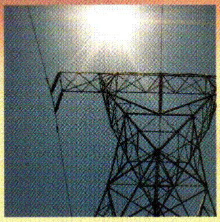
From left to right—Jack Baker, Vice President, Energy/Business Services; Cheryl Whitcomb, Vice President, Organizational Performance and Staffing/Chief Knowledge Officer; Joseph (Vic) Parrish, Chief Executive Officer and Chief Nuclear Officer; Scott Oxenford, Vice President, Technical Services; Dale Atkinson, Vice President, Nuclear Generation; and Al Mouncer, Vice President, Corporate Services/General Counsel/ Chief Financial Officer.

Front row, from left to right—Chris Kroupa, Lori Sanders, Kathy Vaughn, Vera Claussen, John Whalen, and Bill Gordon.

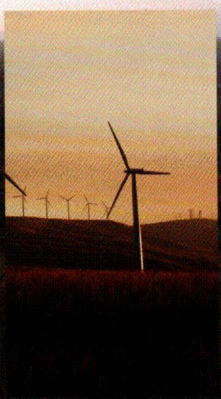
Middle row, from left to right—Merritt (Buz) Ketcham, Ernie Bolz, Ron Hatfield, Raymon Sieler, Judy Ridge, and Roger Sparks.

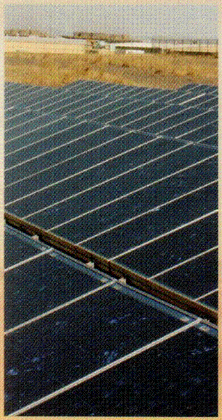
Back row, from left to right—Dan Gunkel, Bob Boyd, Larry Reese, Clyde Leach, Tom Casey, and Jack Janda. Not pictured—Mark Crisson and Seattle City Light representative.

Fiscal Year 2006 Highlights



- Columbia Generating Station surpasses longest continuous run record (July 30, 2006).
- Columbia Generating Station marks significant improvement in three areas of primary focus: Equipment Reliability, Human Performance and Training Excellence.
- National Nuclear Accrediting Board renews Energy Northwest Operations and Engineering Support Personnel training accreditations.
- Nuclear fuel procurement team announces agreements netting a total market value of over $500 million in savings to regional ratepayers for the period extending from 2003 to 2015.
- At Columbia Generating Station, the Operations Aggregate Impact Index, an indicator of how much plant conditions challenge Control Room staff, significantly improves due to reductions in maintenance backlog.
- Engineering drives improvement in equipment reliability through the establishment of a Columbia Generating Station Plant Health Committee. System Engineering, using a Top Ten Equipment Issues list, tackles equipment vulnerabilities in a planned and focused manner.
- The move to online repair of systems, such as Diesel Generator 2, 125-volt batteries, condenser tubes, and service water pumps, allows Columbia Generating Station to continue producing needed power for the region.





- Columbia Generating Station fuel procurement team announces the Uranium Tailings Pilot Project, expected to save ratepayers an estimated $50 million over the next decade.

- State and local governments receive $2.64 million in Energy Northwest privilege taxes.

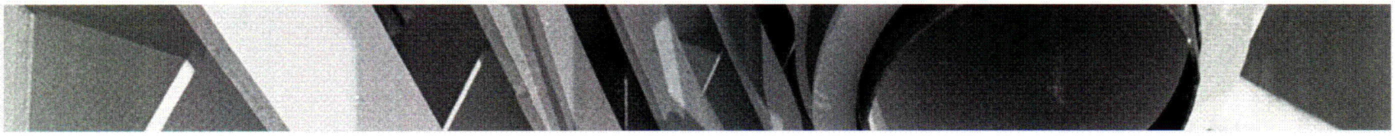
- Alternative procurement legislation is signed into law, allowing Energy Northwest the authority to use a competitive negotiated procurement process on renewable projects.

- Energy Northwest returns to the bond market for an unprecedented, 100 percent uninsured $907,475,000 bond sale, constituting one of the largest in agency history.

- BPA and Energy Northwest announce a change in the debt repayment method that is expected to save Northwest consumers five percent on wholesale power rates in fiscal years 2007-2009.

- Board of Directors approves Nine Canyon Phase III and Reardan Twin Buttes Wind Projects.

- Board of Directors approves the Pacific Mountain Energy Center project, and signs 50-year lease on a proposed site at Kalama, Washington.



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.

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, 2006, internal control procedures are adequate.

J.V. Parrish
Chief Executive Officer

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

Audit, Legal & 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; K.C. Golden; Bill Gordon; Jack Janda; Dave Remington; Kathy Vaughn; and Sid Morrison, Ex Officio. The Committee held 11 meetings during the fiscal year ended June 30, 2006.

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, 2006, and the related statements 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, 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.

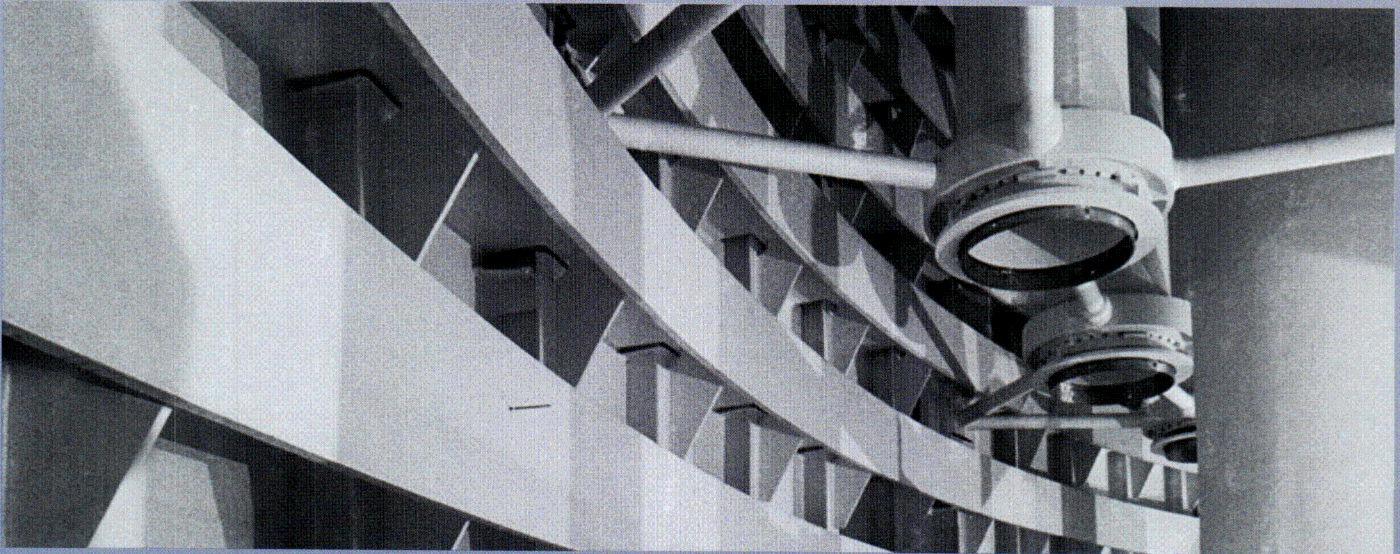
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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.

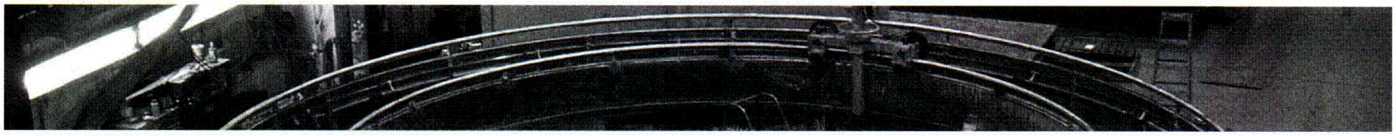
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Energy Northwest and Energy Northwest's business units and internal service fund at June 30, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis 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

Portland, Oregon
September 27, 2006





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, 2006 with the basic financial statements for the Fiscal Year ended June 30, 2005. 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's records are maintained as prescribed by the Governmental Accounting Standards Board (GASB) and, when not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). (See Note B to the Financial Statements).

Because each Business Unit is financed and accounted for separately, the following section on financial performance is discussed by Business Unit to aid in analysis of assessing the financial position of each individual Business Unit. For comparative purposes only, the following table represents a memorandum total only for Energy Northwest, as a whole, for FY 2005 and FY 2006 in accordance with GASB No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments".

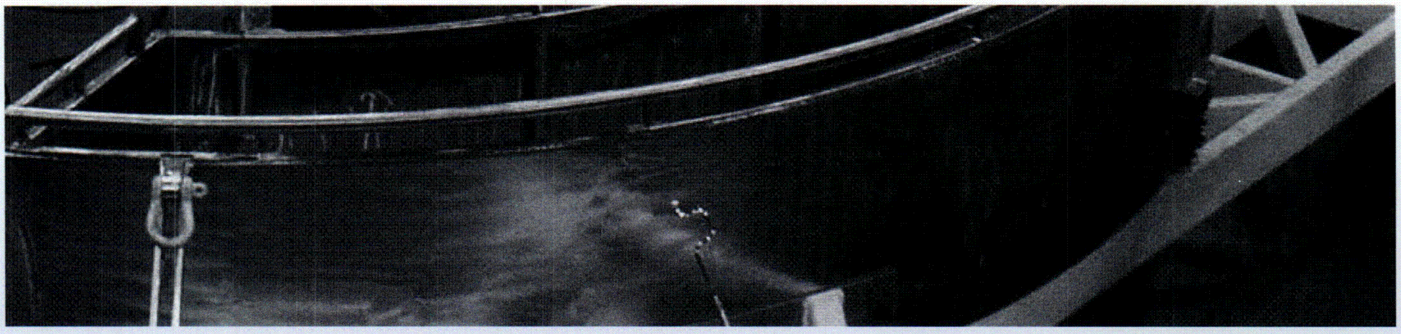
Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation:

Combined Financial Information

JUNE 30, 2006 AND 2005

(000'S)

	2006	2005	Change
Net Plant	**$ 1,524,835**	**$ 1,583,675**	**$ (58,840)**
Net Nuclear Fuel	190,483	126,143	64,340
Current and Restricted Assets	439,728	398,953	40,775
Long Term Receivables and Deferred Charges	4,434,978	4,349,884	85,094
Total Assets	**$ 6,590,024**	**$ 6,458,655**	**$ 131,369**
Fund Equity	**$ (29)**	**$ 5,452**	**$ (5,481)**
Long Term Debt	$ 6,240,866	$ 6,142,028	$ 98,838
Restricted and Non-Current Liabilities	262,620	245,353	17,267
Current Liabilities	85,118	64,914	20,204
Deferred Credits	1,449	908	541
Total Liabilities	**$ 6,590,053**	**$ 6,453,203**	**$ 136,850**
Total Liabilities and Equity	**$ 6,590,024**	**$ 6,458,655**	**$ 131,369**
Operating Revenues	$ 413,919	$ 446,162	$ (32,243)
Operating Expenses	300,582	335,075	(34,493)
Net Operating Income	$ 113,337	$ 111,087	$ 2,250
Other Income and Expense	**(120,202)**	**(111,621)**	**(8,581)**
Distributions & Contributions	**1,384**	**2,608**	**(1,224)**
Beginning Fund Equity	**5,452**	**3,378**	**2,074**
Ending Fund Equity	**$ (29)**	**$ 5,452**	**$ (5,481)**



The financial statements for Energy Northwest include the Balance Sheets; Statements of Operations and Fund Equity; and the Statements of Cash Flows for each of the Business Units; and Notes to Financial Statements.

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/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, Schedule of Outstanding Long-Term Debt and Debt Service Requirements (Note E – Long-Term Debt), accounting policies, significant balances and activities, material risks, commitments and obligations and subsequent events, if applicable.

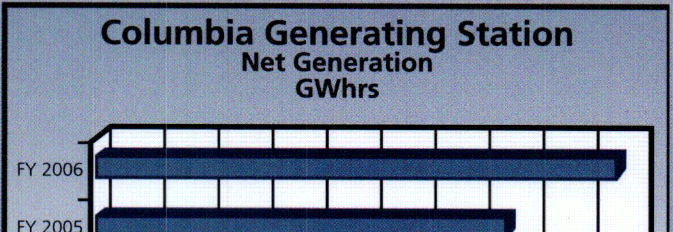
The basic financial statements of each Business Unit should be used individually along with the notes to the financial statements, and management discussion and analysis to provide an overview of Energy Northwest's financial performance. Questions concerning any of the information provided in this report should be addressed to Energy Northwest at PO Box 968, Richland WA, 99352.

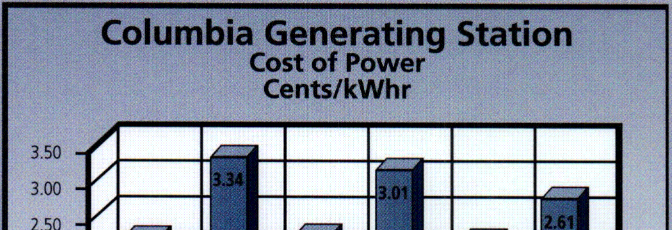
Columbia Generating Station

The Columbia Generating Station Nuclear Power Plant (CGS) 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.

CGS surpassed its all time best record of 393.09 continuous days on-line on July 30, 2006. The record generation run, which began on July 2, 2005, is continuing as of September 2006.

CGS produced 9,636 GWh of electricity in FY 2006, as compared to 7,599 GWh of electricity in FY Year 2005, which included economic dispatch of 101 GWh and 0 GWh respectively. Generation was greater in FY 2006 due to the record generation run along with the bi-annual maintenance and refueling outage (R-17) that occurred in FY 2005.





Energy Northwest's performance is measured in several ways, including cost of power at CGS. The cost of power for FY 2006 was 2.12 cents per KwH as compared with 3.34 cents per Kwh in FY 2005. The industry cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. The bi-annual maintenance and refueling outage (R-17) occurred in FY 2005 resulting in the increased cost of power compared with FY 2006.

Balance Sheet Analysis

Increase to Plant in Service and Construction Work In Progress (CWIP) from FY 2005 to FY 2006 (excluding nuclear fuel) was $14.4 million. The majority of the increase was related to CGS pump, battery and monitoring improvements. The additions to Plant were offset by an increase to Accumulated Depreciation of $73.0 million resulting in a net decrease to Plant of $58.7 million.

Nuclear fuel, net of accumulated amortization, increased $64.3 million from FY 2005 to $190.5 million for FY 2006. During FY 2006, CGS purchased $100.0 million of nuclear fuel, which was offset by current year amortization of $35.7 million. There was a bi-annual write-off of fuel and amortization for the removal of fuel assemblies related to the maintenance and refueling outage (R-17). The write-off of $103.6 million represents the original cost of the fuel assemblies removed and that are past the required six month cooling period per FERC guidelines. The fuel purchases of $100.0 million 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 decreased $12.5 million from FY 2005 levels to $104.7 million in FY 2006. Construction Fund spending and Fuel transactions contributed to the decrease.

The Debt Service Funds increased $14.6 million in FY 2006 to $47.5 million. The increase was due to interest payable being larger in FY 2006 than in FY 2005.

Long-term receivables decreased from $3.5 million in FY 2005 to $0.4 million in FY 2006 due to a movement of $2.4 million to a current receivable, which represents anticipated amounts for the R-18 outage in FY 2007. Current assets increased $25.6 million in FY 2006 to $131.3 million. The majority of the increase was due to investment fund balance increases for construction and fuel of $17.6 million and increases to materials and supplies of $6.4 million.

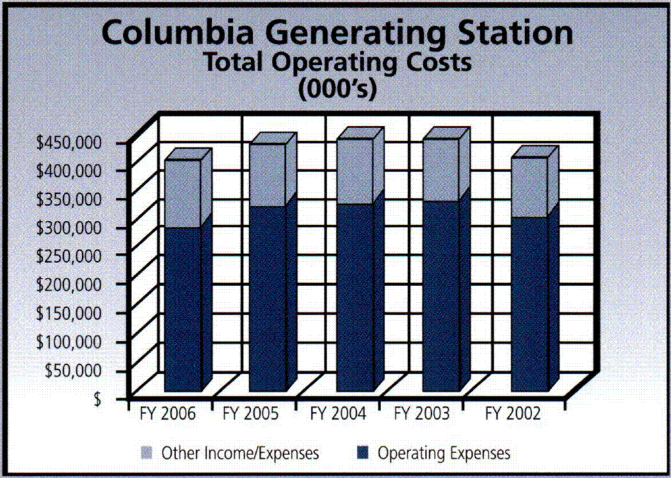
Costs in Excess of Billings have increased $89.8 million in FY 2006 from $563.5 million to $653.3 million. The increase is due to refunding current maturities while extending the overall maturities on the refunding debt. In addition, the accumulated decommissioning and site restoration accrued costs 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 $77.4 million in FY 2006 from $2.27 billion to $2.35 billion, which was a result of the FY 2006 Bond Issue. In FY 2006, new debt was issued for various CGS construction projects, as well as being issued as part of the Debt Optimization Plan Debt (see Note E to the financial statements).

Through June 30, 2006 Energy Northwest was being paid by the Participants for Net Billings. The payments were based on a percentage of ownership in CGS and Nuclear Projects No. 1 and 3 and reflected budgeted costs for operations of the fiscal year. Beginning in FY 2007, Energy Northwest will bill Bonneville Power Administration on a monthly basis for estimated expenses, not to exceed the approved budgeted value instead of billing and receiving the participants' legal obligations. The change in billing arrangement does not impact the Net Billing Agreements for CGS and Nuclear Projects No. 1 and 3.

Statement of Operations Analysis

CGS 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.

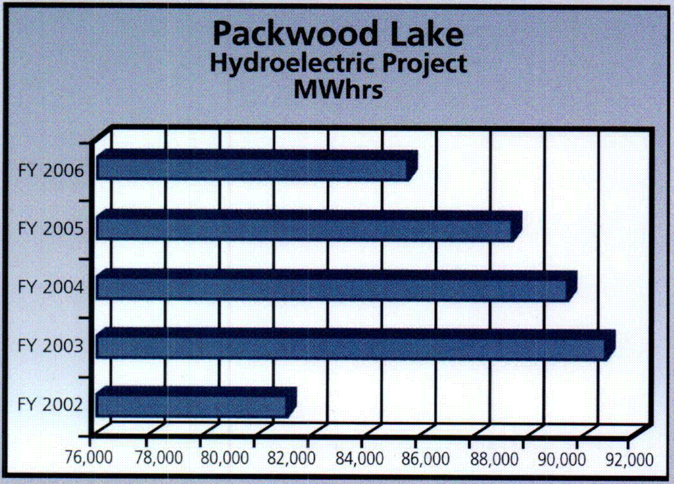


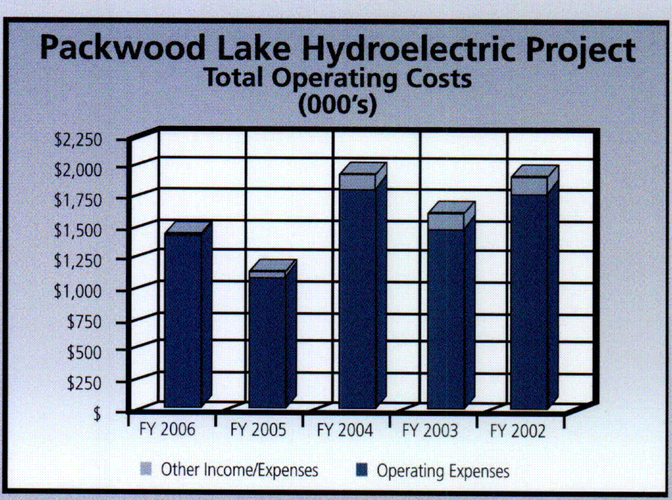
Operating expenses decreased $36.2 million from FY 2005 to $281.5 million mostly due to FY 2006 being a non-outage year. There were increases in fuel and fuel disposal of $11.1 million and generation taxes of $0.7 million recognized; however, these increases were directly related to the CGS record generation run. These increases were offset by continued control measures in place for plant operations and maintenance items and FY 2006 being a non-outage year.

Other Income and Expenses remained relatively constant from FY 2005 to FY 2006 at $116.4 million. The slight increase of $3.5 million was generally related to the net effects of CGS Debt activity (see Note E to the financial statements) and investment activity. Higher interest earnings on investments of $5.1 million were offset by the higher interest expense for FY 2006 of the same amount. Amortization of Bond Discount Expense ($0.9 million decrease) and Amortization of Bond Refunding ($5.0 million increase) netted an increase of $4.1 million as a result of the Bond Refunding issues. The remaining $0.6 million decrease was related to CGS general services and lease activity.

CGS total revenue dropped from $430.6 million in FY 2005 to $397.9 million in FY 2006. The decrease of $32.7 million is due to lower expenses and the related effect of the net billing agreements on revenue recognition.

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 85.22 GWh of electricity in FY 2006 versus 88.31 GWh in FY 2005. Generation was lower in FY 2006 reflecting the lowest generation on record for July and August, 2005 due to the Northwest drought situation.

Balance Sheet Analysis

All categories of assets remained relatively steady; total assets increased $74K overall. The only major line item asset changes were in the Deferred Charges where Costs in Excess of Billing decreased $0.6 million due to bond retirement and an increase of $0.7 million to deferred charges relating to re-licensing. There were no significant changes to current liabilities other than a decrease in Revenue Bonds Payable of $0.6 million and the related increase in Deferred Credits of $0.7 million from FY 2005 due to operations and bond retirements. No new debt was issued and the total debt continues to decrease per the current debt schedules. In FY 2005 the participants agreed to return $0.3 million in excess funding to the Packwood business unit for FY 2006 operations. Based on operations, there was no excess funding accrued for FY 2006.

Packwood has incurred $1.4 million in re-licensing costs through FY 2006. These costs are shown as Other Deferred Charges on the Balance Sheet. The FY 2007 projections are for an additional $0.7 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.

Operating expenses increased $0.4 million mostly due to the requirements of a power sales agreement with Benton and Franklin PUDs and a FERC billing received for administrative charges for the period 1998-2006.

The Project is obligated to supply a specified amount of power. If power production from Packwood does not supply the required amount of power, the shortfall is provided by purchasing power on the open market. The $0.2 million of increase expenses from FY 2005 is the net purchase power cost due to the drought conditions in July and August in the Pacific Northwest. Conversely, if there is excess capacity per the power sales agreement with Benton and Franklin PUDs, Energy Northwest sells the excess on the open market for additional revenues to be included as part of the power purchase agreements with the participants of the Packwood Project, (see Note E, Long Term Debt, Security – Packwood Lake Hydroelectric Project).

The FERC billing represents a billing for charges of $59k that represent administrative costs accrued by FERC for the last 6 years. Recent FERC litigation, not associated with Energy Northwest, resulted in their ability to now bill for those costs.

Other income and expenses decreased from $64k in FY 2005 to $8k in FY 2006 mainly due to increased interest earnings of $34k and decreased bond interest expenses of $22k.

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. 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 and are net-billed.

Balance Sheet Analysis

Under the debt optimization program, long-term debt increased $5.0 million from $1.966 billion in FY 2005 to $1.971 billion in FY 2006, due to debt restructuring to take advantage of lower interest rates.

Statement of Operations Analysis

Non-Operating Expenses increased $10.9 million from $94.3 million in FY 2005 to $105.2 million in FY 2006. The increases were due to net change in plant preservation and site restoration costs of $9.2 million and an increase to bond related expenses and investment income of $2.1 million from $102.5 million in FY 2005 to $104.6 million in FY 2006. These costs were offset slightly by a $0.4 million increase in gains on disposed property.

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 $18.5 million from $1.814 billion in FY 2005 to $1.833 million in FY 2006 due to debt restructuring to take advantage of lower interest rates.

Statement of Operations Analysis

Investment Income increased $0.9 million, from $1.9 million in FY 2005 to $2.8 million in FY 2006, as rates of return continued the rebound from historical lows.

Business Development Fund

Energy Northwest was created to enable Washington public power utilities and municipalities to build and operate generation projects. 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.

Balance Sheet Analysis

Balance Sheet changes from FY 2005 to FY 2006 were minimal and consisted mostly of a decrease in Accounts Receivable of $0.8 million from $1.7 million in FY 2005 to $0.9 million in FY 2006. The decrease is attributable to a single large receivable on a project completed just prior to the end of FY 2005 that was paid and adjusted in FY 2006. Accounts Payable and Accrued Expenses increased from $0.9 million in FY 2005 to $1.5 million in FY 2006 but is offset by the increase in Due From Other Business Units of $0.6 million.

Statement of Operations Analysis

Operating Revenues in FY 2006 totaled $7.8 million as compared to FY 2005 revenues of $8.1 million, a decrease of $0.3 million; however, net revenues for FY 2006 showed a $2.3 million loss as compared to a $0.7 million loss for FY 2005.

Three of Energy Northwest's Research and Investigation business projects, Integrated Gasification Combined Cycle (renamed Pacific Mountain Energy Center (PMEC) in FY 2006), Wind Mining and BioEnergy Solutions, accounted for $2.3 million in expenditures with no revenue, with the majority of expenses related to PMEC.

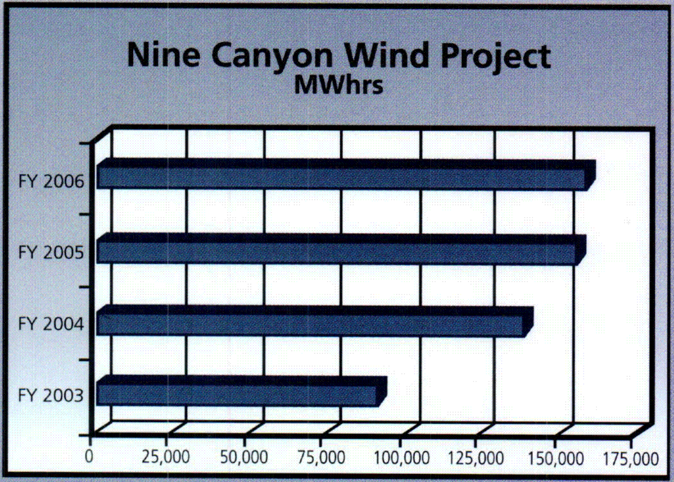
Initial investigation into developing an Integrated Gasification Combined Cycle project (PMEC) was kicked off in FY 2005, with approximately $0.4 million expended. In July 2005, Energy Northwest's Board of Directors passed a resolution to pursue permitting and possible construction of an Integrated Gasification Combined Cycle power plant in western Washington. The PMEC proposal calls for a 600 MWe 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. In FY 2006, $1.5 million was expended on developing this project.

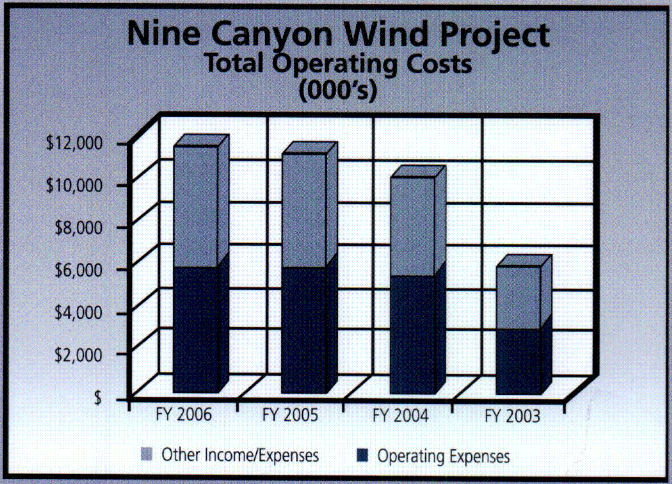
Wind Mining efforts continued in FY 2006 with approximately $0.5 million being expended. These efforts are to explore, site, and demonstrate wind resources for potential new wind sites.

BioEnergy Solutions is a business line of Energy Northwest that is in the process of evaluating dairy farm biomass projects for further development. In FY 2006, approximately $0.2 million was expended on developing projects.

The Business Development Fund receives contributions from the Internal Service Fund to cover cash needs during startup periods. 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 2006, the Business Development Fund received contributions (transfers) of $2.4 million.

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.

The Nine Canyon Wind Project produced 158.34 GWh of electricity in FY 2006 versus 154.52 GWh in FY 2005.

Balance Sheet Analysis

Receivables decreased by $1.1 million which corresponds to the decrease in amount of the Renewable Energy Performance Incentive (REPI) payment accrued. The FY 2005 accrual was $2.3 million compared to $1.2 million accrued for FY 2006. Net change in assets was negligible, though there was a reclassification of a contributed substation asset from Benton PUD to plant from a deferred charge. The decrease in Fund Equity was $4.1 million in FY 2006 as compared to a $2.7 million decrease in FY 2005. The continued decline in Fund Equity is 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. Revenue Bonds Payable decreased by $3.2 million as the current portion was moved to Current Debt Maturities.

Statement of Operations Analysis

Operating Revenues increased slightly from $6.2 million in FY 2005 to $6.3 million in FY 2006. The project received revenue from the billing of the project purchasers at an average rate of $36.10 per MWh for FY 2006. The planned billing increase of 3% to project participants did not cover the costs associated with the Project. There was a small increase in operating expenses of $0.1 million from $5.7 million in FY 2005 to $5.8 million in FY 2006. However, other income and expenses for FY 2006 netted an increase to costs of $5.6 million, an increase of $0.3 million from FY 2005. This trend is reflected in the declining Fund Equity balance.

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 of $1.2 million which represented forty-four percent of the $2.7 million applied for REPI funding in FY 2006. 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 anticipated a loss in early operating years with the expectation that REPI funding would cover costs. The REPI amounts continue to decline and the expectation is for this to continue with additional cash needs being paid from existing project reserve funds and increased prices to the project participants. 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 2006 Balance Sheet decreased $5.5 million from FY 2005. The net decrease in Assets is primarily from a $1.3 million decrease in Net plant due to Allowance for Depreciation; decrease in Cash and Investments for the Payable account of $1.3 million due to FY 2005 R-17 outage accruals; a decrease in restricted Cash/Investments related to Personal Time Bank and Long Term Disability Trust of $0.5 million; Performance Fee account draw downs of $1.8 million and decrease in Prepaid, Bearer Bonds and Due from Other Business Units of $0.6 million. The net decrease in Fund Equity and Liabilities is from a $1.8 million decrease related to Performance Fee draw downs; a decrease in restricted liabilities of $1.0 million relating to benefits; and a decrease of $2.7 million in Current Liabilities relating to Accounts Payables and Due to Other Business Units.

Statement of Operations Analysis

Net Revenues for FY 2006 increased $0.3 million from FY 2005 as rates of return on investments continue to rebound from historical lows.

ENERGY NORTHWEST
BALANCE SHEETS

As of June 30, 2006 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2006 COMBINED TOTAL
ASSETS									
UTILITY PLANT (NOTE B)									
In service	$ 3,529,544	$ 12,991	$ —	$ —	$ 1,039	$ 74,066	$ 3,617,640	$ 46,631	$ 3,664,271
Not in service			25,253				25,253		25,253
Accumulated depreciation	(2,102,609)	(12,466)	(25,253)		(422)	(12,392)	(2,153,142)	(33,708)	(2,186,850)
	1,426,935	525	—	—	617	61,674	1,489,751	12,923	1,502,674
Nuclear fuel, net of accumulated amortization	190,483						190,483		190,483
Construction work in progress	22,161						22,161		22,161
	1,639,579	525	—	—	617	61,674	1,702,395	12,923	1,715,318
RESTRICTED ASSETS (NOTE B)									
Special funds									
Cash	15,748	1	4	5		1	15,759	914	16,673
Available-for-sale investments	88,971	290	12,832	8,805		1,576	112,474	1,120	113,594
Accounts and other receivables	2					1,198	1,200		1,200
Debt service funds									
Cash	47,504	6	21,763	2,300		5,636	77,209		77,209
Available-for-sale investments		750	18,631	28,141		6,421	53,943		53,943
	152,225	1,047	53,230	39,251	—	14,832	260,585	2,034	262,619
LONG TERM RECEIVABLES (NOTE B)	388					388		388	
CURRENT ASSETS									
Cash	6	8	504	1	29	65	613		613
Available-for-sale investments	22,201	1,399	16,750	14,675	1,465	1,337	57,827	27,389	85,216
Accounts and other receivables	3,953	393	102		924		5,372	104	5,476
Due from participants	14		4	3			21		21
Due from other business units	5,684	70	3		564		6,321	605	
Due from other funds	14,057	22	9,702	5,936		266	29,983		
Materials and supplies	84,180					227	84,407		84,407
Prepayments and other	1,216	81			67	4	1,368	8	1,376
	131,311	1,973	27,065	20,615	3,049	1,899	185,912	28,106	177,109
DEFERRED CHARGES									
Costs in excess of billings	653,318		1,942,873	1,798,711			4,394,902		4,394,902
Unamortized debt expense	13,722	1	11,972	10,842		1,776	38,313		38,313
Other deferred charges		1,375					1,375		1,375
	667,040	1,376	1,954,845	1,809,553	—	1,776	4,434,590	—	4,434,590
TOTAL ASSETS	**$ 2,590,543**	**$ 4,921**	**$ 2,035,140**	**$ 1,869,419**	**$ 3,666**	**$ 80,181**	**$ 6,583,870**	**$ 43,063**	**$ 6,590,024**

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

ENERGY NORTHWEST
BALANCE SHEETS (continued)
As of June 30, 2006 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2006 COMBINED TOTAL
FUND EQUITY AND LIABILITIES									
FUND EQUITY									
Invested in capital assets, net of related debt	$ —	$ —	$ —	$ —	$ 617	$ (25,728)	$ (25,111)	$ 12,923	$ (12,188)
Restricted, net						11,877	11,877	1,205	13,082
Unrestricted, net					1,593	1,514	3,107	(4,030)	(923)
	—	—	—	—	2,210	(12,337)	(10,127)	10,098	(29)
LONG-TERM DEBT (NOTE E)									
Revenue bonds payable	2,292,555	1,906	1,961,960	1,919,315		86,720	6,262,456		6,262,456
Unamortized discount on bonds - net	88,507	(3)	64,813	(64,635)		3,424	92,106		92,106
Unamortized gain/(loss) on bond refundings	(31,683)	22	(55,846)	(21,983)		(4,206)	(113,696)		(113,696)
	2,349,379	1,925	1,970,927	1,832,697	—	85,938	6,240,866	—	6,240,866
LIABILITIES—PAYABLE FROM RESTRICTED ASSETS (NOTE B)									
Special funds									
Accounts payable and accrued expenses	102,001		13,247			566	115,814	829	116,643
Due to other funds	13,535	10	9,417	5,739		266	28,967		
Debt service funds									
Accrued interest payable	46,986	31	40,112	30,244		2,123	119,496		119,496
Due to other funds	522	12	285	197			1,016		
	163,044	53	63,061	36,180	—	2,955	265,293	829	236,139
OTHER NONCURRENT LIABILITIES	26,481						26,481		26,481
CURRENT LIABILITIES									
Cash overdraft								327	327
Current maturites of long-term debt		640				3,240	3,880		3,880
Accounts payable and accrued expenses	51,636	250	1,077	296	1,456	101	54,816	24,737	79,553
Due to Participants		1,358					1,358		1,358
Due to other business units	3		75	246		284	608	6,318	
	51,639	2,248	1,152	542	1,456	3,625	60,662	31,382	85,118
DEFERRED CREDITS									
Advances from members and others								7	7
Other deferred credits		695					695	747	1,442
	—	695	—	—	—	—	695	754	1,449
TOTAL LIABILITIES	2,590,543	4,921	2,035,140	1,869,419	1,456	92,518	6,593,997	32,965	6,590,053
TOTAL FUND EQUITY AND LIABILITIES	**$ 2,590,543**	**$ 4,921**	**$ 2,035,140**	**$ 1,869,419**	**$ 3,666**	**$ 80,181**	**$ 6,583,870**	**$ 43,063**	**$ 6,590,024**

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

ENERGY NORTHWEST

STATEMENTS OF OPERATIONS AND FUND EQUITY

For the year ended June 30, 2006 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2006 COMBINED TOTAL
OPERATING REVENUES	$ 397,857	$ 1,439	$ —	$ —	$ 7,813	$ 6,303	$ 413,412	$ —	$ 413,919
OPERATING EXPENSES									
Services to other business units									
Nuclear fuel	37,812						37,812		37,812
Spent fuel disposal fee	9,106						9,106		9,106
Decommissioning	6,127					59	6,186		6,186
Depreciation and amortization	73,734	35			210	3,739	77,718		77,718
Operations and maintenance	132,452	950			11,678	1,907	146,987		146,987
Other power supply expense		223					223		223
Administrative & general	19,262	205				34	19,501		19,501
Generation tax	2,997	18				34	3,049		3,049
Total operating expenses	**281,490**	**1,431**	**—**	**—**	**11,888**	**5,773**	**300,582**	**—**	**300,582**
NET OPERATING REVENUES (EXPENSES)	116,367	8	—	—	(4,075)	530	112,830	—	113,337
OTHER INCOME & EXPENSE									
Non-operating revenues			105,174	93,483			198,657	50,945	198,657
Investment income	9,229	98	3,778	2,779	82	539	16,505	469	16,505
Interest expense and discount amortization	(129,048)	(106)	(108,343)	(94,144)		(6,186)	(337,827)		(337,827)
Plant preservation and termination costs			(5,744)	(2,118)			(7,862)		(7,862)
Depreciation and amortization			(12)				(12)	(485)	(12)
Decommissioning			60				60		60
Services to other business units								(50,422)	
Other	3,452		5,087		1,738		10,277		10,277
NET REVENUES (EXPENSES)	—	—	—	—	(2,255)	(5,117)	(7,372)	507	(6,865)
Distribution & Contributions	—	—	—	—	2,603	1,025	3,628	(2,244)	1,384
Beginning Fund Equity	—	—	—	—	1,862	(8,245)	(6,383)	11,835	5,452
ENDING FUND EQUITY	**$ —**	**$ —**	**$ —**	**$ —**	**$ 2,210**	**$ (12,337)**	**$ (10,127)**	**$ 10,098**	**$ (29)**

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

ENERGY NORTHWEST

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2006 (Dollars in Thousands)

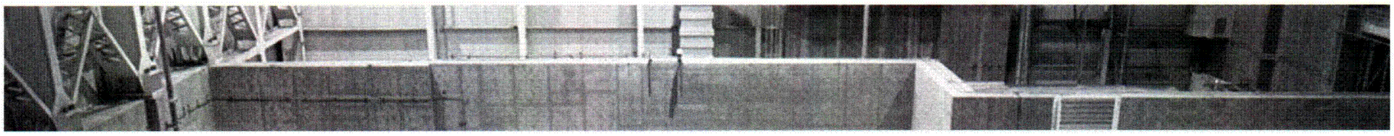
	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	NINE CANYON WIND PROJECT	INTERNAL SERVICE FUND	2006 COMBINED TOTAL
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES								
Operating revenue receipts	$ 302,036	$ 2,258	$ —	$ —	$ 4,990	$ 6,192	$ —	$ 315,476
Cash payments for operating expenses	(167,710)	(1,899)			(4,108)	(27)		(173,744)
Non-operating revenue receipts			109,705	78,388				188,093
Cash payments for preservation, termination expense			(6,288)	(1,616)				(7,904)
Cash payments for services							(5,161)	(5,161)
Net cash provided/(used) by operating and other activities	134,326	359	103,417	76,772	882	6,165	(5,161)	316,760
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from bond refundings	532,082		366,920	58,578				957,580
Refunded bond escrow requirement	(466,138)		(370,366)	(59,236)				(895,740)
Payment for bond issuance and financing costs	(4,123)		(1,758)	(347)		(15)		(6,243)
Capital	(13,696)				(135)			(13,831)
Receipts from sales of plant assets			4,901					4,901
Nuclear fuel acquisitions	(72,983)							(72,983)
Interest paid on revenue bonds	(97,916)	(116)	(100,317)	(70,361)		(2,124)		(270,834)
Principal paid on revenue bond maturities		(615)						(615)
Interest paid on notes	(1,361)		(742)	(523)				(2,626)
Net cash provided/(used) by capital and related financing activities	(124,135)	(731)	(101,362)	(71,889)	(135)	(2,139)	—	(300,391)
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of investment securities	(1,074,471)	(7,921)	(457,551)	(323,119)	(11,666)	(62,262)	(98,099)	(2,035,089)
Sales of investment securities	1,069,147	8,211	436,699	298,755	10,517	61,039	98,712	1,983,080
Interest on investments	8,722	87	3,193	2,362	68	529	924	15,885
Net cash provided/(used) by investing activities	3,398	377	(17,659)	(22,002)	(1,081)	(694)	1,537	(36,124)
NET INCREASE (DECREASE) IN CASH	**13,589**	**5**	**(15,604)**	**(17,119)**	**(334)**	**3,332**	**(3,624)**	**(19,755)**
CASH AT JUNE 30, 2005	**49,669**	**10**	**37,875**	**19,425**	**363**	**2,370**	**4,538**	**114,250**
CASH AT JUNE 30, 2006 (NOTE B)	**$ 63,258**	**$ 15**	**$ 22,271**	**$ 2,306**	**$ 29**	**$ 5,702**	**$ 914**	**$ 94,495**

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

ENERGY NORTHWEST
STATEMENTS OF CASH FLOWS (continued)
For the year ended June 30, 2006 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	NINE CANYON WIND PROJECT	INTERNAL SERVICE FUND	2006 COMBINED TOTAL
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES								
Net operating revenues	$ 116,367	$ 8	$ —	$ —	$ (4,075)	$ 530	$ —	$ 112,830
Adjustments to reconcile net operating revenues to cash provided by operating activities								
Depreciation and amortization	109,417	25			79	3,728		113,249
Decommissioning	6,127					22		6,149
Other	5,042				1,738	45		6,825
Change in operating assets and liabilities								
Deferred charges/costs in excess of billings	(95,604)	(23)						(95,627)
Accounts receivable	542	(176)			735			1,101
Materials and supplies	(6,379)							(6,379)
Prepaid and other assets	(535)	(24)			4	10		(545)
Due from/to other business units, funds and Participants	(1,076)	399			(617)	(579)		(1,873)
Accounts payable	425	150			600	110		1,285
Non-operating revenue receipts			109,705	78,388				188,093
Cash payments for preservation, termination expense			(6,288)	(1,616)				(7,904)
Cash payments for services							(5,161)	(5,161)
Receipts for grants/contributions					2,418	2,299		4,717
Net cash provided (used) by operating and other activities	**$ 134,326**	**$ 359**	**$ 103,417**	**$ 76,772**	**$ 882**	**$ 6,165**	**$ (5,161)**	**$ 316,760**

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



Energy Northwest 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, 2006, its membership consisted of 16 public utility districts and three 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 (CGS), 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 Project Participant 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. In 2002, the Project and its participants entered into a Power Sales Agreement with Benton and Franklin PUDs to guarantee a specified level of power generation from the Packwood project (see Note E, "Security-Packwood Lake Hydroelectric Project").

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 remain as net-billed obligations of Nuclear Projects Nos. 1 and 3. Energy Northwest wholly owns Nuclear Project No. 1. Energy Northwest is no longer responsible for site restoration costs for Nuclear Project No. 3 (see Note F).

Energy Northwest also manages the Business Development Fund and the Nine Canyon Wind Project:

- The Business Development Fund was established in April 1997 to pursue and develop new energy-related business opportunities.
- The Nine Canyon Wind Project was established in January 2001 for the purpose of exploring and establishing a wind energy project. Phase I of the project was completed in Fiscal Year (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.