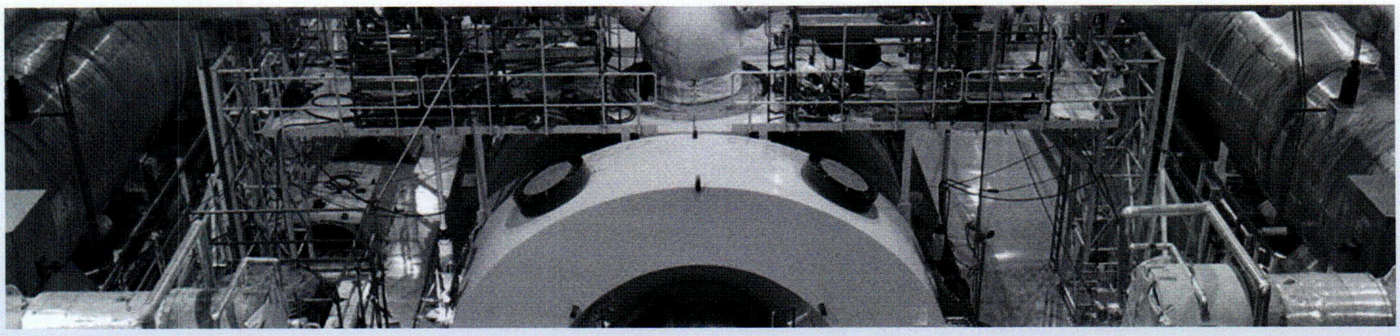

The Internal Service Fund (formerly General Fund) was established in May 1957. It is currently used to account for the central procurement of certain common goods and services for the Business Units on a cost reimbursement basis.

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 Financial Accounting Standards Board (FASB) standards to the extent it does not conflict with Governmental Accounting Standards Board (GASB) standards. Accounts are maintained in accordance with the uniform system of accounts of the FERC. Energy Northwest uses the full accrual basis of accounting where revenues are recognized when earned and expenses recognized when incurred. Revenues and expenses related to principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing and investing activities are considered to be non-operating revenues and expenses. 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 capital 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 this Fund and operated for the benefit of other Projects. Depreciation relating to capital 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 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 FY 2006 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 FASB statements and interpretations, except for those that conflict with, or contradict, GASB pronouncements. Specifically, GASB No. 7 "Advance Refundings Resulting in Defeasance of Debt" and GASB 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 GASB 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, which historically has been defined as construction of a generation 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. For financing not related to a Capital Facility, Energy Northwest analyzes the gross interest expense relating to the cost of the bond sale, taking into account interest earnings and draws for purchase or construction reimbursements for the purpose of analyzing impact to the recording of capitalized interest. CGS is a net-billed business unit, therefore costs whether expense or capital, are reimbursed each year. However, if estimated costs are more than inconsequential an adjustment will be made to allocate capitalized interest to the appropriate plant account.

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, 2006, was as follows:

ENERGY NORTHWEST

Utility Plant Activity

(Dollars In Thousands)

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
COLUMBIA GENERATING STATION				
Generation	$ 3,468,101	$ 28,974	—	$ 3,497,075
Decommissioning	32,469	—	—	32,469
Construction work-in-progress	36,784	14,194	(28,817)	22,161
Accumulated depreciation and decommissioning	(2,029,593)	(73,016)	—	(2,102,609)
Utility Plant, net *	$ 1,507,761	$ (29,848)	$ (28,817)	$ 1,449,096
PACKWOOD				
Generation	$ 12,991	—	—	$ 12,991
Accumulated depreciation	(12,441)	(25)	—	(12,466)
Utility plant, net	$ 550	$ (25)	—	$ 525
BUSINESS DEVELOPMENT				
Generation	$ 925	$ 114	—	$ 1,039
Construction work-in-progress	—	—	—	—
Accumulated depreciation	(364)	(58)	—	(422)
Utility plant, net	$ 561	$ 56	—	$ 617
NINE CANYON				
Generation	$ 73,630	$ 269	$ (282)	$ 73,617
Decommissioning	449	—	—	449
Construction work-in-progress	—	—	—	—
Accumulated depreciation and decommissioning	(8,642)	(3,750)	—	(12,392)
Utility plant, net	$ 65,437	$ (3,481)	$ (282)	$ 61,674
INTERNAL SERVICE FUND				
Generation	$ 45,620	$ 1,011	—	$ 46,631
Construction work-in-progress	409	—	(409)	—
Accumulated depreciation	(31,768)	(1,940)	—	(33,708)
Utility plant, net	$ 14,261	$ (929)	$ (409)	$ 12,923

* Does not include Nuclear Fuel Amount of $190 million, net of amortization.

Nuclear Fuel

All expenditures related to the initial purchase of nuclear fuel for Columbia, including interest, were capitalized and carried at cost. Fuel expenditures relating to the use of funds from the Series 2005-C Bonds for purchases of nuclear fuel 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 $93.3 million as of June 30, 2006 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 2017.

The current period operating expense for CGS includes a $9.1 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 the Independent Spent Fuel Storage Installation (ISFSI) project, which is a temporary dry cask storage until the DOE completes its plan for a national repository. ISFSI will store the spent fuel in commercially available dry storage casks on a concrete pad at the CGS site. Spent Fuel will be transferred from the Spent Fuel pool to the ISFSI periodically to allow for future refuelings. Current period operating costs include $36.1 million for nuclear fuel and $1.7 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 and fuel purchases, extraordinary operation and maintenance costs, termination, decommissioning, hazardous waste disposal, operating reserves, financing, long-term disability 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 CGS 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 SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Asset", 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 for Asset Retirement Obligations).

Decommissioning and Site Restoration

Energy Northwest established decommissioning and site restoration funds for CGS 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 CGS 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 CGS 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, 2006 totaled approximately $100.5 million and $12.9 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 and as discussed in the Management's Discussion and Analysis under the Balance Sheet Analysis for CGS, the balances in these external trust funds are not reflected on Energy Northwest's Balance Sheet.

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 which Energy Northwest has determined to not be materially different from the effective interest method of bond accounting.

In accordance with GASB 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 with maturities greater than one year is reflected as Long-Term Debt.

Accounts Payable and Accrued Expenses

Liabilities—Payable From Restricted Assets-CGS includes $102.0 million for decommissioning and site restoration. Nuclear Project No. 1 includes $13.2 million for decommissioning and site restoration. The Nine Canyon Wind Project includes $0.6 million for decommissioning and site restoration.

Current Liabilities—Internal Service Fund accounts payable and accrued expenses include $4.9 million for payroll and related benefits, $16.6 million for compensated absences, and $3.2 million for outstanding warrants, taxes, and retention withheld.

Other Non-Current Liabilities—Includes deferrals to cask liability of $26.4 million which relates to the storage and disposal of spent fuel.

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, Cash and Investments) and revenue bonds payable (see Note E, Long Term Debt) have been estimated based on quoted market prices for such instruments or on the fair market 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 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. The Nine Canyon Wind Project recorded a receivable for 44 percent of the applied REPI funding in the amount of $1.2 million for FY 2006, representing its share of funded amounts. The payment stream from project participants 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, CGS 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, 2006 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 table on following page.)

ENERGY NORTHWEST
AVAILABLE-FOR-SALE-INVESTMENTS
(Dollars in Thousands)

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
COLUMBIA GENERATING STATION				
U.S. Government Agencies	$ 111,365	$ —	$ (193)	$ 111,172
Total	$ 111,365	$ —	$ (193)	$ 111,172
PACKWOOD				
U.S. Government Treasury Bills	$ 2,439	$ —	$ —	$ 2,439
Total	$ 2,439	$ —	$ —	$ 2,439
NUCLEAR PROJECT NO. 1				
U.S. Government Agencies	$ 48,222	$ —	$ (9)	$ 48,213
Total	$ 48,222	$ —	$ (9)	$ 48,213
NUCLEAR PROJECT NO. 3				
U.S. Government Agencies	$ 51,630	$ —	$ (9)	$ 51,621
Total	$ 51,630	$ —	$ (9)	$ 51,621
BUSINESS DEVELOPMENT FUND				
U.S. Government Agencies	$ 1,466	$ —	$ (1)	$ 1,465
Total	$ 1,466	$ —	$ (1)	$ 1,465
INTERNAL SERVICE FUND				
U.S. Government Agencies	$ 28,529	$ —	$ (20)	$ 28,509
Total	$ 28,529	$ —	$ (20)	$ 28,509
NINE CANYON WIND				
U.S. Government Agencies	$ 9,339	$ —	$ (5)	$ 9,334
Total	$ 9,339	$ —	$ (5)	$ 9,334

AT JUNE 30, 2006 THE CONTRACTUAL MATURITIES OF AVAILABLE-FOR-SALE INVESTMENTS ARE:

	< 1 YEAR	1-5 YEARS	5-10 YEARS	> 10 YEARS	TOTAL
COLUMBIA GENERATING STATION					
U.S. Government Agencies	$ 111,172	$ —	$ —	$ —	$ 111,172
Total	$ 111,172	$ —	$ —	$ —	$ 111,172
PACKWOOD					
U.S. Government Treasury Bills	$ 2,439	$ —	$ —	$ —	$ 2,439
Total	$ 2,439	$ —	$ —	$ —	$ 2,439
NUCLEAR PROJECT NO. 1					
U.S. Government Agencies	$ 48,213	$ —	$ —	$ —	$ 48,213
Total	$ 48,213	$ —	$ —	$ —	$ 48,213
NUCLEAR PROJECT NO. 3					
U.S. Government Agencies	$ 51,621	$ —	$ —	$ —	$ 51,621
Total	$ 51,621	$ —	$ —	$ —	$ 51,621
BUSINESS DEVELOPMENT FUND					
U.S. Government Agencies	$ 1,465	$ —	$ —	$ —	$ 1,465
Total	$ 1,465	$ —	$ —	$ —	$ 1,465
INTERNAL SERVICE FUND					
U.S. Government Agencies	$ 28,509	$ —	$ —	$ —	$ 28,509
Total	$ 28,509	$ —	$ —	$ —	$ 28,509
NINE CANYON WIND					
U.S. Government Agencies	$ 9,334	$ —	$ —	$ —	$ 9,334
Total	$ 9,334	$ —	$ —	$ —	$ 9,334

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 retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system 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; and employees of local government, including Energy Northwest. Participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan two members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,169 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004:

Retirees and beneficiaries receiving benefits	66,896
Terminated plan members entitled to but not yet receiving benefits	21,031
Active plan members vested	103,039
Active plan members nonvested	53,217
Total	**244,183**

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates for the defined benefit plan expressed as a percentage of current year covered payroll, as of June 30, 2006 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	2.44%	2.44%	2.44%**
Employee	6.00%	2.25%****	***

*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.

****Rate thru December 31, 2005 was 1.18%

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
2006	$107,096	$1,458,655	$564,242
2005	$86,067	$958,601	$364,653
2004	$101,132	$905,073	$336,973

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, 2006 was $0.7 million for these benefits.

During FY 2006, 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 CGS during FY 2006.

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 may make an Employer matching contribution for each of its Employees who is a Participant during the Plan Year. The amount of such Employer matching shall be 50% of the maximum salary deferral percentage. Participants direct the investment of their contributions. Participants are immediately vested in their contributions plus actual earnings thereon. During FY 2006 Energy Northwest contributed $1.8 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, 2006, Energy Northwest issued, for Nuclear Projects 1, 3, and Columbia, the Series 2006-A Bonds, Series 2006-B Bonds, Series 2006-C Bonds, and Series 2006-D Bonds. The Series 2006-A, 2006-B, 2006-C, and 2006-D Bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and CGS are fixed rate bonds with a weighted average coupon interest rate ranging from 5.000% to 5.803%. The Series 2006-A Bond Proceeds of $875.3 million refunded $870.9 million, par amount, of outstanding bonds having a weighted average coupon interest rate of 5.00%. The $875.3 million of proceeds associated with the Series 2006-A Bonds were allocated to Nuclear Project No. 1 ($357.8 million), CGS ($459.4 million), and Nuclear Project No. 3 ($58.1 million). This transaction resulted in a net loss for accounting purposes of $14.0 million for Nuclear Project 1, a net loss of $0.7 million for Nuclear Project 3, and a net loss of $16.3 million for Columbia. According to GASB No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," gains and losses on the refundings are deferred and amortized over the remaining life of the old debt or the new debt, whichever is shorter.

The Series 2006-A Bonds resulted in the recognition of a net accounting loss of $31 million for the year ended June 30, 2006. For Series 2006-A and Series 2006-B, discussed below, Energy Northwest increased its aggregate debt service by $283.7 million over the next 18 years due to extending the date of certain maturities and extending other debt out to 2024 from 2018; however an economic gain of $8.1 million, based on the present value of debt service comparison, was obtained. The economic gain was recorded according to GASB 7, "Advance Refundings Resulting in Defeasance of Debt."

The Series 2006-B Bonds, issued for Nuclear Project No.1, Nuclear Project No. 3 and Columbia, in the aggregate amount of $14.1 million, are taxable fixed-rate bonds with a weighted average coupon interest rate of 5.16% for Nuclear Project 1; 5.21% for Nuclear Project 3; and 5.23% for Columbia. The 2006-B Bond Proceeds were used for the purpose of paying costs relating to the issuance of the Series 2006-A and Series 2006-B Bonds as well as certain costs relating to the refunding of certain outstanding bonds.

The Series 2006-C Bonds (Non-taxable, $62.2 million) and Series 2006-D Bonds (Taxable, $3.4 million), issued for Columbia, in the amount of $65.6 million, are fixed-rate bonds with an average coupon interest rate of 5.00% for Series 2006-C and 5.803% for Series-D. The Series 2006-C Bonds and Series 2006-D Bonds were issued to finance a portion of the cost of certain capital improvements at Columbia.

Energy Northwest did not issue or refund any bonds associated with the Nine Canyon Wind Project or the Packwood Lake Hydroelectric Project for FY 2006.

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 2006 defeasements, $510.1 million, $58.1 million, $491.7 million, $59.4 million of defeased bonds were not called or had not matured at June 30, 2006, for Nuclear Projects Nos. 1 and 3, Columbia, and Nine Canyon Wind Project respectively.

Outstanding principal on revenue and refunding bonds for the various Business Units as of June 30, 2006, and future debt service requirements for these bonds are presented in tables on the following pages.

ENERGY NORTHWEST

OUTSTANDING LONG-TERM DEBT

As of June 30, 2006 (Dollars in Thousands)

COLUMBIA GENERATING REFUNDING REVENUE BONDS

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
1992A	6.30	7-1-2012	$50,000
			$50,000
1993A	5.70-5.80	7-1-07/2008	$8,595
			$8,595
1994A	6.00	7-1-2007	$79,405
	(A)	7-1-2009	$4,776
	5.40	7-1-2012	$100,200
			$184,381
1996A	6.00	7-1-2008	$17,475
			$17,475
1997B	5.00-5.20	7-1-09/2011	$15,000
			$15,000
1998A	5.00-5.75	7-1-07/2012	$161,230
			$161,230
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
2003A	5.50	7-1-10/2015	$132,970
			$132,970

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
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	$403,080
			$403,080
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	7-1-09/2015	$91,890
			$91,890
2006A	5.00	7-1-20/2024	$434,210
			$434,210
2006B	5.23	7-1-2011	$4,420
			$4,420
2006C	5.00	7-1-20/2024	$62,200
			$62,200
2006D	5.803	7-1-2023	$3,425
			$3,425
COMPOUND INTEREST BONDS ACCRETION			**$6,224**
REVENUE BONDS PAYABLE			**$2,292,555**
ESTIMATED FAIR VALUE AT JUNE 30, 2006			**$2,407,361** (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.

PACKWOOD LAKE PROJECT REVENUE BONDS

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
1962	3.625	3-1-07/2010	$1,781
1965	3.75	3-1-07/2012	$765
REVENUE PONDS PAYABLE			**$2,546**
ESTIMATED FAIR VALUE AT JUNE 30, 2006			**$2,531** (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.

ENERGY NORTHWEST
OUTSTANDING LONG-TERM DEBT
As of June 30, 2006 (Dollars in Thousands)

NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
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	$21,970
			$21,970
1993C	5.10-5.20	7-1-07/2008	$3,875
			$3,875
1996A	6.00	7-1-2008	$40,050
			$40,050
1996C	5.25-6.00	7-1-07/2009	$8,925
			$8,925
1997A	6.00	7-1-07/2008	$13,850
			$13,850
1997B	5.00-5.125	7-1-07/2017	$241,440
			$241,440
1998A	5.00-5.75	7-1-07/2017	$78,460
			$78,460
2001A	4.125-5.50	7-1-07/2013	$77,160
			$77,160
2001B	5.50	7-1-2017	$23,600 (C)
			$23,600
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
2006A	5.00	7-1-07/2017	$338,775
			$338,775
2006B	5.16	7-1-2007	$9,160
			$9,160
1993-1A-1	VARIABLE		$41,845
			$41,845
1993-1A-2	VARIABLE		$41,845
			$41,845
1993-1A-3	VARIABLE		$13,715
			$13,715
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			**$1,961,960**
ESTIMATED FAIR VALUE AT JUNE 30, 2006			**$2,064,481** (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

ENERGY NORTHWEST
OUTSTANDING LONG-TERM DEBT
As of June 30, 2006 (Dollars in Thousands)

NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
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	5.10-7.50	7-1-07/2008	$29,565
	(A)	7-1-13/2018	$23,963
			$53,528
1996A	5.50	7-1-2007	$7,315
			$7,315
1997A	5.10-6.00	7-1-07/2018	$100,650
			$100,650
1998A	5.125	7-1-17/2018	$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

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT	
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	
2006A	5.00	7-1-08/2018	$54,760	
			$54,760	
2006B	5.21	7-1-2008	$525	
			$525	
1993-3A-3	VARIABLE		$19,310	
			$19,310	
1998-3A	VARIABLE		$126,290	
			$126,290	
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			**$1,919,315**	
ESTIMATED FAIR VALUE AT JUNE 30, 2006			**$1,921,109**	(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

NINE CANYON WIND PROJECT REFUNDING REVENUE BONDS

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
2001A	4.55-4.95	7-1-07/2008	$5,035
2001B	4.55-4.95	7-1-07/2008	$2,025
			$7,060
2003	3.00-5.00	7-1-07/2023	$20,950
			$20,950
2005	4.00-5.00	7-1-07/2023	$61,950
			$61,950

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT	
REVENUE BOND PAYABLE			**$89,960**	
ESTIMATED FAIR VALUE AT JUNE 30, 2006			**$92,464**	(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.

TOTAL BONDS PAYABLE	**$6,266,336**
ESTIMATED FAIR VALUE AT JUNE 30,2006	**$6,487,946**

ENERGY NORTHWEST
DEBT SERVICE REQUIREMENTS
As of June 30, 2006 (Dollars in Thousands)

COLUMBIA GENERATING STATION

YEAR***	PRINCIPAL	INTEREST	TOTAL
6/30/2006 Balance:*	—	$40,637	$40,637
2007	88,455	120,562	209,017
2008	126,285	115,305	241,590
2009	115,806	114,765	230,571
2010	157,650	102,782	260,432
2011	95,405	94,604	190,009
2012-2016	622,745	366,962	989,707
2017-2021	765,585	177,813	943,398
2022-2024	314,400	32,008	346,408
Adjustment **	6,224	(6,224)	—
	$2,292,555	**$1,159,214**	**$3,451,769**

PACKWOOD LAKE PROJECT

YEAR***	PRINCIPAL	INTEREST	TOTAL
6/30/2006 Balance:*	$213	$31	$244
2007	648	85	733
2008	674	62	736
2009	572	37	609
2010	274	16	290
2011	122	6	128
2012	43	2	45
	$2,546	**$239**	**$2,785**

NUCLEAR PROJECT NO. 1

YEAR***	PRINCIPAL	INTEREST	TOTAL
6/30/2006 Balance:*	—	$39,775	$39,775
2007	65,335	102,010	167,345
2008	80,310	98,640	178,950
2009	87,110	93,812	180,922
2010	80,620	89,349	169,969
2011	89,090	85,392	174,482
2012-2016	1,114,980	304,889	1,419,869
2017	444,515	23,129	467,644
	$1,961,960	**$836,996**	**$2,798,956**

NUCLEAR PROJECT NO. 3

YEAR***	PRINCIPAL	INTEREST	TOTAL
6/30/2006 Balance:*		$28,838	$28,838
2007	60,176	109,013	169,189
2008	64,425	105,990	170,415
2009	68,378	105,287	173,665
2010	38,862	103,202	142,064
2011	87,514	93,825	181,339
2012-2016	696,270	385,291	1,081,561
2017-2018	611,087	66,564	677,651
Adjustment **	292,603	(292,603)	—
	$1,919,315	**$705,407**	**$2,624,722**

* Principal and Interest due July 1, 2006.

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

***Amounts presented are as of July 1 of each year

NINE CANYON WIND PROJECT

YEAR***	PRINCIPAL	INTEREST	TOTAL
6/30/2006 Balance:*	$3,240	$2,123	$5,363
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	4,070	3,411	7,481
2012-2016	23,550	13,940	37,490
2017-2021	29,755	7,876	37,631
2022-2023	14,060	1,063	15,123
	$89,960	**$43,862**	**$133,822**

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 CGS. 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 a Power Sales agreement, as amended, which extends the period through October 1, 2008. The agreement became effective November 1, 2002. Benton and Franklin County PUDs agree to pay Energy Northwest in exchange for the total output of electric capacity and energy delivered from the Packwood Generation Project. In addition, the Project is required to supply a specified amount of power to Benton and Franklin County PUDs. If power production does not supply the required amount of power, the Project is required to provide any shortfall by purchasing power on the open market. 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 SRP 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 a potential mandate of an additional 25 percent step-up possible for a maximum 9.23%. As of December 31, 2005, NoaNet has $22.8 million in outstanding notes payables ($1.1 million) and bonds ($21.7 million). 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 (based on step-up potential) that the Business Development Fund could be required to pay is $2.1 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 2006 the Business Development Fund contributed $148K 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 as of December 31, 2005. Future equity contributions, if any, will be treated the same until NoaNet has a positive equity position. Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, 111 Devereese Road, Chehalis, WA 98532.

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 8.9% 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 2006 the Business Development Fund recorded net revenues of $128.4K 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 $10.8 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 $15 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 No.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, is 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: CGS, Nuclear Project No. 1 and Nine Canyon Wind Project. Decommissioning and site restoration requirements for CGS 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 CGS and Nuclear Project No. 1 was 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 CGS 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.

As of June 30, 2006, CGS has a capital decommissioning net asset value of $20.5 million and an accumulated liability of $102.0 million. The CGS amount includes the ISFSI (accumulated liability of $1.5M). The ISFSI, included in CGS, had SFAS 143 applied effective FY 2005.

An adjustment was made in FY 2006 for Nuclear Project No. 1 to account for costs incurred for decommissioning and site restoration. Costs incurred in FY 2006 of $0.48 million combined with current year accretion expense of $0.67 million and revision in future restoration estimates of $0.25 million resulted in a small decrease to the ARO of $0.06 million. Nuclear Project No. 1 has a capital decommissioning net asset value of $0 and an accumulated liability of $13.2 million.

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, 2006, the Nine Canyon Wind Project has a capital decommissioning net asset value of $0.4 million and an accumulated liability of $0.6 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 table to the right describes the changes to Energy Northwest's ARO liabilities for the year ended June 30, 2006.

ENERGY NORTHWEST
ASSET RETIREMENT OBLIGATION
As of June 30, 2006 (Millions of Dollars)

COLUMBIA GENERATING STATION	
Balance at June 30, 2005	$ 95.50
Current year accretion expense	5.00
ARO at June 30, 2006	**$100.50**
ISFSI	
Balance at June 30, 2005	$ 1.43
Current year accretion expense	0.07
ARO at June 30, 2006	**$ 1.50**
NUCLEAR PROJECT NO. 1	
Balance at June 30, 2005	$ 13.31
Less: Restoration costs incurred	(.48)
Current year accretion expense	.67
Revision in future restoration estimates	(.25)
ARO at June 30, 2006	**$ 13.25**
NINE CANYON WIND PROJECT	
Balance at June 30, 2005	$ 0.53
Current year accretion expense	0.04
ARO at June 30, 2006	**$ 0.57**

ENERGY NORTHWEST
CURRENT DEBT RATINGS (UNAUDITED)

		NET BILLED RATING		NINE CANYON RATING
ENERGY NORTHWEST (Long-Term)				
FITCH, INC.		AA-		A-
MOODYS INVESTORS SERVICE, INC. (MOODYS)		Aaa		A3
STANDARD AND POOR'S RATINGS SERVICES (S & P)		AA-		A-
		S & P	FITCH	MOODYS
VARIABLE RATE DEBT				
LETTER OF CREDIT BANKS				
	Bank of America			
	Long Term	AA-		Aa1
	Short-Term	A-1+		P-1
	JPMorgan Chase Bank			
	Long-Term	AA-	A+	Aa3
	Short-Term	A-1+	F1	VMIG-1
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
FSA (SHORT-TERM)				
	Credit Suisse First Boston	A-1+		P-1
	Dexia	A-1+	F1+	VMIG-1

Energy Northwest pays special tribute to our Fiscal Year 2006 Board members and officers.

Executive Board

Edward (Ted) Coates, Chairman
Dan Gunkel, Vice Chairman
Roger Sparks, Secretary
Tim Sheldon, Assistant Secretary
Tom Casey
Vera Claussen
K.C. Golden
Jack Janda
Larry Kenney
Sid Morrison
Dave Remington

Board of Directors

Ron Hatfield, President
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Lori Sanders
Raymon Sieler
Roger Sparks
John Whalen

Energy Northwest is a joint operating agency comprising 20 member utilities:

Asotin County PUD

Benton County PUD

Chelan County PUD

City of Richland

Cowlitz County PUD

Ferry County PUD

Franklin County PUD

Grant County PUD

Grays Harbor County PUD

Kittitas County PUD

Klickitat County PUD

Mason County PUD No. 1

Mason County PUD No. 3

Okanogan County PUD

Pacific County PUD No. 2

Seattle City Light

Skamania County PUD

Snohomish County PUD

Tacoma Power

Wahkiakum County PUD

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