7-1-2017	24,860
			95,700
1997A	6.00	7-1-06/2008	20,400
			20,400
1997B	5.00-5.125	7-1-06/2017	242,465
			242,465
1998A	5.00-5.75	7-1-06/2017	78,650
			78,650
2001A	4.125-5.50	7-1-07/2013	77,160
			77,160
2001B	5.50	7-1-2017	23,600 (C)
			23,600

OUTSTANDING LONG-TERM DEBT *(Continued)*

As of June 30, 2005 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO.1 REFUNDING REVENUE BONDS (Continued)			
2002A	5.50-5.75	7-1-13/2017	$ 248,485
			248,485
2002B	6.00	7-1-2017	101,950
			101,950
2003A	5.50	7-1-13/2017	241,455
			241,455
2003B	4.06	7-1-2009	18,210
			18,210
2004A	5.25	7-1-2013	62,485
			62,485
2004B	5.50	7-1-2013	1,135
			1,135
2005A	5.00	7-1-13/2015	72,175
			72,175
2005B	4.11	7-1-2008	925
			925
1993-1A-1	VARIABLE		44,505
			44,505
1993-1A-2	VARIABLE		44,505
			44,505
1993-1A-3	VARIABLE		14,585
			14,585
2003-C-1	VARIABLE		50,235
			50,235
2003-C-2	VARIABLE		50,000
			50,000
2003-C-3	VARIABLE		50,250
			50,250
2003-C-4	VARIABLE		50,000
			50,000
Revenue bonds payable			$ 1,971,850
Estimated fair value at June 30, 2005			$ 2,141,322 (B)

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

(C) 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, 2005 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO.3 REFUNDING REVENUE BONDS			
1989A	(A)	7-1-07/2014	$ 13,057
			13,057
1989B	(A)	7-1-07/2014	44,772
	7.125	7-1-2016	76,145
			120,917
1990B	(A)	7-1-07/2010	11,650
			11,650
1993B	5.60-7.00	7-1-07/2009	34,215
			34,215
1993C	5.00-7.50	7-1-06/2008	51,570
	(A)	7-1-13/2018	23,963
			75,533
1996A	5.50-6.00	7-1-06/2009	30,080
			30,080
1997A	5.00-6.00	7-1-06/2018	106,620
			106,620
1998A	5.125	7-1-2018	53,825
			53,825
2001A	5.50	7-1-10/2018	151,380
			151,380
2001B	5.50	7-01-2018	10,675
			10,675
2002B	6.00	7-01-2016	75,360
			75,360
2003A	5.50	7-1-11/2017	241,915
			241,915
2003B	4.15	7-1-2009	21,575
			21,575
2004A	5.25	7-1-14/2016	83,835
			83,835
2004B	5.50	7-1-2013	1,515
			1,515
2005A	5.00	7-1-13/2015	129,265
			129,265
2005B	4.11	7-1-2008	1,060
			1,060

OUTSTANDING LONG-TERM DEBT *(Continued)*

As of June 30, 2005 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT	
NUCLEAR PROJECT NO.3 REFUNDING REVENUE BONDS (Continued)				
1993-3A-3	VARIABLE		$ 20,345	
			20,345	
1998-3A	VARIABLE		132,650	
			132,650	
2001B-3-1	VARIABLE		5,000	(C)
			5,000	
2001B-3-2	VARIABLE		10,000	(C)
			10,000	
2003D-1	VARIABLE		100,665	
			100,665	
2003D-2	VARIABLE		100,400	
			100,400	
2003E	VARIABLE		98,025	
			98,025	
Compound interest bonds accretion			292,603	
Revenue bonds payable			$ 1,922,165	
Estimated fair value at June 30, 2005			$ 1,975,474	(B)

(A) Compound Interest Bonds

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

(C) Auction Rate Certificates that will have a rate of 5.50 through 7/1/2010 and a variable rate thereafter until 7/1/2018

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT	
NINE CANYON WIND PROJECT REVENUE BONDS				
2001A	4.55-4.95	7-1-06/2008	$ 5,035	
2001B	4.55-4.95	7-1-06/2008	2,025	
			7,060	
2003	3.00-5.00	7-1-06/2023	20,950	
			20,950	
2005	4.00-5.00	7-1-06/2023	61,950	
			61,950	
Revenue bond payable			$ 89,960	
Estimated fair value at June 30, 2005			$ 100,029	(B)

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

REVENUE BONDS PAYABLE	$ 6,230,371
TOTAL ALL PROJECTS EST. FAIR VALUE	$ 6,442,261

DEBT SERVICE REQUIREMENTS

As of June 30, 2005 (Dollars in Thousands)

COLUMBIA GENERATING STATION

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2005 Balance:*	$ -	$ 31,735	$ 31,735
2006	94,046	129,994	224,040
2007	153,686	118,866	272,552
2008	144,905	103,983	248,888
2009	146,201	102,564	248,765
2010	233,335	89,041	322,376
2011-2015	787,300	288,068	1,075,368
2016-2018	659,045	93,031	752,076
Adjustment **	24,717	(24,717)	-
	$ 2,243,235	$ 932,565	$ 3,175,800

* Principal and Interest due July 1, 2005.

** 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
6/30/2005 Balance:*	$ 205	$ 39	$ 244
2006	623	108	731
2007	648	85	733
2008	674	62	736
2009	572	37	609
2010	274	16	290
2011-2012	165	8	173
Adjustment **			0
	$ 3,161	$ 355	$ 3,516

* Principal and Interest due July 1, 2005.

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

NUCLEAR PROJECT NO. 1

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2005 Balance:*	$ -	$ 44,597	$ 44,597
2006	55,825	103,120	158,945
2007	64,575	99,615	164,190
2008	79,925	95,944	175,869
2009	86,710	91,160	177,870
2010	80,455	86,490	166,945
2011-2015	846,535	332,706	1,179,241
2016-2018	757,825	59,601	817,426
Adjustment **			
	$ 1,971,850	$ 913,233	$ 2,885,083

* Principal and Interest due July 1, 2005.

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

NUCLEAR PROJECT NO. 3

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2005 Balance:*	$ -	$ 26,391	$ 26,391
2006	42,275	76,065	118,340
2007	60,176	104,627	164,803
2008	64,390	101,635	166,025
2009	68,433	100,937	169,370
2010	38,862	98,828	137,690
2011-2015	521,085	402,307	923,392
2016-2018	834,341	112,604	946,945
Adjustment **	292,603	(292,603)	-
	$ 1,922,165	$ 730,791	$ 2,652,956

* Principal and Interest due July 1, 2005.

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

NINE CANYON WIND PROJECT

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2005 Balance:*	$ -	$ -	$ -
2006	3,240	4,247	7,487
2007	3,380	4,113	7,493
2008	4,315	3,968	8,283
2009	3,705	3,772	7,477
2010	3,885	3,596	7,481
2011-2015	22,455	15,011	37,466
2016-2020	28,390	9,198	37,588
2021-2023	20,590	2,080	22,670
Adjustment **			
	$ 89,960	$ 45,985	$ 135,945

* Principal and Interest due July 1, 2005.

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

Notes to Financial Statements

NOTE A - GENERAL

Organization

Energy Northwest, a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 2005, its membership consisted of 16 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

Each Energy Northwest Business Unit is financed and accounted for separate 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 Bonneville Power Administration (BPA) as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electric utility systems throughout the Northwest, including Participants in Energy Northwest's Business Units, for ultimate distribution to consumers. Participants in Energy Northwest's net-billed Business Units consist of publicly owned utilities and rural electric cooperatives located in the western United States who have entered into net-billing agreements with Energy Northwest and BPA for participation in one or more of Energy Northwest's Business Units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources as well as BPA's other costs (See Note E).

Energy Northwest operates the 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 Lake 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). All funding requirements are net-billed obligations of Nuclear Project No. 1. Energy Northwest wholly owns Nuclear Project No. 1.

Energy Northwest also manages the Business Development Fund and the Nine Canyon Wind Project, and managed the 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 FY 2003. Phase I of the project consists of turbines which are rated at 48 MWe. Phase II of the project was declared operational December 31, 2003. Phase II of the project consists of turbines which are rated at 15.6 MWe. The total project generating capability is approximately 64 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 FY 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 50MW of power generated by the facility. In September 2002, due to market conditions, Duke Energy North America (DENA) placed the project in "Construction Suspension." In February 2004, DENA announced it has no intention to complete the facility with its own funds. All obligations of this business unit have been completed and the fund was dissolved, effective June 30, by the Executive Board in July 2005.

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.

The fund balances (net assets) for Business Development, Nine Canyon Wind Project and the Internal Service Fund includes (in thousands): invested in capital assets, net of related debt, $561, ($24,894) and $14,261, restricted assets of $0, $12,305, $2,722; and unrestricted assets (deficit) of $1,301, $4,344, and ($5,148), respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Energy Northwest has adopted accounting policies and principles that are in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. Energy Northwest applies GAAP to the extent it does not conflict with Governmental Accounting Standards Board (GASB) standards (see Note B to the financial statements). 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, payroll, benefits, administrative and general expenses, and certain contracted services on a cost reimbursement basis. Certain assets in the Internal Service Fund are also owned by the Fund and operated for the benefit of other Projects. Depreciation relating to fixed assets is charged to the appropriate Business Units based upon assets held by each Project.

Liabilities of the Internal Service Fund represent accrued payroll, vacation pay, employee benefits, and common accounts payable which have been charged directly or indirectly to Business Units and will be funded by the Business Units when paid. Net amounts owed to or receivable from Energy Northwest Business Units are recorded under Current Liabilities – Due to other Business Units, or Current Assets – Due from other Business Units on the Internal Service Fund Balance Sheet.

The Combined Total column on the financial statements is for presentation only as each Energy Northwest Business Unit is financed and accounted for separately from all other current and future Business Units. The Fiscal Year (FY) 2005 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 GASB Statement No. 20, "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 Standard (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As such, the guidance under Statement of Governmental Accounting Standard No. 7 and No. 23 is followed. Such guidance governs the accounting for bond defeasances and refundings.

The preparation of Energy Northwest financial statements in conformity with GAAP 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.

During the normal construction phase of a Capital Facility, Energy Northwest's policy is to capitalize all costs relating to the Project, including interest expense, related administrative and general expense, less any interest income earned.

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 FY 1995 and was 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, 2005, was as follows:

Utility Plant Activity *(Amount in Thousands)*

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Columbia				
Generation	$ 3,451,357	$ 16,744	$ -	$ 3,468,101
Decommission	31,110	1,359	-	32,469
Construction Work-in-Progress	30,501	21,869	(15,586)	36,784
Accumulated Depreciation	(1,943,130)	(75,504)	-	(2,018,634)
Accumulated Amortization	(10,380)	(580)	-	(10,960)
Utility Plant net	$ 1,559,458	$ (36,112)	$ (15,586)	$ 1,507,760
Nine Canyon				
Generation	$ 68,036	$ 1	$ -	$ 68,037
Decommission	449	-	-	449
Construction Work-in-Progress	-	1	(1)	-
Accumulated Depreciation	(4,578)	(3,305)	-	(7,883)
Accumulated Amortization	(37)	(22)	-	(59)
Utility Plant net	$ 63,870	$ (3,325)	$ (1)	$ 60,544
Packwood				
Generation	$ 12,991	$ -	$ -	$ 12,991
Accumulated Depreciation	(12,417)	(25)	-	(12,442)
Utility Plant net	$ 574	$ (25)	$ -	$ 549
Business Development				
Generation	$ 882	$ 43	$ -	$ 925
Construction Work-in-Progress	-	43	(43)	-
Accumulated Depreciation	(246)	(118)	-	(364)
Utility Plant net	$ 636	$ (32)	$ (43)	$ 561
Internal Service Fund				
Generation	$ 43,837	$ 1,783	$ -	$ 45,620
Construction Work-in-Progress	515	409	(515)	409
Accumulated Depreciation	(30,606)	(1,162)	-	(31,768)
Utility Plant net	$ 13,746	$ 1,030	$ (515)	$ 14,261

Nuclear Fuel

All expenditures related to the initial purchase of nuclear fuel for Columbia, including interest, were 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 $161.1 million as of June 30, 2005 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 $7.2 million charge from the DOE for future spent nuclear fuel storage and disposal 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 (ISFSI) periodically to allow for future refuelings. Current period operating costs include $27.2 million for nuclear fuel and $1.4 million accrued liability for future dry cask storage costs.

Restricted Assets

In accordance with Project bond resolutions, related agreements or state law, separate restricted funds have been established for each Business Unit. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance costs, termination, decommissioning, hazardous waste disposal, 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. Accounts and other receivables specific to each Business Unit are recorded in the residing Business Unit.

Asset Retirement Obligation

Energy Northwest adopted the Statement of Financial Accounting Standards No. 143, Accounting for Obligations Associated with the Retirement of Long-Lived Asset (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 for Asset Retirement Obligations.

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 2005.

Energy Northwest's current estimate of Columbia's decommissioning costs is $632.1 million (in 2005 dollars). This estimate, which is updated biannually, is based on the NRC minimum amount required to demonstrate reasonable financial assurance for a boiling water reactor with the power level of Columbia.

Site restoration requirements for Columbia are governed by the site certification agreements between

Energy Northwest and the State of Washington and regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC). Energy Northwest submitted a site restoration plan for Columbia that was approved by the EFSEC on June 12, 1995. Energy Northwest's current estimate of Columbia's site restoration costs is $79.6 million in constant dollars (based on 2005 Study) and is updated biannually along with the decommissioning estimate.

Both decommissioning and site restoration estimates (based on 2005 Study) 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, 2005 totaled approximately $92.0 million and $11.0 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 (less than one year) of revenue bonds payable from restricted assets are reflected as current maturities. Debt that matures greater than one year is reflected as Long-Term Debt.

Accounts Payable and Accrued Expenses

Liabilities-Payable From Restricted Assets-Columbia includes $96.9 million for decommissioning and site restoration. Nuclear Project No. 1 includes $13.3 million for decommissioning and site restoration. The Nine Canyon Wind Project includes $0.5 million for decommissioning and site restoration.

Current Liabilities-Internal Service Fund accounts payable and accrued expenses include $4.0 million for payroll and related benefits, $17.2 million for compensated absences, and $2.4 million for outstanding warrants.

Other Non-Current Liabilities-Includes deferrals to cask liability and uranium enrichment assessment. Cask liability relates to the storage and disposal of spent fuel. Uranium enrichment assessment is related to fuel and is scheduled to be completed in two years.

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 DOE, Renewable Energy Performance Incentive (REPI) payments that enable the Nine Canyon Wind Project to receive funds based on generation as it applies to the REPI bill. 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. For the first time in the history of the program, congressional funding for qualified wind programs was not fully funded. The Nine Canyon Wind Project recorded a receivable for sixty-eight (68%) of the applied REPI funding in the amount of $2.3 million for FY 2005, representing its share of funded amounts. The payment stream and the REPI receipts were projected to cover the total costs over the purchase agreement. Permanent shortfalls in REPI funding will lead to future increases in the billing of the Project participants in order to cover total Project costs.

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, Long-Term Debt, Security-Nuclear Projects Nos. 1, 3, Columbia and 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 but are classified as available for sale investments.

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. Safekeeping agents, custodians, or trustees hold all investments for the benefit of the individual Energy Northwest Business Units.

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, 2005 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 below)

Available-For-Sale Investments (Dollars In Thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Columbia				
U.S. Government Agencies	$ 105,144	-	$ (10)	$ 105,134
Total	$ 105,144	-	$ (10)	$ 105,134
Packwood				
U.S. Government Treasury Bills	$ 2,719	-	-	$ 2,719
Total	$ 2,719	-	-	$ 2,719
Nuclear Project No. 1				
U.S. Government Agencies	$ 26,778	-	$ (3)	$ 26,775
Total	$ 26,778	-	$ (3)	$ 26,775
Nuclear Project No. 3				
U.S. Government Agencies	$ 26,843	-	$ (3)	$ 26,840
Total	$ 26,843	-	$ (3)	$ 26,840
Business Development Fund				
U.S. Government Agencies	$ 305	-	-	$ 305
Total	$ 305	-	-	$ 305
Grays Harbor				
U.S. Government Agencies	-	-	-	-
Total	-	-	-	-
Internal Service Fund				
U.S. Government Agencies	$ 28,849	-	$ (6)	$ 28,843
Total	$ 28,849	-	$ (6)	$ 28,843
Nine Canyon Wind				
U.S. Government Agencies	$ 8,101	-	$ (1)	$ 8,100
Total	$ 8,101	-	$ (1)	$ 8,100

Available-For-Sale Investments *(continued)*

	< 1 year	1-5 years	5-10 years	> 10 years	Total
Columbia					
U.S. Government Agencies	$ 105,134	-	-	-	$ 105,134
Total	$ 105,134	-	-	-	$ 105,134
Packwood					
U.S. Government Treasury Bills	$ 2,719	-	-	-	$ 2,719
Total	$ 2,719	-	-	-	$ 2,719
Nuclear Project No. 1					
U.S. Government Agencies	$ 26,775	-	-	-	$ 26,775
Total	$ 26,775	-	-	-	$ 26,775
Nuclear Project No. 3					
U.S. Government Agencies	$ 26,840	-	-	-	$ 26,840
Total	$ 26,840	-	-	-	$ 26,840
Business Development Fund					
U.S. Government Agencies	$ 305	-	-	-	$ 305
Total	$ 305	-	-	-	$ 305
Grays Harbor					
U.S. Government Agencies	$ -	-	-	-	$ -
Total	$ -	-	-	-	$ -
Internal Service Fund					
U.S. Government Agencies	$ 28,843	-	-	-	$ 28,843
Total	$ 28,843	-	-	-	$ 28,843
Nine Canyon Wind					
U.S. Government Agencies	$ 8,100	-	-	-	$ 8,100
Total	$ 8,100	-	-	-	$ 8,100

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 Retirements 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

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, 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, 2005 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.40%	1.40%	1.40%**
Employee	6.00%	1.18%	***

*The employer rates include the employer administrative expense fee currently set at 0.19%. This rate reflects the change effective September 1, 2004. Previous to this period the rate was 0.22%.

**Plan 3 defined benefits portion only.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2005	$86,067	$958,601	$364,653
2004	$101,132	$905,073	$336,973
2003	$108,239	$1,077,106	$ 95,821

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. Ninety-seven 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.

At the time each employee retires, Energy Northwest accrues a liability for the actuarial value of estimated future premiums, net of retiree contributions. The total liability recorded at June 30, 2005 was $0.9 million for these benefits.

During FY 2005, pension costs for Energy Northwest employees and post-employment life insurance benefit costs for retirees were calculated and allocated to each Business Unit based on direct labor dollars. Approximately 93 percent of all such costs were allocated to Columbia during FY 2005.

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% of the portion of the participant's salary deferral amount, which does not exceed 5% of the participant's 401(k) eligible earnings for the 401(k) Plan year. Participants direct the investment of their contributions. Participants are immediately vested in their contributions plus actual earnings thereon. During FY 2005 Energy Northwest contributed $2.1 million 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 (the "Electric Revenue Bonds") for Nuclear Projects Nos. 1, 3 and Columbia, respectively, are subordinate to the Prior Lien Bonds and have the same subordinated priority of payment within the Business Unit.

During the year ended June 30, 2005, Energy Northwest issued, for Nuclear Projects 1, 3, and Columbia, the Series 2005-A Bonds, Series 2005-B Bonds and Series 2005-C Bonds. The Series 2005-A, 2005-B, and 2005-C Bonds, issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are fixed rate bonds with a weighted average coupon interest rate of 5.00%. The Series 2005-A Bond Proceeds of $346.6 million refunded $346.8 million, par amount, of outstanding bonds having a weighted average coupon interest rate of 5.88%. The $346.6 million of proceeds associated with the Series 2005-A Bonds were allocated to Nuclear Project No. 1 ($79.4 million), Columbia ($125.2 million), and Nuclear Project No. 3 ($142.0 million). This transaction resulted in a net loss for accounting purposes of $1.4 million for Nuclear Project 1, a net loss of $1.0 million for Nuclear Project 3, and a net gain of $.2 million for Columbia. According to GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt", the amortization of the gains and losses on the refundings are calculated based on the shorter of the life of the new debt compared to the old debt.

The Series 2005-A bonds resulted in the recognition of a net accounting loss of $2.2 million for the year ended June 30, 2005. Energy Northwest increased its aggregate debt service by $121.0 million over the next 13 years due to extending the date of maturities; however an economic gain of $4.2 million was obtained.

The Series 2005-B Bonds, issued for Nuclear Project No.1, Nuclear Project No. 3 and Columbia, in the aggregate amount of $3.6 million, are taxable fixed-rate bonds with a weighted average coupon interest rate of 4.11%. The 2005-B Bond Proceeds were used for the purpose of paying costs relating to the issuance of the Series 2005-A and Series 2005-B Bonds as well as certain costs relating to the refunding of certain outstanding bonds. Lastly, some of the Series 2005-B Bond Proceeds will be used to finance a portion of the cost of certain capital improvements.

The Series 2005-C Bonds, issued for Columbia, in the amount of $91.9 million, are fixed-rate bonds with an average coupon interest rate of 4.60%. The Series 2005-C Bonds were issued to finance a portion of the cost of certain capital improvements at Columbia and to pay costs relating to nuclear fuel purchases.

During the year ended June 30, 2005, Energy Northwest issued, for Nine Canyon Wind Project, the Series 2005 Bonds. The Series 2005 Bonds, issued for Nine Canyon Wind Project are fixed-rate bonds with a weighted average coupon interest rate of 4.77%. The Series 2005 Bond Proceeds of $65.6 million refunded $59.4 million of outstanding bonds having a weighted average coupon interest rate of 5.77%. This transaction resulted in a net loss for accounting purposes of $7.2 million for Nine Canyon Wind Project. According to GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt", the amortization of the gains and losses on the refundings are calculated based on the shorter of the life of the new debt compared to the old debt.

The Series 2005 Bonds resulted in the recognition of an accounting loss of $7.2 million for the year ended June 30, 2005. Energy Northwest decreased its aggregate debt service payments by $3.7 million over the next 19 years and obtained an economic gain of $2.8 million.

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 statements No. 7 and 23. Including the FY 2005 defeasements, $260.5 million, $151.5 million, $304.1 million, and $59.4 million of defeased bonds were not called or had not matured at June 30, 2005, for Nuclear Projects Nos. 1 and 3, Columbia, and Nine Canyon Wind Project respectively.

Outstanding revenue bonds for the various Business Units as of June 30, 2005, and future debt service requirements for these bonds are presented as supplementary information at the end of the Financial Section of this report.

Security - Nuclear Projects Nos. 1 and 3 and Columbia

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

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 FY 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 ran through October 30, 2004. A one-year extension was negotiated for the period beginning November 1, 2004 and extending through October 30, 2005. A new contract effective October 1, 2005 and extending through September 30, 2008 has been signed. 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 also share project revenue to the extent that the amounts exceed project costs.

NOTE F - COMMITMENTS AND CONTINGENCIES

Nuclear Project No. 1 Termination

Since the Nuclear Project No.1 termination, Energy Northwest has been planning for the demolition of Nuclear Project No. 1 and restoration of the site, recognizing the fact that there is no market for the sale of the Project in its entirety and to-date, no viable alternative use has been found. The final level of demolition and restoration will be in accordance with agreements discussed 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 exist 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 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 EFSEC, and a lease agreement with the DOE. Energy Northwest submitted a site restoration plan for Nuclear Projects Nos. 1 and 4 to EFSEC on March 8, 1995, which complied with EFSEC requirements to remove the assets and restore the sites by demolition, burial, entombment, or other techniques such that the sites pose minimal hazard to the public. EFSEC approved Energy Northwest's site restoration plan on June 12, 1995. In its approval, EFSEC recognized that there is uncertainty associated with Energy Northwest's proposed plan. Accordingly, EFSEC's conditional approval provides for additional reviews once the details of the plan are finalized. A new plan with additional details was submitted in FY 2003. This submittal was used to calculate the 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% interest in NoaNet with an additional 25 percent step-up possible for a maximum 9.23 percent. As of June 30, 2005, NoaNet has $24.6 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) that the Business Development Fund could be required to pay is $2.3 million. It is important to note that 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 FY 2005 the Business Development Fund contributed $136K 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 $15.3 million. Future equity contributions, if any, will be treated the same until NoaNet has a positive equity position.

Business Development Fund Enriched Uranium Lease

In January 2004, the Business Development Fund entered into an enriched uranium lease agreement with two third parties whereby one third party leases enriched uranium to the Business Development Fund and concurrently allows the Business Development Fund to lease the enriched uranium to the other third party. The Business Development Fund earns a net margin of 0.625% per annum (through June 30, 2006) on the market value of the leased enriched uranium. The lease revenues and expenses are presented on a net basis in the Statements of Operations as the Business Development Fund does not take title to the enriched uranium, does not have inventory risk and is only at risk for the net margin. For FY 2005 the Business Development Fund recorded net revenues of $0.1 million in operating revenues under this agreement.

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 $10.7 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 104 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 $2.75 billion. The deductible for this coverage is $5.0 million per occurrence.

NOTE G - ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

Energy Northwest adopted SFAS 143 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 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 billings in excess of costs (liability) or costs in excess of billings (asset), as appropriate, as no net revenue or loss is recognized, and no 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 NRC regulations and site certification agreements between Energy Northwest and the State of Washington and regulations adopted by the EFSEC and a lease agreement with the DOE (see Notes B and F). Prior obligations recorded with regard to the decommissioning obligation of Columbia and Nuclear Project No. 1 were reversed as of the adoption date, with revised obligations being recorded in accordance with SFAS No. 143. As a result of the net billing arrangement, the adoption of SFAS No. 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, but resulted in a charge to costs in excess of billings.

Energy Northwest applied SFAS 143 to the ISFSI project, which is part of CGS, beginning in FY 2005 resulting in decommissioning and accretion expenses of $0.2 million and recognition of $1.4 million as the ARO.

An adjustment was made in FY 2005 for Nuclear Project No. 1 to account for costs incurred for decommissioning and site restoration. Costs incurred in FY 2005 of $6.2 million combined with a downward revision in future cash flows resulted in a downward adjustment to the ARO of $13.9 million.

As of June 30, 2005, Columbia Generating Station has a net asset value of $21.5 million and an accumulated liability of $96.9 million (includes ISFSI). Nuclear Project No. 1 has an accumulated liability of $13.3 million with a net asset value of $0.

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. The Nine Canyon Wind Project recorded the related ARO in FY 2003. As of June 30, 2005, the Nine Canyon Wind Project has a net asset value of $0.4 million and an accumulated liability of $0.5 million.

Packwood's obligation has not been calculated because the time frame and extent of the obligation was considered under this statement as indeterminate. As a result, no reasonable estimate of the 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.

The following table describes the changes to Energy Northwest's ARO liabilities for the year ended June 30, 2005:

Asset Retirement Obligation

	(Millions of dollars)
Columbia Generating Station	
Balance at June 30, 2004	$90.75
Current year accretion expense	4.75
ARO at June 30, 2005	$95.50
ISFSI	
Balance at June 30, 2004	$0.00
Asset Retirement Obligation incurred	1.36
Current year accretion expense	0.07
ARO at June 30, 2005	$1.43
Nuclear Project No. 1	
Balance at June 30, 2004	$26.17
Less: Restoration costs incurred	(6.22)
Current year accretion expense	1.04
Revision in future restoration estimates	(7.68)
ARO at June 30, 2005	$13.31
Nine Canyon Wind Project	
Balance at June 30, 2004	$0.50
Current year accretion expense	0.03
ARO at June 30, 2005	$0.53

CURRENT DEBT RATINGS *(Unaudited)*

Energy Northwest (Long-Term)	Net Billed Rating	Nine Canyon Rating
Fitch, Inc	AA-	A-
Moody's Investors Service, Inc.	Aaa	A3
Standard & Poor's Ratings Service (S&P)	AA-	A-

Variable Rate Debt	S&P	Fitch	Moody's
Letter of Credit Banks			
Bank of America			
Long-Term	AA-	AA-	Aa1
Short-Term	A-1+	F1+	P-1
JP Morgan Chase Bank			
Long-Term	AA-	A+	Aa3
Short-Term	A-1+	F1	VMIG1
Bond Insurance (Long-Term)			
MBIA Insurance Corporation	AAA	AAA	Aaa
AMBAC Assurance Corporation	AAA	AAA	Aaa
Financial Guaranty Insurance Company	AAA	AAA	Aaa
XL Capital Assurance Inc.	AAA	AAA	Aaa
Financial Security Assurance	AAA	AAA	Aaa
Liquidity Provider (Short-Term)			
Credit Suisse First Boston	A-1		P-1
Dexia	A-1+	F1+	VMIG-1