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January 10, 2008  
GO2-08-030

10 CFR 72.80(b)

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

Subject: **COLUMBIA GENERATING STATION  
INDEPENDENT SPENT FUEL STORAGE INSTALLATION  
DOCKET NO. 72-35  
2007 ANNUAL FINANCIAL REPORT**

Dear Sir or Madam:

In accordance with 10 CFR 72.80(b), enclosed is a copy of the Energy Northwest 2007 Annual Report for the subject facility.

There are no commitments being made to the NRC by this letter. Should you have any questions, please contact DW Gregoire at (509) 377-8616.

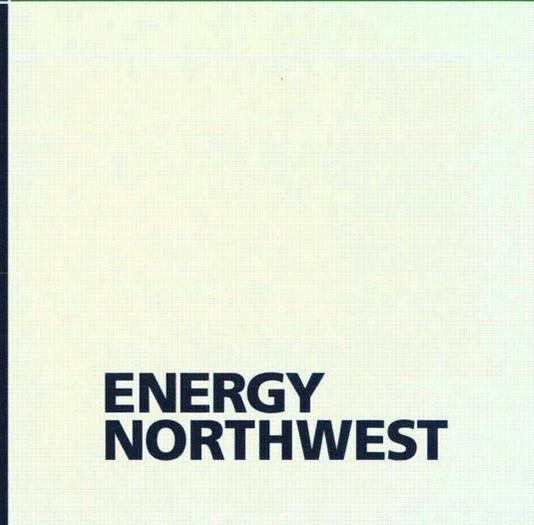
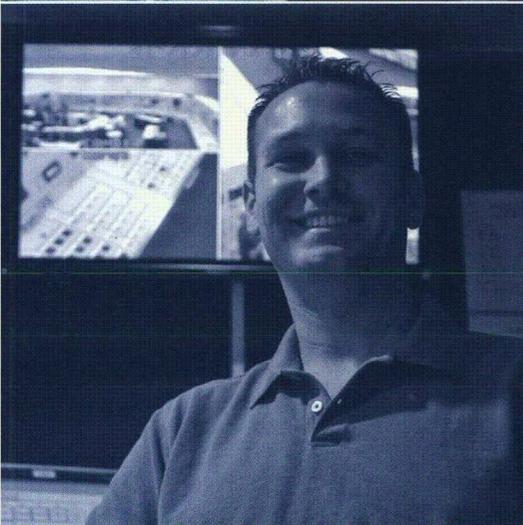
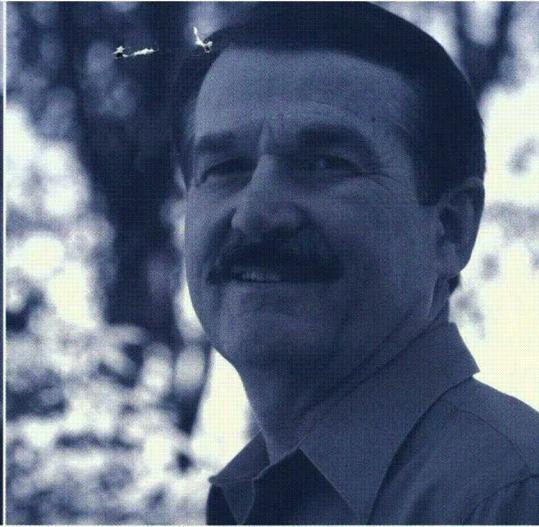
Respectfully,

GV Cullen  
Manager, Regulatory Programs

Enclosure: As stated

cc: EE Collins – NRC RIV w/o  
CF Lyon – NRC – NRR w/o  
Director, Spent Fuel Project Office – NMSS w/o  
NRC Sr. Resident Inspector – 988C w/o  
RN Sherman – BPA/1399 w/o  
WA Horin – Winston & Strawn w/o

M004  
NMSS01



**ENERGY  
NORTHWEST**

50 YEARS SERVING PUBLIC POWER

1957

1958	1965	1972	1979	1986	1993	2000
1959	1966	1973	1980	1987	1994	2001
1960	1967	1974	1981	1988	1995	2002
1961	1968	1975	1982	1989	1996	2003
1962	1969	1976	1983	1990	1997	2004
1963	1970	1977	1984	1991	1998	2005
1964	1971	1978	1985	1992	1999	2006

2007

ANNUAL REPORT

## OUR VISION

The region's preferred  
source for energy  
solutions.

## OUR MISSION

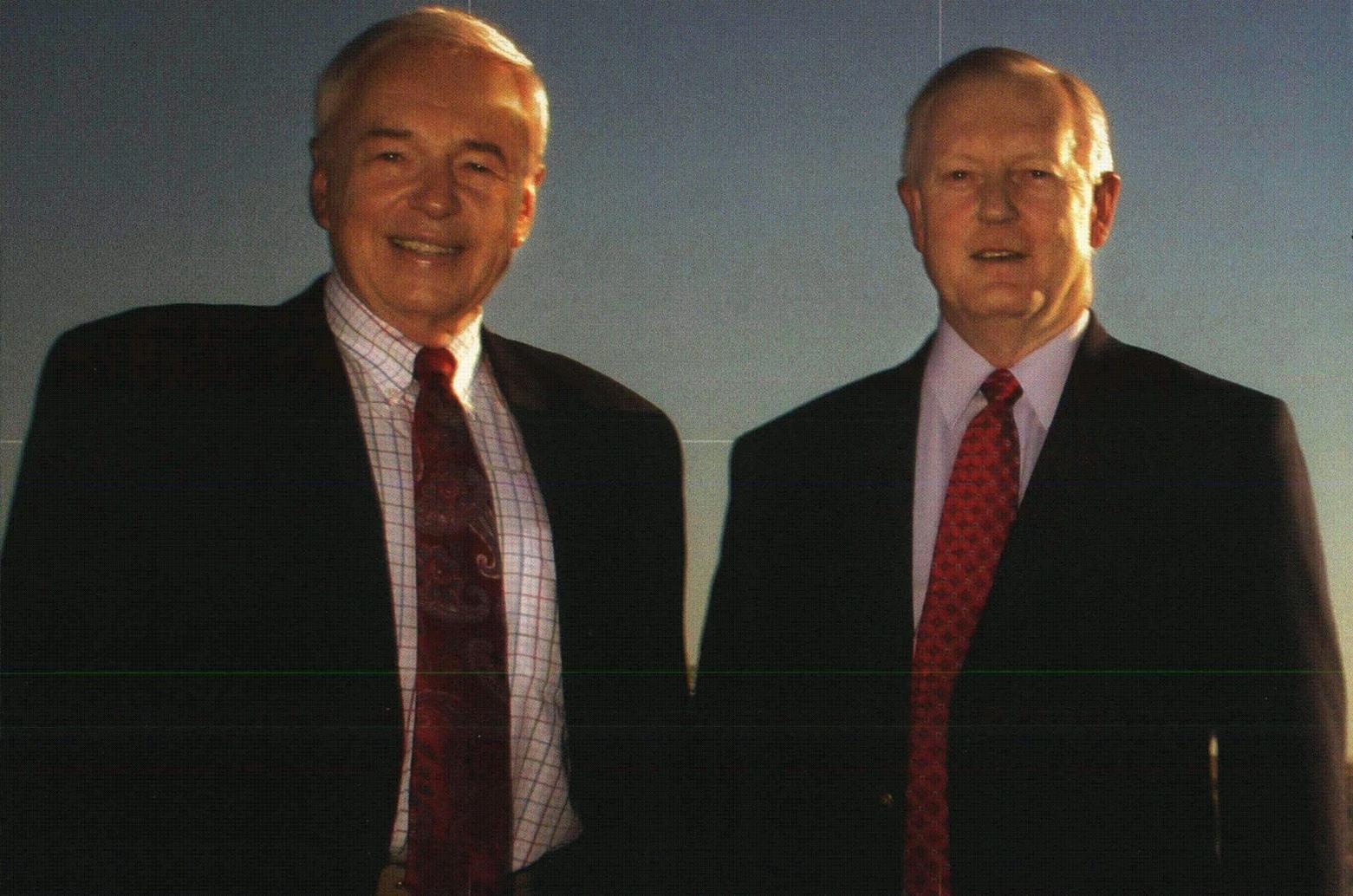
Provide responsible and  
cost-effective energy  
solutions for the region's  
ratepayers.

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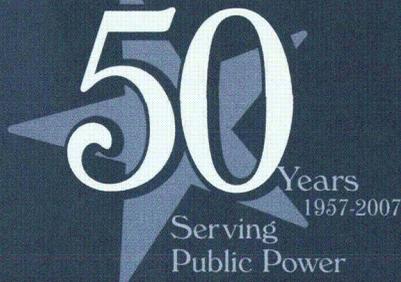
# A Message From Our Executive Board Chairman and Our CEO

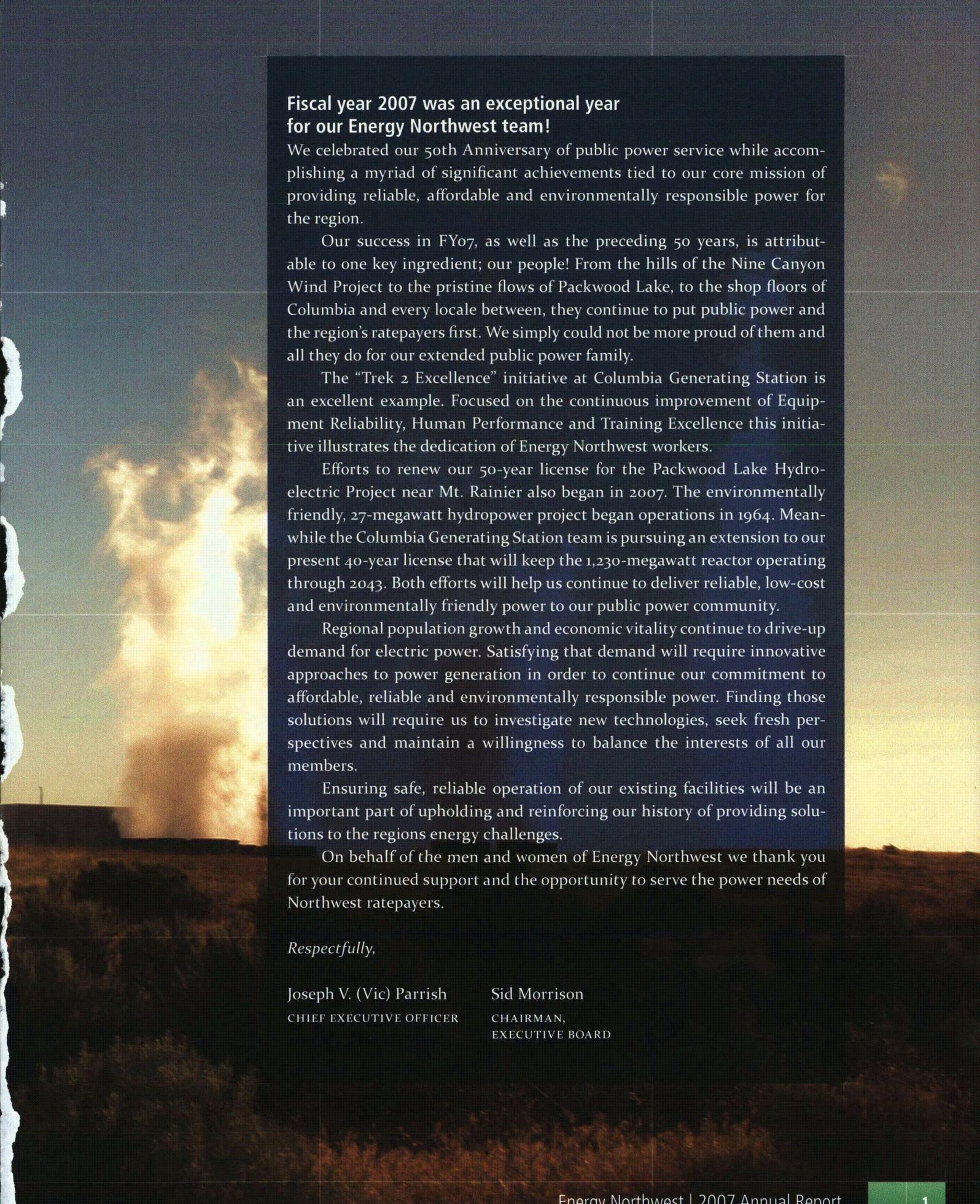


Sid Morrison ▲  
CHAIRMAN, EXECUTIVE BOARD

▲ Joseph V. (Vic) Parrish  
CHIEF EXECUTIVE OFFICER

ENERGY NORTHWEST





**Fiscal year 2007 was an exceptional year  
for our Energy Northwest team!**

We celebrated our 50th Anniversary of public power service while accomplishing a myriad of significant achievements tied to our core mission of providing reliable, affordable and environmentally responsible power for the region.

Our success in FY07, as well as the preceding 50 years, is attributable to one key ingredient; our people! From the hills of the Nine Canyon Wind Project to the pristine flows of Packwood Lake, to the shop floors of Columbia and every locale between, they continue to put public power and the region's ratepayers first. We simply could not be more proud of them and all they do for our extended public power family.

The "Trek 2 Excellence" initiative at Columbia Generating Station is an excellent example. Focused on the continuous improvement of Equipment Reliability, Human Performance and Training Excellence this initiative illustrates the dedication of Energy Northwest workers.

Efforts to renew our 50-year license for the Packwood Lake Hydroelectric Project near Mt. Rainier also began in 2007. The environmentally friendly, 27-megawatt hydropower project began operations in 1964. Meanwhile the Columbia Generating Station team is pursuing an extension to our present 40-year license that will keep the 1,230-megawatt reactor operating through 2043. Both efforts will help us continue to deliver reliable, low-cost and environmentally friendly power to our public power community.

Regional population growth and economic vitality continue to drive-up demand for electric power. Satisfying that demand will require innovative approaches to power generation in order to continue our commitment to affordable, reliable and environmentally responsible power. Finding those solutions will require us to investigate new technologies, seek fresh perspectives and maintain a willingness to balance the interests of all our members.

Ensuring safe, reliable operation of our existing facilities will be an important part of upholding and reinforcing our history of providing solutions to the regions energy challenges.

On behalf of the men and women of Energy Northwest we thank you for your continued support and the opportunity to serve the power needs of Northwest ratepayers.

*Respectfully,*

Joseph V. (Vic) Parrish  
CHIEF EXECUTIVE OFFICER

Sid Morrison  
CHAIRMAN,  
EXECUTIVE BOARD



## EXECUTIVE BOARD

Dan Gunkel  
 Larry Kenney  
 Tom Casey, Vice Chairman  
 Kathy Vaughn, Assistant Secretary  
 Sid Morrison, Chairman  
 Dave Remington, Secretary  
 Edward (Ted) Coates  
 Bill Gordon  
 Jack Janda  
 Tim Sheldon  
 Not pictured – K.C. Golden

(left to right)



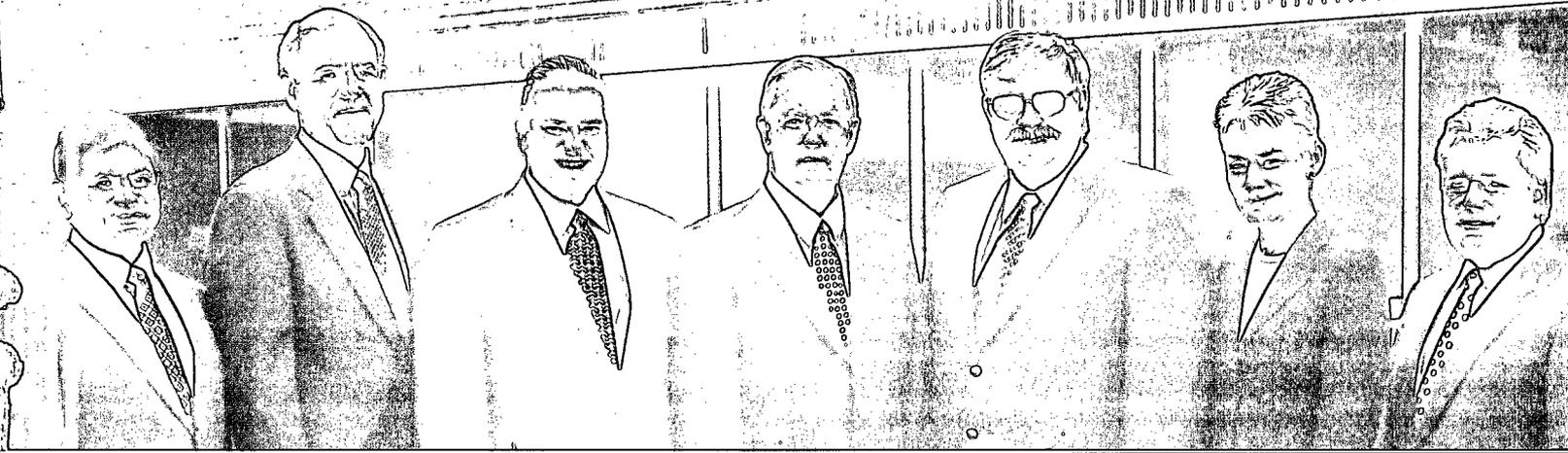
## BOARD of DIRECTORS

**FRONT**  
 Clyde Leach  
 Bill Gordon, Assistant Secretary  
 Linda Gott  
 Judy Ridge, President  
 Kathy Vaughn  
 Lori Sanders, Secretary

(left to right)

**BACK**  
 Jack Janda  
 Emie Bolz  
 Roger Sparks  
 Terry Brewer  
 Dan Gunkel  
 Ann Congdon  
 Merritt (Buz) Ketcham  
 Ron Hatfield  
 Larry Reese, Vice President  
 Chris Kroupa  
 Tom Casey  
 Ray Steler

(left to right)



## EXECUTIVE MANAGEMENT

*Sudesh Gambhir, Vice President, Technical Services*

*Albert E. Mouncer, Vice President, Corporate Services/General Counsel/Chief Financial Officer*

*Scott W. Oxenford, Vice President, INPO Assignment*

*Joseph V. (Vic) Parrish, Chief Executive Officer*

*Jack Baker, Vice President, Energy/Business Services*

*Cheryl Whitcomb, Vice President, Organizational Performance and Staffing/Chief Knowledge Officer*

*Dale Atkinson, Vice President, Nuclear Generation, Chief Nuclear Officer*

*(left to right)*

# 50 Years Serving Public Power

January 31, 2007, marked the 50th anniversary of a Washington State Conservation and Development Department order establishing the first Joint Operating Agency in the State of Washington. That was the origin of Washington Public Power Supply System, now Energy Northwest.

As we celebrate 50 years of service we recognize the participation and support of member utilities, and acknowledge the importance of public power to the region. We commemorate the contribution of employees past and present, and continue to work to raise public awareness of Energy Northwest's historic contributions and current operations.

“We have been honored to serve for the last half century and look forward to the next 50 years and beyond.”



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# Generating Re

## COLUMBIA GENERATING STATION

Columbia Generating Station (Columbia), located near the Columbia River, north of Richland, Washington, had a historic year. Employees set a new record of 486 days of continuous reactor operation on October 31, 2006, breaking the previous record of 368 days. Another achievement was the successful completion of the 18th refueling outage (R-18).

Recognizing the need for safe and reliable operation of Columbia and maintaining the facility now and for years to come, fiscal year 2007 marked a period of significantly increased investment. Over \$19 million was spent replacing and updating equipment. For example, the Digital Electrohydraulic Control (DEH) system was replaced with a triple redundant, fault tolerant system during R-18, which has significantly increased system reliability. Additionally, two 60-ton feedwater heaters were replaced and numerous pumps, motors and valves were either rebuilt or changed out. Although R-18 took six days longer than originally planned, a tremendous scope of work was accomplished that will pay dividends for decades.

In an effort to reduce the amount of radiation employees receive at Columbia Generating Station both the reactor recirculation system and the reactor water cleanup systems were decontaminated during R-18 at a cost of over \$5 million. This effort was highly successful in reducing radiation levels and ranked Columbia as one of the lowest piping radiation dose rate boiling

water reactor plants in the United States, moving it within the top 25 percent. In addition to lower radiation levels, maintenance on and around these systems will be easier and the cost to perform any necessary maintenance will be lower.

Striving for continuous improvement in safety and excellence, employees are delivering results utilizing three key initiatives.

The Columbia "Trek 2 Excellence" initiative, focusing on human performance, equipment reliability and training has marked many positive results. These include a significant reduction in human errors, a record-low level of maintenance backlog items and a renewal of the accreditation by the National Nuclear Accrediting Board at the Institute of Nuclear Power Operation. This accreditation is for all training programs used to qualify staff on critical procedures to operate and maintain the plant.

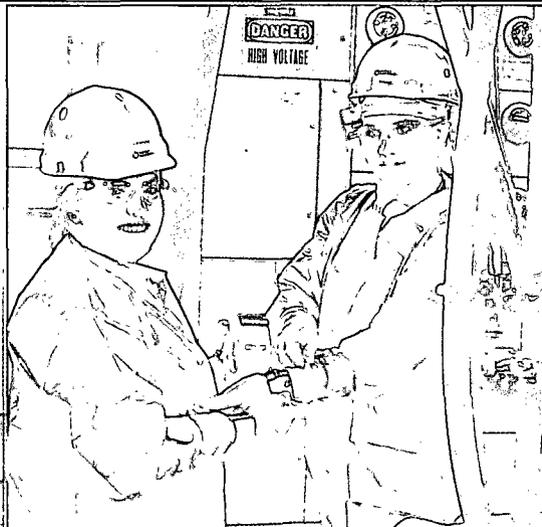
Actively Committed to Everyone's Safety, the "ACES" program promotes an atmosphere where at-risk behaviors are recognized through education, observation and feedback. The goal is to continuously improve our safety performance by encouraging behaviors that maximize a safe work environment.

An industry initiative, "Safety Conscious Work Environment," focuses on safe operation of Columbia and to maintaining a culture in which all employees feel free to raise concerns both to Energy Northwest management and to the Nuclear Regulatory Commission.

# Sources

During fiscal year 2007 all candidates testing for an initial nuclear operator license with the Nuclear Regulatory Commission successfully passed their exams. In anticipation of staffing needs two additional license classes will be conducted in fiscal year 2008.

Finally, improved operational performance was validated by an intensive evaluation from the World Association of Nuclear Operators (WANO) who evaluated Columbia operations in nine key areas. The validation from WANO measures Columbia against best industry performance and encourages the exchange of good practices in nuclear plant performance.



Employees set a new record of 486 days of continuous reactor operation on October 31, 2006, breaking the previous record of 368 days."

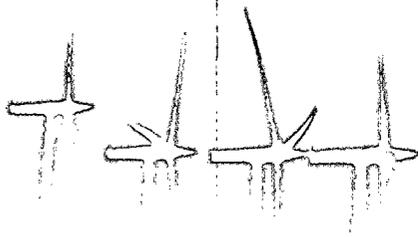
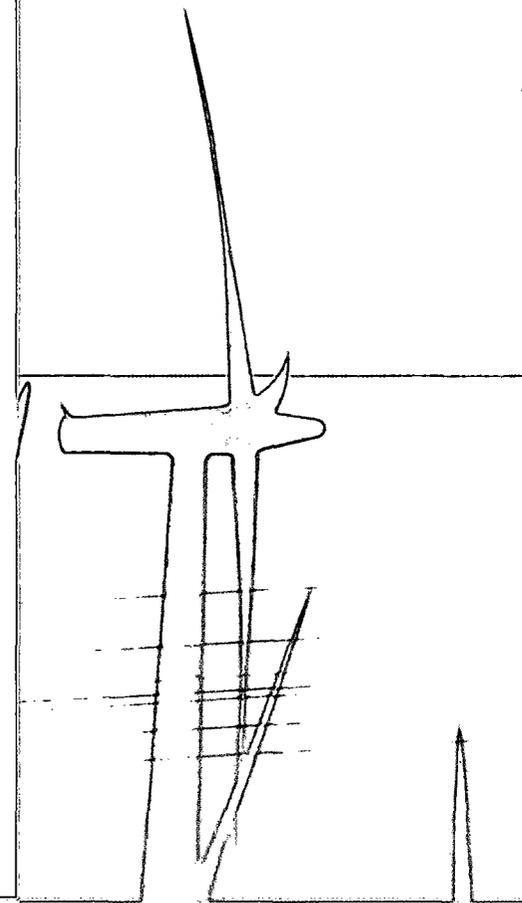
## NINE CANYON WIND PROJECT

Nine Canyon Wind Project (Nine Canyon) had significant accomplishments this fiscal year. Perched on the wheat-covered hills just south of Kennewick, Washington, Nine Canyon produces clean, renewable electricity for the Pacific Northwest region. One of the largest public power owned wind projects in the nation, the 49 wind turbines, each rated at 1.3 megawatts capacity, produced 156,706 net megawatt-hours of electricity in fiscal year 2007. Nine Canyon had a 98.3 percent adjusted availability factor despite several component failures. We are working with the equipment manufacturer to address these component failures prior to the loss of warranty coverage.

Nine Canyon comprises Phase I, with the original 37 wind turbines, and Phase II, with 12 additional turbines added in 2003.

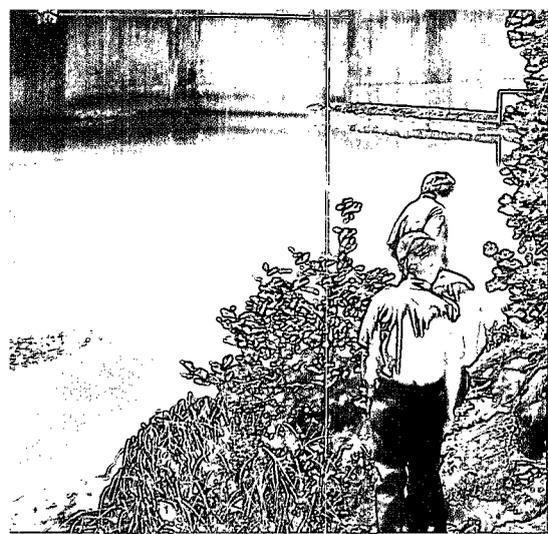
The success of Phases I and II led to authorization for the final expansion of Nine Canyon, Phase III. This phase will add 14 turbines of 2.3 megawatt capacity, increasing the project capacity by 32 megawatts for a total of 96 megawatts.

Benton PUD will upgrade the Nine Canyon electrical infrastructure to support the Phase III interconnection to the Bonneville Power Administration's grid. The current schedule has the new turbines generating clean, renewable power for the region by spring 2008. As with Phases I and II, the expansion is financed with municipal bonds.



“One of the largest public power owned wind projects in the nation, the 49 wind turbines, each rated at 1.3 megawatts capacity, produced 156,706 net megawatt-hours of electricity in Fiscal Year 2007.”





## PACKWOOD LAKE HYDROELECTRIC PROJECT

Packwood Lake Hydroelectric Project (Packwood) had many successes this fiscal year. Located south of Mount Rainier in the Gifford Pinchot National Forest, Packwood Lake Hydroelectric Project continues to provide environmentally friendly power for the region.

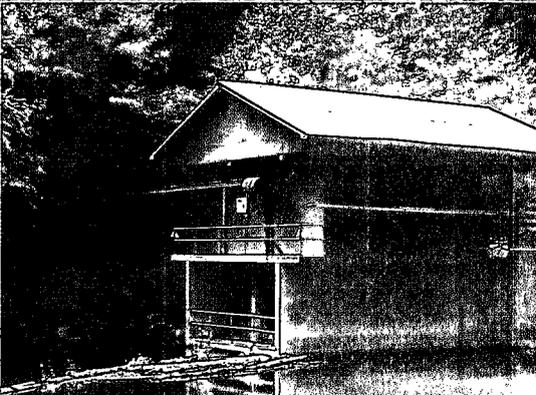
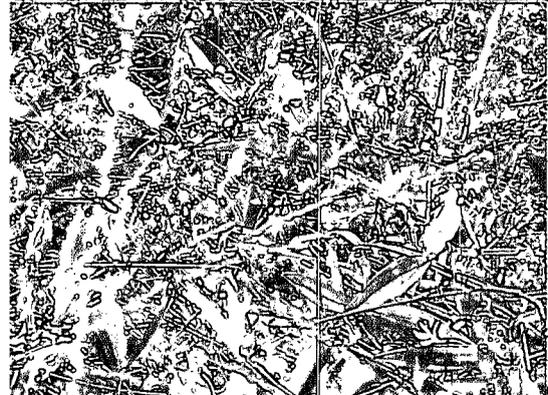
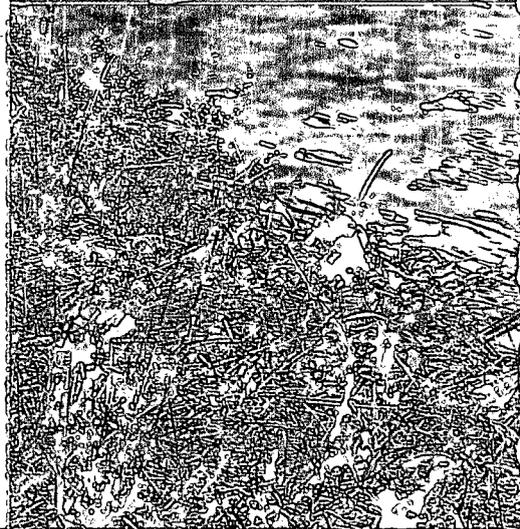
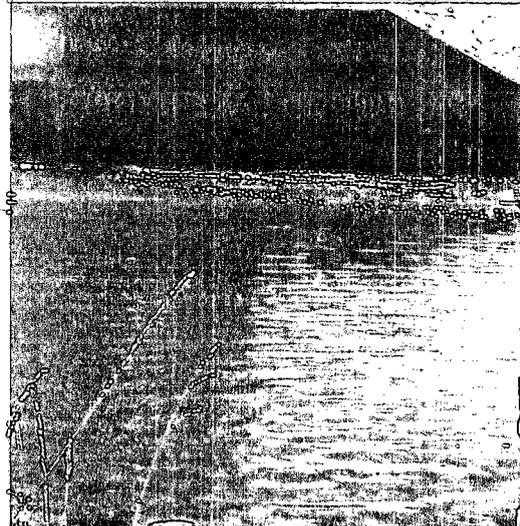
Since commercial operation began in 1964, Packwood has produced 4,018,610 megawatt-hours of electricity. In fiscal year 2007, production totaled 97,790 net megawatt-hours, up nine percent from the previous year.

The annual maintenance outage, conducted in October 2006, was completed on time and within budget. The outage consisted of a generator inspection that identified a faulty neutral grounding cable and five small areas on the stator exhibiting signs of potential discharge from corona damage. The cable was replaced and the winding insulation repaired without incident. The generator passed inspection and was returned to service as scheduled.

Work continued on relicensing Packwood for another 50 years. The current 50-year operating license expires in 2010, and the formal relicensing application will be made in 2008.

The power produced by Packwood is purchased by Benton and Franklin County PUDs.

Participating utilities are Benton County PUD, Clallam County PUD, Clark County PUD, Ferry County PUD, Franklin County PUD, Kittitas County PUD, Klickitat County PUD, Lewis County PUD, Mason County PUD No. 3, Skamania County PUD, Snohomish County PUD and Wahkiakum County PUD.



“In Fiscal Year 2007, production totaled 97,790 net megawatt-hours, up nine percent from the previous year.”

“White Bluffs produced 47,052 net kilowatt-hours of electricity during Fiscal Year 2007.”

## WHITE BLUFFS SOLAR STATION

Performance at White Bluffs Solar Station (White Bluffs) was extremely reliable this fiscal year, as in the past. When it began operation in May 2002, White Bluffs was the region's largest photovoltaic solar facility, with a rating of 38.7 kilowatts DC. The 242-panel station is located at the Industrial Development Complex near Columbia Generating Station.

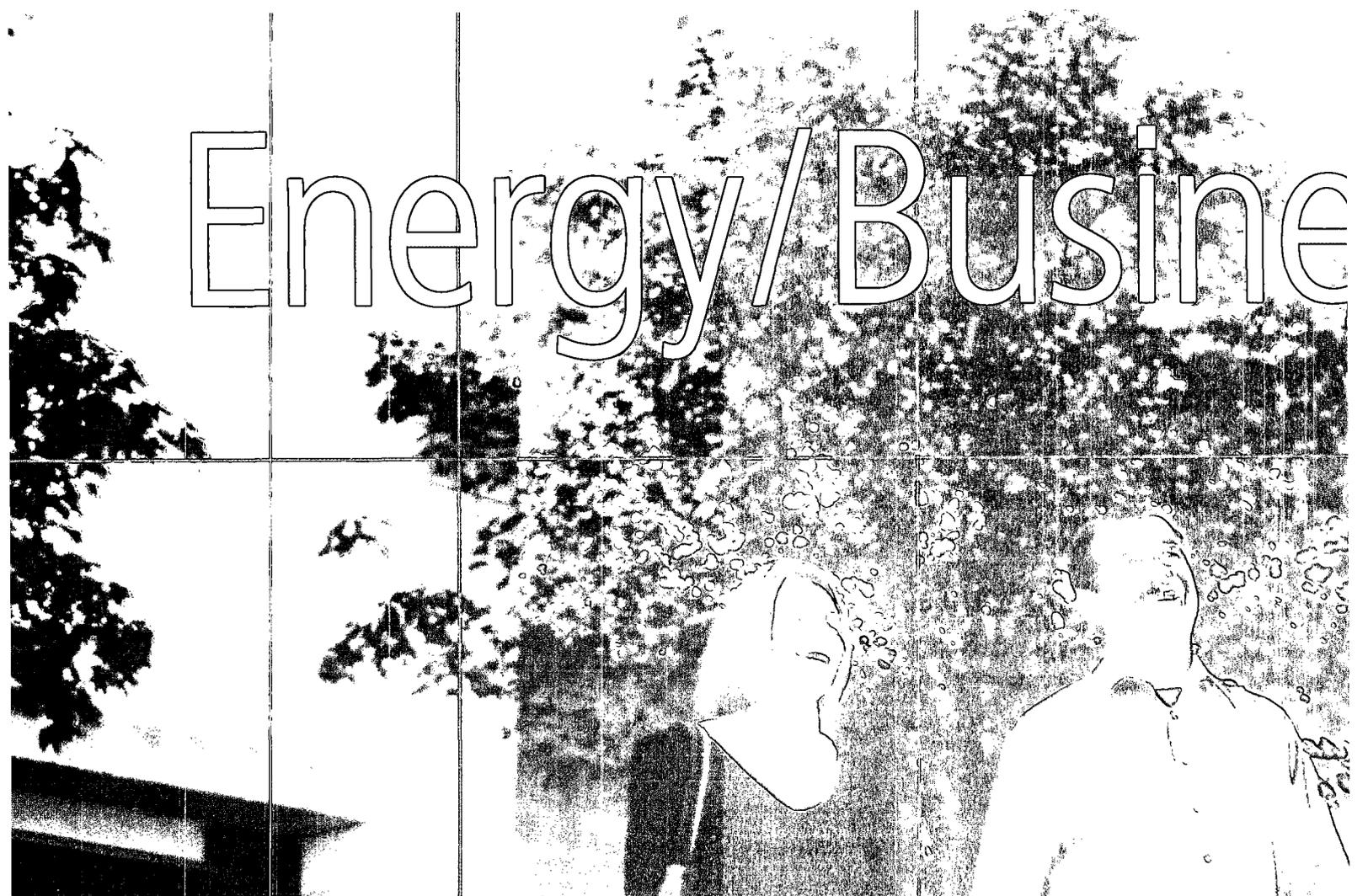
White Bluffs produced 47,052 net kilowatt-hours of electricity during fiscal year 2007.

The Bonneville Power Administration (BPA) integrates White Bluffs' power into its system and Bonneville Environmental Foundation markets the displaced air pollution and greenhouse gas emissions as "Green Tags." Buyers that participate in utility green power programs purchase these tags to replace traditional polluting sources of electricity with clean, secure, and sustainable renewable sources of energy from across North America.

During the fiscal year two solar panels were replaced under the manufacturer's warranty by Energy Northwest technicians. Also, a new inspection program was implemented to achieve even higher availability.

As a first-of-its-kind generating plant in the Northwest, White Bluffs Solar Station continues to generate interest within both the solar and academic communities.

# Energy/Business



## EXPLORING NEW GENERATING RESOURCES

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In an ongoing effort to strategically develop an inventory of quality wind project sites, the Reardan Twin Buttes project, located in Lincoln County was identified. The site has potential for 60 megawatts of capacity and is the most mature of our wind projects currently under development. The project is presently on hold awaiting results of a discretionary review by the Federal Aviation Administration (FAA) to ensure the project is compatible with designated airspace and aviation uses. Financing for the project is slated to commence immediately after a

favorable determination from the FAA. Projected initial operation for the Reardan Twin Buttes project is mid 2009.

The most recent wind power exploration activity is located in Pacific County in southwest Washington. With a potential for 60 to 100 megawatts of capacity the site could be available for development by 2011. A lease has been signed with the Washington Department of Natural Resources and the environmental baseline documentation effort has commenced.

# ss Services

## APPLIED PROCESS ENGINEERING LABORATORY

Applied Process Engineering Laboratory (APEL) provides a unique business incubator environment for early-stage scientific, engineering and manufacturing businesses. Energy Northwest and the other founding contributors—Pacific Northwest National Laboratory (PNNL), Port of Benton, U.S. Department of Energy, Washington State University Tri-Cities, City of Richland and Tri-City Development Council (TRIDEC)—continue to provide strategic vision and operational support.

Energy Northwest partnered with the Washington Technology Center in 2007 to help APEL improve and diversify the laboratory's business incubation services. APEL now provides resident and non-resident clients with business consulting and access to funding resources which complement the robust entrepreneurial support initiatives offered locally.

Four entrepreneurial businesses are based at APEL in addition to anchor tenant PNNL. Each business successfully expanded operations during fiscal year 2007.

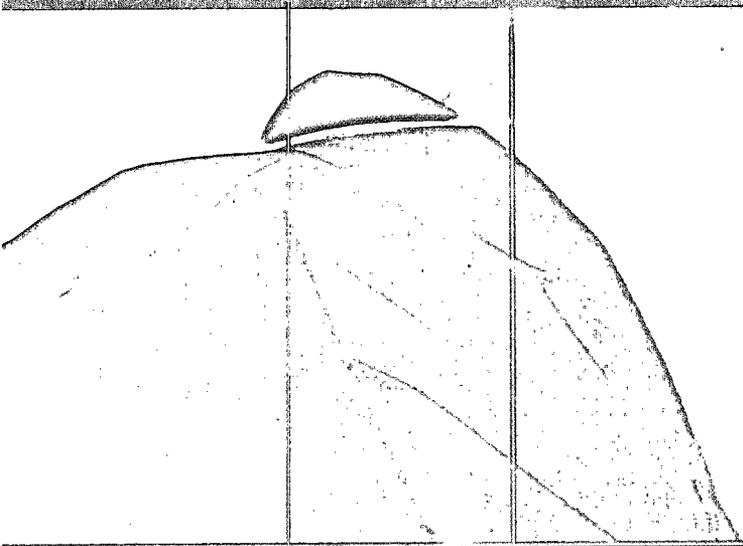
Environmental Assessment Services added laboratory space to fulfill larger sampling contracts. InnovaTek developed a reformer for hydrogen fuel cells which led to a significant demonstration project and increased space to house it.

Energy Northwest's Environmental Services Laboratory added clients and has plans to expand the radiological measurement laboratory. IsoRay Medical leased an additional 15,000 square feet and built radiological production facilities for brachytherapy seeds. PNNL installed two projects in the APEL high-bay integral to the Waste Treatment Plant pilot project for the U.S. Department of Energy at the Hanford Site.

APEL maintains an occupancy rate of over 95 percent, uncharacteristically high for an incubator facility. To meet growing tenant needs, APEL has reconfigured high-bay demonstration space into combined R&D, pilot-scale and production areas. In addition, the adjacent Annex building has been incorporated into APEL and leased to tenant IsoRay.

Three APEL tenants—Environmental Assessment Services, InnovaTek and IsoRay—had a positive impact on economic development by creating 27 new jobs within their businesses in fiscal year 2007.





## **CALIBRATION SERVICES LABORATORY**

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The Calibration Services Laboratory provides in-house services to Columbia Generating Station, including outage support and special testing services. In addition, Calibration Services Laboratory provides support for other Energy Northwest projects such as Packwood, Nine Canyon and H.W. Hill Landfill Gas Power Plant owned by Klickitat County PUD.

While Columbia continues to be a primary customer for the laboratory, demand for services outside of Energy Northwest continues to grow. New and repeat customers continue to praise the laboratory's quality, service and broad spectrum of capabilities. In addition to large companies such as Bechtel, Pacific Northwest National Laboratory (PNNL), Areva and Washington Demilitarization Company, the laboratory has added numerous small businesses to its growing list of customers.

The Calibration Services Laboratory recently completed eight years of service to the Hanford Site through the Fluor contract and has negotiated an agreement with options to extend services through October 2010. The agreement has been a successful model for Fluor and is often referenced when contracting other work from the Hanford Site to commercial customers. The laboratory's contract work with outside customers helps reduce overhead costs at Columbia Generating Station.



## ENVIRONMENTAL SERVICES LABORATORY

Since 1992, Energy Northwest's Environmental Services Laboratory has provided a wide range of chemical analyses and environmental monitoring services to utility, municipal, commercial, nuclear, wind power, small business and residential customers.

Services include ecological evaluations, workplace drug screening, environmental monitoring, National Pollution Discharge Elimination System (NPDES) permit testing, drinking water analyses, solid and hazardous waste site monitoring, lubrication oil condition testing and technical consulting. The laboratory is accredited by the Washington State Department of Health for Workplace Drug Screening and by the Washington State Department of Ecology for the analysis of radiological and non-radiological environmental parameters.

## OPERATIONS AND MAINTENANCE SERVICES

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Current Operations and Maintenance Services customers include the H.W. Hill Landfill Gas Power Plant owned by Klickitat County PUD and the Olympic View Power Plant owned by Mason County PUD No. 3.

H.W. Hill recently completed the best fiscal year in its history, averaging 9.7 megawatts of load and resulting in production of a record 84,967 megawatt-hours of electricity. This success is attributed to a new gas cleaning system, reducing scheduled cleaning outages and full implementation of a comprehensive preventative maintenance program.



## PACIFIC MOUNTAIN ENERGY CENTER

Pacific Mountain Energy Center (PMEC), an advanced technology integrated gasification combined cycle power complex, achieved a number of significant development milestones in fiscal year 2007.

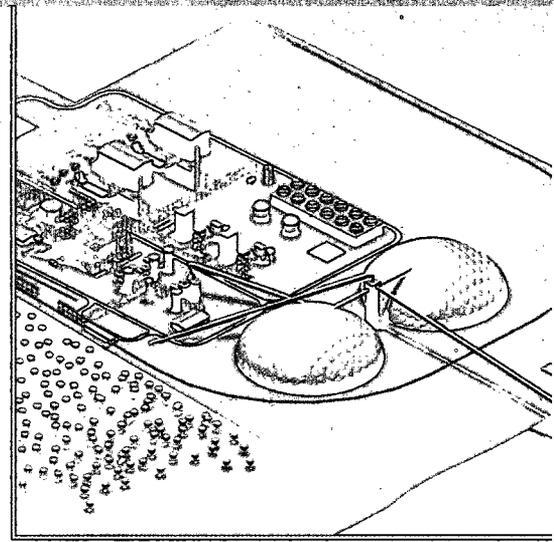
An application was submitted for a site certification agreement to the Energy Facility Site Evaluation Council, the Washington State agency offering comprehensive permitting for large power plant facilities.

Other noteworthy permitting accomplishments included the issuance of the Draft Environmental Impact Statement and the determination that the PMEC site is consistent with Cowlitz County land use.

With the enactment of Engrossed Substitute Senate Bill 6001, new power plants, including PMEC, have been selected to take the lead in achieving greenhouse gas emissions reductions for the state of Washington. The gasification process for PMEC will utilize petroleum coke as the primary feedstock and will convert this refinery waste product into a clean, synthetic gas. PMEC is expected to provide purchasing utilities a cost-effective alternative to the volatile and high cost of natural gas-fired power plants.

By developing PMEC, Energy Northwest continues to work towards its goal of providing reliable, low-cost power with a minimal environmental footprint to the Pacific Northwest.

Pacific Mountain Energy Center



## INDUSTRIAL DEVELOPMENT COMPLEX

The Industrial Development Complex (IDC) mission continues to be economic development and reuse of excess assets. The IDC staff completed a highly successful two-year asset sales program on June 30, 2007, which generated significant revenue for Bonneville Power Administration (BPA). All funds generated offset IDC operating costs, which are financed by the BPA. This offset helps reduce upward pressure on rates in the region.

The strategy for 2008 is focused on leasing additional excess facilities at the site. Central to that strategy will be an effort to attract long-term anchor tenants.

# Commitment to Our Community

Energy Northwest and its employees are honored to officially sponsor three vital community organizations: United Way, Head Start and March of Dimes. Employees lead annual campaigns on behalf of each of these important service organizations to raise money and increase awareness of the positive impact these agencies make in our community.

Many of our employees are also actively involved in direct support and fund raising efforts for our local American Red Cross, Boy Scouts of

America, Junior Achievement, American Diabetes Association and many other charitable organizations.

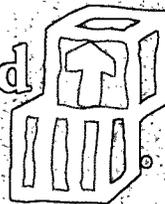
These activities are supported by the senior management team who provide a conducive, encouraging environment to support employee involvement for each of our official charities. From our CEO to our newest employees, Energy Northwest cares about our community through direct, hands-on involvement.

United  
Way



Approximately 450 Energy Northwest employees gave \$23,363.82 to United Way this year. Employee pledges fund youth developmental programs, provide hot meals to elder neighbors, help build self-esteem in at-risk youth and provide disaster relief planning for our community. Thirty-four Energy Northwest employees stepped forward to join the United Way Vintner Club leadership program with donations totaling \$62,724.

Head  
Start



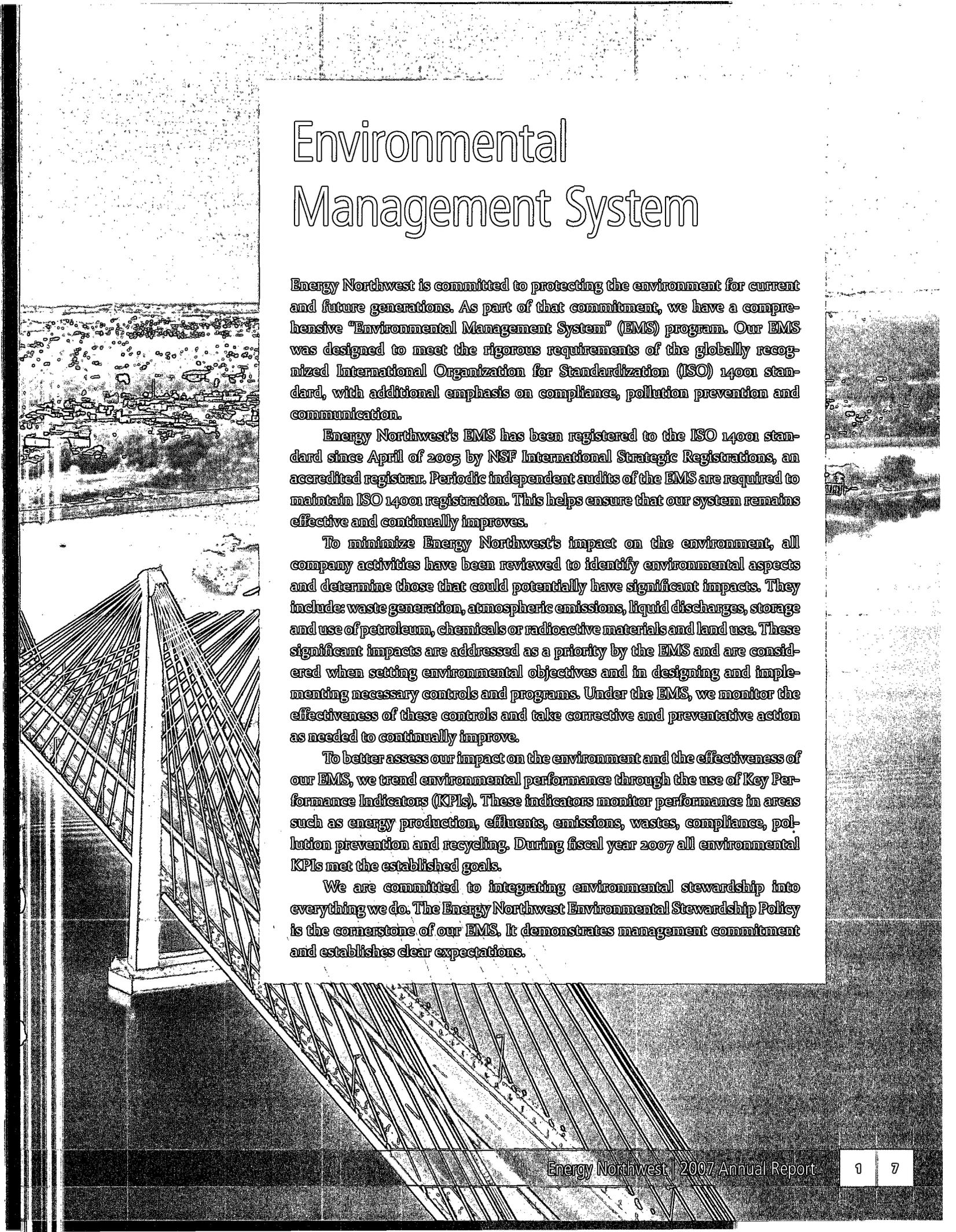
Energy Northwest continued its annual tradition of supporting the Benton-Franklin Head Start program, hosting Christmas parties at six local schools for 397 children. Gifts were distributed by Energy Northwest employees dressed as Santa and his elves. This joyous program provides the children with a new sense of hope while offering Energy Northwest employees the warm feeling of giving to those in need.



March  
of Dimes  
*Saving babies, together*

Energy Northwest's "PowerMarchers" team received the Gold Team Award from the March of Dimes for its 2007 "WalkAmerica" campaign. The team raised a total of \$24,188 and was one of two teams who received the Platinum Award for contributions over \$20,000.

The Association of Washington Business honored Energy Northwest with a Service Award recognizing the contributions Energy Northwest employees raised and the volunteer hours given in support of United Way.



# Environmental Management System

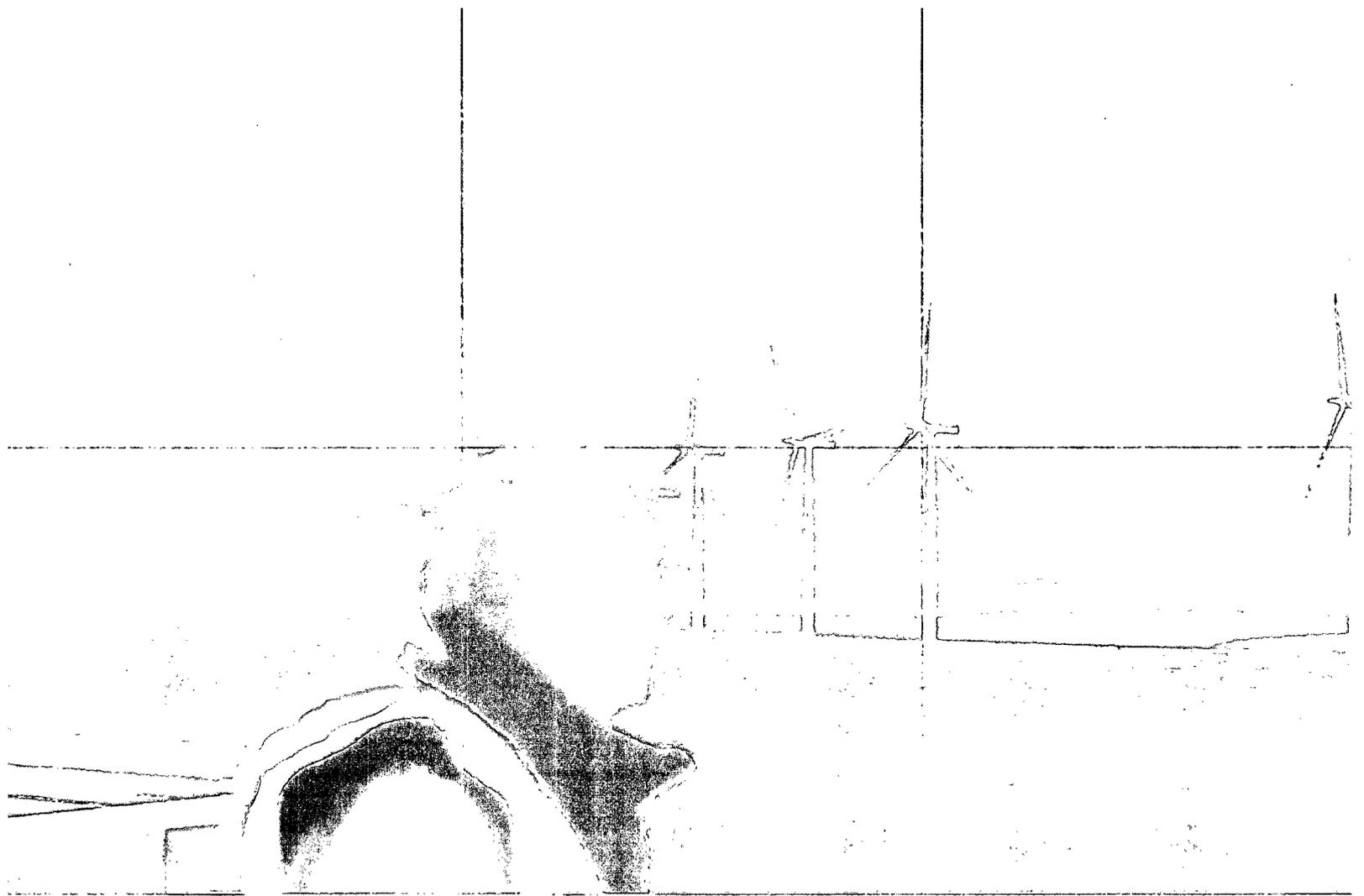
Energy Northwest is committed to protecting the environment for current and future generations. As part of that commitment, we have a comprehensive "Environmental Management System" (EMS) program. Our EMS was designed to meet the rigorous requirements of the globally recognized International Organization for Standardization (ISO) 14001 standard, with additional emphasis on compliance, pollution prevention and communication.

Energy Northwest's EMS has been registered to the ISO 14001 standard since April of 2005 by NSF International Strategic Registrations, an accredited registrar. Periodic independent audits of the EMS are required to maintain ISO 14001 registration. This helps ensure that our system remains effective and continually improves.

To minimize Energy Northwest's impact on the environment, all company activities have been reviewed to identify environmental aspects and determine those that could potentially have significant impacts. They include: waste generation, atmospheric emissions, liquid discharges, storage and use of petroleum, chemicals or radioactive materials and land use. These significant impacts are addressed as a priority by the EMS and are considered when setting environmental objectives and in designing and implementing necessary controls and programs. Under the EMS, we monitor the effectiveness of these controls and take corrective and preventative action as needed to continually improve.

To better assess our impact on the environment and the effectiveness of our EMS, we trend environmental performance through the use of Key Performance Indicators (KPIs). These indicators monitor performance in areas such as energy production, effluents, emissions, wastes, compliance, pollution prevention and recycling. During fiscal year 2007 all environmental KPIs met the established goals.

We are committed to integrating environmental stewardship into everything we do. The Energy Northwest Environmental Stewardship Policy is the cornerstone of our EMS. It demonstrates management commitment and establishes clear expectations.



# Looking Ahead

Throughout fiscal year 2008 Energy Northwest and its employees will continue to be responsible stewards and perform at a high level of service to provide clean, renewable energy sources while investigating new energy technologies.

Together with our member utilities, we will be prepared to meet any challenges the future holds.

We are privileged to serve public power and the ratepayers of the Pacific Northwest.

Our dedication to excellence and to the safe and efficient operation of all of our generating projects remains steadfast. This dedication makes Energy Northwest the preferred choice for development and operation of new generation facilities in the region.

Energy Northwest and its employees have been proud to serve over the last 50 years and will continue this commitment for the next half century and beyond.



50

Years  
1957-2007

Serving  
Public Power

The Public Power Movement had its advent in the 1920s. Public Utility Districts were created to provide reliable and low cost power for the growing state.

The logical extension was to form a joint agency to build and operate electrical generating facilities. Power was to be provided, at the cost of production, to the ratepayers of the participating public utilities. Such a joint operating agency was authorized and created on January 31, 1957 – the Washington Public Power Supply System, now Energy Northwest.

1950s

The first task of the Supply System was to establish by-laws and an organizational structure that would meet the needs of a diverse membership, which ranged from very large municipal utilities to small rural PUDs. The Supply System Board of Directors decided in April 1958 that a small hydroelectric project on Packwood Lake would be the project that would put the organization in business.



Commercial operation of Packwood Lake Hydroelectric, the 27-megawatt project, began in June 1964. In September 1962, President John F. Kennedy signed a bill that authorized the construction of a new dual-purpose nuclear reactor (the N-Reactor) at the Hanford Nuclear Reservation and presided over the groundbreaking in September 1963. Commercial operation of the 860-megawatt project began in April 1966.

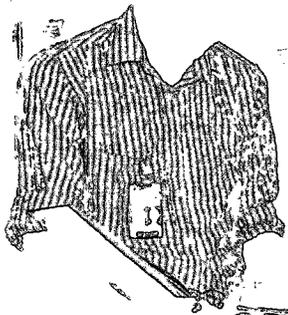
1960s

Marked by the boom and bust of attempting to simultaneously construct five nuclear power plants – WNP-1, -2, -3, -4 and -5, many long-time employees and retirees remember these years as exciting, challenging, and often frustrating as changes were the only constant.



1970s

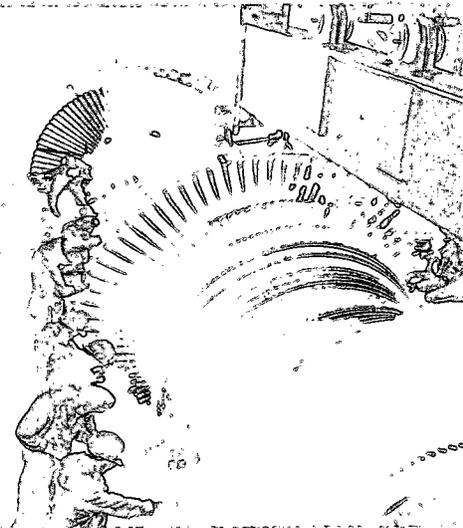




Of the five nuclear projects started, only one - WNP-2 - would ever be completed. The other plants were eventually mothballed and terminated. The end of the Cold War brought a sudden reduction in the need for plutonium for defense purposes. In February 1988, the N-Reactor was closed for good.

# 1980s

For the organization as a whole, the establishment of Core Values - Teamwork, Excellence, Accountability, and Mutual Trust through Open and Honest Communications - led to rising standards of professionalism and higher levels of achievement. A growing regional economy and widespread concern for the environment led Supply System leaders to investigate and propose new projects to meet the needs of member utilities.



# 1990s

The first public power wind project in the region - the Nine Canyon Wind Project - was dedicated in October 2002. White Bluffs Solar Station came next, with 242 photovoltaic panels, it was dedicated in May 2002. In keeping with the commitment to responsible stewardship, Energy Northwest has adopted an Environmental Management System that has been certified as meeting the stringent standards of ISO 14001:2004.

# 2000s

## 50 YEARS SERVING PUBLIC POWER

# 1957

1958	1965	1972	1979	1986	1993	2000
1959	1966	1973	1980	1987	1994	2001
1960	1967	1974	1981	1988	1995	2002
1961	1968	1975	1982	1989	1996	2003
1962	1969	1976	1983	1990	1997	2004
1963	1970	1977	1984	1991	1998	2005
1964	1971	1978	1985	1992	1999	2006

# 2007

# Financial Data and Information

# Management Report on Responsibility for Financial Reporting

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

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

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

procedures provide appropriate division of responsibility and are documented by written policies and procedures.

Energy Northwest maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, PricewaterhouseCoopers LLP has considered the internal control structure in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and PricewaterhouseCoopers LLP concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 2007, internal control procedures are adequate.

**J.V. Parrish**  
CHIEF EXECUTIVE OFFICER

**A.E. Mouncer**  
VICE PRESIDENT,  
CORPORATE SERVICES/  
GENERAL COUNSEL/CFO

## Audit, Legal and Finance Committee Chairman's Letter

The Executive Board's Audit, Legal and Finance Committee is composed of six independent directors. Members of the Committee are Chairman Larry Kenney, 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, 2007.

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, 2007, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

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, 2007, 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 24, 2007

# Energy Northwest Management's Discussion and Analysis

**E**nergy 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 (FY) ended June 30, 2007, with the basic financial statements for the FY ended June 30, 2006. 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 table on the following page represents a memorandum total only for Energy Northwest, as a whole, for FY 2007 and FY 2006 in accordance with GASB No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

The financial statements for Energy Northwest include the Balance Sheets, Statements of

Operations and Fund Equity, 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 on an accrual basis. The Balance Sheets report financial information about construction work in progress, the amount of resources and obligations, restricted accounts and due to/from balances (see Note B to the Financial Statements) for each Business Unit.

The Statements of Operations and Fund Equity provide financial 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 financial 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 reflect cash receipts and disbursements and net changes resulting from operating, financing and investment activities. The statements provide insight into what generates cash, where the cash comes from, and purpose of cash activity.

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 (see 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 the 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.

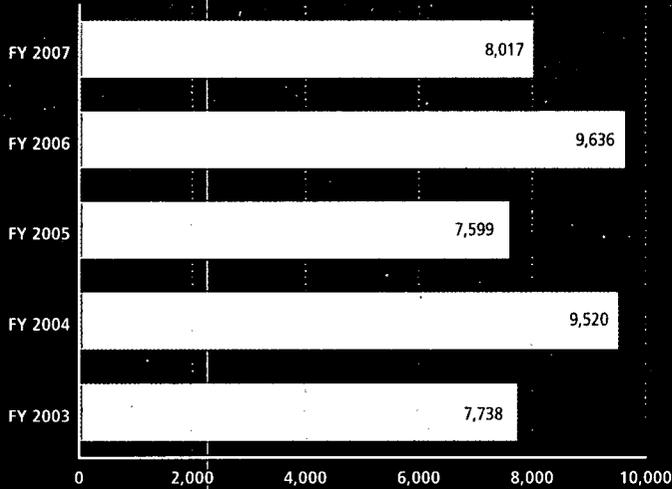
## COMBINED FINANCIAL INFORMATION

June 30, 2007 and 2006 (000's)

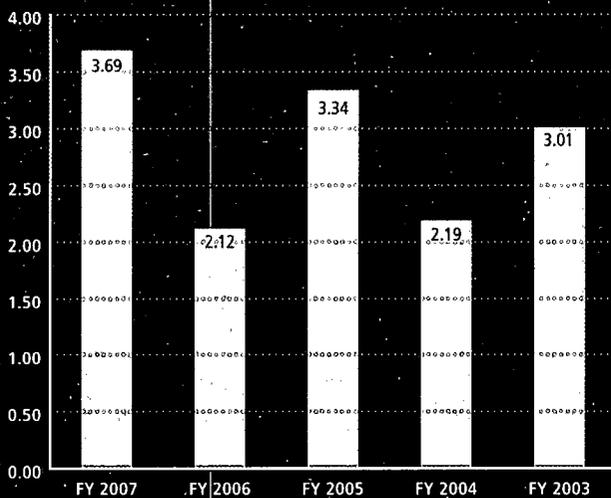
	2006	2007	Change
<b>Assets</b>			
Net Plant	\$ 1,524,835	\$ 1,512,222	\$ (12,613)
Nuclear Fuel	190,483	235,742	45,259
Current and Restricted Assets	439,728	497,562	57,834
Long-term Receivables and Deferred Charges	4,434,978	4,517,173	82,195
<b>TOTAL ASSETS</b>	<b>\$ 6,590,024</b>	<b>\$ 6,762,699</b>	<b>\$ 172,675</b>
<b>Fund Equity</b>			
	\$ (29)	\$ (7,667)	\$ (7,638)
Long-Term Debt	\$ 6,240,866	\$ 6,379,097	\$ 138,231
Restricted and Non-current Liabilities	262,620	274,625	12,005
Current Liabilities	85,118	113,504	28,386
Deferred Credits	1,449	3,140	1,691
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6,590,024</b>	<b>6,762,699</b>	<b>172,675</b>
Operating Revenues	\$ 413,919	\$ 452,402	\$ 38,483
Operating Expenses	300,582	355,675	55,093
Net Operating Revenues	\$ 113,337	\$ 96,727	\$ (16,610)
Other Income and Expense	(120,202)	(105,136)	15,066
Distribution and Contributions	1,384	771	(613)
Beginning Fund Equity	5,452	(29)	(5,481)
<b>ENDING FUND EQUITY</b>	<b>\$ (29)</b>	<b>\$ (7,667)</b>	<b>\$ (7,638)</b>

## COLUMBIA GENERATING STATION

Columbia Generating Station  
Net Generation - GWhrs



Columbia Generating Station  
Cost of Power - Cents / kWh



The Columbia Generating Station (Columbia) is owned by Energy Northwest and its Participants and operated by Energy Northwest. The Plant is a 1,157 megawatt electric (MWe, Design Electric Rating, net) boiling water nuclear power station located on the Department of Energy's (DOE) Hanford Reservation north of Richland, Washington.

Columbia achieved a record run for generation which ended in FY 2007. The record generation run began on July 2, 2005, ending October 31, 2006, resulting in a continuous daily record run of 486 days.

Columbia produced 8,017 gigawatt-hours (GWh) of electricity in FY 2007, as compared to 9,636 GWh of electricity in FY 2006, which included economic dispatch of 33 GWh and 101 GWh respectively. Columbia successfully completed its two-year refueling and maintenance outage (R-18) in June of 2007, in 44 days with costs totaling \$120.0 million. Generation was less in FY 2007 as compared to FY 2006, due to R-18, three forced outages (November 2006, April 2007 and June 2007) and the effects of the entire FY 2006 being included in the record generation run discussed previously.

Columbia's performance is measured in several ways, including cost of power at Columbia. The cost of power for FY 2007 was 3.69 cents per kilowatt-hour (kWh) as compared with 2.12 cents per kWh in FY 2006. The industry cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. R-18 was the major driver for the increased cost of power as compared with FY 2006.

## Balance Sheet Analysis

The net decrease to Plant in Service and Construction Work In Progress (CWIP) from FY 2006 to FY 2007 (excluding nuclear fuel) was \$18.6 million. The additions to Plant/CWIP of \$53.5 million were offset by an increase to Accumulated Depreciation of \$72.1 million resulting in the net decrease to Plant of \$18.6 million. The majority of additions to plant for FY 2007 resulted from the work performed up to and during R-18. Seven major projects (Feedwater Heaters, Digital Electro-Hydraulic (DEH) upgrade, Reactor Recirculation Motor Refurbishment, Condensate Valve work, Control Rod Blade Replacement, Radiation Monitor Replacement, and High Pressure Core Spray (HPCS) Pump Refurbishment/Replacement) resulted in 71 percent of the additions to plant.

Nuclear fuel, net of accumulated amortization, increased \$45.3 million from FY 2006 to \$235.7 million for FY 2007. During FY 2007, Columbia purchased \$69.1 million of nuclear fuel, which completed the planned purchases for R-19 and R-20. The increase to nuclear fuel was offset by current year amortization of \$23.8 million.

The Restricted Assets Special Funds decreased \$41.3 million from FY 2006 levels to \$63.4 million in FY 2007. Construction Fund spending and the completion of the planned fuel purchases for R-19 and R-20 contributed to the decrease.

The Debt Service Funds increased \$6.8 million in FY 2007 to \$54.3 million. The increase was created from funding increases in FY 2007 due to borrowing activities.

Long-term receivables remained relatively stable, increasing from \$0.4 million in FY 2006 to \$1.1 million in FY 2007. The slight increase was due to a change in estimate resulting from R-18 activity. Current assets increased \$44.1 million in FY 2007 to \$175.4 million. The majority of the increase was due to \$26.7 million of reimbursements of operations using the direct pay billing and increases to materials and supplies of \$17.4

million which were related to R-18 and budgeted maintenance items.

Deferred charges increased \$27.5 million in 2007 from \$667.0 million to \$694.5 million. Costs in Excess of Billings increased \$27.9 million which was offset slightly by a decrease to unamortized debt expense of \$0.4 million. The increase to Costs in Excess was 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 \$42.6 million in FY 2007 from \$2.35 billion to \$2.39 billion, which was a result of the FY 2007 Bond Issue. In FY 2007, new debt was issued for various Columbia construction projects, as well as for part of the Debt Optimization Program (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 Columbia and Nuclear Projects No. 1 and 3 and reflected budgeted costs for operations of the fiscal year. Beginning in FY 2007, Energy Northwest began billing Bonneville Power Administration on a monthly basis for estimated expenses, not to exceed the approved budget, instead of billing and receiving the participants' legal obligations. The change in billing arrangement does not impact the Net Billing Agreements for Columbia and Nuclear Projects No. 1 and 3.

## Statement of Operations Analysis

Columbia is a net-billed Project. Energy Northwest recognizes revenues equal to expense for each period on net-billed projects. No net revenue or loss is recognized and no equity is accumulated.

Operating expenses increased \$53.7 million from FY 2006 to \$335.2 million mostly due to the effect of R-18 completed in FY 2007, with operations and maintenance increasing \$66.2 million from FY 2006. There were decreases in fuel and fuel disposal of \$14.0 million and generation taxes of \$0.5 million which were related to the decreased generation for FY 2007. There were other nominal increases of \$2.0 million relating to general operations and depreciation.

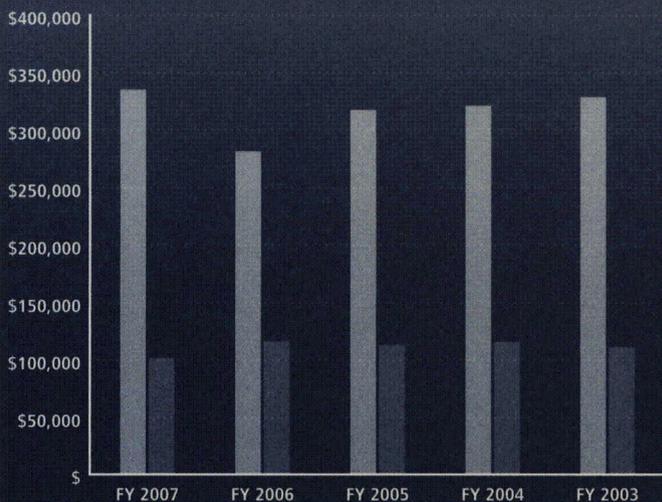
Other Income and Expenses decreased \$14.6

million from FY 2006 to \$101.8 million in FY 2007. The majority of the overall decrease was due to increases in net revenues from a building sale of \$5.5 million and loaned fuel revenue of \$6.9 million combined with a decrease of \$6.5 million relating to the net effects of Columbia Debt activity (see Note E to the Financial Statements). A slight decrease in interest earnings of \$1.2 million and Columbia general services and sales activity decreases of \$3.1 million accounted for the remainder of the changes. The loaned fuel agreement associated with the FY 2007 revenue was completed in FY 2007. A new fuel lease agreement is in effect through FY 2009, which provides for an exchange of uranium oxide ( $U_3O_8$ ) for an equivalent amount of uranium hexafluoride ( $UF_6$ ) plus the cash value of conversion services.

Columbia total revenue increased from \$397.9 million in FY 2006 to \$437.0 million in FY 2007. The increase of \$39.1 million is due to the increased costs incurred for R-18 and the related effect of the net billing agreements on total revenue.

Columbia Generating Station  
Total Operating Costs (000's)

■ Operating Expenses  
■ Other Income / Expenses



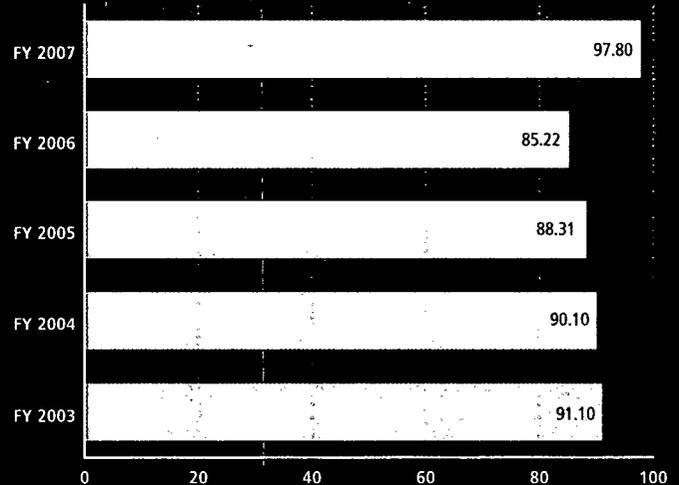
## PACKWOOD LAKE HYDROELECTRIC PROJECT

The Packwood Lake Hydroelectric Project (Packwood) is owned and operated by Energy Northwest. Packwood consists of a dam at Packwood Lake and a powerhouse 1800 feet below the dam that is located south of Packwood, Washington. Packwood produced 97.80 GWh of electricity in FY 2007 versus 85.22 GWh in FY 2006. Due to good water conditions and a successful outage, Packwood experienced its highest generation levels in the last five years, which were 6.3 percent above the 30-year average of 92 GWh. Water conditions reflected the opposite scenario that was prevalent in FY 2006 when generation was impacted due to the Northwest drought situation, resulting in the lowest generation on record for July and August, 2005. In November 2006, Lewis County was declared a disaster area because of torrential rain and flooding. During this event a large slide occurred adjacent to the Packwood underground pipeline.

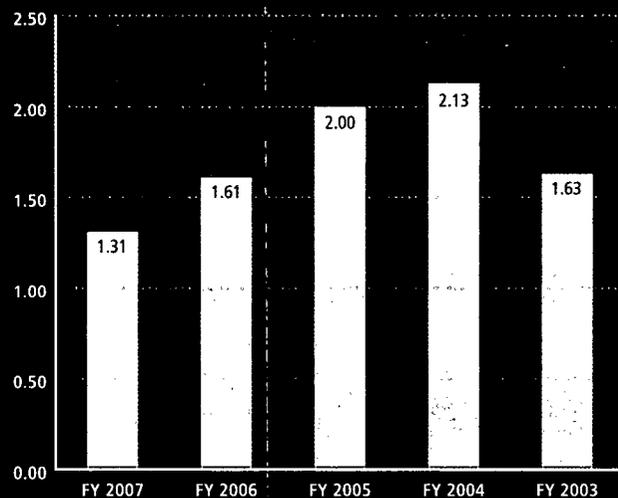
Energy Northwest submitted a "Public Assistance Grant" request to the Washington State Military Department (Emergency Management Division) and Federal Emergency Management Agency (FEMA) for financial aid to stabilize and repair the slide area. The acceptance of the grant is pending; preliminary estimates of repair are \$1.7 million.

Packwood's performance is measured in several ways, including cost of power. The cost of power for FY 2007 was \$1.31 cents/kWh as compared to \$1.61 cents/kWh in FY 2006. The cost of power fluctuates year to year depending on various factors such as outage maintenance and other operating activities. The FY 2007 cost of power decrease was due to a 6.3 percent higher than anticipated generation increase and lower operations and maintenance costs due to under running the outage budget.

### Packwood Lake Hydroelectric Project Net Generation - GWhrs



### Packwood Lake Hydroelectric Project Cost of Power - Cents / kWh



## Balance Sheet Analysis

Total Assets increased \$1.4 million from FY 2006, with \$1.0 million of the increase due to costs incurred and capitalized for the relicensing effort. There were no significant changes to current liabilities other than a decrease in Revenue Bonds Payable of \$0.7 million and the related increase in Deferred Credits of \$1.7 million due to operations, relicensing and bond retirements. No new debt was issued and the total debt continues to decrease per the current debt schedules. Similar to the previous fiscal year, there was no excess funding accrued in FY 2007. Participants have agreed to retain all excess within the Packwood business unit for relicensing efforts.

Packwood has incurred \$2.4 million in relicensing costs through FY 2007. These costs are shown as Deferred Charges on the Balance Sheet. The FY 2008 projections call for an additional \$0.7 million in costs to continue the relicensing efforts. The Federal Regulatory Commission (FERC) issued a fifty-year operating license to Packwood on March 1, 1960. The current license will expire on February 28, 2010.

## Statement of Operations Analysis

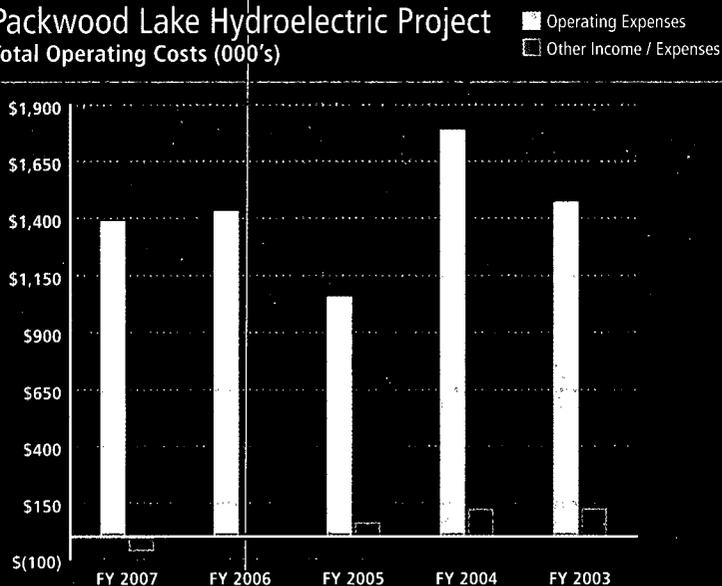
The agreement with Project Participants (see Note A to the Financial Statements) obligates them to pay annual costs and to receive excess revenues. Accordingly, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized and no equity is accumulated.

Operating expenses decreased \$43k in FY 2007 due to a decrease in purchased power costs of \$165k which was slightly offset by an increase to operations and maintenance expense of \$121k.

Packwood 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 decrease in FY 2007 expenses reflects the change in water conditions from FY 2006. 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 Project (see Note E, Long-Term Debt, "Security - Packwood Lake Hydroelectric Project").

Other income and expenses changed from a net expense of \$8k to an income of \$65k. The increase is due to decreasing interest and other bond related expenses (\$27k savings from FY 2006) and increase interest earnings of \$46k over FY 2006 levels on invested funds.

Packwood Lake Hydroelectric Project  
Total Operating Costs (000's)



## NUCLEAR PROJECT NO. 1

Energy Northwest wholly owns 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. 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 \$5.3 million from \$1.971 billion in FY 2006 to \$1.976 billion in FY 2007 due to debt restructuring to take advantage of lower interest rates.

### Statement of Operations Analysis

Other Income and Expenses showed a net increase to other expenses of \$8.2 million, up from \$105.2 million in FY 2006 to \$113.4 million in FY 2007. The net increase was due to increased bond related expenses of \$5.9 million, decreased revenues from investment income of \$1.9 million, decreases to gain on sales of assets of \$0.9 million, and increased costs for decommissioning and plant preservation of \$0.5 million.

## 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, Commitments and Contingencies). The debt service related activities remain and are net-billed.

### Balance Sheet Analysis

Under the Debt Optimization Program, long-term debt increased \$20.1 million from \$1.833 billion in FY 2006 to \$1.853 billion in FY 2007 due to debt restructuring to take advantage of lower interest rates.

### Statement of Operations Analysis

Overall expenses increased \$4.0 million from FY 2006. Bond related expenses increased \$3.6 million as a result of the debt restructuring. The remaining change in other expenses was a combination of lower investment income of \$0.6 million due to market conditions and the continued decrease to plant preservation costs of \$0.2 million.

## 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. Four business sectors have been created within the fund: General Services and Facilities, Generation, Professional Services and Business Unit Support. Each sector may have one or more programs that are managed as a unique business activity.

### Balance Sheet Analysis

There was a slight overall decrease to the Balance Sheet from FY 2006 to FY 2007. The \$0.5 million decrease in net assets consisted of a \$0.6 million decrease in receivables, which was due to timing of FY 2006 year end receivables and a \$0.1 million dollar increase in allocated Internal Service Fund plant. Accounts Payable and Accrued Expenses increased slightly from \$1.5 million in FY 2006 to \$1.8 million in FY 2007.

### Statement of Operations Analysis

Operating Revenues in FY 2007 totaled \$7.6 million as compared to FY 2006 revenues of \$7.8 million, a slight decrease of \$0.2 million; operating expenses were steady at \$11.9 million. Net operations for FY 2007 showed a loss of \$2.6 million compared to a loss in FY 2006 of \$2.3 million.

Power generation development activities are centered around the Pacific Mountain Energy Center (PMEC) and three wind generation projects that are being developed in the Northwest.

PMEC is a proposed 680 MWe \$1.5 billion Integrated Gasification Combined Cycle (IGCC) power generation plant in western Washington. Permitting efforts are currently ongoing for PMEC, which totaled \$1.7 million for FY 2007. When the permit is granted financing efforts will commence.

Wind generation development resulted in \$0.2 million in expenditures and \$0.4 million in revenues. The Nine Canyon Phase III 36 MW development in Kennewick, Washington, completed a financial bond sale of \$72.6 million that resulted in \$0.3 million in revenue and cost recovery. Additional revenue of \$55k was obtained by selling abandoned wind mining site data. The other FY 2007 wind prospecting efforts resulted in two project land leases accounting for \$0.3 million in expenditures. Permitting activity and technical evaluations are being conducted at each site with an anticipated resource of 60 MW per site.

The BioEnergy Solutions business line was minimized in 2007, resulting in a net expenditure of \$36k for FY 2007. This business line will respond to and evaluate opportunities but limit proactive expenditures for new development. Future activities in this area will concentrate on supporting an existing consulting agreement with King County, Washington.

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 2007, the Business Development Fund received contributions (transfers) of \$1.8 million, down slightly from \$2.4 million from FY 2006.

## NINE CANYON WIND PROJECT

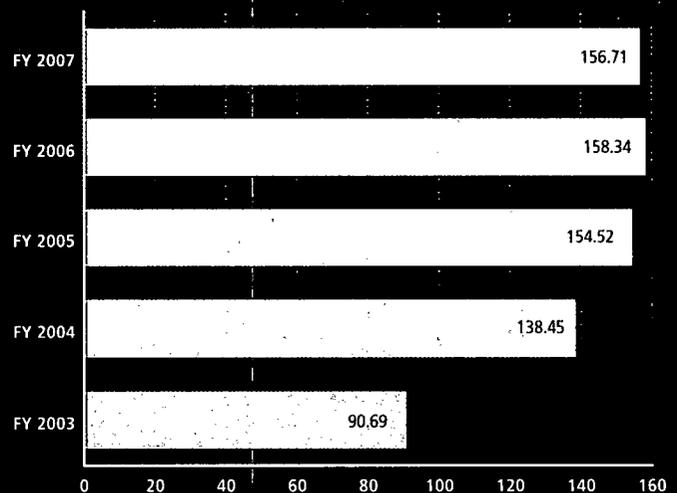
The Nine Canyon Wind Energy Project (Nine Canyon) is owned and operated by Energy Northwest. Nine Canyon is located in the Horse Heaven Hills area southwest of Kennewick, Washington. Electricity generated by Nine Canyon is purchased by Pacific Northwest Public Utility Districts (purchasers). Each purchaser of Phase I has signed a 28-year power purchase agreement with Energy Northwest; each purchaser of Phase II has signed a 27-year power purchase agreement, and each purchaser of Phase III has signed a 23-year power purchase agreement. The agreements are part of the 2nd Amended and Restated Nine Canyon Wind Project Power Purchase Agreement which now have an agreement end date of 2030. Nine Canyon 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 Nine Canyon, which began commercial operation in September 2002, consists of 37 wind turbines, each with a maximum generating capacity of approximately 1.3 MW, for a total capacity of 48.1 MW. Phase II of Nine Canyon, which was declared operational in December 2003, includes an additional 12 wind turbines with an aggregate generating capacity of approximately 15.6 MW. The current total Nine Canyon generating capability is 63.7 MW, which produces enough energy for approximately 26,000 average homes. Phase III of Nine Canyon, currently under construction and scheduled for completion in February 2008, includes 14 wind turbines, each with a maximum generating capacity of 2.3 MW, for an aggregate generating capacity of 32.2 MW. Phase III will increase the total Nine Canyon generating capability to 95.9 MW, which will produce enough energy for approximately 39,000 average homes.

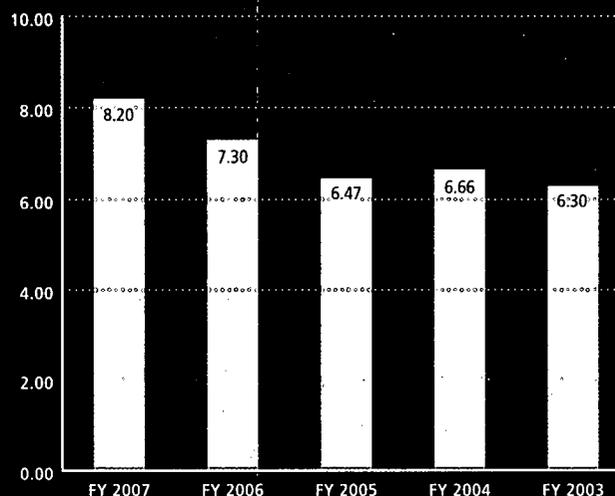
Nine Canyon produced 156.71 GWh of electricity in FY 2007 versus 158.34 GWh in FY 2006.

Nine Canyon's performance is measured in several ways, including cost of power. The cost of power for FY 2007 was \$8.20 cents/kWh as compared to \$7.30 cents/kWh in FY 2006. The cost of power fluctuates year to year depending on various factors such as wind totals and unplanned maintenance. The FY 2007 cost of power increase was mostly due to unanticipated increases in wind turbine maintenance due to gear box failures.

Nine Canyon Wind Project  
Net Generation - GWhrs



Nine Canyon Wind Project  
Cost of Power - Cents / kWh



## Balance Sheet Analysis

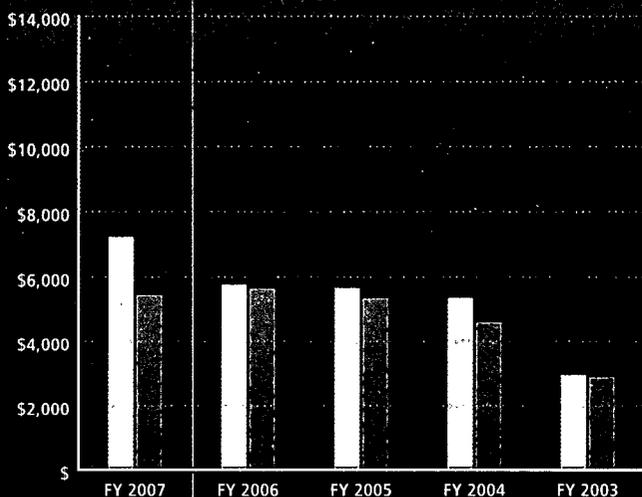
Assets increased from \$80.2 million in FY 2006 to \$148.4 million in FY 2007 mostly due to the receipts of funds relating to the \$72.6 million bond sale for funding of Phase III. The increase to assets related to the bond sale was slightly offset by an increase to accumulated depreciation of \$3.7 million from FY 2006 to FY 2007. Receivables decreased slightly by \$0.4 million which corresponds to the decrease in amount of the Renewable Energy Performance Incentive (REPI) payment accrued. The FY 2006 REPI accrual was \$1.2 million compared to \$0.8 million for FY 2007. The increase of \$73.8 million to liabilities was a direct result of the Phase III bond sale. The decrease in Fund Equity was \$5.6 million in FY 2007 as compared to a \$4.1 million decrease in FY 2006. 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. The REPI incentive expires ten years from the initial operation startup date for each Phase. Reserves that were established are used to facilitate this plan.

## Statement of Operations Analysis

Operating Revenues increased slightly from \$6.3 million in FY 2006 to \$6.5 million in FY 2007. The project received revenue from the billing of the project purchasers at an average rate of \$37.2 per MWh for FY 2007 which was a planned 3 percent increase from FY 2006. There was an increase in operating expenses of \$1.4 million from \$5.8 million in FY 2006 to \$7.2 million in FY 2007 due to increased maintenance costs. Other revenue and expenses decreased \$0.2 million from FY 2006 to \$5.5 million in FY 2007. Net losses of \$6.2 million for FY 2007 continued the trend from previous years. This trend is reflected in the declining Fund Equity balance.

Energy Northwest has accrued, as income (contribution) from the DOE, REPI payments that enable Nine Canyon 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. Nine Canyon recorded a receivable of \$0.8 million which represented twenty-seven percent of the \$3.0 million applied for REPI funding in FY 2007. The payment stream and the REPI receipts were projected to cover the total costs over the life of the purchase agreement. 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. Permanent shortfalls in REPI funding will lead to increases in the billing for FY 2008 and subsequent years to the participants in order to cover total Nine Canyon costs.

### Nine Canyon Wind Project Total Operating Costs (000's)



## 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 2007 Balance Sheet increased slightly from FY 2006. Assets increased \$0.2 million primarily due to an increase of \$3.1 million in due from other business units related to end of year obligations and a \$0.2 million dollar increase to cash and investments for personal time bank (employee leave program), disability, and worker's compensation requirements. These changes were offset by a \$2.0 million increase in accumulated depreciation, and a \$1.1 million decrease due to business unit activity in performance fee investments. The net increase in Fund Equity and Liabilities is from an increase of \$1.4 million to Payroll related expenses, \$0.5 million in current liabilities related to Accounts Payables which was offset by a decrease of \$0.5 million to employee benefits and reserves and \$1.2 million decrease relating to Performance Fee draw downs.

### Statement of Operations Analysis

Net Revenues for FY 2007 remained relatively steady from FY 2006 (down \$109k). Investment income was up \$63k due to better return on investments. Rental revenues for available buildings at corporate headquarters were down \$271k as lease utilization was lower in FY 2007. There were slight increases to non-utility revenues of \$90K with daily operations resulting in the remainder of the change from FY 2006.

# BALANCE SHEETS

As of June 30, 2007 (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	2007 Combined Total
<b>Assets</b>									
<b>UTILITY PLANT (NOTE B)</b>									
In service	\$ 3,578,218	\$ 13,098	\$ -	\$ -	\$ 1,230	\$ 74,268	\$ 3,666,814	\$ 46,765	\$ 3,713,579
Not in service			25,253				25,253		25,253
Accumulated depreciation	(2,174,753)	(12,492)	(25,253)		(496)	(16,041)	(2,229,035)	(35,751)	(2,264,786)
	1,403,465	606	-	-	734	58,227	1,463,032	11,014	1,474,046
Nuclear fuel, net of accumulated amortization	235,742						235,742		235,742
Construction work in progress	26,999					11,177	38,176		38,176
	1,666,206	606	-	-	734	69,404	1,736,950	11,014	1,747,964
<b>RESTRICTED ASSETS (NOTE B)</b>									
<b>Special funds</b>									
Cash	9,014		173	179		2	9,368	860	10,228
Available-for-sale investments	54,409	294	7,412	10,633		53,730	126,478	903	127,381
Accounts and other receivables						790	790		790
<b>Debt service funds</b>									
Cash	54,337	6	389	1,379		7,149	63,260		63,260
Available-for-sale investments		763	49,862	28,467		13,869	92,961		92,961
Due from other funds			296	134			430		-
	117,760	1,063	58,132	40,792	-	75,540	293,287	1,763	294,620
<b>LONG-TERM RECEIVABLES (NOTE B)</b>									
	1,104	-	-	-	-	-	1,104	-	1,104
<b>CURRENT ASSETS</b>									
Cash	15,052	424	796	2	53	108	16,435	1,096	17,531
Available-for-sale investments	40,689	1,536	6,504	4,210	1,081		54,020	25,546	79,566
Accounts and other receivables	738	233	1,587		277		2,835	61	2,896
Due from other business units			22		988		1,010	3,686	-
Due from other funds	16,134	39	3,723	7,376		338	27,610		-
Materials and supplies	101,550						101,550		101,550
Prepayments and other	1,234	60	2		30	7	1,333	66	1,399
	175,397	2,292	12,634	11,588	2,429	453	204,793	30,455	202,942
<b>DEFERRED CHARGES</b>									
Costs in excess of billings	681,202		1,965,219	1,828,338			4,474,759		4,474,759
Unamortized debt expense	13,255		12,454	10,254		2,960	38,923		38,923
Other deferred charges		2,387					2,387		2,387
	694,457	2,387	1,977,673	1,838,592	-	2,960	4,516,069	-	4,516,069
<b>TOTAL ASSETS</b>	<b>\$ 2,654,924</b>	<b>\$ 6,348</b>	<b>\$ 2,048,439</b>	<b>\$ 1,890,972</b>	<b>\$ 3,163</b>	<b>\$ 148,357</b>	<b>\$ 6,752,203</b>	<b>\$ 43,232</b>	<b>\$ 6,762,699</b>

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

## BALANCE SHEETS (CONT'D)

As of June 30, 2007 (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	2007 Combined Total
<b>Fund Equity and Liabilities</b>									
<b>FUND EQUITY</b>									
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ 734	\$ (87,812)	\$ (87,078)	\$ 11,014	\$ (76,064)
Restricted, net						70,836	70,836	1,399	72,235
Unrestricted, net					649	(945)	(296)	(3,542)	(3,838)
	-	-	-	-	1,383	(17,921)	(16,538)	8,871	(7,667)
<b>LONG-TERM DEBT (NOTE E)</b>									
Revenue bonds payable	2,327,420	1,241	1,938,640	1,909,430		152,750	6,329,481		6,329,481
Unamortized (discount)/premium on bonds - net	88,223	(1)	81,295	(38,511)		6,148	137,154		137,154
Unamortized gain/(loss) on bond refundings	(23,690)	18	(43,688)	(18,075)		(2,103)	(87,538)		(87,538)
	2,391,953	1,258	1,976,247	1,852,844	-	156,795	6,379,097	-	6,379,097
<b>LIABILITIES- PAYABLE FROM RESTRICTED ASSETS (NOTE B)</b>									
<b>Special funds</b>									
Accounts payable and accrued expenses	107,358		13,787			598	121,743	363	122,106
Due to other funds	15,875	14	4,019	7,510		338	27,756		-
<b>Debt service funds</b>									
Accrued interest payable	49,797	23	41,394	29,980		3,768	124,962		124,962
Due to other funds	259	25					284		-
	173,289	62	59,200	37,490	-	4,704	274,745	363	247,068
<b>OTHER NONCURRENT LIABILITIES</b>	27,557	-	-	-	-	-	27,557	-	27,557
<b>CURRENT LIABILITIES</b>									
Current maturities of long-term debt	4,280	660	9,160			3,380	17,480		17,480
Accounts payable and accrued expenses	47,550	374	1,392	427	1,780	622	52,145	32,289	84,434
Due to Participants	7,667	1,483	2,440				11,590		11,590
Due to other business units	2,628	70		211		777	3,686	1,010	
	62,125	2,587	12,992	638	1,780	4,779	84,901	33,299	113,504
<b>DEFERRED CREDITS</b>									
Advances from Members and others								37	37
Other deferred credits		2,441					2,441	662	3,103
	-	2,441	-	-	-	-	2,441	699	3,140
<b>TOTAL LIABILITIES</b>	2,654,924	6,348	2,048,439	1,890,972	1,780	166,278	6,768,741	34,361	6,770,366
<b>TOTAL FUND EQUITY AND LIABILITIES</b>	\$ 2,654,924	\$ 6,348	\$ 2,048,439	\$ 1,890,972	\$ 3,163	\$ 148,357	\$ 6,752,203	\$ 43,232	\$ 6,762,699

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

# STATEMENTS OF OPERATIONS AND FUND EQUITY

For the year ended June 30, 2007 (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	2007 Combined Total
<b>OPERATING REVENUES</b>	\$ 436,972	\$ 1,323	\$ -	\$ -	\$ 7,615	\$ 6,492	\$ 452,402	\$ -	\$ 452,402
<b>OPERATING EXPENSES</b>									
Nuclear fuel	25,318						25,318		25,318
Spent fuel disposal fee	7,634						7,634		7,634
Decommissioning	5,885					55	5,940		5,940
Depreciation and amortization	74,678	34			196	3,642	78,550		78,550
Operations and maintenance	198,717	1,071			11,668	3,448	214,904		214,904
Other power supply expense		58					58		58
Administrative and general	20,436	205				47	20,688		20,688
Generation tax	2,529	20				34	2,583		2,583
<b>TOTAL OPERATING EXPENSES</b>	<b>335,197</b>	<b>1,388</b>	<b>-</b>	<b>-</b>	<b>11,864</b>	<b>7,226</b>	<b>355,675</b>	<b>-</b>	<b>355,675</b>
<b>NET OPERATING REVENUES (EXPENSES)</b>	<b>101,775</b>	<b>(65)</b>	<b>-</b>	<b>-</b>	<b>(4,249)</b>	<b>(734)</b>	<b>96,727</b>	<b>-</b>	<b>96,727</b>
<b>OTHER INCOME AND EXPENSE</b>									
Non-operating revenues			113,381	97,499			210,880	52,895	211,278
Investment income	8,070	144	1,909	2,191	92	623	13,029	532	13,029
Interest expense and discount amortization	(122,518)	(79)	(114,218)	(97,773)		(6,069)	(340,657)		(340,657)
Plant preservation and termination costs			(4,695)	(1,917)			(6,612)		(6,612)
Depreciation and amortization			(18)				(18)	(2,043)	(18)
Decommissioning			(540)				(540)		(540)
Services to other business units								(50,986)	
Other	12,673		4,181		1,530		18,384		18,384
<b>TOTAL OTHER INCOME AND EXPENSES</b>	<b>(101,775)</b>	<b>65</b>	<b>-</b>	<b>-</b>	<b>1,622</b>	<b>(5,446)</b>	<b>(105,534)</b>	<b>398</b>	<b>(105,136)</b>
<b>NET REVENUES (EXPENSES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,627)</b>	<b>(6,180)</b>	<b>(8,807)</b>	<b>398</b>	<b>(8,409)</b>
Distribution and Contributions	-	-	-	-	1,800	596	2,396	(1,625)	771
Beginning Fund Equity	-	-	-	-	2,210	(12,337)	(10,127)	10,098	(29)
<b>ENDING FUND EQUITY</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,383</b>	<b>\$ (17,921)</b>	<b>\$ (16,538)</b>	<b>\$ 8,871</b>	<b>\$ (7,667)</b>

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

# STATEMENTS OF CASH FLOWS

For the year ended June 30, 2007 (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	2007 Combined Total
<b>CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES</b>								
Operating revenue receipts	\$ 416,768	\$ 3,297	\$ -	\$ -	\$ 3,836	\$ 6,492	\$ -	\$ 430,393
Cash payments for operating expenses	(221,013)	(1,115)			(4,102)	(1,496)		(227,726)
Non-operating revenue receipts			93,480	67,875				161,355
Cash payments for preservation, termination expense			(3,933)	(59)				(3,992)
Cash payments for services							(3,007)	(3,007)
Net cash provided/(used) by operating and other activities	195,755	2,182	89,547	67,816	(266)	4,996	(3,007)	357,023
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>								
Proceeds from bond refundings	132,555		299,965	159,324		72,554		664,398
Refunded bond escrow requirement	(85,611)		(299,854)	(159,265)				(544,730)
Payment for bond issuance and financing costs	(1,330)	(43)	(4,519)	(3,001)	(2)	(1,445)		(10,340)
Capital	(49,891)	(980)			(180)	(11,218)	539	(61,730)
Receipts from sales of plant assets	5,368		3,385					8,753
Nuclear fuel acquisitions	(87,788)							(87,788)
Interest paid on revenue bonds	(116,747)	(90)	(95,473)	(75,210)		(4,180)		(291,700)
Principal paid on revenue bond maturities		(644)				(3,240)		(3,884)
Interest paid on Notes	(1,321)		(307)	(911)				(2,539)
Net cash provided/(used) by capital and related financing activities	(204,765)	(1,757)	(96,803)	(79,063)	(182)	52,471	539	(329,560)
<b>CASH FLOWS FROM NON-CAPITAL FINANCE ACTIVITIES</b>								
	-	-	-	-	-	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Purchases of investment securities	(878,738)	(8,233)	(264,753)	(224,180)	(8,069)	(295,391)	(62,214)	(1,741,578)
Sales of investment securities	894,134	8,086	248,772	232,302	8,451	237,370	64,205	1,693,320
Interest on investments	8,759	137	2,324	2,379	90	2,111	1,519	17,319
Net cash provided/(used) by investing activities	24,155	(10)	(13,657)	10,501	472	(55,910)	3,510	(30,939)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>15,145</b>	<b>415</b>	<b>(20,913)</b>	<b>(746)</b>	<b>24</b>	<b>1,557</b>	<b>1,042</b>	<b>(3,476)</b>
<b>CASH AT JUNE 30, 2006</b>	<b>63,258</b>	<b>15</b>	<b>22,271</b>	<b>2,306</b>	<b>29</b>	<b>5,702</b>	<b>914</b>	<b>94,495</b>
<b>CASH AT JUNE 30, 2007 (NOTE B)</b>	<b>\$ 78,403</b>	<b>\$ 430</b>	<b>\$ 1,358</b>	<b>\$ 1,560</b>	<b>\$ 53</b>	<b>\$ 7,259</b>	<b>\$ 1,956</b>	<b>\$ 91,019</b>

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

# STATEMENTS OF CASH FLOWS (CONT'D)

For the year ended June 30, 2007 (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	2007 Combined Total
<b>RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>								
Net operating revenues (expenses)	\$ 101,775	\$ (65)	\$ -	\$ -	\$ (4,249)	\$ (734)	\$ -	\$ 96,727
<b>Adjustments to reconcile net operating revenues to cash provided by operating activities:</b>								
Depreciation and amortization	97,714	25			73	3,628		101,440
Decommissioning	5,885					22		5,907
Other	7,404	1,023			1,522	41		9,990
<b>Change in operating assets and liabilities:</b>								
Deferred charges/costs in excess of billings	(20,204)	(22)						(20,226)
Accounts receivable	2,468	160			647			3,275
Materials and supplies	(17,370)					226		(17,144)
Prepaid and other assets	(19)	21			37	(3)		36
Due from/to other business units, funds and Participants	8,355	916			(421)	491		9,341
Accounts payable	9,747	124			325	321		10,517
Non-operating revenue receipts			93,480	67,875				161,355
Cash payments for preservation, termination expense			(3,933)	(59)				(3,992)
Cash payments for services							(3,007)	(3,007)
Receipts for grants/contributions					1,800	1,004		2,804
Net cash provided (used) by operating and other activities	\$ 195,755	\$ 2,182	\$ 89,547	\$ 67,816	\$ (266)	\$ 4,996	\$ (3,007)	\$ 357,023

\*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, 2007, its membership consisted of 17 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.

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 (Columbia), a 1,157 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 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

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 revenue bonds. The Packwood Participants are obligated to pay annual costs of Packwood including debt service, whether or not Packwood 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 Packwood revenue as well. In 2002, Packwood 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, Commitments and Contingencies).

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

- The Business Development Fund was established in April 1997 to pursue and develop new energy related business opportunities.
- Nine Canyon 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 Nine Canyon consists of turbines which have a capacity of 48.1 MWe. Phase II of Nine Canyon consists of turbines which have a capacity of 15.6 MWe. The total Nine Canyon generating capability for Phase I and II is approximately 63.7 MWe. Phase III of Nine Canyon is currently under construction and will consist of an additional 14 wind turbines with an aggregate capacity of approximately 32.2 MWe. Phase III is scheduled for commercial operation in February 2008.

The Internal Service 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 2007 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, disclosures 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 that management considers 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. Columbia 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. Nine Canyon is currently constructing Phase III of the generation project and capitalized \$1.71 million of interest costs to construction work in progress.

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, 2007, was as follows:

## 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

## UTILITY PLANT ACTIVITY (Dollars in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Columbia Generating Station</b>				
Generation	\$ 3,497,075	\$ 50,194	\$ (1,520)	\$ 3,545,749
Decommissioning	32,469			32,469
Construction Work-in-Progress	22,161	51,381	(46,543)	26,999
Accumulated Depreciation	(2,102,609)	(73,346)	1,202	(2,174,753)
<b>UTILITY PLANT, net*</b>	<b>\$ 1,449,096</b>	<b>\$ 28,229</b>	<b>\$ (46,861)</b>	<b>\$ 1,430,464</b>
<b>Packwood Lake Hydroelectric Project</b>				
Generation	\$ 12,991	\$ 107	\$ -	\$ 13,098
Accumulated Depreciation	(12,466)	(26)	-	(12,492)
<b>UTILITY PLANT, net</b>	<b>\$ 525</b>	<b>\$ 81</b>	<b>\$ -</b>	<b>\$ 606</b>
<b>Business Development</b>				
Generation	\$ 1,039	\$ 191	\$ -	\$ 1,230
Construction Work-in-Progress	-	-	-	-
Accumulated Depreciation	(422)	(74)	-	(496)
<b>UTILITY PLANT, net</b>	<b>\$ 617</b>	<b>\$ 117</b>	<b>\$ -</b>	<b>\$ 734</b>
<b>Nine Canyon Wind Project</b>				
Generation	\$ 73,617	\$ 221	\$ (19)	\$ 73,819
Decommissioning	449	-	-	449
Construction Work-in-Progress	-	11,177	-	11,177
Accumulated Depreciation	(12,392)	(3,649)	-	(16,041)
<b>UTILITY PLANT, net</b>	<b>\$ 61,674</b>	<b>\$ 7,749</b>	<b>\$ (19)</b>	<b>\$ 69,404</b>
<b>Internal Service Fund</b>				
Generation	\$ 46,631	\$ 134	\$ -	\$ 46,765
Construction Work-in-Progress	0	-	-	-
Accumulated Depreciation	(33,708)	(2,043)	-	(35,751)
<b>UTILITY PLANT, net</b>	<b>\$ 12,923</b>	<b>\$ (1,909)</b>	<b>\$ -</b>	<b>\$ 11,014</b>

\*Does not include Nuclear Fuel Amount of \$236 million, net of amortization.

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 \$117.1 million as of June 30, 2007, 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 Columbia includes a \$7.6 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 Columbia 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 \$24.2 million for nuclear fuel and \$1.1 million dry cask storage costs.

### **Restricted Assets**

Separate restricted funds have been established for each Business Unit, in accordance with Project bond resolutions, related agreements or state law. 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 an estimate of future discounts for certain goods and services to be provided to Columbia. These amounts are the result of a litigation settlement and subsequent revisions of that settlement.

### **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 Columbia and monies are being deposited each year in accordance with an established funding plan.

The NRC has issued rules to provide guidance to licensees of operating nuclear plants on decommissioning the plants at the end of each plant's operating life. In September 1998, the NRC approved and published its "Final Rule on Financial Assurance Requirements for Decommissioning Power Reactors." As provided in this rule, each power reactor licensee is required to report to the NRC the status of its decommissioning

funding for each reactor or share of a reactor it owns. This reporting requirement began on March 31, 1999, and reports are required every two years thereafter. Energy Northwest submitted its most recent report to the NRC in March 2007.

Energy Northwest's current estimate of Columbia's decommissioning costs in 2007 dollars is \$573.2 million (Columbia-\$570.0 million and ISESI-\$3.2 million). This estimate, which is updated biannually, is based on the NRC minimum amount required to demonstrate reasonable financial assurance for a boiling water reactor with the power level of Columbia.

Site restoration requirements for Columbia are governed by the site certification agreements between Energy Northwest and the State of Washington and by regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC). Energy Northwest submitted a site restoration plan for Columbia that was approved by the EFSEC on June 12, 1995. Energy Northwest's current estimate of Columbia's site restoration costs is \$80.6 million in constant dollars (based on 2007 Study) and is updated biannually along with the decommissioning estimate.

Both decommissioning and site restoration estimates (based on 2007 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, 2007, totaled approximately \$118.1 million and \$16.1 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; 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-Columbia includes \$107.4 million for decommissioning and site restoration. Nuclear Project No. 1 includes \$13.8 million for decommissioning and site restoration. Nine Canyon includes \$0.6 million for decommissioning and site restoration. The other large amount of payables from restricted assets relate to accrued interest payable.

There was \$125.0 million accrued amongst the five business units (none for the Internal Service Fund) for this item.

Current Liabilities-Internal Service Fund accounts payable and accrued expenses include \$6.3 million for payroll and related benefits, \$17.2

million for compensated absences, and \$8.8 million for outstanding warrants, taxes, and retention withheld. Other Business Unit accrued costs accounted for the other \$52.1 million and represents general Business Unit activity.

**Other Non Current Liabilities**—The \$27.6 million is the Columbia deferred cask liability 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.

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, 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 Nine Canyon 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. Nine Canyon recorded a receivable for 27 percent of the applied REPI funding in the amount of \$0.8 million for FY 2007, representing its share of funded amounts. The payment stream from Nine Canyon 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 Nine Canyon 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 and Columbia" and "Security - Packwood Lake Hydroelectric Project"). The long-term receivable is with a large and stable company which Energy Northwest considers to be of low credit risk. Other large receivables are secured through the use of letters of credit and other similar security mechanisms or are with large and stable companies which Energy Northwest considers to be of low credit risk. As a consequence, Energy Northwest considers the exposure of the Business Units to concentration of credit risk to be limited.

### Statements of Cash Flows

For purposes of the statements of cash flows, cash includes unrestricted and restricted cash balances. Short-term, highly liquid investments are not considered cash equivalents 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, 2007, 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:

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (1) (2)
Columbia Generating Station	\$ 95,135	\$ -	\$ (37)	\$ 95,098
Packwood Lake Hydroelectric Project	2,592	1	-	2,593
Nuclear Project No. 1	63,797	-	(19)	63,778
Nuclear Project No. 3	43,323	-	(13)	43,310
Business Development Fund	1,081	-	-	1,081
Internal Service Fund	26,460	-	(11)	26,449
Nine Canyon Wind Project	67,628	-	(29)	67,599

(1) All investments are in U.S. Government Agencies with the exception of Packwood which holds only U.S. Government Treasury Bills.

(2) All investments have maturities of less than 1 year.

## NOTE D - RETIREMENT BENEFITS

Substantially all Energy Northwest full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, 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 2 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. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. 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. The benefit is also actuarially reduced to reflect the choice of a survivor option. 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 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Nonvested	51,004
<b>Total</b>	<b>246,754</b>

## 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. 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, 2007, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.46%	5.46%	5.46%**
Employee	6.00%	3.50%	***

\*The employer rates include the employer administrative expense fee currently set at 0.18%. This rate reflects the change effective December 31, 2006. Previous to this period the rate was 0.19%.

\*\*Plan 3 defined benefit portion only.

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

Both Energy Northwest and the employees make the required contributions. The required employer contribution increased January 1, 2007, from 3.69 percent for all plans to the current level of 5.46 percent. For FY 2005 and FY 2006 the rates ranged from 1.38 percent to 2.44 percent. Energy Northwest's required contributions for the years ended June 30 was:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$ 174,813	\$ 3,235,922	\$ 1,269,321
2006	\$ 107,096	\$ 1,458,655	\$ 564,242
2005	\$ 86,067	\$ 958,601	\$ 364,653

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, 2007, was \$0.7 million for these benefits.

During FY 2007, 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. This allocation basis resulted in the following percentages by Business Unit for FY 2007 for this and other allocated costs; Columbia at 92 percent, Business Development at 6 percent, and Project 1, Nine Canyon, Packwood and Project 3 receiving the residual amount of 2 percent.

#### 401(k) and 457 Plan Deferred Compensation Plan

Energy Northwest provides a 401(k) Deferred Compensation Plan (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. Participants are immediately vested in their contributions and direct the investment of their contribution. 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 elect to make an Employer matching contribution for each of its Employees who are a Participant during the Plan Year. The amount of such an Employer match shall be 50 percent of the maximum salary deferral percentage. During FY 2007 Energy Northwest contributed \$2.0 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. Nine Canyon's bonds were authorized by the following resolutions: Resolution No. 1214 2001 Bonds, Resolution No. 1299 2003 Bonds, Resolution No. 1376 2005 Bonds and Resolution No. 1482 the 2006 Bonds. The Packwood Bonds were authorized by Resolution 325 for the 1962 Bonds and Resolution 328 for the 1965 Bonds.

During the year ended June 30, 2007, Energy Northwest issued, for Nuclear Projects No. 1 and 3, and Columbia, the Series 2007-A Bonds, Series 2007-B Bonds, Series 2007-C Bonds, and Series 2007-D Bonds. The Series 2007-A, 2007-B, 2007-C, and 2007-D Bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are fixed rate bonds with a weighted average coupon interest rate ranging from 4.50 percent to 5.33 percent. This transaction resulted in a net-loss for accounting purposes of \$24.82 million. 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. However an economic gain of \$19.13 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 2007-A Bonds, issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are tax exempt fixed-rate bonds that create savings based on improved interest rates.

The Series 2007-B Bonds, issued for Nuclear Project No.1, Nuclear Project No. 3 and Columbia are taxable fixed-rate for the purpose of paying

costs relating to the issuance of the Series 2007-A, Series 2007-B, and Series 2007-C Bonds as well as certain costs relating to the refunding of certain outstanding bonds.

The Series 2007-C Bonds, issued for Nuclear Project No. 1 and Nuclear Project No. 3 are tax exempt fixed-rate bonds that created savings based on improved interest rates.

The Series 2007-D Bonds issued for Columbia are tax exempt fixed-rate bonds to finance a portion of the cost of certain capital improvements at Columbia.

Nuclear Projects Nos. 1 and 3 have long debt that contains variable rate interest. These rates are set periodically through a weekly auction rate. These rates ranged from 3.102 percent to 4.000 percent during FY 2007.

The Bond Proceeds, Weighted Average Coupon Interest Rates, Net Accounting Loss, Economic Gain, and total defeased bonds for 2007-A, 2007-B, 2007-C, and 2007-D are presented in the following tables:

#### Bond Proceeds (\$ in millions)

	2007A	2007B	2007C	2007D	Total
Project 1	\$ 56.17	\$ 6.74	\$ 237.05	\$ -	\$ 299.96
Columbia	84.17	10.67	-	37.72	132.56
Project 3	91.43	1.72	66.17	-	159.32
Total	\$ 231.77	\$ 19.13	\$ 303.22	\$ 37.72	\$ 591.84

#### Weighted Average Coupon Interest Rate for Refunded Bonds

	2007A	2007B	2007C	2007D
Total	5.64%	-	5.16%	-

#### Weighted Average Coupon Interest Rate for New Bonds

	2007A	2007B	2007C	2007D
Total	4.99%	5.26%	5.00%	5.00%

### Net Accounting Loss (\$ in millions)

	2007A	2007B	2007C	2007D	Total
Project 1	\$ 0.05	\$ 6.70	\$ 12.20	\$ -	\$ 18.95
Columbia	-0.57	0.72	-	-	0.15
Project 3	0.54	1.71	3.47	-	5.72
Total	\$ 0.02	\$ 9.13	\$ 15.67	\$ -	\$ 24.82

### Total Defeased (\$ in millions)

	2007A	2007B	2007C	2007D	Total
Project 1	\$ 56.17	\$ -	\$ 235.48	\$ -	\$ 291.65
Columbia	84.18	-	NA	-	84.18
Project 3	91.45	-	65.71	-	157.16
Total	\$ 231.80	\$ -	\$ 301.19	\$ -	\$ 532.99

During the Fiscal Year ended June 30, 2007, Energy Northwest also issued, Nine Canyon, the Series 2007 Wind Project Revenue Bonds. The Series 2007 Bonds, in aggregate principal amount of \$69.4 million, are fixed-rate bonds with an average coupon interest rate of 5.0 percent. The Series 2007 Bonds were issued to finance the costs of acquiring, constructing and installing Phase III of Nine Canyon which consists of an additional 14 wind turbines.

Energy Northwest did not issue or refund any bonds associated with Packwood for FY 2007.

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 2007 defeasements, \$440.4 million, \$159.9 million, and \$314.3 million of defeased bonds were not called or had not matured at June 30, 2007, for Nuclear Projects Nos. 1 and 3, and Columbia respectively.

Outstanding principal on revenue and refunding bonds for the various Business Units as of June 30, 2007, and future debt service requirements for these bonds are presented in the following tables:

## OUTSTANDING LONG-TERM DEBT

As of June 30, 2007 (Dollars in Thousands)

### Columbia Generating Refunding Revenue Bonds

Series	Coupon Rate	Serial or Term Maturities	Amount
1992A	6.30	7-1-2012	\$ 50,000
1993A	5.70-5.80	7-1-2008	4,415
1994A	(A)	7-1-2009	4,776
	5.40	7-1-2012	100,200
			104,976
1996A	6.00	7-1-2008	17,475
1997B	5.00-5.20	7-1-09/2011	15,000
1998A	5.00-5.75	7-1-08/2012	160,640
2001A	5.00-5.50	7-1-13/2017	186,600
2001B	5.50	7-1-2018	48,000
2002A	5.20-5.75	7-1-17/2018	157,260
2002B	5.35-6.00	7-1-2018	123,815
2003A	5.50	7-1-10/2015	132,970
2003B	4.15	7-1-2009	4,530
2003F	5.00-5.25	7-1-07/2018	41,330
2004A	3.75-5.25	7-1-08/2018	403,080
2004B	5.50	7-1-2013	12,715
2004C	5.25	7-1-07/2018	26,620
2005A	5.00	7-1-15/2018	114,985
2005B	4.11	7-1-2008	1,600
2005C	4.34-4.74	7-1-09/2015	91,890
2006A	5.00	7-1-20/2024	434,210
2006B	5.23	7-1-2011	4,420
2006C	5.00	7-1-20/2024	62,200
2006D	5.80	7-1-2023	3,425
2007A	5.00	7-1-13/2018	77,575
2007B	5.07-5.33	7-1-12/2021	10,665
2007D	5.00	7-1-21/2024	35,080
<b>Compound interest bonds accretion</b>			6,224
<b>Revenue bonds payable</b>			\$ 2,331,700
<b>Estimated fair value at June 30, 2007</b>			\$ 2,446,584 (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.

### Nuclear Project No.1 Refunding Revenue Bonds

Series	Coupon Rate	Serial or Term Maturities	Amount
1989B	7.125	7-1-2016	\$ 41,070
1990B	7.25	7-1-2009	3,590
1993A	7.00	7-1-2008	13,075
1993B	7.00	7-1-08/2009	15,090
1993C	5.20	7-1-2008	1,985
1996A	6.00	7-1-2008	40,050
1996C	6.00	7-1-2009	8,445
1997A	6.00	7-1-2008	7,080
1997B	5.00-5.125	7-1-08/2011	4,885
1998A	5.00-5.75	7-1-08/2017	78,260
2001A	4.50-5.50	7-1-10/2013	76,560
2001B	5.50	7-1-2017	23,600 (C)
2002A	5.50-5.75	7-1-13/2017	248,485
2002B	6.00	7-1-2017	101,950
2003A	5.50	7-1-13/2017	241,455
2003B	4.06	7-1-2009	18,210
2004A	5.25	7-1-2013	62,485
2004B	5.50	7-1-2013	\$1,135
2005A	5.00	7-1-13/2015	72,175
2005B	4.11	7-1-2008	925
2006A	5.00	7-1-08/2017	309,205
2006B	5.16	7/1/2007	9,160
2007A	5.00	7-1-13/2017	51,730
2007B	5.07-5.10	7-1-12/2013	6,740
2007C	5.00	7-1-13/2017	219,020
1993-1A-1	VARIABLE		39,070
1993-1A-2	VARIABLE		39,070
1993-1A-3	VARIABLE		12,810
2003-C-1	VARIABLE		50,235
2003-C-2	VARIABLE		50,000
2003-C-3	VARIABLE		50,250
2003-C-4	VARIABLE		50,000
<b>Revenue bonds payable</b>			\$ 1,947,800
<b>Estimated fair value at June 30, 2007</b>			\$ 2,046,150 (B)

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

(C) Auction Rate Certificates that will have a rate of 5.50 through 7/1/2008 and a variable rate thereafter until 7/1/2017.

## OUTSTANDING LONG-TERM DEBT (CONT'D)

As of June 30, 2007 (Dollars in Thousands)

### Nuclear Project No.3 Refunding Revenue Bonds

Series	Coupon Rate	Serial or Term Maturities	Amount
1989A	(A)	7-1-08/2014	\$ 11,112
1989B	(A)	7-1-08/2014	37,537
	7.125	7-1-2016	76,145
			113,682
1990B	(A)	7-1-08/2010	8,225
1993B	5.65-7.00	7-1-08/2009	23,460
1993C	7.50	7-1-2008	14,150
	(A)	7-1-13/2018	23,963
			38,113
1997A	5.10-6.00	7-1-08/2011	28,690
1998A	5.125	7-1-17/2018	53,825
2001A	5.50	7-1-10/2018	151,380
2001B	5.50	7-01-2018	10,675
2002B	6.00	7-01-2016	75,360
2003A	5.50	7-1-11/2017	241,915
2003B	4.15	7-1-2009	21,575
2004A	5.25	7-1-14/2016	83,835
2004B	5.50	7-1-2013	1,515
2005A	5.00	7-1-13/2015	129,265
2005B	4.11	7-1-2008	1,060
2006A	5.00	7-1-08/2018	54,760
2006B	5.21	7-1-2008	525
2007A	4.50-5.00	7-1-13/2018	84,465
2007B	5.07	7-1-2012	1,725
2007C	5.00	7-1-12/2018	61,085
1993-3A-3	VARIABLE		18,205
1998-3A	VARIABLE		119,560
2001B-3-1	VARIABLE		5,000 (C)
2001B-3-2	VARIABLE		10,000 (C)
2003D-1	VARIABLE		100,665
2003D-2	VARIABLE		100,400
2003E	VARIABLE		98,025
Compound interest bonds accretion			261,328
Revenue bonds payable			\$ 1,909,430
Estimated fair value at June 30, 2007			\$ 1,923,111 (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.

### Packwood Lake Hydroelectric Project Refunding Revenue Bonds

Series	Coupon Rate	Serial or Term Maturities	Amount
1962	3.625	3-1-08/2010	\$ 1,271
1965	3.75	3-1-08/2012	630
Revenue bonds payable			\$ 1,901
Estimated fair value at June 30, 2007			\$ 1,898 (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.

### Nine Canyon Wind Project Refunding Revenue Bonds

Series	Coupon Rate	Serial or Term Maturities	Amount
2001A	4.75	7-1-2007	\$ 1,675
2001A	4.95	7-1-2008	1,760
2001B	4.75	7-1-2007	675
2001B	4.95	7-1-2008	705
			4,815
2003	3.00	7-1-2007	820
	3.75-5.00	7-1-08/2023	19,335
			20,155
2005	4.00	7-1-2007	210
	4.00-5.00	7-1-08/2023	61,540
			61,750
2006	4.50-5.00	7-1-10/2030	69,410
Revenue bonds payable			\$ 156,130
Estimated fair value at June 30, 2007			\$ 161,375 (B)
Total Bonds Payable - Energy Northwest			\$ 6,346,961
Estimated fair value at June 30, 2007			\$ 6,579,118 (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.

# DEBT SERVICE REQUIREMENTS

As of June 30, 2007 (Dollars in Thousands)

## Columbia Generating Station

Fiscal Year	Principal	Interest	Total
6/30/2007 Balance*	\$ 4,280	\$ 48,711	\$ 52,991
2008	126,285	121,504	247,789
2009	115,806	120,964	236,770
2010	157,650	108,982	266,632
2011	95,405	100,803	196,208
2012	267,885	95,958	363,843
2013-2017	535,020	358,871	893,891
2018-2022	789,120	148,067	937,187
2023-2024	234,025	17,723	251,748
Adjustment **	6,224	(6,224)	-
	\$ 2,331,700	\$ 1,115,359	\$ 3,447,059

\* Principal and interest due July 1, 2007.

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

## Nuclear Project No. 3

Fiscal Year	Principal	Interest	Total
6/30/2007 Balance*	\$ -	\$ 27,603	\$ 27,603
2008	64,426	109,861	174,287
2009	68,378	109,158	177,536
2010	38,862	107,074	145,936
2011	87,514	97,697	185,211
2012	74,832	93,937	168,769
2013-2017	921,780	349,942	1,271,722
2018	392,310	26,464	418,774
Adjustment **	261,328	(261,328)	-
	\$ 1,909,430	\$ 660,408	\$ 2,569,838

\* Principal and interest due July 1, 2007.

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

## Nine Canyon Wind Project

Fiscal Year	Principal	Interest	Total
6/30/2007 Balance*	\$ 3,380	\$ 3,768	\$ 7,148
2008	4,315	7,335	11,650
2009	3,705	7,139	10,844
2010	3,965	6,963	10,928
2011	4,260	6,774	11,034
2012	4,575	6,570	11,145
2013-2017	38,240	28,224	66,464
2018-2022	48,495	18,134	66,629
2023-2030	45,195	8,692	53,887
	\$ 156,130	\$ 93,599	\$ 249,729

\* Principal and interest due July 1, 2007.

## Nuclear Project No. 1

Fiscal Year	Principal	Interest	Total
6/30/2007 Balance*	\$ 9,160	\$ 40,371	\$ 49,531
2008	80,310	100,452	180,762
2009	87,110	95,623	182,733
2010	80,620	91,161	171,781
2011	89,090	87,204	176,294
2012	87,475	82,828	170,303
2013-2017	1,514,035	253,831	1,767,866
	\$ 1,947,800	\$ 751,470	\$ 2,699,270

\* Principal and interest due July 1, 2007.

## Packwood Lake Hydroelectric Project

Fiscal Year	Principal	Interest	Total
6/30/2007 Balance***	\$ 660	\$ 68	\$ 728
2008	690	46	736
2009	336	20	356
2010	150	8	158
2011	65	2	67
	\$ 1,901	\$ 144	\$ 2,045

\*\*\* Principal and Interest due March 1, 2008.

### Security - Nuclear Projects Nos. 1 and 3 and Columbia

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

On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. The Nuclear Projects Nos. 1 and 3 Project agreements and the net-billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations under the net-billing agreements, ended upon termination of the Projects. Energy Northwest entered into an agreement with BPA to provide for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement among Energy Northwest and private companies was terminated in FY 1999 (see Note F, Commitments and Contingencies).

### 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 exists for economic development by transferring ownership of all or a portion of the site to local government entities. This legislation also provides for the local government entities to assume regulatory responsibilities for site restoration requirements and control of water rights. In February 1999, Energy Northwest entered into a transfer agreement with the Satsop Redevelopment Project (SRP) to transfer the real and personal property at the site of Nuclear Project No. 3. 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 percent interest in NoaNet with a potential mandate of an additional 25 percent step-up possible for a maximum 9.23 percent. As of December 31, 2006, (last audited statements), NoaNet has \$20.1 million in network revenue bonds outstanding. 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 2007 the Business Development Fund contributed \$223k to NoaNet based on an assessment by the NoaNet members. This equity contribution was reduced to zero at year-end because NoaNet had a negative net equity position of \$13.8 million as of December 31, 2006. 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.

### **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.

Federal law under the Price Anderson Act currently limits public liability claims from a nuclear incident to \$10.8 billion. As required by law, Energy Northwest has purchased the maximum commercial insurance available of \$300 million, which is the primary layer of protection. The balance is covered by the industry's retrospective rating plan that uses deferred premium charges to every reactor licensee if a nuclear incident at any licensed reactor in the United States results in claims that exceed the individual licensee's primary insurance layer. The current maximum deferred premium for each nuclear incident is \$100.59 million per reactor, but not more than \$15 million per reactor may be charged in any one year for each incident.

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, and 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: Columbia, Nuclear Project No. 1 and Nine Canyon. Decommissioning and site restoration requirements for Columbia and Nuclear Project No. 1 are governed by the NRC regulations and site certification agreements

between Energy Northwest and the State of Washington and regulations adopted by the EFSEC and a lease agreement with the DOE (see Notes B and F). Additionally, there are separate lease agreements for land located at Nine Canyon. Leases at these locations are considered operating leases and expenses were \$727.9k for Columbia, \$7.4k for Nuclear Project No. 1 and \$268.6k for the Nine Canyon project.

As of June 30, 2007, Columbia has a capital decommissioning net asset value of \$18.7 million and an accumulated liability of \$105.7 million for the generating plant and a net asset value of \$1.2 million and an accumulated liability of \$1.6 million for the ISFSI.

An adjustment was made in FY 2007 for Nuclear Project No. 1 to account for costs incurred for decommissioning and site restoration. Costs incurred in FY 2007 of \$13k combined with current year accretion expense of \$0.69 million and revision in future restoration estimates of \$(0.14) million resulted in a small increase to the ARO of \$0.54 million. Nuclear Project No. 1 has a capital decommissioning net asset value of \$0 and an accumulated liability of \$13.8 million.

Under the current agreement, Nine Canyon 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, 2007, Nine Canyon has a capital decommissioning net asset value of \$0.3 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 ARO obligation can be made. An ARO will be required to be recorded if circumstances change. Management believes that these assets will be used in utility operations for the foreseeable future.

The following table describes the changes to Energy Northwest's ARO liabilities for the year ended June 30, 2007:

**Asset Retirement Obligation**  
(Millions of Dollars)

**Columbia Generating Station**

Balance at June 30, 2006	\$	100.50
Current year accretion expense		5.24
ARO at June 30, 2007	\$	105.74

**ISFSI**

Balance at June 30, 2006	\$	1.50
Current year accretion expense		0.08
ARO at June 30, 2007	\$	1.58

**Nuclear Project No. 1**

Balance at June 30, 2006	\$	13.25
Less: Restoration costs incurred		(0.01)
Current year accretion expense		0.69
Revision in future restoration estimates		(0.14)
ARO at June 30, 2007	\$	13.79

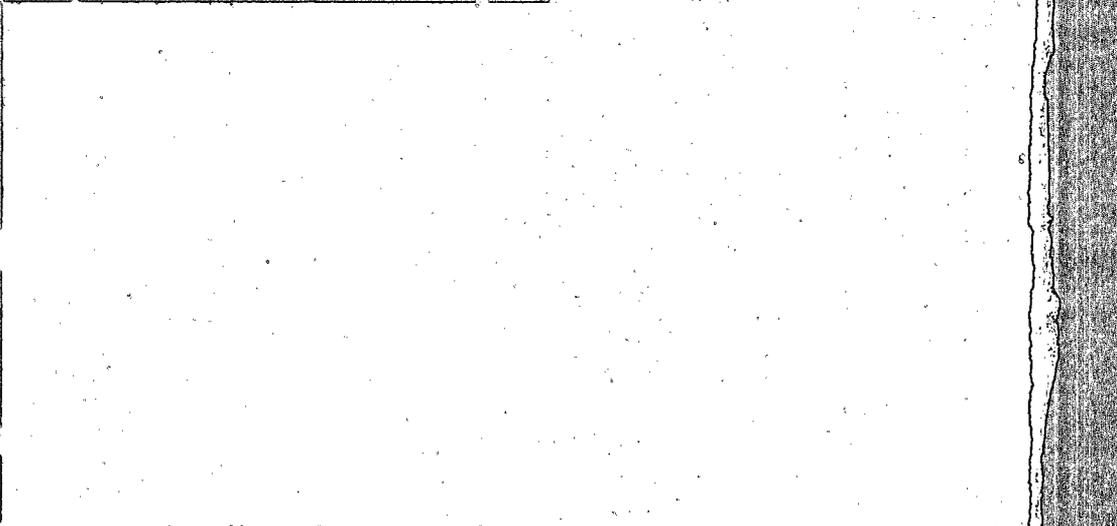
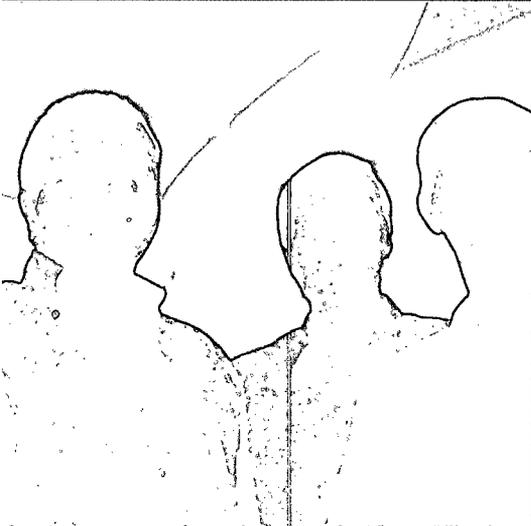
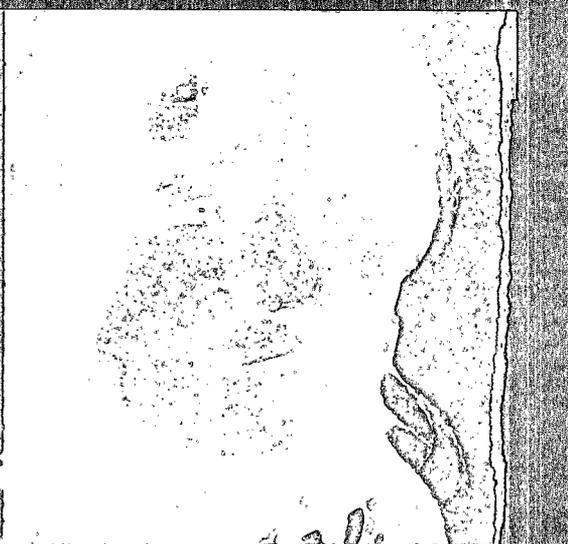
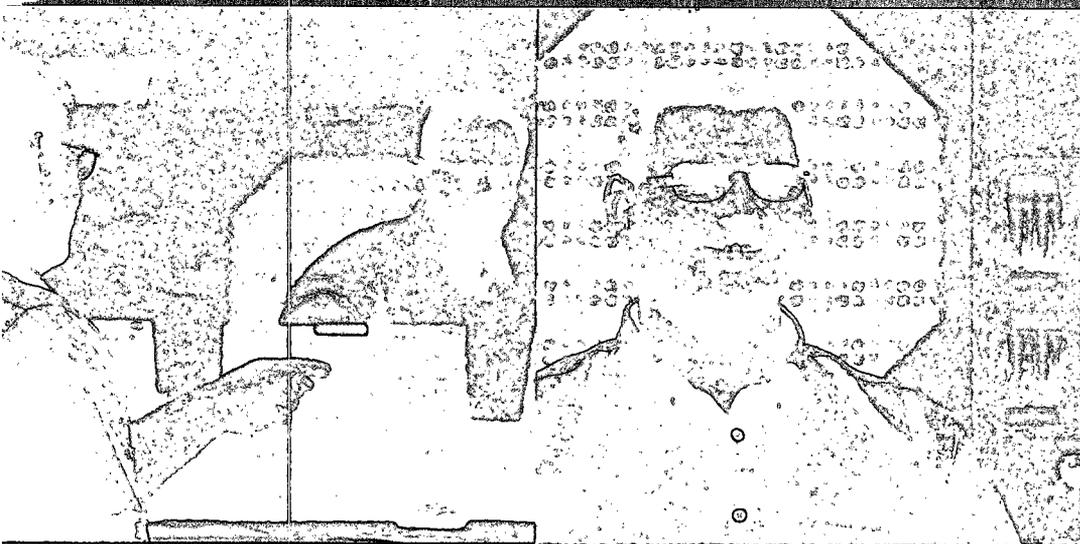
**Nine Canyon Wind Project**

Balance at June 30, 2006	\$	0.57
Current year accretion expense		0.03
ARO at June 30, 2007	\$	0.60

## CURRENT DEBT RATINGS (unaudited)

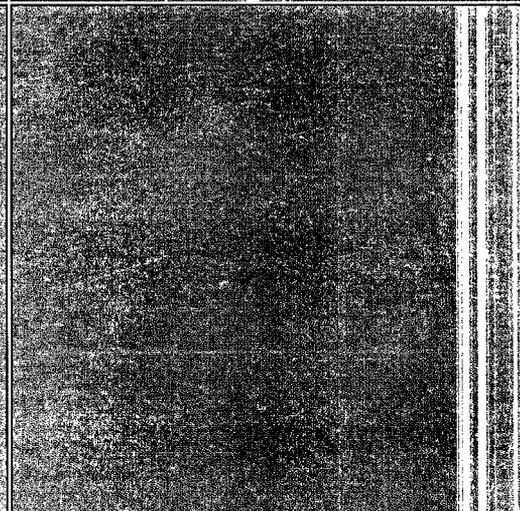
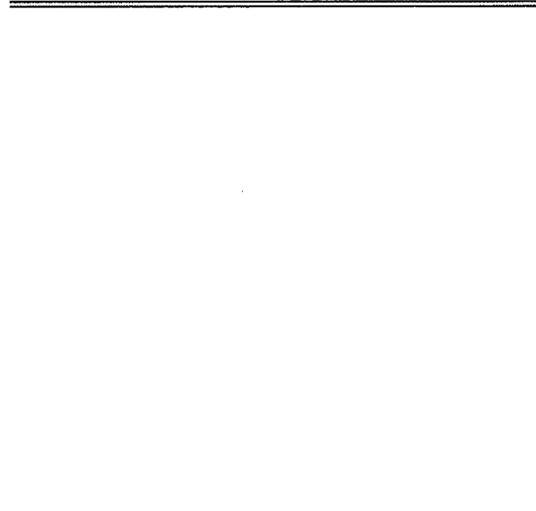
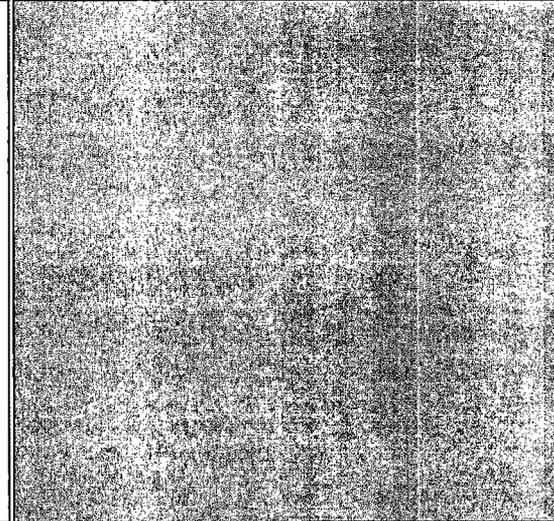
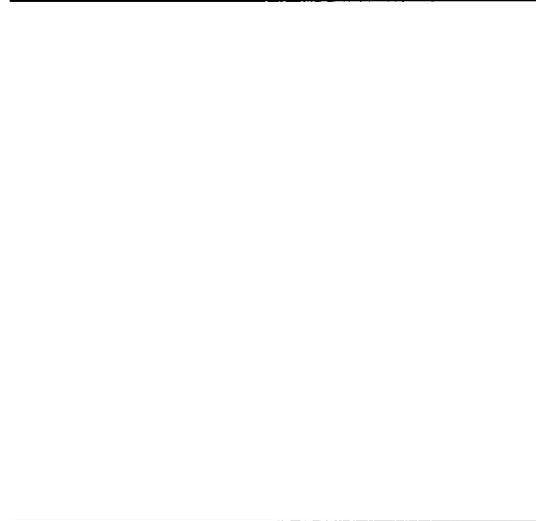
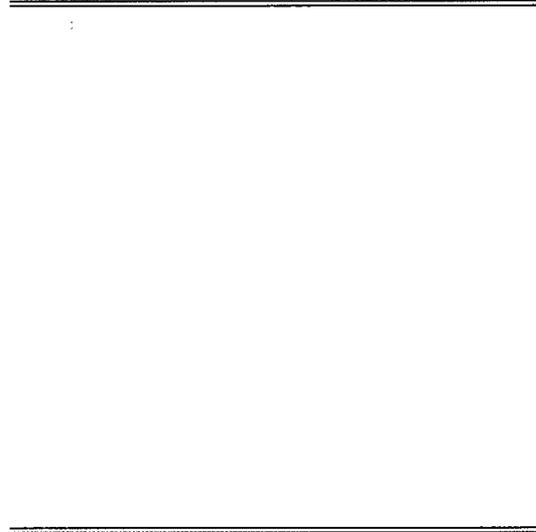
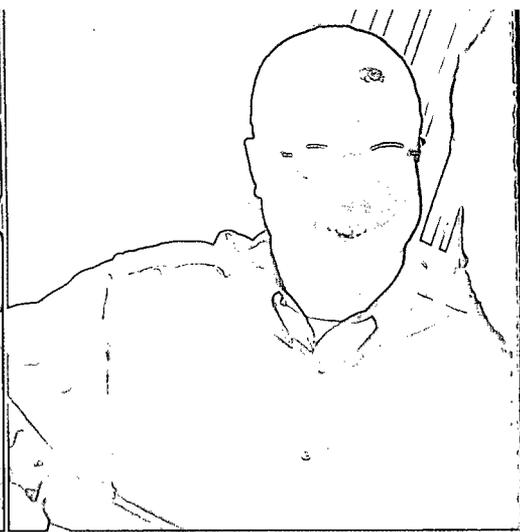
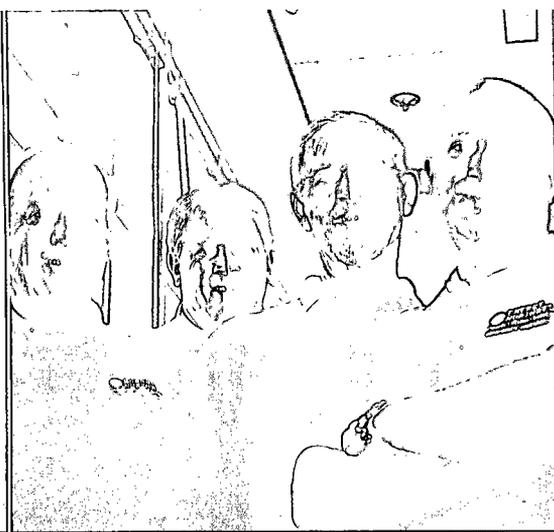
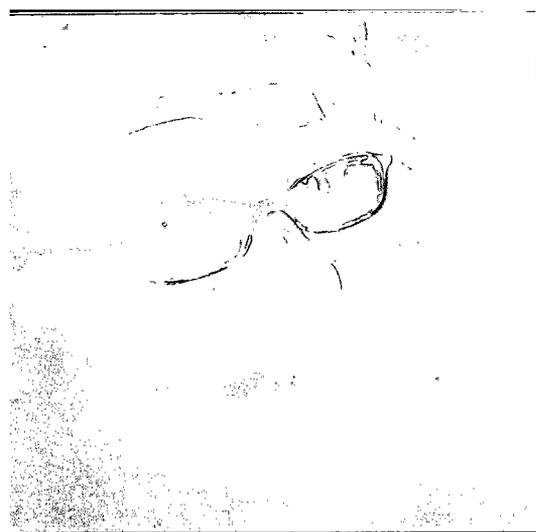
<b>Energy Northwest (Long-Term)</b>	<b>Net-Billed Rating</b>	<b>Nine Canyon Rating</b>
Fitch, Inc.	AA-	A-
Moodys Investors Service, Inc. (Moodys)	Aaa	A3
Standard and Poor's Ratings Services (S & P)	AA-	A-

<b>Variable Rate Debt</b>	<b>S&amp;P</b>	<b>FITCH</b>	<b>MOODY'S</b>
<b>Letter of Credit Banks</b>			
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
<b>Bond Insurance (Long-Term)</b>			
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
<b>FSA (Short-Term)</b>			
Dexia	A-1+	F1+	VMIG-1



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