



# ENERGY NORTHWEST

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January 14, 2010  
GO2-10-010

10 CFR 50.71(b)

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

Subject: **COLUMBIA GENERATING STATION, DOCKET 50-397  
2009 ANNUAL FINANCIAL REPORT**

Dear Sir or Madam:

In accordance with 10 CFR 50.71(b), enclosed is a copy of the Energy Northwest 2009 Annual Report for the subject facility.

There are no commitments contained in this letter or its enclosure. Should you have any questions, please call MC Humphreys at (509) 377-4025.

Respectfully,

GV Cullen  
Manager, Regulatory Programs

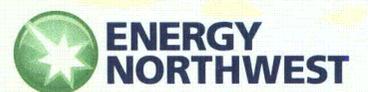
Enclosure: As stated

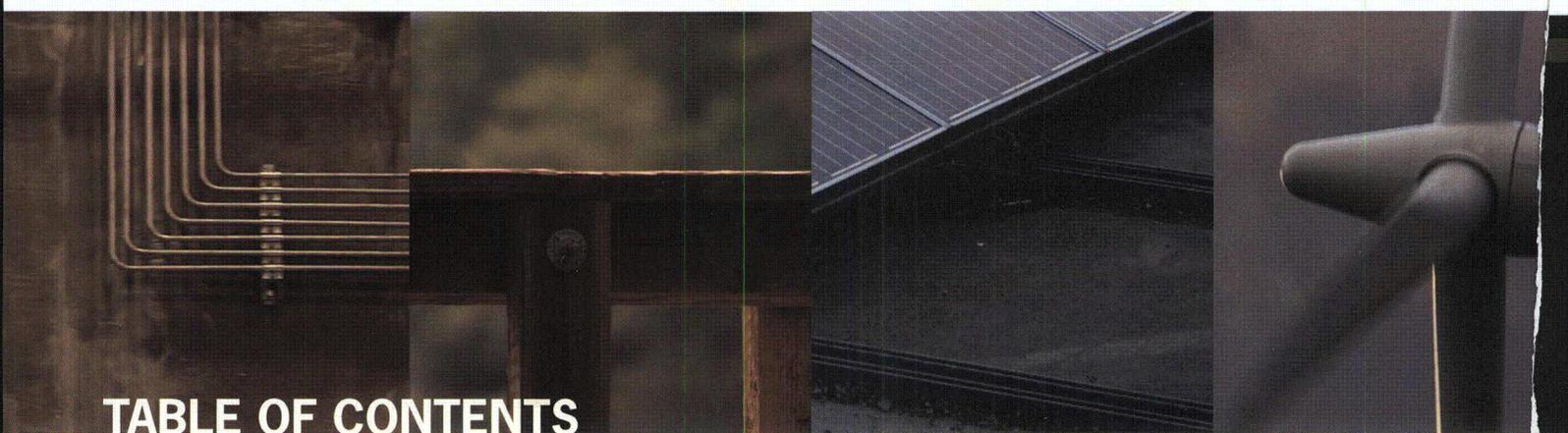
cc: NRC RIV Regional Administrator w/o  
NRC NRR Project Manager w/o  
NRC Sr. Resident Inspector - 988C w/o  
RN Sherman – BPA/1399 w/o  
WA Horin – Winston & Strawn w/o

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NRR



*growing* **POWERFUL SOLUTIONS**  
2009 Annual Report





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**OUR VISION:**  
Provide responsible and cost-effective energy solutions for the region's ratepayers.

**OUR MISSION:**  
The region's preferred source for energy solutions.

## A MESSAGE TO OUR STAKEHOLDERS

### Challenge, commitment and accomplishment defined Energy Northwest people and operations in fiscal year 2009.

Despite a major refueling outage with more than the usual complement of unplanned maintenance challenges, the Energy Northwest team closed out the year \$8 million under budget, vastly exceeding our goal of \$6.8 million.

That performance honored our regional budgetary and planning commitments while underscoring the immense value Energy Northwest brings to Northwest ratepayers in terms of affordable, environmentally responsible power.

Fiscal 2009 also saw us deliver an application to renew our expiring 50-year license for the Packwood Lake Hydroelectric Project. With initial operations in 1964, Packwood was our first project as a young joint operating agency. We have applied for a new 50-year license and anticipate a decision by the Federal Energy Regulatory Commission next spring.

Other highlights of the year included an American Association for Laboratory Accreditation certification for our Calibration Services Laboratory. The certification – which only a handful of nuclear utilities nationwide receive – is based on rigorous International Organization for Standardization criteria. The internationally recognized certification validates the laboratory's quality and technical competence.

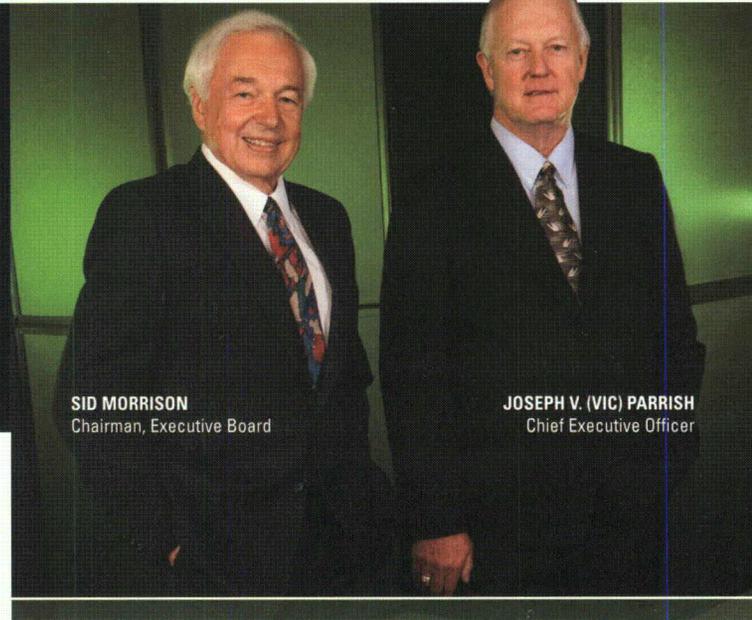
Our investments of time, effort and finances to upgrade our training programs was officially recognized during the past year through the formal accreditation renewal of our operations and engineering training programs by the National Nuclear Accrediting Board.

The year's bright spots and accomplishments were dimmed several times by performance issues at Columbia Generating Station. While public safety – our first priority – was never threatened, we were all reminded of the crucial importance of ongoing, planned investment in our facilities and our people.

Our commitment to improving performance at Columbia is unequivocal. Our Energy Northwest leadership team is leaning forward to provide the resources and support necessary to move us back up the performance ladder.

Challenges arrived on the environmental front as well. We were inspired by the team's highly professional response to regulatory recommendations for improving our environmental compliance programs.

Receiving and responding productively to constructive feedback is a recognized hallmark of world-class organizations. The experience steeled our commitment to environmental stewardship and our ISO 14001 environmental certification.



**SID MORRISON**  
Chairman, Executive Board

**JOSEPH V. (VIC) PARRISH**  
Chief Executive Officer

Looking toward fiscal 2010 and beyond, Energy Northwest will continue to play a vital role in helping meet the region's need for clean, reliable, affordable electric power.

Potential energy legislation at state and federal levels cannot be ignored. Legislators at both levels continue to debate the merits of environmental and energy policies. Our task will be to remain fully engaged and continue to communicate the unique nature of public power organizations. We must remain vigilant to ensure well-intended legislation does not diminish our ability to serve the needs of Northwest ratepayers.

Closer to home we must continue to grow our future leaders. The inevitable march of time will require and deliver new senior leaders, managers and team members. The quality of our organization and our performance as a power generator will never be any better than the quality of our people. This is an essential, ongoing investment that must never be underestimated.

We are especially pleased to report the launch of a new Nuclear Technology Program partnership with Columbia Basin College. The program is a vital step in helping us prepare tomorrow's workforce and leaders; especially in light of unprecedented industry retirements anticipated in the coming decade.

Fiscal 2009 was indeed a challenging year. Yet the truest measure of an organization is never a snapshot in time, but rather how it moves forward from adversity to embrace and embody professional excellence.

We have every confidence in our team's commitment, professionalism and sheer talent to advance us into the arena of world-class performance, where we belong.

The challenge belongs to every member of our Energy Northwest team. We look forward to navigating the path to excellence with the support and encouragement of our regional partners and stakeholders.

#### Respectfully,

Joseph V. (Vic) Parrish  
Chief Executive Officer

Sid Morrison  
Chairman, Executive Board

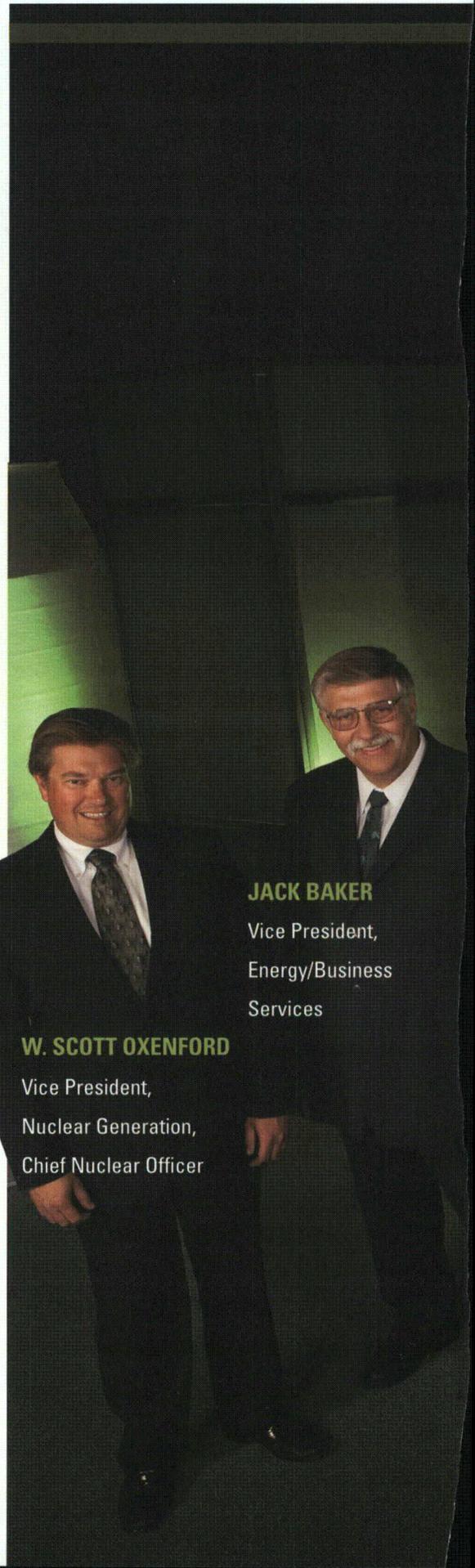


## EXECUTIVE BOARD

**BACK (L-R):** Bill Gordon, Kathleen Vaughn, Dan Gunkel, Tim Sheldon, Jack Janda

**FRONT (L-R):** Sid Morrison, Lawrence Kenney, Edward E. (Ted) Coates, Tom Casey

**Energy Northwest's Executive Board** sets the policies that govern the operations of the organization. It is made up of 11 members, five elected from the Board of Directors, three outside members appointed by the Board of Directors and three outside members appointed by the Washington State Governor.



**JACK BAKER**

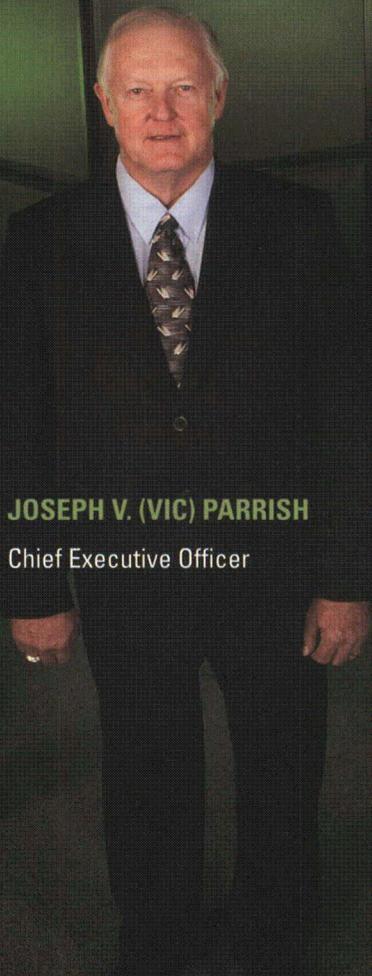
Vice President,  
Energy/Business  
Services

**W. SCOTT OXENFORD**

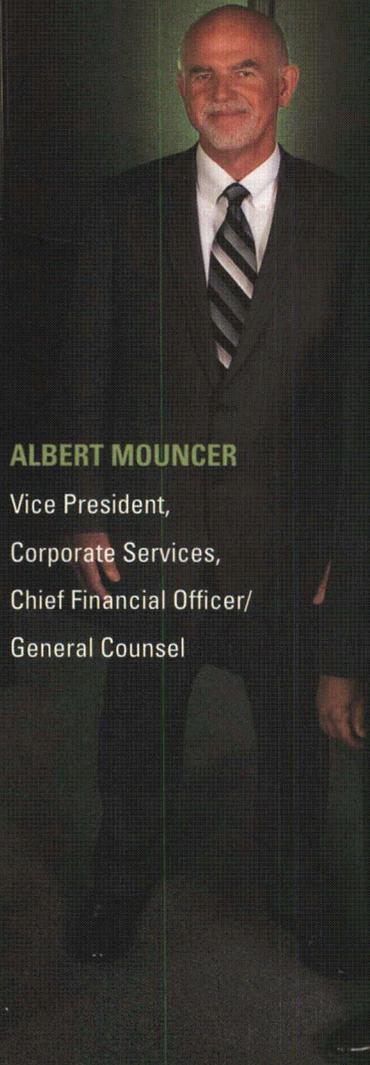
Vice President,  
Nuclear Generation,  
Chief Nuclear Officer

## SENIOR LEADERSHIP

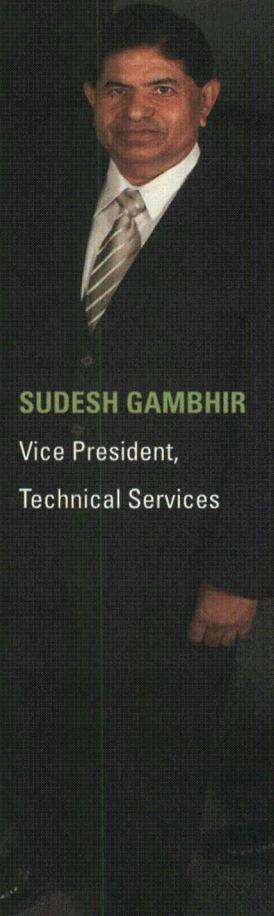
The senior leadership team manages day-to-day operations, executes developing programs and projects, establishes long-term strategies in direct support of the Energy Northwest vision, and provides essential hands-on leadership to foster continual process improvement and to strengthen organizational core values in the workforce.



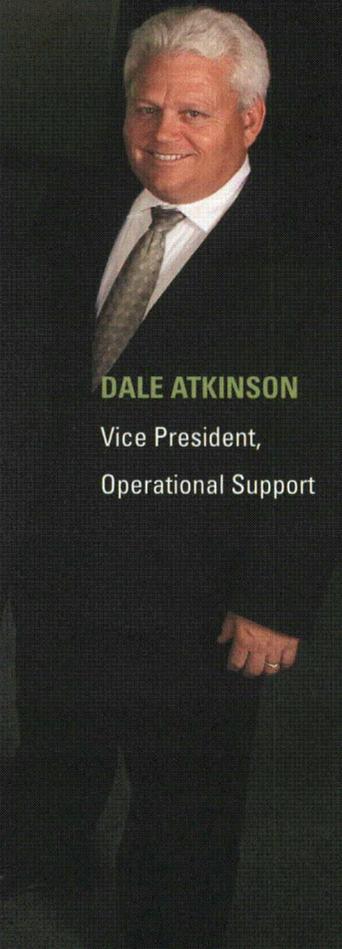
**JOSEPH V. (VIC) PARRISH**  
Chief Executive Officer



**ALBERT MOUNCER**  
Vice President,  
Corporate Services,  
Chief Financial Officer/  
General Counsel



**SUDESH GAMBHIR**  
Vice President,  
Technical Services



**DALE ATKINSON**  
Vice President,  
Operational Support

# ENERGY NORTHWEST IS GROWING

**From its earliest years** as a joint operating agency through today, Energy Northwest has aggregated its member utility needs to grow powerful solutions.

In fiscal 2009, three utilities chose to become members of Energy Northwest: Clark Public Utilities, Port Angeles and Jefferson County Public Utility District. Membership is now the highest in the history of the public power organization.



## **BOARD OF DIRECTORS**

**STANDING (L-R):** Steve Kern, Kathleen Vaughn, Dan Gunkel, Clyde Leach, Buz Ketchum, Ken McMillen, Raymon Sieler, Mike Murphy, Ann Congdon,

Judy Ridge, Larry Reese, Will Purser, Roger Sparks, Greg Hansen, Dave Womack, Larry Dunbar, Ed Williams, Tom Casey, Jack Janda

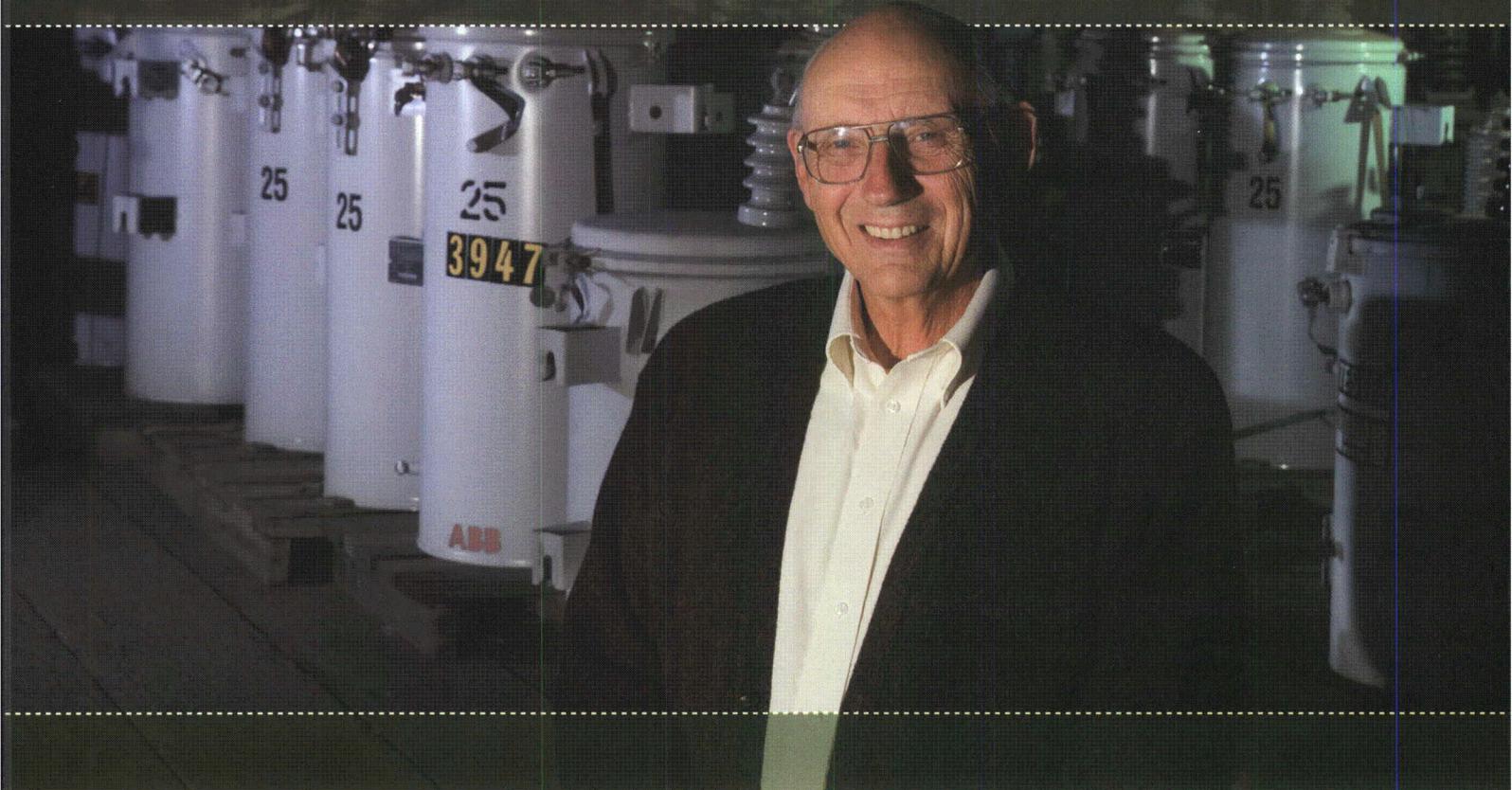
**SITTING (L-R):** Carol Curtis, Linda Gott, Diana Thompson, Chuck TenPas, Lori Sanders, Bill Gordon

(Not pictured: Bill Gaines, Chris Kroupa. Picture reflects two additional members who joined after fiscal year 2009.)

Chartered in 1957 as a state joint operating agency, Energy Northwest has 25 public power members and is **continuing to grow.**



- |                      |                          |                         |                          |                          |
|----------------------|--------------------------|-------------------------|--------------------------|--------------------------|
| Asotin County PUD    | Clallam County PUD No. 1 | Grant County PUD        | Mason County PUD No. 1   | Skamania County PUD      |
| Benton County PUD    | Clark Public Utilities   | Grays Harbor County PUD | Mason County PUD No. 3   | Snohomish County PUD     |
| Chelan County PUD    | Cowlitz County PUD       | Jefferson County PUD    | Okanogan County PUD      | Tacoma Public Utilities  |
| City of Port Angeles | Ferry County PUD         | Kittitas County PUD     | Pacific County PUD No. 2 | Wahkiakum County PUD     |
| City of Richland     | Franklin County PUD      | Klickitat County PUD    | Seattle City Light       | Whatcom County PUD No. 1 |



**LONGEST SERVING COMMISSIONER**

Roger Sparks, Kittitas County Public Utility District Commissioner is Washington State's longest serving PUD commissioner, beginning his years of service in 1974. He joined the Energy Northwest Board of Directors as the Kittitas PUD representative in 1981.



# COLUMBIA GENERATING STATION

RICHLAND, WASH.  
COMMERCIAL OPERATION: 1984

**Columbia Generating Station** had mixed performance this last year – the nineteenth refueling outage exceeded schedule by eight days, and four unplanned outages kept the plant down for 16 additional days, diminishing an otherwise strong online operation. Renewed emphasis on plant performance has already begun to provide the focus and resources needed to move Columbia back up the performance spectrum.

In March, Columbia successfully completed a hostile-action-based exercise that displayed nearly a year of preparation, practice and benchmarking of other nuclear plants. The exercise demonstrated to the Nuclear Regulatory

Commission, the Federal Energy Regulatory Commission, and state and local emergency offices that Energy Northwest can handily defend Columbia's facilities and people against a hostile force.

A major re-siding of the Reactor and Turbine Buildings was completed in June. The effort required innovative installation techniques to replace the siding damaged during a severe wind storm in February 2008. Although the damage was significant, there was no threat to nuclear safety.

In March, all 11 initial license class candidates successfully completed a challenging 18-month training program and





received licenses from the Nuclear Regulatory Commission as reactor operators and senior reactor operators.

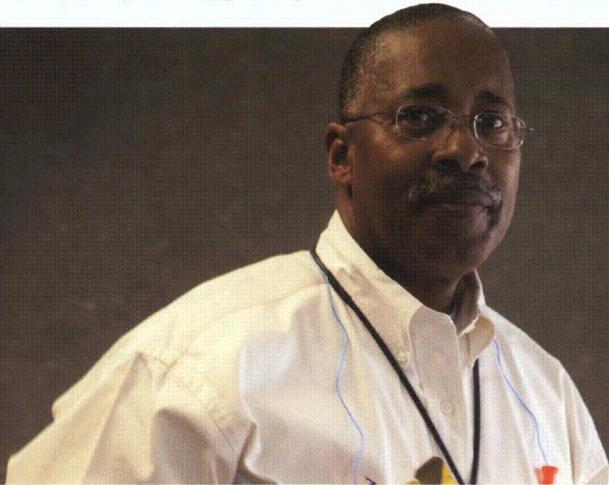
Preparations are already under way for the 2011 refueling outage which will include replacing the main condenser, one of the largest planned outage projects in plant history and an investment in long-term reliability. Additionally, industry best-work management and maintenance programs were implemented and continue to push work order backlogs and personnel radiation dose to historic lows.

During fiscal 2010, Columbia will embark on a "Pride in Performance" initiative to help guide the plant toward

continual improvement and overall industry excellence. The initiative is centered on five focus areas: radiological safety, outage and forced outage excellence, leadership effectiveness, equipment reliability, and safety and human performance. "Pride in Performance" and associated excellence plans will help encourage individual and cultural improvement and bolster accountability for increased plant performance.



**Moving into the next quarter century of power generation, Columbia will continue to provide safe, efficient and valuable electrical power to the region.**



**QUALITY CONTROL:** Highly trained quality control specialists observed every aspect of the R-19 refueling outage.

**REFUEL FLOOR:** Located on the 606-foot elevation of the reactor building, the refueling floor was a hub of activity during the R-19 refueling outage.

## COLUMBIA'S NINETEENTH REFUELING OUTAGE

**Columbia Generating Station** completed its nineteenth refueling outage in the plant's 25-year operating history as the fiscal year was coming to a close. The 1,150-megawatt generator was reconnected to the Northwest power grid June 23.

Approximately one-third of the 764 nuclear fuel assemblies in the reactor core were replaced while a tremendous amount of replacement, refurbishment and repair work was safely performed – an important investment in the plant's reliable operation.

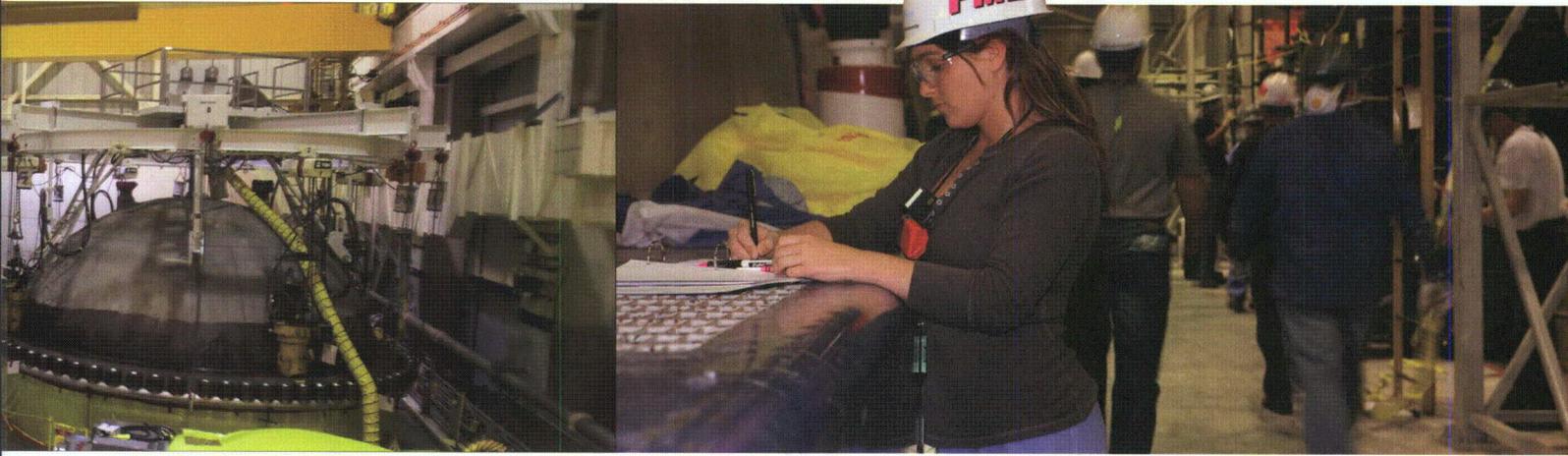
The 2009 outage was originally targeted to last 38 days; however, goals for outage duration were exceeded due to unexpected equipment repairs. Issues identified when the plant's complex systems were available for closer examination caused the outage to last slightly more than a week longer.

Refueling outages occur every two years and have very high standards for safety and performance. Along with a methodical inspection of the plant's systems, craftsmen worked on pumps, valves, motors and other components which are not accessible while the plant is in operation. There were no lost-time industrial safety accidents. Employee radiological dose goals, however, were not met due to the unanticipated equipment repairs.

The biennial refueling outages are timed to coincide with springtime snow melt and runoff, a time when hydroelectric plants are producing power at the lowest cost. This minimizes the cost impact of replacement power while the plant is offline.

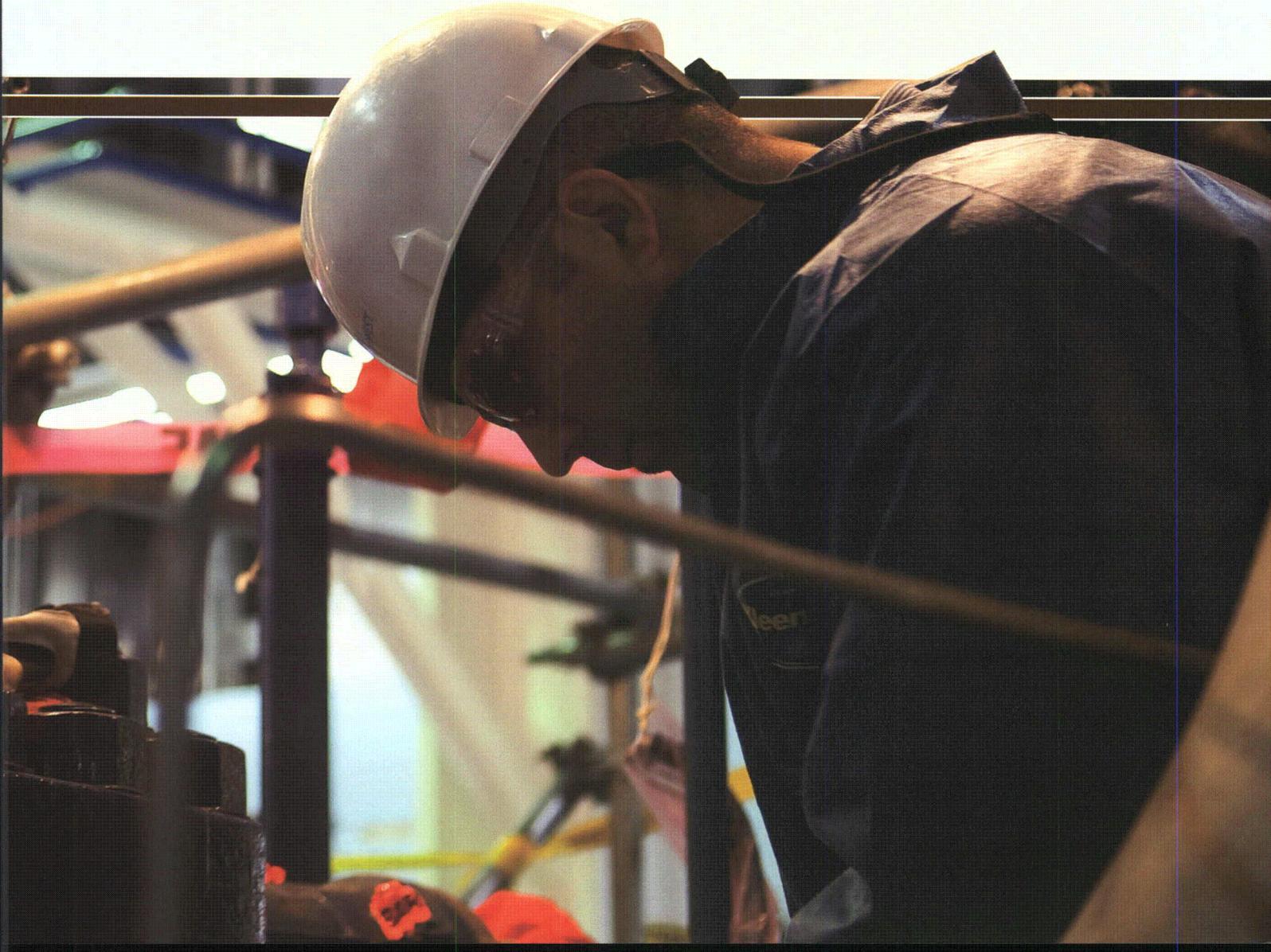
More than **1,800** contract and temporary workers from across the nation supported Columbia's refueling outage.





**SAFETY:** Safety – nuclear, industrial, environmental and radiological – is a core value for everyone at Energy Northwest.

**TRAINING:** Thorough training of both supplemental and additional-duty regular employees ensured the safe completion of all tasks during R-19.



# NINE CANYON WIND PROJECT

**The Nine Canyon Wind Project** is one of the largest public-owned wind projects in the nation. With 63 wind turbines – 14 rated at 2.3 megawatts and 49 more at 1.3 megawatts – Nine Canyon's total installed capacity is 95.9 megawatts. Fiscal 2009 was the first full year of operation for the third and final phase of the project, which added the 14 2.3 megawatt turbines.

The project produced 226,268 net megawatt-hours of electricity and achieved a 98.1 percent adjusted availability factor, up from 97.8 in fiscal 2008. This improvement is directly related to a reduction in the number of major component failures, which reflects the dedicated efforts of employees to aggressively address causes before failures occur. In April, a new maintenance building with a built-in heavy equipment crane was completed, allowing for the on-site storage and movement of heavy, critical equipment spares.

An equipment fire and two nearby grass fires challenged project performance. In early August 2008, fire in a wind turbine tower electrical cabinet severely damaged nearly all of the tower's components except for the main generator and the pad mounted transformer. The turbine was repaired and returned to service at the end of September. A brush fire started near Phase II several days later, but was extinguished by local fire companies in an effort that included the air drop of fire retardant chemicals. Damage to power poles was limited and the project was not harmed. In June 2009, a small brush fire was ignited by a bird coming in contact with a 115-kilovolt line. The fire was quickly contained, with no damage, through the rapid response of on-site employees until a Benton County fire crew arrived.

Energy Northwest continues working with local community colleges to develop wind technician training curriculum. These programs will help increase the availability to qualified local talent and prepare these individuals for the growing wind energy job market.

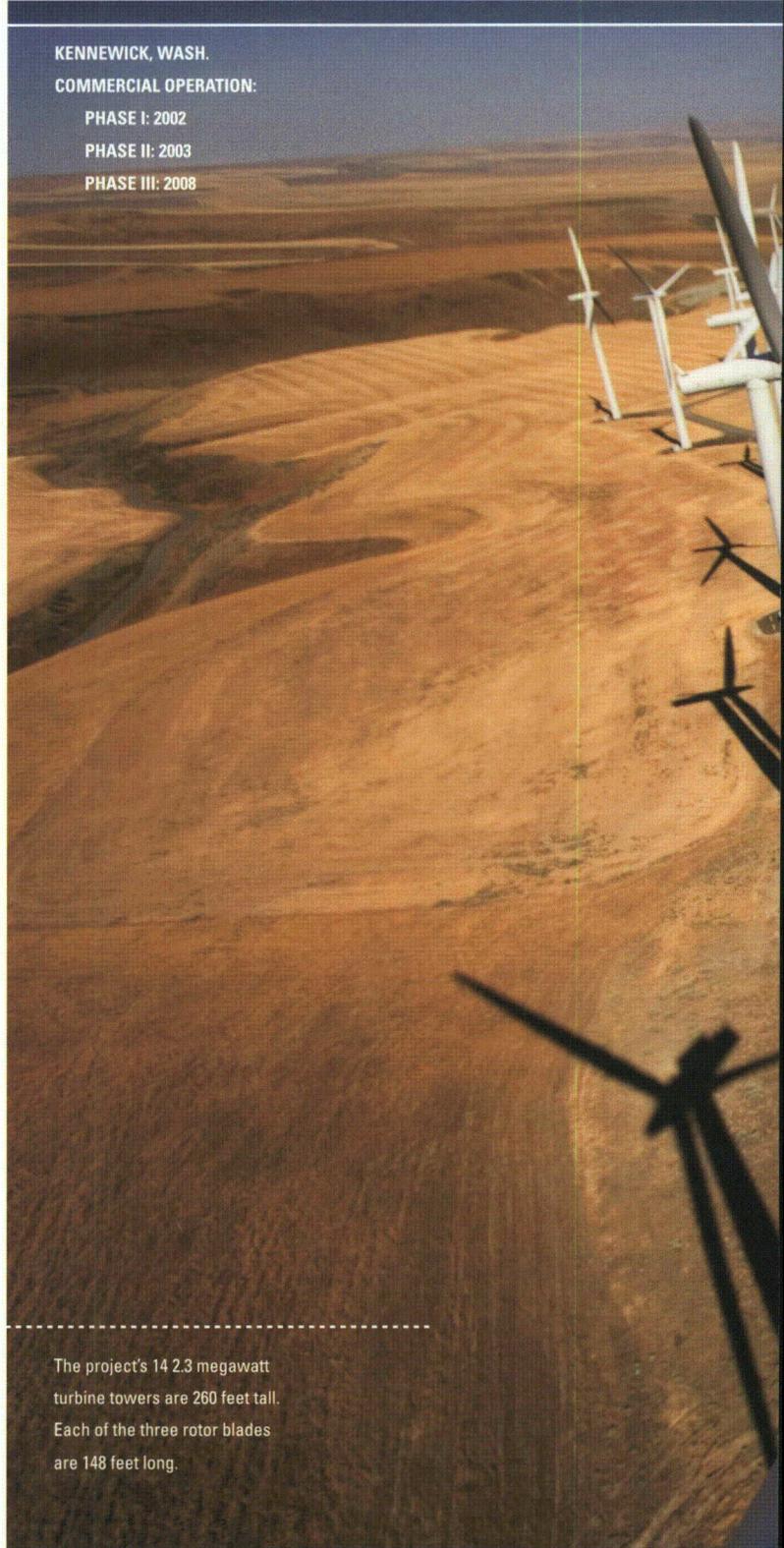
KENNEWICK, WASH.

COMMERCIAL OPERATION:

PHASE I: 2002

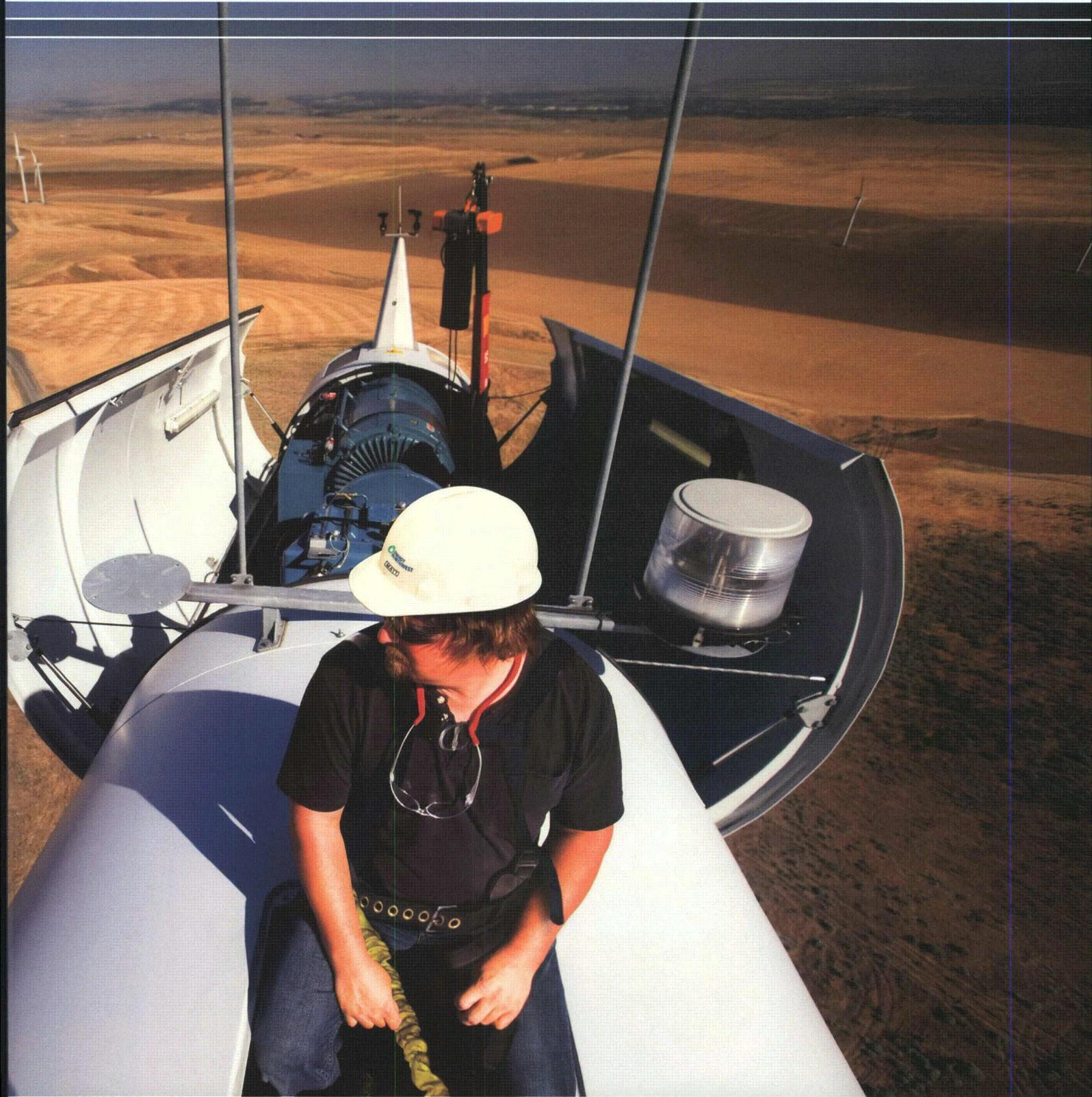
PHASE II: 2003

PHASE III: 2008



The project's 14 2.3 megawatt turbine towers are 260 feet tall. Each of the three rotor blades are 148 feet long.





**226,268** net megawatt-hours



## PACKWOOD LAKE HYDROELECTRIC PROJECT



GIFFORD PINCHOT NATIONAL FOREST

PACKWOOD, WASH.

COMMERCIAL OPERATION: 1964

**The 27.5-megawatt** Packwood Lake Hydroelectric Project produces low-cost energy, much lower than wind, solar and other renewable options in the region. And closely monitored water levels and fish screens demonstrate Energy Northwest's commitment to environmentally friendly energy solutions.

Packwood's fiscal 2009 generation totals were the highest since 2000 – approximately 100,000 net megawatt-hours. This was nearly 25 percent more than in fiscal year 2008.

Since the start of commercial operation, Packwood has produced 4,168,716 megawatt-hours of electricity. The capacity



**99,340** net megawatt-hours of electricity in fiscal year 2009

factor for the fiscal year was 43.6 percent and availability was 96.9 percent, despite having spent 11 days offline following a bus outage in December

Packwood's annual maintenance outage was completed on time and within budget. During the October outage, workers made repairs to the turbine runner, calibrated select protective relays, and cleaned and inspected systems otherwise inaccessible during unit operation.

Work continued to relicense Packwood for the next 50 years (the current 50-year license expires in 2010). The stakehold-

ers filed final terms and conditions for the license in May, and the final environmental assessment was issued by the National Oceanic and Atmospheric Administration and accepted by the Federal Energy Regulatory Commission on July 1. The draft Washington State Water Quality Certification was issued in May as well. All indications are that the license will be issued in late 2009 or early 2010.

Beginning in October 2008, Snohomish County Public Utility District began purchasing all the power produced by the small hydro project.

# WHITE BLUFFS SOLAR STATION

**RICHLAND, WASH.**

**COMMERCIAL OPERATION: 2002**

**One of the great benefits of solar power** is its reliability. The sun rises and White Bluffs Solar Station produces electricity.

With a rating of 38.7 kilowatts direct current, the 242-panel station is located at the Industrial Development Complex near Columbia Generating Station.

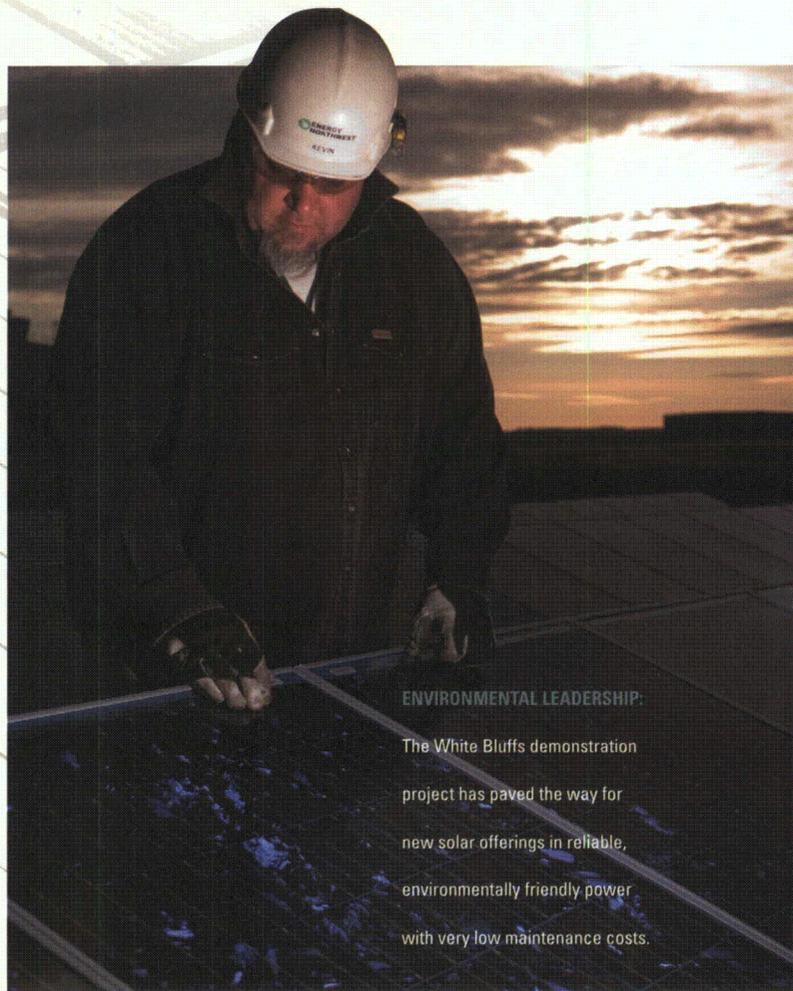
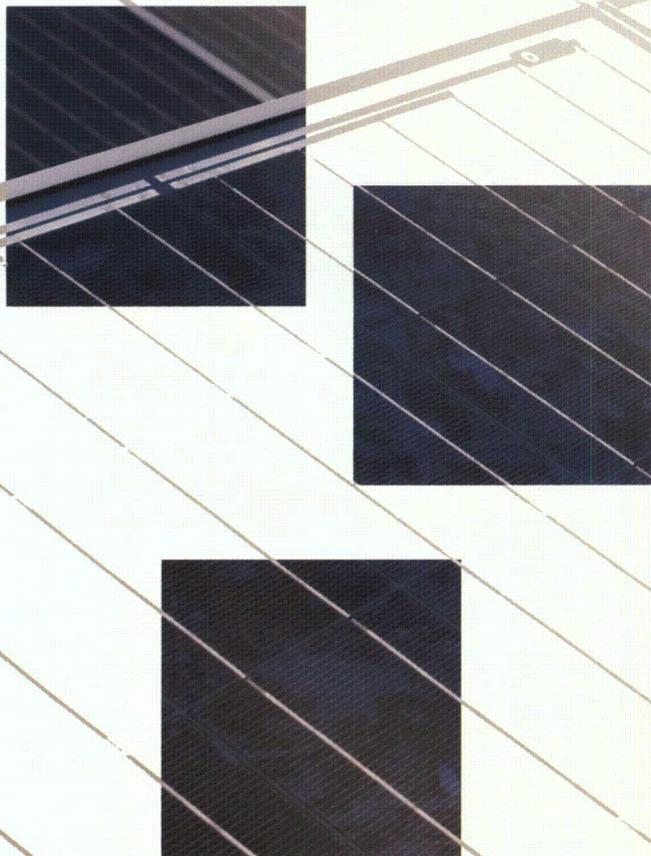
White Bluffs produced 46,090 net kilowatt-hours of electricity during fiscal 2009. The Bonneville Power Administration integrates the power from White Bluffs into its system and Bonneville Environmental Foundation markets the displaced

air pollution and greenhouse gas emissions as "Green Tags."

Buyers who 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.

Energy Northwest provided the leadership to develop this first-of-its-kind generating plant in the Northwest. White Bluffs continues to generate interest from innovators within the utility, solar and academic communities.

**46,090** net kilowatt-hours of electricity in fiscal year 2009



**ENVIRONMENTAL LEADERSHIP:**

The White Bluffs demonstration project has paved the way for new solar offerings in reliable, environmentally friendly power with very low maintenance costs.

## INDUSTRIAL DEVELOPMENT COMPLEX

**The Industrial Development Complex** is located east of Columbia Generating Station. The IDC continues its focus on economic development and reuse of 40 facilities and associated property through a diversified leasing program, which includes use by Energy Northwest.

The long-term goal is to secure an “anchor tenant” which will utilize most of the existing facilities. This would provide a \$20 to \$30 million savings in long-term site restoration costs for the Bonneville Power Administration.

The leasing effort has been very successful to date, with

the site currently at 80 percent capacity. The primary tenant is Washington Closure Hanford, which manages the Department of Energy’s cleanup of waste sites and burial grounds, and removal of excess facilities, throughout the Hanford Site.

In addition to the leasing program, the complex has the capability of supplying both back up water and power to Columbia, as needed. IDC staff members also offer a variety of training and support functions during Columbia’s outage years, as well as oversight on site environmental issues.

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## OPERATIONS AND MAINTENANCE SERVICES

**Operations and Maintenance Services** supplied and installed a high-voltage silicon coating, SiCoat, to the generator step-up and auxiliary transformers at an AES Corporation coal plant in Hawaii. The coating prevents coal dust contamination, and subsequent arcing, from tripping the generating unit. AES has not experienced a single trip due to contamination since the application.

Energy Northwest continued services for Olympic View Generating Station during fiscal 2009. Operations and Maintenance Services has performed these activities full time for the station since 2001. The

Olympic View Generating Station is owned by Mason County Public Utility District 3 and is comprised of two 2.8-megawatt generating units, powered by natural gas-fired reciprocating engines. The nominal station output is 5.4 net megawatts. The plant is designed to be manned or operated remotely, depending on load requirements.

Energy Northwest also provided journeyman craft support for Seattle City Light’s Boundary Hydroelectric Project. Located on the Pend Oreille River in northeastern Washington, the dam supplies more than one-third of Seattle City Light’s power.





## APPLIED PROCESS ENGINEERING LABORATORIES

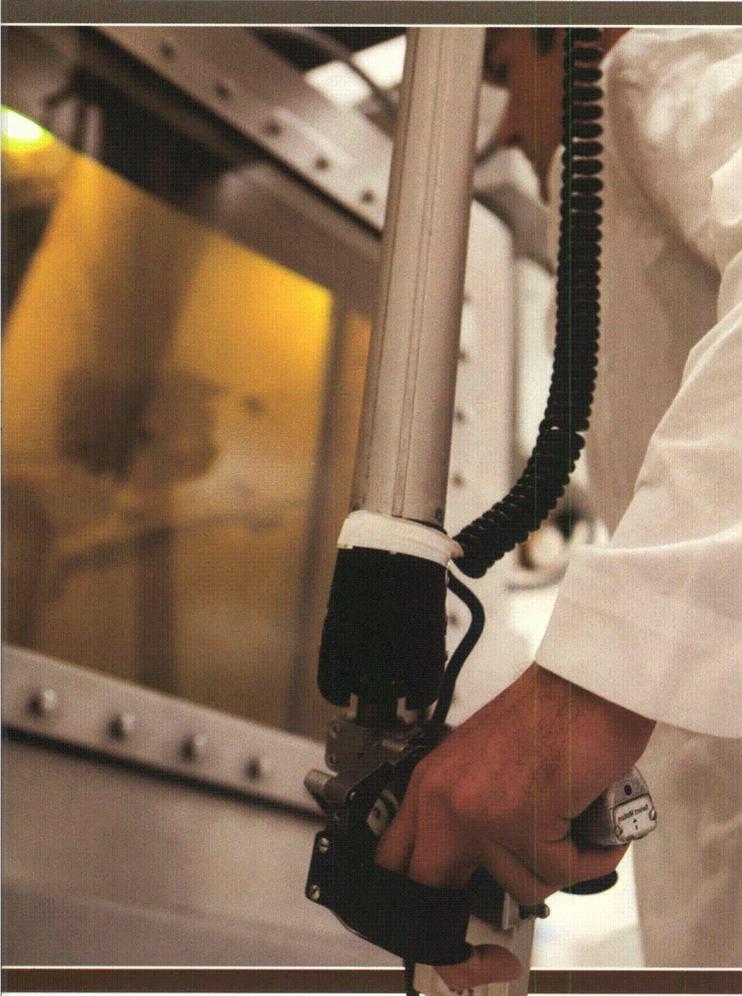
**Growing powerful solutions** is what the Applied Process Engineering Laboratory is all about – providing facilities, programs and services to technology startup and expanding companies. In 2009, APEL increased its emphasis on renewable and clean energy technologies to match Energy Northwest, Washington State and federal priorities.

Throughout the year, Energy Northwest staff managed and maintained the laboratory within budget and returned a positive net margin of \$445,000 inclusive of depreciation and corporate cost allocations. This return will help offset the cost of roof repairs at APEL slated for next year. Founding community stakeholders – Pacific Northwest National Laboratory, Port of Benton, the Department of Energy, Washington State University Tri-Cities, the city of Richland and the Tri-City Development Council – continued to provide strategic vision and technical and operational support.

Energy Northwest employs the Washington Technology Center to provide diverse business incubation services to improve performance and growth for successful startups. APEL provides entrepreneurship coaching, access to funding and resource connections, all of which complement a suite of locally available technical assistance for businesses.

The laboratory also supports four business tenants in addition to anchor tenant PNNL. One business is on target to meet graduation metrics in 2011, while two others scaled down to withstand national economic impacts – specifically, delays in federal or state contracts and research funding. APEL businesses include Environmental Assessment Services, InnovaTek, IsoRay Medical and Energy Northwest's Environmental Services Laboratory.

The Tri-Cities Research District, a Washington State innovation partnership zone, relies on APEL to provide incubation programs



and facilities for new technologybased businesses. Centered in the research district, both APEL and Energy Northwest have a pivotal opportunity to lead technology innovation-to-commercialization initiatives in clean and renewable energy.

Key 2010 initiatives include continued focus on financial sustainability, and environmental and regulatory compliance. APEL will expand educational programs focused on leadership and innovative thinking, and will continue to support the Tri-Cities Research District initiatives in energy technology.



## ENVIRONMENTAL AND ANALYTICAL SERVICES LABORATORY



For more than 15 years, the Environmental and Analytical Services Laboratory has provided a wide range of chemical analysis and environmental monitoring expertise including laboratory services, wildlife and ecological monitoring assessments, environmental radiological services and consulting. The services are offered to a growing list of utility, municipal, commercial, nuclear, wind power, small business and residential customers.

The laboratory added multiple new clients in fiscal 2009. Employees also completed training in data validation and verification, and chemical hygiene, as well as certification on the Inductively Coupled Plasma Mass Spectrometer, adding to the staff's robust qualifications.

The laboratory also played a major role by performing environmental assessments for a private developer's proposed 909-megawatt wind project, just south of the Columbia River in north-central Oregon.

The laboratory is accredited by the Washington State Department of Health and Ecology. Laboratory, and facility quality assurance complies with the Environmental Protection Agency's Good Laboratory Practice Standards.

## CALIBRATION SERVICES LABORATORY

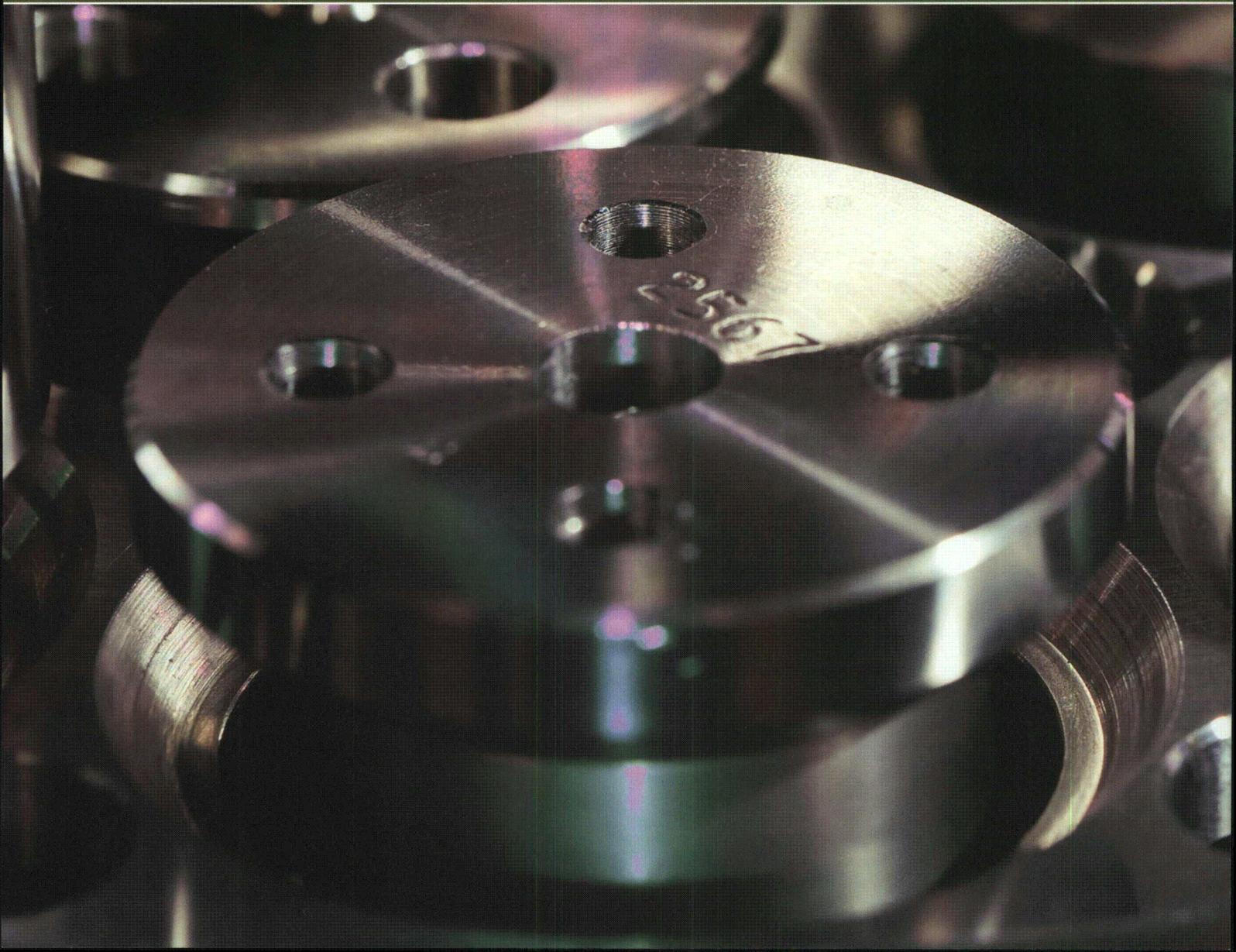
### **The Energy Northwest Calibration Services Laboratory**

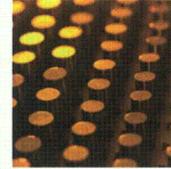
continued to excel in quality of work and customer satisfaction in fiscal 2009.

The laboratory added numerous small businesses to its growing list of customers, which includes large companies such as Bechtel, Pacific Northwest National Laboratory, AREVA and Washington Demilitarization Company. It also recently completed 10 years of service to the Hanford Site through the Fluor Hanford, Inc.

contract, and has a negotiated agreement with options to extend services through October 2010. Revenue from these customers helps reduce overhead costs for its primary customer – the Columbia Generating Station.

Columbia receives in-house services, including support during refueling outages and special testing. The laboratory also provides services for Energy Northwest projects such as the Packwood Lake Hydroelectric Project and Nine Canyon Wind Project, as well as the





H.W. Hill Landfill Gas Power Plant owned by the Klickitat County Public Utility District.

During fiscal 2009, staff worked successfully to obtain laboratory accreditation to the International Standard ANS/ISO/IEC 17025, certifying that the requirements for competence of laboratory testing and calibration are met. In order to obtain accreditation, laboratories must demonstrate that both their quality management system and their technical competence

comply with the International Standard. Further accreditation of the Energy Northwest Standards Laboratory was also obtained from the American Association for Laboratory Accreditation, and will position the laboratory to attract new regional and national customers.



**PRECISION, QUALITY, SERVICE:**

Exact standards were recognized through international accreditation and expansion of the laboratory's prestigious customer base.



## NEW GENERATING RESOURCES

**A number of interrelated factors** drive the development of new generating resources – regional economic and power growth; financial incentives and lending practices; renewable portfolio standards; thermal emissions policies; and most importantly, member utility needs. The recession significantly impacted each of these broad categories, resulting in slower growth and uncertainty in financial market and development incentives.

To bolster financial security in new development, the Energy Northwest Board of Directors passed a policy requiring a 75 percent investment commitment and risk sharing from new generation development partners before progressing from the feasibility stage into the permitting development phase.

Despite such measures and an otherwise successful marketing effort, the economic environment effectively ended a much anticipated partnership to develop Kalama Energy – a 680-megawatt combined-cycle natural gas plant – by October 2008. The site is now maintained for the potential future development of a smaller natural gas combined-cycle option for Energy Northwest members and other regional public power utilities. In addition, a natural gas peaking plant option at the site is being marketed to manage intermittent wind resources. Increased interest in both options is anticipated as the economy recovers.

Four Energy Northwest utility members jointly invested in the development of the Radar Ridge Wind Project in Pacific County. Participating public utility districts include Grays Harbor, Clallam County, Pacific County and Mason County 3. The partnership formed a governance committee to oversee development of the 60- to 80-megawatt wind project proposed to be online in

2012. Radar Ridge would be the first major commercial project west of the Cascades. The development is the result of member needs for renewable energy, mandated by Washington State's Renewable Portfolio Standard, and member interest in projects outside of Bonneville Power Administration transmission congestion.

Energy Northwest entered into a development services agreement with ADAGE, a joint venture of Duke Energy and AREVA. ADAGE is developing several 50-megawatt wood biomass plants across the United States, including several in the Pacific Northwest. Energy Northwest will assist them by providing expertise in high-voltage transmission interconnection and the marketing of Northwest power purchase agreements. In the process, member utilities will be positioned to receive projects in their service areas plus priority on baseload renewable power.

Feasibility studies were completed during the fiscal year for a small landfill gas project and wood biomass project for Port Angeles. Work was also performed on large-scale and small-scale pilot solar projects, one in eastern Washington and one in eastern Oregon, to determine the performance of thin film photovoltaic panels. A formal development offering is expected during fiscal 2010.

Energy Northwest is also working with Northwest utilities to evaluate interest in studying small modular reactor designs and the viability of this technology as part of a responsible look into a diverse mix of energy resources that may be used to meet future regional power needs. If enough interest is identified, a nuclear study group will be formed in fiscal 2010.



# GROWING OUR PEOPLE

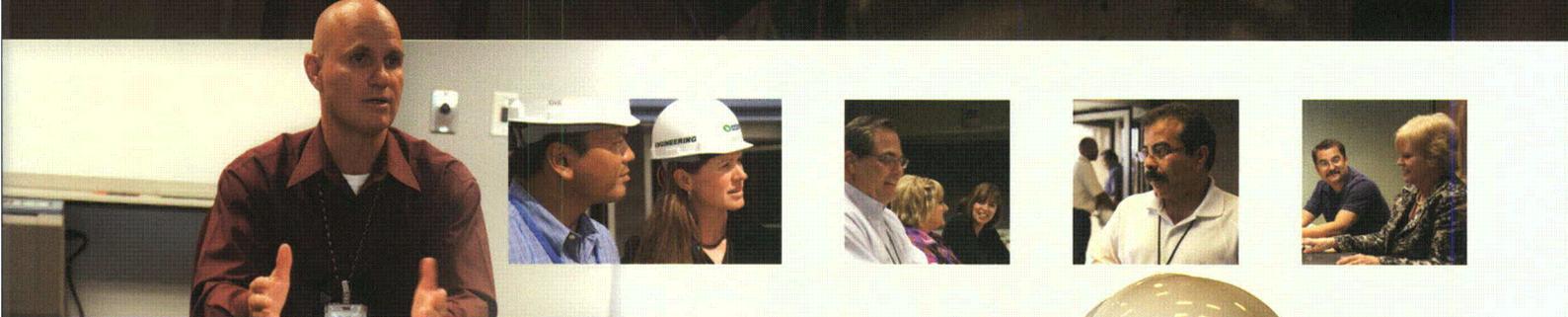
**Energy Northwest is committed** to ongoing investments in education and training – programs throughout the organization empower employees to grow, both personally and professionally.

The programs include formal classroom sessions, computer-based training, leadership and management training, and innovative Web-based applications. Tuition reimbursement is also available for college and technical course work.

Energy Northwest recently partnered with Columbia

Basin College on a new two-year degree program in nuclear technology to help provide the skills and expertise necessary for tomorrow's nuclear workforce. The agency is also one of several participants identifying curriculum for Richland's Delta High School, a new school that focuses on science, technology, engineering and math.

The importance of education and training cannot be overstated, and Energy Northwest will continue to provide opportunities for its employees and the community – investments that will pay sustainable dividends in the future.



## GROWING ENVIRONMENTAL STEWARDSHIP

Energy Northwest is committed to protecting the environment for current and future generations, and integrating environmental stewardship into every facet of the operation. The Energy Northwest Environmental Stewardship Policy is the cornerstone of its **Environmental Management System**.

This comprehensive program demonstrates commitment and establishes clear expectations for the entire organization. This means that consideration of the environment is integrated into all aspects of the organization, including its structure, resources, responsibilities, planning, practices, procedures and processes.

Designed to meet the rigorous requirements of the globally recognized International Organization for Standardization (ISO) 14001:2004 standard, Energy Northwest EMS places additional emphasis on compliance, pollution prevention and communication.

Energy Northwest's EMS was registered to the ISO 14001:2004 standard in April 2005. Every three years, the registration is reviewed for recertification. Part of this process includes annual surveillance audits to help ensure that the system remains effective and continually improves. In April 2009, the National Science Foundation recommended recertification after a successful surveillance audit.

Compliance with regulatory requirements is a fundamental aspect of sound environmental management. As Energy Northwest moves forward into fiscal year 2010, the goal is to achieve and maintain environmental excellence and foster

environmental stewardship at all Energy Northwest facilities.

To minimize Energy Northwest's impact on the environment, all agency activities

are periodically reviewed for compliance with environmental regulations and proper identification of potential impacts to the environment. Potentially impacting activities include waste generation; atmospheric emissions; liquid discharges; storage and use of petroleum, chemicals or radioactive materials; and land use. These potentially significant impacts are addressed as a priority by Energy Northwest and are considered when setting environmental objectives and in designing and implementing necessary controls and programs. Under the EMS, the effectiveness of these controls is monitored and corrective and preventative action is taken, as needed, to continually improve.

To better assess Energy Northwest's impact on the environment and the effectiveness of the EMS, environmental performance is trended through the use of key performance indicators. These indicators monitor performance in areas such as energy production, effluents, emissions, wastes, compliance, pollution prevention and recycling.

In fiscal 2009, significant improvements in the area of compliance were verified through internal assessments. This achievement was due to increased staffing and monitoring, new and revised procedures, enhanced training and communication, and increased management emphasis and involvement.

Energy Northwest's goal in fiscal 2010 is to continually improve on environmental compliance and meet or exceed all environmental key performance indicators.



# GROWING OUR COMMUNITY

**Energy Northwest and its employees** are committed to making a positive and long-lasting difference in the Tri-Cities community. The organization officially sponsors three vital community organizations: United Way, Head Start and March of Dimes. Annual campaigns are led by employees to increase awareness and raise money for each of these important service organizations.

Many employees are also actively involved in direct support and fund raising efforts for the local American Red Cross, Boy Scouts of America, Junior Achievement, American Diabetes Association and many other charitable organizations.

From the chief executive officer to Energy Northwest's newest employees, care for the community is vividly demonstrated through direct, hands-on involvement. These activities are supported by the senior management team who provide a conducive, encouraging environment that supports employee involvement for each of the official charities.

In addition to directly supporting these worthy organizations, the campaigns provide employees leadership growth opportunities that will ultimately provide further benefit to Energy Northwest and the community.



## UNITED WAY

Approximately 377 Energy Northwest employees gave more than \$134,000 to United Way this year. Forty-two Energy Northwest employees stepped forward to join the United Way Vintner Club leadership program.

## MARCH OF DIMES

Energy Northwest's "PowerMarchers" team received a site sponsor award from the March of Dimes for its 2009 "Walk for Babies" campaign. The team raised more than \$34,000 and was one of three teams to receive a Platinum Award for contributions over \$20,000. Vic Parrish, Chief Executive Officer, received the 2009 Top Adult Walker Award by leading a team of 53 walkers during the spring event.

## HEAD START

Energy Northwest continued its annual tradition of supporting the Benton-Franklin Head Start program. Employees dressed as Santa and his elves distributed gifts at 10 Christmas parties at five local schools for 387 children.

## GROWING OUR FUTURE

**Energy Northwest has aggregated** the energy needs of Washington's public power community for more than half-a-century. The agency's mandate to help member utilities deliver reliable, affordable and environmentally responsible electric energy to the region's ratepayers is on the cusp of a renaissance.

The next decade will refine current and emerging technologies, opening doors to vast "green" energy opportunities in the Northwest. The timing for this environmental-energy renaissance is superb given climate change concerns and Energy Northwest's commitment to developing responsible energy generation.

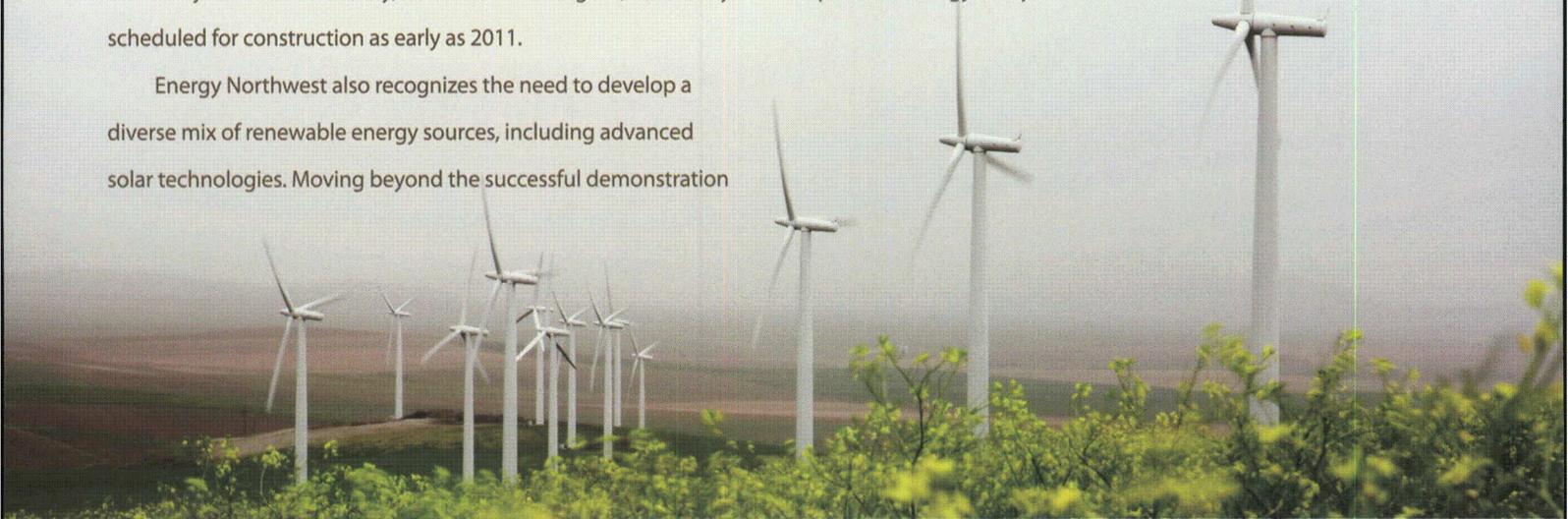
Public policy and ratepayer demand will likely challenge the energy industry to find improved and new renewable energy sources. As a regional energy leader we must work to ensure those sources are as affordable as they are environmentally attractive. One such proposed project is the ecologically friendly Radar Ridge Wind Project in Pacific County, in western Washington, tentatively scheduled for construction as early as 2011.

Energy Northwest also recognizes the need to develop a diverse mix of renewable energy sources, including advanced solar technologies. Moving beyond the successful demonstration

of White Bluffs Solar Station, Energy Northwest intends to develop solar power generation projects for an anticipated 2010 offering to interested utilities.

As a part of the diverse energy equation of the future, Energy Northwest must also look at affordable baseload energy sources, and new nuclear is one of the most affordable energy sources available. Nuclear power is safe, environmentally responsible and requires minimal land. This nearly carbontfree energy source is also now possible in smaller modular designs capable of powering small urban communities. Energy Northwest is proposing working with other Northwest utilities to study the potential of small, modular nuclear technologies in fiscal 2010.

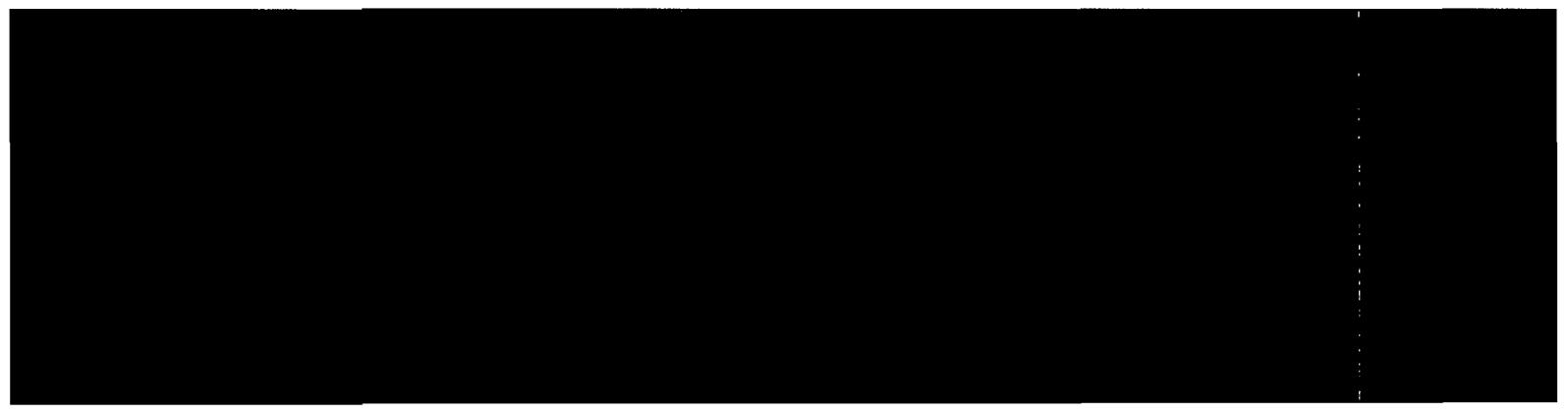
Through commitment to the region's ratepayers, technology innovation and vision, the Energy Northwest team intends to take full advantage of tomorrow's energy opportunities, while providing the region reliable, affordable and environmentally responsible energy today.



**The Department of Energy announced in fiscal 2009 a grant award of \$100,000 for Energy Northwest to help public power utilities develop economically viable wind power assets to serve the needs of Northwest ratepayers.**

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# Financial Data & Information



## **MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING**

Energy Northwest management is responsible for preparing the accompanying financial statements and for their integrity. They 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 auditors. 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, 2009, internal control procedures are adequate.

**J.V. Parrish**  
Chief Executive Officer

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

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## **AUDIT, LEGAL AND FINANCE COMMITTEE CHAIRMAN'S LETTER**

The Executive Board's Audit, Legal and Finance Committee (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, 2009.

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 auditors 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 convened periodic meetings with the independent auditors to discuss the results of their audit, 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 auditors.

**Larry Kenney**  
Chairman,  
Audit Legal and Finance Committee

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## REPORT OF INDEPENDENT AUDITORS

### To the Executive Board of Energy Northwest

In our opinion, the financial statements of the business-type activities of Energy Northwest (the "Company"), including the Columbia Generating Station, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 3, the Business Development Fund, the Nine Canyon Wind Project, and the Internal Service Fund which collectively comprise the Company's balance sheets, statements of revenues, expenses and changes in net assets, and of cash flows, present fairly, in all material respects, the respective financial position of the business-type activities of the Company at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2009

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# Energy Northwest Management's Discussion and Analysis

Energy Northwest is a municipal corporation and joint operating agency of the State of Washington. Each Energy Northwest business unit is financed and accounted for separately from all other current or future business assets. The following discussion and analysis is organized by business unit. The management discussion and analysis of the financial performance and activity is provided as an introduction and to aid in comparing the basic financial statements for the Fiscal Year (FY) ended June 30, 2009, with the basic financial statements for the FY ended June 30, 2008.

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 1 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 2009 and FY 2008 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 Revenues, Expenses, and Changes in Net Assets, 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 for each business unit. (See Note 1 to the Financial Statements.)

The Statements of Revenues, Expenses, and Changes in Net Assets 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 5 to the Financial Statements), accounting policies, significant balances and activities, material risks, commitments and obligations, and subsequent events, if applicable.

The basic financial statements of each business unit along with the notes to the financial statements and the management discussion and analysis should be used 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, 2009 AND 2008 (000'S)

	2008	2009	Change
<b>Assets</b>			
Current Assets	\$ 173,689	\$ 187,671	\$ 13,982
Restricted Assets			
Special Funds	119,525	104,325	(15,200)
Debt Service Funds	298,820	279,241	(19,579)
Net Plant	1,509,814	1,497,182	(12,632)
Nuclear Fuel	208,082	222,927	14,845
Deferred Charges	4,492,382	4,455,067	(37,315)
<b>TOTAL ASSETS</b>	<b>\$ 6,802,312</b>	<b>\$ 6,746,413</b>	<b>\$ (55,899)</b>
<b>Liabilities</b>			
Current Liabilities	\$ 247,918	\$ 243,042	\$ (4,876)
Restricted Liabilities			
Special Funds	128,678	135,373	6,695
Debt Service Funds	129,738	137,293	7,555
Long-Term Debt	6,290,766	6,226,186	(64,580)
Other Long-Term Liabilities	9,337	10,597	1,260
Deferred Credits	5,920	6,179	259
Net Assets	(10,045)	(12,257)	(2,212)
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 6,802,312</b>	<b>\$ 6,746,413</b>	<b>\$ (55,899)</b>
<b>Operating Performance</b>			
Operating Revenues	\$ 455,066	\$ 545,775	\$ 90,709
Operating Expenses	336,622	428,946	92,324
Net Operating Revenues	\$ 118,444	\$ 116,829	\$ (1,615)
<b>Other Income and Expense</b>			
Other Income and Expense	\$ (120,337)	\$ (119,870)	\$ 467
(Distribution)/Contribution	(485)	829	1,314
Beginning Fund Equity	(7,667)	(10,045)	(2,378)
<b>ENDING NET ASSETS</b>	<b>\$ (10,045)</b>	<b>\$ (12,257)</b>	<b>\$ 2,212</b>

## Columbia Generating Station

The Columbia Generating Station (Columbia) is wholly owned by Energy Northwest and its Participants and operated by Energy Northwest. The plant is a 1,150-megawatt electric (MWe, Design Electric Rating, net) boiling water nuclear power plant located on the Department of Energy's (DOE) Hanford Site north of Richland, Washington.

Columbia produced 7,725 gigawatt-hours (GWh) of electricity in FY 2009, as compared to 9,594 GWh of electricity in FY 2008, which included economic dispatch of 15 and 134 GWh respectively. Columbia completed its two-year refueling and maintenance outage (R-19) on June 24 (47 days), with costs totaling \$116.7 million. Budgeted days and costs for R-19 were 38 days and \$117.5 million.

Generation was down 19.5 percent from FY 2008 due to the completion of R-19, two forced outages, (August 2008 and February 2009), a down-power to 60% for one week in April 2009 to allow for feed water pump work, maintenance outage in November 2008 and FY 2008 being the second best generation year on record.

Columbia's performance is measured in several ways, including cost of power at Columbia. The cost of power for FY 2009 was 4.94 cents per kilowatt-hour (kWh) as compared with 2.75 cents per kWh in FY 2008. The industry cost of power

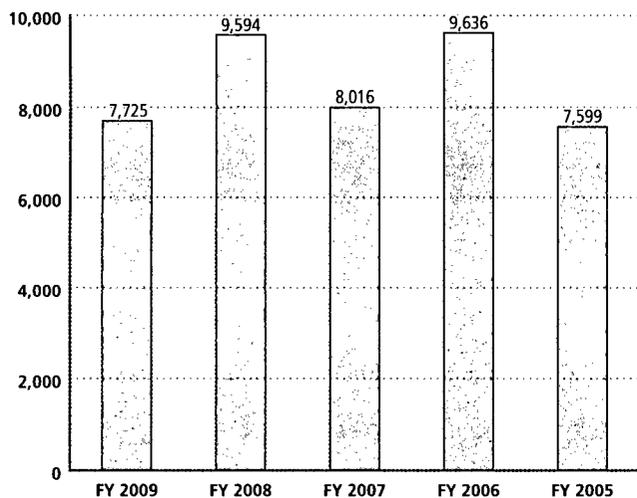
fluctuates year to year depending on various factors such as refueling outages and other planned activities. Lower generation figures due to R-19, two forced outages, down-power constraints and the maintenance outage were the major drivers for the 79.6 percent increase in cost of power.

### BALANCE SHEET ANALYSIS

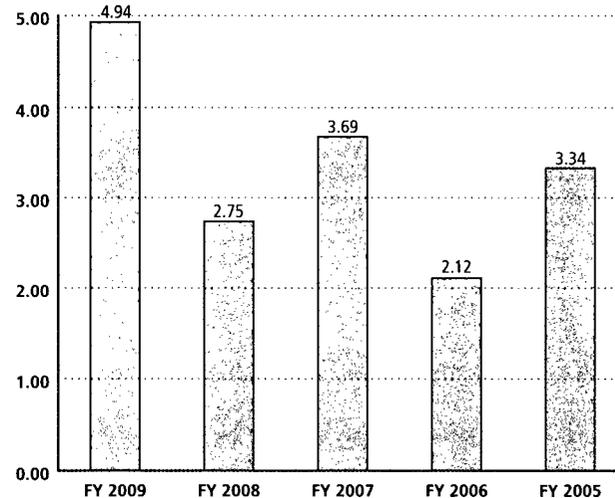
The net decrease to Plant in Service (Plant) and Construction Work In Progress (CWIP) from FY 2008 to FY 2009 (excluding nuclear fuel) was \$5.0 million. The additions to Plant/CWIP of \$70.0 million were offset by an increase to Accumulated Depreciation of \$75.0 million resulting in the net decrease to Plant. The additions to Plant for FY 2009 were captured in seven major projects: Main Condenser Replacement, Reactor Recirculation Motor Refurbishment, Radio Obsolescence, Software Programs, Reactor Feed Pump Control Systems, Fatigue Order Tracking System, and the Cobalt Reduction Program. These projects resulted in 74 percent of the additions to Plant. The remaining 26 percent of additions were made up of 158 separate projects.

Nuclear fuel, net of accumulated amortization, increased \$14.8 million from FY 2008 to \$222.9 million for FY 2009. During FY 2009 Columbia incurred \$38.8 million in capitalized fuel

**Columbia Generating Station**  
Net Generation - GWhrs



**Columbia Generating Station**  
Cost of Power - Cents / kWh



purchases. Fuel bundles of \$19.0 million were inserted in cycle 20 during R-19 and \$18.0 million of uranium will be used for future reloads in cycle 21 and beyond. The fuel activity was offset by \$24.0 million in current year amortization.

Current assets increased \$4.2 million in FY 2009 to \$139.1 million. The main cause of this increase was from vendor invoice timing related to year end obligations incurred which amounted to approximately \$8.0 million. The remaining difference was due to a decrease in materials and supplies of \$3.8 million.

The Restricted Assets Special Funds decreased \$5.8 million to \$85.2 million in FY 2009 due to the FY 2009 bond financing plan and schedule of construction costs for these funds in FY 2009.

The Debt Service Funds increased \$22.9 million in FY 2009 to \$80.9 million. The increase was created due to restructuring as a result of the bond sale.

Deferred Charges increased \$44.1 million in FY 2009 from \$809.2 million to \$853.3 million. Components of this increase were an increase to Costs in Excess of Billings, related to refunding of current maturities of \$41.7 million and a slight decrease to unamortized debt expense of \$0.5 million and an increase of \$2.9 million for relicensing efforts. 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 12 to the Financial Statements.) The balances in these external trust funds are not reflected on Energy Northwest's Balance Sheet. Relicensing activities for Columbia accounted for \$2.9 million of the increase. Columbia was issued a standard 40-year operating license by the Nuclear Regulatory Commission (NRC) in 1983. Energy Northwest is preparing an application to renew the license for an additional 20 years, thus continuing operations to 2043. Submittal of this application is planned for January 2010. The estimated duration of the license renewal process is 20-24 months from acceptance of application.

Current Liabilities increased \$25.3 million in FY 2009 to \$87.3 million mostly due to current maturities of long-term debt and incurred costs at year end being higher than last year.

Restricted Liabilities (Special Funds and Debt Service) increased \$11.3 million in FY 2009 to \$191.1 due to bond activity.

Long-Term Debt increased \$37.3 million in FY 2009 from \$2.4 billion to \$2.5 billion, excluding current maturities, which was a result of the FY 2009 bond Issue. In FY 2009, new debt was issued for various Columbia construction projects, as well as for part of the Debt Optimization Program. (See Note 5 to the Financial Statements.)

Other long-term liabilities increased \$1.2 million in FY 2009 to \$10.6 million related to nuclear fuel cask activity.

## 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 \$90.4 million from FY 2008 to \$403.7 million due to activity associated with R-19 and other outage related occurrences. Operations and Maintenance costs increased \$94.3 million as a result of outage activity. The \$3.0 increase to Administrative and General Expense was due to staffing requirements, related benefit increases and increased regulatory expenses. There were increases to depreciation of \$4.1 million due to plant increases and a slight increase of \$0.3 million to decommissioning. The increases of \$101.7 million were offset by decreases in nuclear fuel and disposal costs of \$10.4

million and by a decrease to generation tax of \$0.9 million. These decreases were directly related to lower generation activity.

Other Income and Expenses increased \$0.3 million from FY 2008 to \$116.1 million net expenses in FY 2009. Expenses associated with bond activity increased \$2.5 million but were offset by lower investment income of \$2.4 million, due to market conditions. The remaining increase was due to increased costs associated with inter-business unit services.

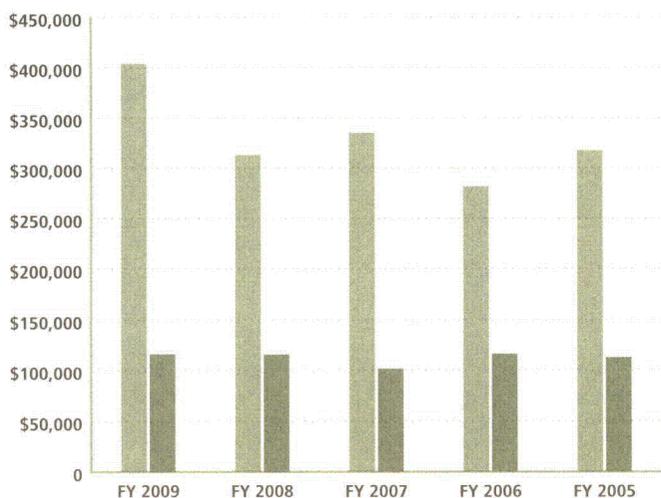
Columbia's total operating revenue increased from \$429.0 million in FY 2008 to \$519.8 million in FY 2009. The increase of \$90.8 million was due to increased costs associated with R-19 and other outage activity and the related effects of the net billing agreements on total revenue.

Columbia incurred additional costs as a result of a FY 2008 (February) wind storm that damaged siding on the Reactor Building and Turbine Generator Building. The damage from the wind storm did not affect generation during the repair period. Approximately \$5.3 million was incurred in FY 2008 for repair work and \$8.7 million was incurred in FY 2009. Columbia submitted an insurance claim for reimbursement of the \$14.0 million incurred due to wind damage. Columbia incurred costs of \$5.0 million for the deductible and \$7.7 million of the remaining amount was covered by the insurer, which was paid directly to BPA. An additional \$7.5 million in costs are expected to be incurred in FY 2010 and will also be submitted for insurance reimbursement.

### Columbia Generating Station

Total Operating Costs (000's)

Operating Expenses  
Other Income / Expenses



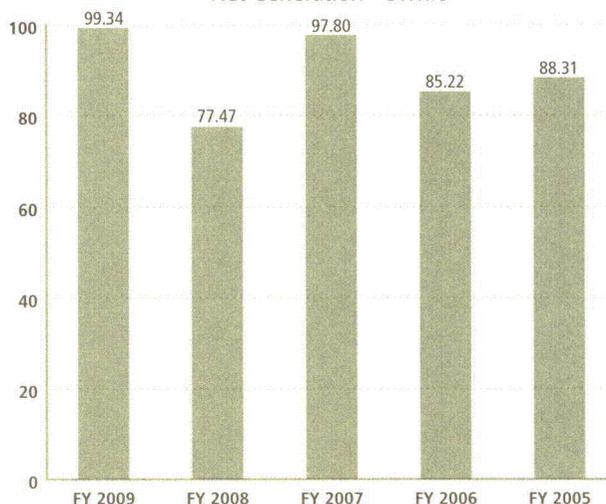
## Packwood Lake Hydroelectric Project

The Packwood Lake Hydroelectric Project (Packwood) is wholly owned and operated by Energy Northwest. Packwood consists of a diversion structure at Packwood Lake and a powerhouse located near the town of Packwood, Washington. The water is carried from the lake to the powerhouse through a five-mile long buried tunnel and drops nearly 1,800 feet in elevation. Packwood produced 99.34 GWh of electricity in FY 2009 versus 77.47 GWh in FY 2008. The 28.2 percent increase in generation can be attributed to an excellent snowpack and ample water available for generation. FY 2008 experienced the lowest water levels in seven years while conditions in FY 2009 resulted in a 14.2 percent increase in generation above the 30 year average of 86.97 GWh and was the 12th highest generation year on record.

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. Significant repairs to stabilize the pipeline were completed during the following year. Expenditures of \$1.0 million were incurred to install an H-Pile wall and improve drainage to mitigate the recurrence of additional slides in that area. Packwood applied for "Public Assistance Grants" from the Washington State Military Department (Emergency Management Division) and Federal Emergency Management Agency (FEMA) in FY 2007 and the acceptance remains in pending status. Due to the delay in grant acceptance a bank line

### Packwood Hydroelectric Project

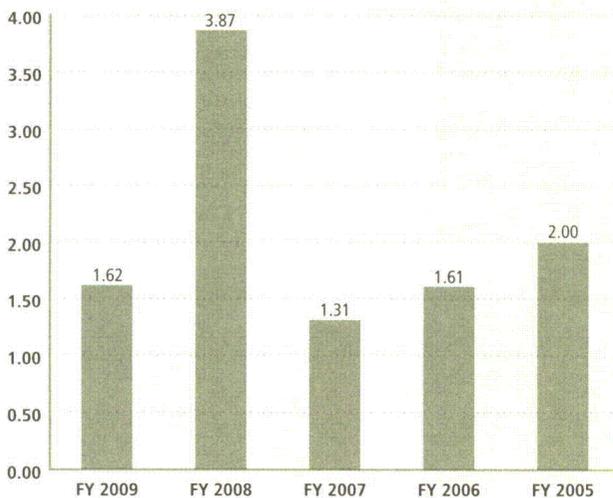
Net Generation - GWhrs



of credit was established for \$1.3 million while grant acceptance from FEMA is being resolved. The line of credit has a \$0.8 million outstanding balance.

Packwood's performance is measured in several ways, including cost of power. The cost of power for FY 2009 was \$1.62 cents/kWh as compared to \$3.87 cents/kWh in FY 2008. The cost of power fluctuates year-to-year depending on various factors such as outage, maintenance, generation, and other operating costs. The FY 2009 cost of power decrease was due to increased generation which resulted in an increase in secondary market sales.

**Packwood Hydroelectric Project**  
Cost of Power - Cents / kWh



**BALANCE SHEET ANALYSIS**

Total assets decreased \$1.0 million from FY 2008, with the major driver being the decrease to restricted assets from \$1.8 million to \$0.8 million reflecting the elimination of all bonded debt associated with Packwood. The impact of debt elimination was offset by an increase to relicensing of \$0.2 million and net participant and receivable activity of \$0.2 million. Significant changes to total liabilities were a direct result of the elimination of all bonded debt for Packwood.

Packwood has incurred \$3.6 million in relicensing costs through FY 2009. These costs are shown as Deferred Charges on the Balance Sheet. The FY 2010 projections call for an additional \$0.5 million in costs to continue the relicensing efforts. The FERC issued a 50-year operating license to Packwood on March 1,

1960. The current license will expire on February 28, 2010. The final application for the relicensing of Packwood was submitted to FERC on February 22, 2008. The estimated license renewal process is 18-24 months from the acceptance of application.

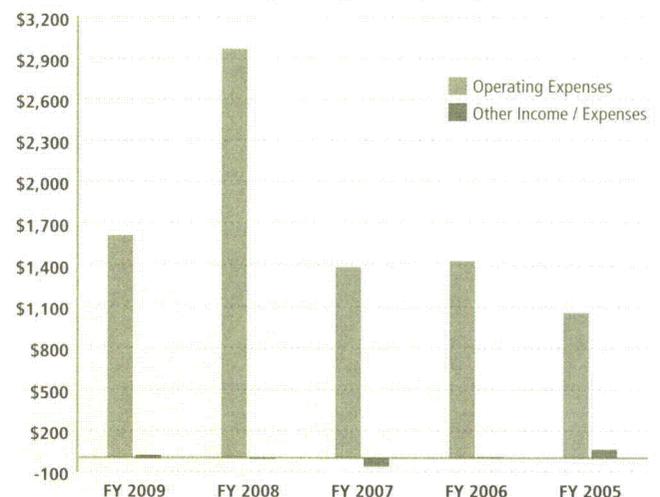
**STATEMENT OF OPERATIONS ANALYSIS**

The agreement with Packwood participants obligates them to pay annual costs and to receive excess revenues. (See Note 1 to the Financial Statements.) 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 \$1.4 million from FY 2008 amounts, reflecting lower maintenance and outage costs and other power supply expenses. FY 2008 incurred additional costs for slide repair work of \$0.9 million and purchased power costs of \$0.7 million related to low water conditions. Slight increases in FY 2009 took place to depreciation of \$1k for plant activity and generation tax of \$4k due to increased generation.

Packwood is obligated to supply a specified amount of power hourly, known as Priority Firm Energy (PFE). The amount varies monthly based on historical average generation. If the project can not deliver PFE, replacement power must be purchased on the spot market. Electrical energy from Packwood is currently sold directly to Snohomish PUD who purchases all of the output directly. The power purchase agreement (PPA) provides a predetermined rate for all firm delivery, per the contract

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



- ⊗ schedule and the Mid-Columbia (Mid-C) based rate for any deliveries above firm, or secondary power. Conversely, if there is excess capacity per the PPA with Snohomish PUD, Energy Northwest sells the excess on the open market for additional revenues to be included as part of the PPA with the participants of the project. (See Note 6 to the Financial Statements.)

Other income and expenses decreased from a net income of \$11k in FY 2008 to a net loss of \$28k in FY 2009. The decrease in other income was due to much lower investment returns and decreased investment requirements due to bond retirement. Investment income decreased \$66k from FY 2008 which was offset by a decrease to bond related expenses of \$27k.

## 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

Long-term debt decreased \$41.2 million from \$1.926 billion in FY 2008 to \$1.885 billion in FY 2009, as a result of a portion of maturing principal not being extended in the final years of the Debt Optimization Program (DOP). The current portion of long-term debt decreased \$14.0 million in FY 2009 due to the maturity schedule of debt.

### STATEMENT OF OPERATIONS ANALYSIS

Other Income and Expenses showed a net decrease to other revenues of \$8.4 million from \$106.0 million in FY 2008 to \$97.6 million in FY 2009. Investment revenue decreased \$1.9 million due to market conditions. The lower investment revenue was offset by lower bond related expenses of \$9.5 million. Decreased costs were incurred for plant preservation of \$0.8 million with minor increases in cost for decommissioning of \$20k and surplus sale activity of \$69k.

## 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. The debt service related activities remain and are net-billed. (See Note 13 to the Financial Statements.)

### BALANCE SHEET ANALYSIS

Long-term debt decreased \$55.9 million from \$1.774 billion in FY 2008 to \$1.718 billion in FY 2009, as a result of a portion of the maturing principal not being extended in the final years of the DOP. The current portion of long-term debt decreased \$23.9 million in FY 2009 due to the maturity schedule of debt.

### STATEMENT OF OPERATIONS ANALYSIS

Overall expenses decreased \$8.2 million from FY 2008 related to bond activity. The change in investment income of \$1.5 million was due to market conditions.

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

### BALANCE SHEET ANALYSIS

Total assets decreased \$0.6 million from \$6.3 million in FY 2008 to \$5.7 million in FY 2009. The decrease to current assets of \$1.1 million was due to current funding of operations, mainly due to

generation sector development costs. The decrease to current assets was offset by a \$0.5 million increase to plant, mostly from the Rattlesnake Mountain Combined Community Communication Facility Project. Liabilities increased \$0.7 million from FY 2008 to FY 2009 due to operating activity. Net Assets decreased \$1.3 million from \$4.5 million in FY 2008 to \$3.2 million in FY 2009 due to lower revenue realization with incurred development expenses.

### STATEMENT OF OPERATIONS ANALYSIS

Operating Revenues in FY 2009 totaled \$8.7 million as compared to FY 2008 revenues of \$10.5 million, a decrease of \$1.8 million. There was a reduction in wind revenues of \$2.3 million from the previous year's sale involving the Reardan Twin Buttes Wind Project. The reduction in wind revenues was partially offset by \$0.9 million for Radar Ridge Wind Project reimbursements. Other business activity included a slight revenue increase to Environmental and Calibration Services of \$0.1 million and a reduction to revenues of \$0.5 million for Professional Services from FY 2008. Net operations for FY 2009 showed an operating loss of \$1.3 million, down \$1.9 million from the FY 2008 operating gain of \$0.6 million. The operating loss reflects increased spending on the Radar Ridge Wind Project along with development costs associated with the Professional Services Sector involving Technical Services.

Though revenues for Business Development declined overall, the generation development team had a successful year relative to wind energy project development, including the complete subscription of the Radar Ridge Wind Project with a potential of up to 82 megawatts-electric capacity. The preparation of the solicitation for the procurement process has commenced. Feasibility and pre-development activities associated with the Mustang Ridge Wind Project, with a potential capacity up to 165 megawatts-electric, culminated with the commencement of marketing effort to subscribe the project's output. This development offers the potential for an innovative teaming arrangement with a private developer who will share the financial risk and provide for the availability of the major equipment with firm pricing.

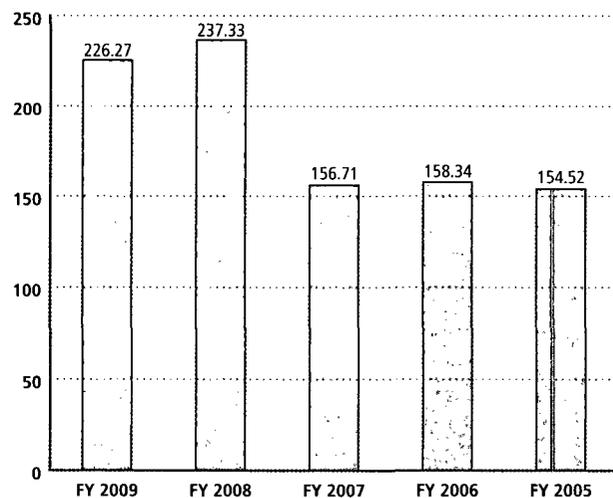
The Business Development Fund receives contributions from the Internal Service Fund to cover cash needs during startup periods. Initial startup costs are not expected to be paid back and are shown as contributions. As an operating business unit, requests can be made to fund incurred operating expenses. In FY 2009, the Business Development Fund did not receive any new contributions (transfers), as compared to an increase of \$0.7 million for FY 2008. The contributions (transfers) balance remains at \$2.5 million for FY 2009.

## Nine Canyon Wind Project

The Nine Canyon Wind Project (Nine Canyon) is wholly 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 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 an aggregate generating capacity of 48.1 MW. Phase II of Nine Canyon, which was declared operational in December 2003, includes 12 wind turbines, each with a maximum generating capacity of 1.3 MW, for an aggregate generating capacity of approximately 15.6 MW. Phase III of Nine Canyon, which was declared operational in May 2008, includes 14 wind turbines, each with a maximum generating capacity of 2.3 MW, for an aggregate generating capacity of 32.2 MW. The total Nine

**Nine Canyon Wind Project**  
Net Generation - GWhrs



Canyon generating capability is 95.9 MW, enough energy for approximately 39,000 average homes.

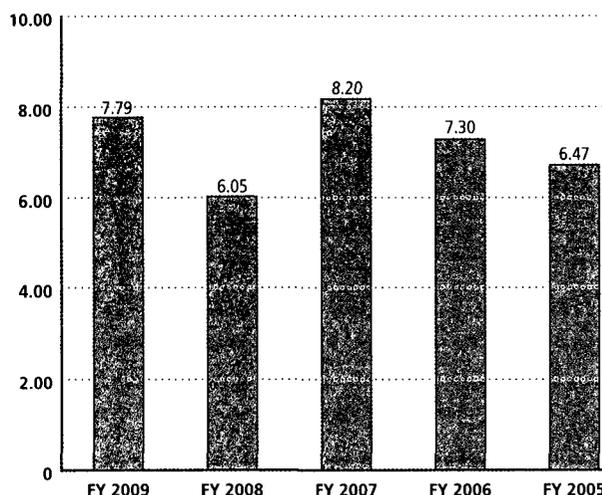
Nine Canyon produced 226.27 GWh of electricity in FY 2009 versus 237.33 GWh in FY 2008. Major component outages were less in FY 2009 but wind speed averages were 9.2 percent lower than FY 2008 resulting in the slight decrease of 4.7 percent in generation.

Nine Canyon's performance is measured in several ways, including cost of power. The cost of power for FY 2009 was \$7.79 cents/kWh as compared to \$6.05 cents/kWh in FY 2008. The cost of power fluctuates year to year depending on various factors such as wind totals and unplanned maintenance. The FY 2009 cost of power increase of 28.8 percent was due to increased fixed costs (depreciation and decommissioning) and increased operations and maintenance costs both related to a full year's costs of the Phase III addition.

#### **BALANCE SHEET ANALYSIS**

Total Assets decreased \$13.5 million from \$144.8 million in FY 2008 to \$131.3 million in FY 2009. Major drivers for the decrease in assets were a decrease to plant of \$5.8 million due to a full year's depreciation of Phase III and a decrease to Debt Service funds of \$8.1 million due to an early payment of outstanding debt. The remaining amount was an overall increase of \$0.4 million due to receivables, prepayments, and debt related activities. The Renewable Energy Performance Incentive (REPI) accrual for FY 2009 was \$0.8 million compared to \$0.7 million for FY 2008 and reflects funding expectations for the program. There was an overall decrease to liabilities of \$12.3 million with \$11.9 million related to debt activity and the early payment of outstanding debt. The remaining \$0.4 million decrease is due to operating activities. The decrease in Net Assets was \$1.2 million in FY 2009 as compared to \$2.9 million in FY 2008. The decline experienced in previous years is continuing, though there is a continued trend of improvement from previous periods. 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 10 years from the initial operation startup date for each phase. Reserves that were established are used to facilitate this plan. The rate plan in FY 2008 was revised to account for the shortfall experienced in the REPI funding and to provide a new rate scenario out to the 2030 project end date.

**Nine Canyon Wind Project**  
Cost of Power - Cents / kWh



#### **STATEMENT OF OPERATIONS ANALYSIS**

Operating Revenues increased from \$12.6 million in FY 2008 to \$15.6 million in FY 2009. The project received revenue from the billing of the purchasers at an average rate of \$69.12 per MWh for FY 2009 as compared to \$49.62 per MWh for FY 2008 which is reflective of the implementation of the revised rate plan in FY 2008 to account for REPI funding shortfalls and costs of operations. Revenue was affected by having Phase III on line for the entire year as compared to FY 2008; however, this impact was negated by lower generation. There was an increase in operating expenses of \$3.3 million from \$8.1 million in FY 2008 to \$11.4 million in FY 2009. Change in operating expenses was due to increased depreciation costs of \$2.6 million and operations and maintenance costs of \$0.7 million due to the Phase III addition. There were minor increases to decommissioning of \$2k, administrative and general expenses of \$5k, and a minor decrease of \$2k to generation tax due to lower generation. Other revenue and expenses decreased \$1.1 million from \$7.4 million in FY 2008 to \$6.3 million in FY 2009. Investment income associated with bond funds increased \$0.2 million due to increased funds available for investments and favorable timing. Bond related expenses accounted for the remaining decrease of \$0.9 million. Net losses of \$2.0 million for FY 2009 continued the trend from previous years. This trend is reflected in the declining Net Assets balance. However, results are improved over the loss reported for FY 2008 of \$2.9 million; the positive trend reflects the impact of the revised rate structure and Phase III implementation.

Energy Northwest has accrued, as income (contribution) from DOE, REPI payments that enable Nine Canyon to receive funds

## Internal Service Fund

based on generation as it applies to the REPI bill. REPI was created 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 received REPI funding in the amount of \$0.8 million for FY 2009, 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. Continued shortfalls in REPI funding for the Nine Canyon project led to a revised rate plan to incorporate the impact of this shortfall over the life of the project. The billing rates for the Nine Canyon participants increased 69 percent and 80 percent for Phase I and Phase II participants respectively in FY 2008 in order to cover total project costs, projected out to the 2030 proposed project end date. The increases for FY 2008 were a change from the previous plan where a 3 percent increase each year over the life of the project was projected. Going forward, the increase or decrease in rates will be based on cash requirements of debt repayment and the cost of operations. Phase III started with an initial planning rate of \$49.82 per MWh which will increase at 3 percent per year for three years. In year four (FY 2011) the rate will increase to a rate that will be stabilized over the life of the project. Possible adjustments may be necessary to future rates depending on operating costs and REPI, similar to Phase I and II.

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 1 to Financial Statements.)

### BALANCE SHEET ANALYSIS

Total Assets for FY 2009 increased \$16.3 million from \$37.4 million in FY 2008 to \$53.7 million in FY 2009. The five major items for the change were 1) an increase of \$17.2 million to Cash for anticipated year end check and warrant redemption, 2) an increase of \$1.5 million to Personal Time Bank investments and cash (which represents decreased usage due to R-19 requirements), 3) an increase of \$0.7 million in restricted assets due to maturity schedule and escrow requirements processing schedule, 4) a decrease in net plant due to depreciation of \$2.3 million, and 5) a decrease to operational activities of \$0.8 million.

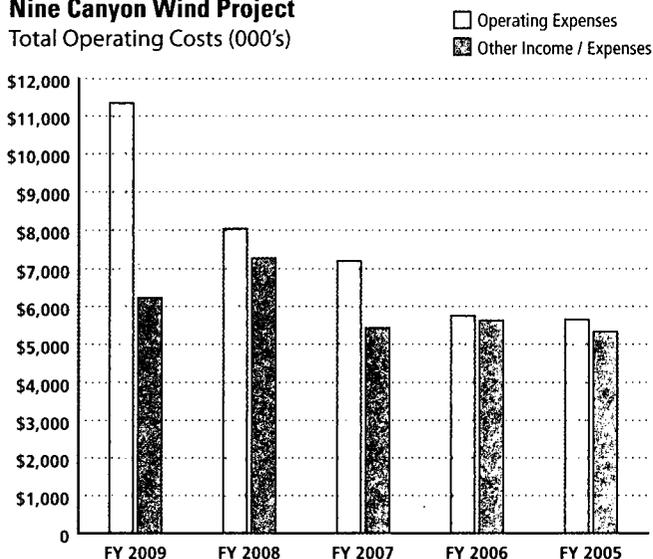
The net increase in Net Assets and Liabilities is due to increases in Accounts Payable and Payroll related liabilities of \$11.0 million and an increase to Sales Tax Payable of \$5.0 million, which is tied to movement of fabricated fuel into the State of Washington. The remaining change is due to a \$258k increase to Net Assets.

### STATEMENT OF OPERATIONS ANALYSIS

Net Revenues for FY 2009 decreased \$166k from FY 2008. Investment income decreased \$218k due to lower invested balance relating to lower yields. Lease utilization factors remained relatively constant from FY 2008 but reduced improvement costs resulted in a decrease to overall costs of \$209k. Results from operations resulted in a \$531k decrease to costs with an offsetting increase of \$688k due to increased depreciation costs.

### Nine Canyon Wind Project

Total Operating Costs (000's)



## Balance Sheets As of June 30, 2009 (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	2009 Combined Total
<b>Assets</b>									
<b>CURRENT ASSETS</b>									
Cash	\$ 10,092	\$ 869	\$ 209	\$ 179	\$ 360	\$ 216	\$ 11,925	\$ 18,876	\$ 30,801
Available-for-sale investments	18,029		4,159	5,003	2,485	6,362	36,038	24,488	60,526
Accounts and other receivables	352	263			507	2	1,124	128	1,252
Due from Participants		134					134		134
Due from other business units	4,537	18	441	124	1,023		6,143	464	-
Due from other funds	11,615		2,018	29,313		934	43,880		-
Materials and supplies	92,629						92,629		92,629
Prepayments and other	1,830	81				147	2,058	271	2,329
<b>TOTAL CURRENT ASSETS</b>	<b>139,084</b>	<b>1,365</b>	<b>6,827</b>	<b>34,619</b>	<b>4,375</b>	<b>7,661</b>	<b>193,931</b>	<b>44,227</b>	<b>187,671</b>
<b>CURRENT RESTRICTED ASSETS (NOTE 1)</b>									
<b>Special funds</b>									
Cash	3,364		4	3		1	3,372	583	3,955
Available-for-sale investments	81,743		5,384	8,725		1,550	97,402	1,927	99,329
Accounts and other receivables	127		43	43		828	1,041		1,041
<b>Debt service funds</b>									
Cash	2,411		36	158		3	2,608		2,608
Available-for-sale investments	76,528		87,544	100,945		11,438	276,455		276,455
Accounts and other receivables	42		15	9		112	178		178
Due from other funds	1,935	809	295				3,039		-
<b>TOTAL CURRENT RESTRICTED ASSETS</b>	<b>166,150</b>	<b>809</b>	<b>93,321</b>	<b>109,883</b>	<b>-</b>	<b>13,932</b>	<b>384,095</b>	<b>2,510</b>	<b>383,566</b>
<b>Non Current Assets</b>									
<b>UTILITY PLANT (NOTE 2)</b>									
In service	3,609,698	13,642			1,948	134,151	3,759,439	47,475	3,806,914
Not in service			25,253				25,253		25,253
Accumulated depreciation	(2,321,450)	(12,542)	(25,253)		(648)	(26,965)	(2,386,858)	(40,517)	(2,427,375)
	1,288,248	1,100	-	-	1,300	107,186	1,397,834	6,958	1,404,792
Nuclear fuel, net of accumulated amortization	222,927						222,927		222,927
Construction work in progress	92,390						92,390		92,390
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,603,565</b>	<b>1,100</b>	<b>-</b>	<b>-</b>	<b>1,300</b>	<b>107,186</b>	<b>1,713,151</b>	<b>6,958</b>	<b>1,720,109</b>
<b>DEFERRED CHARGES</b>									
Costs in excess of billings	832,952		1,881,219	1,699,206			4,413,377		4,413,377
Unamortized debt expense	12,057		8,792	6,451		2,472	29,772		29,772
Other deferred charges	8,269	3,649					11,918		11,918
<b>TOTAL DEFERRED CHARGES</b>	<b>853,278</b>	<b>3,649</b>	<b>1,890,011</b>	<b>1,705,657</b>	<b>-</b>	<b>2,472</b>	<b>4,455,067</b>	<b>-</b>	<b>4,455,067</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,762,077</b>	<b>\$ 6,923</b>	<b>\$ 1,990,159</b>	<b>\$ 1,850,159</b>	<b>\$ 5,675</b>	<b>\$ 131,251</b>	<b>\$ 6,746,244</b>	<b>\$ 53,695</b>	<b>\$ 6,746,413</b>

\*Project recorded on a liquidation basis.  
The accompanying notes are an integral part of these combined financial statements

	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	2009 Combined Total
<b>Liabilities And Net Assets</b>									
<b>CURRENT LIABILITIES</b>									
Current maturities of long-term debt	\$ 22,375	\$ -	\$ 40,155	\$ 71,280	\$ -	\$ -	\$ 133,810	\$ -	\$ 133,810
Accounts payable and accrued expenses	42,184	999	292	245	2,495	719	46,934	39,520	86,454
Due to Participants	22,778						22,778		22,778
Due to other funds		809					809		-
Due to other business units						464	464	6,143	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>87,337</b>	<b>1,808</b>	<b>40,447</b>	<b>71,525</b>	<b>2,495</b>	<b>1,183</b>	<b>204,795</b>	<b>45,663</b>	<b>243,042</b>
<b>LIABILITIES- PAYABLE FROM CURRENT RESTRICTED ASSETS (NOTE 1)</b>									
<b>Special funds</b>									
Accounts payable and accrued expenses	118,922		14,773			1,095	134,790	583	135,373
Due to other funds	13,550		2,313	5,493		934	22,290		-
<b>Debt service funds</b>									
Accrued interest payable	58,633	5	47,737	30,918			137,293		137,293
Due to other funds				23,820			23,820		-
<b>TOTAL CURRENT RESTRICTED ASSETS</b>	<b>191,105</b>	<b>5</b>	<b>64,823</b>	<b>60,231</b>	<b>-</b>	<b>2,029</b>	<b>318,193</b>	<b>583</b>	<b>272,666</b>
<b>LONG-TERM DEBT (NOTE 5)</b>									
Revenue bonds payable	2,392,382		1,821,165	1,729,005		144,730	6,087,282		6,087,282
Unamortized (discount)/premium on bonds - net	91,995		81,365	(2,548)		5,126	175,938		175,938
Unamortized gain/(loss) on bond refundings	(11,339)		(17,641)	(8,054)			(37,034)		(37,034)
<b>TOTAL LONG-TERM DEBT</b>	<b>2,473,038</b>	<b>-</b>	<b>1,884,889</b>	<b>1,718,403</b>	<b>-</b>	<b>149,856</b>	<b>6,226,186</b>	<b>-</b>	<b>6,226,186</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>10,597</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,597</b>	<b>-</b>	<b>10,597</b>
<b>DEFERRED CREDITS</b>									
Advances from Members and others								726	726
Other deferred credits		5,110				305	5,415	38	5,453
<b>TOTAL DEFERRED CREDITS</b>	<b>-</b>	<b>5,110</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>305</b>	<b>5,415</b>	<b>764</b>	<b>6,179</b>
<b>NET ASSETS</b>									
Invested in capital assets, net of related debt					1,300	(40,198)	(38,898)	6,958	(31,940)
Restricted, net						11,599	11,599	1,928	13,527
Unrestricted, net					1,880	6,477	8,357	(2,201)	6,156
<b>NET ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,180</b>	<b>(22,122)</b>	<b>(18,942)</b>	<b>6,685</b>	<b>(12,257)</b>
<b>TOTAL LIABILITIES</b>	<b>2,762,077</b>	<b>6,923</b>	<b>1,990,159</b>	<b>1,850,159</b>	<b>2,495</b>	<b>153,373</b>	<b>6,765,186</b>	<b>47,010</b>	<b>6,758,670</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,762,077</b>	<b>\$ 6,923</b>	<b>\$ 1,990,159</b>	<b>\$ 1,850,159</b>	<b>\$ 5,675</b>	<b>\$ 131,251</b>	<b>\$ 6,746,244</b>	<b>\$ 53,695</b>	<b>\$ 6,746,413</b>

\*Project recorded on a liquidation basis.  
The accompanying notes are an integral part of these combined financial statements

# Statements Of Revenues, Expenses, And Changes In Net Assets

For the year ended June 30, 2009 (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	2009 Combined Total
<b>OPERATING REVENUES</b>	\$ 519,758	\$ 1,641	\$ -	\$ -	\$ 8,738	\$ 15,638	\$ 545,775	\$ -	\$ 545,775
<b>OPERATING EXPENSES</b>									
Nuclear fuel	27,118						27,118		27,118
Spent fuel disposal fee	7,380						7,380		7,380
Decommissioning	6,457					76	6,533		6,533
Depreciation and amortization	77,063	36			213	6,736	84,048		84,048
Operations and maintenance	255,380	1,295			12,092	4,459	273,226		273,226
Other power supply expense		111					111		111
Administrative & general	27,123	151				51	27,325		27,325
Generation tax	3,137	20				48	3,205		3,205
<b>TOTAL OPERATING EXPENSES</b>	<b>403,658</b>	<b>1,613</b>	<b>-</b>	<b>-</b>	<b>12,305</b>	<b>11,370</b>	<b>428,946</b>	<b>-</b>	<b>428,946</b>
<b>NET OPERATING REVENUES</b>	<b>116,100</b>	<b>28</b>	<b>-</b>	<b>-</b>	<b>(3,567)</b>	<b>4,268</b>	<b>116,829</b>	<b>-</b>	<b>116,829</b>
<b>OTHER INCOME AND EXPENSE</b>									
Other	888		97,588	87,029	2,201		187,706	72,660	187,964
Investment income	1,993	19	410	494	63	605	3,584	150	3,584
Interest expense and discount amortization	(118,981)	(47)	(96,160)	(85,418)		(6,869)	(307,475)		(307,475)
Plant preservation and termination costs			(1,329)	(2,105)			(3,434)		(3,434)
Depreciation and amortization			(6)				(6)	(2,727)	(6)
Decommissioning			(503)				(503)		(503)
Services to other business units								(69,825)	-
<b>TOTAL OTHER INCOME AND EXPENSES</b>	<b>(116,100)</b>	<b>(28)</b>	<b>-</b>	<b>-</b>	<b>2,264</b>	<b>(6,264)</b>	<b>(120,128)</b>	<b>258</b>	<b>(119,870)</b>
Changes in Net Assets	-	-	-	-	(1,303)	(1,996)	(3,299)	258	(3,041)
(DISTRIBUTION)/CONTRIBUTION	-	-	-	-	-	829	829	-	829
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,483</b>	<b>(20,955)</b>	<b>(16,472)</b>	<b>6,427</b>	<b>(10,045)</b>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,180</b>	<b>\$ (22,122)</b>	<b>\$ (18,942)</b>	<b>\$ 6,685</b>	<b>\$ (12,257)</b>

\*Project recorded on a liquidation basis.

The accompanying notes are an integral part of these combined financial statements

## Statements Of Cash Flows For the year ended June 30, 2009 (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	2009 Combined Total
<b>CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES</b>								
Operating revenue receipts	\$ 481,142	\$ 3,003	\$ -	\$ -	\$ 4,805	\$ 16,814	\$ -	\$ 505,764
Cash payments for operating expenses	(295,537)	(1,287)			(5,887)	(5,696)		(308,407)
Other revenue receipts			129,515	134,013				263,528
Cash payments for preservation, termination expense			(297)	(512)				(809)
Cash payments for services							19,205	19,205
Net cash provided/(used) by operating and other activities	185,605	1,716	129,218	133,501	(1,082)	11,118	19,205	479,281
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>								
Proceeds from bond refundings	214,815		52,403	128,728				395,946
Refunded bond escrow requirement	(125,305)		(51,890)	(127,765)				(304,960)
Deposit to Debt Service Fund	125,305		51,890	127,765				304,960
Payment for bond issuance and financing costs	(2,511)	(10)	(1,415)	(3,034)	(1)	(46)		(7,017)
Payment for capital items	(70,701)	(327)			(500)	(934)	(730)	(73,192)
Receipts from sales of plant assets			35					35
Nuclear fuel acquisitions	(32,998)							(32,998)
Interest paid on revenue bonds	(122,833)	(46)	(92,691)	(122,415)		(10,806)		(348,791)
Principal paid on revenue bond maturities	(25,242)	(1,241)	(61,290)	(142,860)		(8,020)		(238,653)
Escrow refund	5		1	94				100
Net cash provided/(used) by capital and related financing activities	(39,465)	(1,624)	(102,957)	(139,487)	(501)	(19,806)	(730)	(304,570)
<b>CASH FLOWS FROM NON-CAPITAL FINANCE ACTIVITIES</b>								
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Purchases of investment securities	(949,443)	(3,327)	(351,897)	(423,759)	(15,965)	(44,432)	(62,292)	(1,851,115)
Sales of investment securities	740,411	4,069	324,291	425,905	14,441	43,452	60,947	1,613,516
Interest on investments	2,007	26	547	777	61	496	454	4,368
Net cash provided/(used) by investing activities	(207,025)	768	(27,059)	2,923	(1,463)	(484)	(891)	(233,231)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(60,885)</b>	<b>860</b>	<b>(798)</b>	<b>(3,063)</b>	<b>(3,046)</b>	<b>(9,172)</b>	<b>17,584</b>	<b>(58,520)</b>
<b>CASH AT JUNE 30, 2008</b>	<b>76,752</b>	<b>9</b>	<b>1,047</b>	<b>3,403</b>	<b>3,406</b>	<b>9,392</b>	<b>1,875</b>	<b>95,884</b>
<b>CASH AT JUNE 30, 2009</b>	<b>\$ 15,867</b>	<b>\$ 869</b>	<b>\$ 249</b>	<b>\$ 340</b>	<b>\$ 360</b>	<b>\$ 220</b>	<b>\$ 19,459</b>	<b>\$ 37,364</b>

\*Project recorded on a liquidation basis.

The accompanying notes are an integral part of these combined financial statements

## Statements Of Cash Flows (Cont'd) For the year ended June 30, 2009 (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	2009 Combined Total
<b>RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>								
Net operating revenues	\$ 116,100	\$ 28	\$ -	\$ -	\$ (3,567)	\$ 4,268	\$ -	\$ 116,829
<b>Adjustments to reconcile net operating revenues to cash provided by operating activities:</b>								
Depreciation and amortization	103,725	25			100	6,712		110,562
Decommissioning	6,457					33		6,490
Other	1,631	338			2,082	46		4,097
<b>Change in operating assets and liabilities:</b>								
Deferred charges/costs in excess of billings	(42,689)	(12)						(42,701)
Accounts receivable	467	203			15			685
Materials and supplies	3,815							3,815
Prepaid and other assets	(528)	(3)			21	(148)		(658)
Due from/to other business units, funds and Participants	(3,594)	1,171			(433)	(29)		(2,885)
Accounts payable	221	(34)			700	236		1,123
<b>Other revenue receipts</b>			129,515	134,013				263,528
<b>Cash payments for preservation, termination expense</b>			(297)	(512)				(809)
<b>Cash payments for services</b>							19,205	19,205
<b>Net cash provided (used) by operating and other activities</b>	<b>\$ 185,605</b>	<b>\$ 1,716</b>	<b>\$ 129,218</b>	<b>\$ 133,501</b>	<b>\$ (1,082)</b>	<b>\$ 11,118</b>	<b>\$ 19,205</b>	<b>\$ 479,281</b>

\*Project recorded on a liquidation basis.

The accompanying notes are an integral part of these combined financial statements

# Energy Northwest Notes to Financial Statements

## NOTE 1 - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Energy Northwest, a municipal corporation and joint operating agency of the State of Washington, was organized in 1957 to finance, acquire, construct and operate facilities for the generation and transmission of electric power.

Membership consists of 22 public utility districts and 3 cities. All members own and operate electric systems within the State of Washington.

Energy Northwest is exempt from federal income tax and has no taxing authority.

Energy Northwest maintains seven business units. Each unit is financed and accounted for separately from all other current or future business units.

All electrical energy produced by Energy Northwest net-billed business units is ultimately delivered to electrical distribution facilities owned and operated by 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 public utilities and rural electric cooperatives located in the western United States who have entered into net-billing agreements with Energy Northwest and BPA for participation in one or more of Energy Northwest's business units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources, as well as BPA's other costs (see Note 6).

Energy Northwest operates the Columbia Generating Station (Columbia), a 1,150-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 is preparing an application to renew the license for an additional 20 years, thus continuing operations to 2043. Submittal of this application is planned for January 2010. The estimated duration of the license renewal process is 20-24 months from acceptance of the application. Costs to date on Columbia relicensing are \$8.3 million.

Energy Northwest also operates the Packwood Lake Hydroelectric Project (Packwood), a 27.5-MWe generating plant completed in 1964. Packwood operates under a 50-year license from the Federal Energy Regulatory Commission (FERC) that expires on February 28, 2010. The final application for the relicensing of Packwood was submitted to FERC on February 22, 2008. The estimated license renewal process is 18-24 months from the acceptance of application. Costs incurred to date for relicensing are \$3.6 million. The electric power produced by Packwood is sold to 12 project participant utilities which pay the costs of Packwood, including the debt service on 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 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. This agreement ended in October 2008. In October 2008, Packwood entered into a new Power Sales Agreement with Snohomish PUD to purchase the entire project output (see Note 6).

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. 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 13)

The Business Development Fund was established in April 1997 to pursue and develop new energy related business opportunities. There are four main business lines associated with this business unit: General Services and Facilities, Generation, Professional Services, and Business Unit Support.

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 FY 2003 and Phase II was completed in FY 2004. Phase I and II combined capacity is approximately 63.7 MWe. Phase III was completed in FY 2008 adding an additional 14 wind turbines to the Nine Canyon Wind Project and adding an aggregate capacity of 32.2 MWe. The total number of turbines at Nine Canyon is 63 and the total capacity is 95.9 MWe.

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.

Energy Northwest's fiscal year begins on July 1 and ends on June 30. In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through October 30, 2009, the date the financial statements were issued.

The following is a summary of the more significant policies:

- a) **Basis of Accounting and Presentation:** The accounting policies of Energy Northwest conform to GAAP applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Energy Northwest has applied all applicable GASB pronouncements and elected to apply Financial Accounting Standards Board (FASB) statements and interpretations except for those conflicting with or in contradiction to GASB pronouncements. The accounting and reporting policies of Energy Northwest are regulated by the Washington State Auditor's Office and are based on the Uniform System of Accounts prescribed for public utilities and licensees by FERC. Energy Northwest uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenues and expenses related to Energy Northwest's operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing and investing activities are considered to be other income and expenses. Separate funds and book of accounts 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. (See Note 5)

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 as Current Liabilities—Due to other business units, or as 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 2009 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 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.

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- b) Utility Plant and Depreciation:** Utility plant is recorded at original cost which includes both direct costs of construction or acquisition and indirect costs.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20 - 60 years
Generation Plant	40 years
Transportation Equipment	6 - 9 years
General Plant and Equipment	3 - 15 years

Group rates are used for assets and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

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 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.

- c) Allowance for Funds Used During Construction (AFUDC):** 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. However, if estimated costs are more than inconsequential, an adjustment is made to allocate capitalized interest to the appropriate plant account. Interest costs capitalized for FY 2009 totaled \$1.9 million and related to Columbia.
- d) Nuclear Fuel:** All expenditures related to the initial purchase of nuclear fuel for Columbia, including interest, were capitalized and carried at cost. When the fuel is placed in the reactor; the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. Accumulated nuclear fuel amortization

(the amortization of the cost of nuclear fuel assemblies in the reactor used in the production of energy and in the fuel pool for less than six months per FERC guidelines) is \$121.0 million as of June 30, 2009.

A fuel lease agreement was entered into in FY 2007 and was completed in FY 2009. The agreement provided for an exchange of uranium oxide (U3O8) for an equivalent amount of uranium hexafluoride (UF6), which was returned at the conclusion of the loan.

A fuel agreement was entered into in FY 2009 in which Energy Northwest purchased U3O8 from seller in February 2009. A related transaction will take place in FY 2011 in which Energy Northwest will purchase conversion services from seller. At that time, Energy Northwest will deliver the U3O8 to seller for conversion to UF6. The seller shall deliver to Energy Northwest an equivalent quantity of UF6. This purchase will take place on February 21, 2011.

Energy Northwest has a contract with the U.S. Department of Energy (DOE) that requires the DOE to accept title and dispose of spent nuclear fuel. Although the courts have ruled that DOE had the obligation to accept title to spent nuclear fuel by January 31, 1998, currently, there is no known date established when DOE will fulfill this legal obligation and begin accepting spent nuclear fuel. Energy Northwest is currently seeking damages from DOE to cover interim fuel storage expenses. (See Note 13)

The current period operating expense for Columbia includes a \$7.4 million charge from the DOE for future spent 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. No casks were issued from the cask inventory account in FY 2009. Spent fuel is transferred from the spent fuel pool to the ISFSI periodically to allow for future refuelings. Current period costs include \$25.9 million for nuclear fuel and \$1.2 million for dry cask storage costs.

- e) **Asset Retirement Obligation:** Energy Northwest has adopted FASB Statement of Financial Accounting Standard (SFAS) No. 143, "Accounting for Asset Retirement Obligations". This statement requires Energy Northwest to recognize the fair value of a liability associated with the retirement of a long-lived asset, such as: Columbia Generating Station, Nuclear Project No. 1, and Nine Canyon, in the period in which it is incurred. (See Note 11)
- f) **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. (See Note 12)
- g) **Restricted Assets:** In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, construction, capital additions and fuel purchases, extraordinary operation and maintenance costs, termination, decommissioning, operating reserves, financing, long-term disability, and workers' compensation claims. They are classified as current or non-current assets as appropriate.
- h) **Cash and Investments:** For purposes of the Statement of Cash Flows, cash includes unrestricted and restricted cash balances and each business unit maintains their cash and investments. Short-term highly liquid investments are not considered to be cash equivalents, but are classified as available-for-sale investments and are stated at fair value with unrealized gains and losses reported in investment income. (See Note 3) 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. Safe keeping agents, custodians, or trustees hold all investments for the benefit of the individual Energy Northwest business units.
- i) **Accounts Receivable:** The percentage of sales method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a yearly basis. Accounts receivable specific to each business unit are recorded in the residing business unit.
- j) **Other Receivables:** Other receivables include amounts related to the Internal Service Fund from miscellaneous outstanding receivables from other business units which have not yet been collected. The amounts due to each business unit are reflected in the Due To/From other business unit's account. Other receivables specific to each business unit are recorded in the residing business unit.
- k) **Materials and Supplies:** Materials and supplies are valued at cost using the weighted average cost method.
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l) **Long-Term Liabilities:** Consist of obligations related to bonds payable and the associated premiums/discounts and gains/losses. Other noncurrent liabilities for CGS only relate

to cask activity.

Long-Term Liability activity for the year ending June 30, 2009 is shown below.

## Long-Term Liabilities (Dollars in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Columbia Generating Station</b>				
Revenue bonds payable	\$ 2,359,765	\$ 204,110	\$ 171,493	\$ 2,392,382
Unamortized (discount)/premium on bonds - net	95,341	10,705	14,051	91,995
Unamortized gain/(loss) on bond refundings	(19,336)	7,997		(11,339)
Other noncurrent liabilities	9,337	1,260		10,597
Current portion	6,100	46,095	29,820	22,375
	\$ 2,451,207	\$ 270,167	\$ 215,364	\$ 2,506,010
<b>Packwood Lake Hydroelectric Project</b>				
Revenue bonds payable	\$ 551	\$ -	\$ 551	\$ -
Unamortized (discount)/premium on bonds - net	(1)	1		-
Unamortized gain/(loss) on bond refundings	14		14	-
Current portion	690		690	-
	\$ 1,254	\$ 1	\$ 1,255	\$ -
<b>Nuclear Project No.1</b>				
Revenue bonds payable	\$ 1,863,790	\$ 49,420	\$ 92,045	\$ 1,821,165
Unamortized (discount)/premium on bonds - net	93,716	2,983	15,334	81,365
Unamortized gain/(loss) on bond refundings	(31,404)	13,763		(17,641)
Current portion	54,160	40,155	54,160	40,155
	\$ 1,980,262	\$ 106,321	\$ 161,539	\$ 1,925,044
<b>Nuclear Project No.3</b>				
Revenue bonds payable	\$ 1,811,025	\$ 117,025	\$ 199,045	\$ 1,729,005
Unamortized (discount)/premium on bonds - net	(22,208)	19,660		(2,548)
Unamortized gain/(loss) on bond refundings	(14,555)	7,244	743	(8,054)
Current portion	95,155	71,280	95,155	71,280
	\$ 1,869,417	\$ 215,209	\$ 294,943	\$ 1,789,683
<b>Nine Canyon Wind Project</b>				
Revenue bonds payable	\$ 148,435	\$ -	\$ 3,705	\$ 144,730
Unamortized (discount)/premium on bonds - net	5,633		507	5,126
Current portion	4,315		4,315	-
	\$ 158,383	\$ -	\$ 8,527	\$ 149,856

m) **Debt Premium, Discount and Expense:** Original issue and reacquired bond premiums, discounts and expenses relating to the bonds are amortized over the terms of the respective bond issues using the bonds outstanding method which approximates the effective interest method. In accordance with GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities", 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.

n) **Revenue Recognition:** 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 accumulated. The difference between cumulative billings received and cumulative expenses is recorded as either billings in excess of costs (deferred credit) or as costs in excess of billings (deferred debit), as appropriate. Such amounts will be settled during future operating periods. (See Note 6)

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 Net Assets for each period.

o) **Capital Contribution:** 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. 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 the applied REPI funding in the amount of \$0.8 million for FY 2009, 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 for the Nine Canyon project led to a revised rate plan to incorporate the impact of this shortfall over the life of the project. The rate schedule for the Nine Canyon participants covers total project costs occurring in FY 2009 and projections out to the 2030 proposed end date.

p) **Compensated Absences:** Employees earn leave in accordance with length of service. Energy Northwest accrues the cost of personal leave in the year when earned. The liability for unpaid leave benefits and related payroll taxes was \$18.7 million at June 30, 2009 and is recorded as a current liability.

q) **Use of Estimates:** 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.

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**NOTE 2 - UTILITY PLANT**

Utility plant activity for the year ended June 30, 2009 was as follows:

**Utility Plant Activity** (Dollars in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Columbia Generating Station</b>				
Generation	\$ 3,547,102	\$ 30,127	\$ -	\$ 3,577,229
Decommissioning	32,469			32,469
Construction Work-in-Progress	52,539	39,851		92,390
Accumulated Depreciation and Decommissioning	(2,246,411)	(75,039)		(2,321,450)
<b>UTILITY PLANT, net*</b>	<b>\$ 1,385,699</b>	<b>\$(5,061)</b>	<b>\$ -</b>	<b>\$ 1,380,638</b>
<b>Packwood Lake Hydroelectric Project</b>				
Generation	\$ 13,558	\$ 84	\$ -	\$ 13,642
Accumulated Depreciation	(12,517)	(25)		(12,542)
<b>UTILITY PLANT, net</b>	<b>\$ 1,041</b>	<b>\$ 59</b>	<b>\$ -</b>	<b>\$ 1,100</b>
<b>Business Development</b>				
Generation	\$ 1,327	\$ 621	\$ -	\$ 1,948
Construction Work-in-Progress				-
Accumulated Depreciation	(548)	(100)		(648)
<b>UTILITY PLANT, net</b>	<b>\$ 779</b>	<b>\$ 521</b>	<b>\$ -</b>	<b>\$ 1,300</b>
<b>Nine Canyon Wind Project</b>				
Generation	\$ 132,356	\$ 934	\$ -	\$ 133,290
Decommissioning	861			861
Construction Work-in-Progress				-
Accumulated Depreciation and Decommissioning	(20,219)	(6,746)		(26,965)
<b>UTILITY PLANT, net</b>	<b>\$ 112,998</b>	<b>\$(5,812)</b>	<b>\$ -</b>	<b>\$ 107,186</b>
<b>Internal Service Fund</b>				
Generation	\$ 47,086	\$ 389	\$ -	\$ 47,475
Construction Work-in-Progress				-
Accumulated Depreciation	(37,790)	(2,727)		(40,517)
<b>UTILITY PLANT, net</b>	<b>\$ 9,296</b>	<b>\$(2,338)</b>	<b>\$ -</b>	<b>\$ 6,958</b>

\* Does not include Nuclear Fuel Amount of \$223 million, net of amortization.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

As of June 30, 2009, Energy Northwest had the following unrealized gains and losses:

<b>Available-For-Sale-Investments</b> (Dollars in Thousands)				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (1) (2)
Columbia Generating Station	\$ 176,207	\$ 93	\$ -	\$ 176,300
Packwood Lake Hydroelectric Project	-	-	-	-
Nuclear Project No. 1	97,087	-	-	97,087
Nuclear Project No. 3	114,673	-	-	114,673
Business Development Fund	2,484	1	-	2,485
Internal Service Fund	26,423	21	(29)	26,415
Nine Canyon Wind Project	19,215	149	(14)	19,350

(1) All investments are in U.S. Government backed securities

(2) The majority of investments have maturities of less than 1 year. Approximately \$9.35 million have a maturity beyond 1 year with the longest maturity being June 10, 2011.

**Interest rate risk:** In accordance with its investment policy, Energy Northwest manages its exposure to declines in fair values by limiting investments to those with maturities designated in specific bond resolutions.

**Credit risk:** Energy Northwest's investment policy restricts investments to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, Federal National Mortgage Association and the Federal Home Loan Banks, certificates of deposit and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), and general obligation debt of state and local governments and public authorities recognized with one of the three highest credit ratings (AAA, AA+, AA, or equivalent). This investment policy is more restrictive than the state law.

**Concentration of credit risk:** Energy Northwest investment policy does not specifically address concentration of credit risk. An individual authorized security or obligation can receive up to 100 percent of the authorized investment amount; there are no individual concentration limits.

**Custodial credit risk, Deposits:** For a deposit, this is the risk that in the event of bank failure, Energy Northwest's deposits may not be returned to it. Energy Northwest's interest bearing accounts and certificates of deposits are covered up to \$250,000 by Federal Depository Insurance Corporation (FDIC) while non-interest bearing deposits are entirely covered by FDIC and if necessary, all interest and non-interest bearing deposits are covered by collateral held in multiple financial institution collateral pool administered by the Washington State Treasurer's Local Government Investment Pool (PDPC). Under state law, public depositors under the PDPC may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. As a result, deposits covered by collateral held in the multiple financial institution collateral pool are considered to be insured. State law requires deposits may only be made with institutions that are approved by the PDPC.

**NOTE 4 - DEFERRED CHARGES AND DEFERRED CREDITS**

Other deferred charges of \$8.3 million and \$3.6 million relate to the Columbia and Packwood relicensing effort, respectively.

**NOTE 5 - 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 2006 Bonds.

During the year ended June 30, 2009, Energy Northwest issued, for Nuclear Projects No. 1 and 3, and Columbia, the Series 2009-A Bonds and Series 2009-B Bonds. The Series 2009-C Bonds were issued for Columbia. The Series 2009-A, 2009-B, 2009-C Bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and

Columbia are fixed rate bonds with a weighted average coupon interest rate ranging from 4.83 percent to 5.67 percent. These transactions resulted in a net-loss for accounting purposes of \$0.03 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.

The Series 2009-A Bonds issued for Nuclear Project No. 1, Nuclear Project No. 3, and Columbia are tax exempt fixed-rate bonds that extended debt.

The Series 2009-B Bonds, issued for Nuclear Project No. 1, Nuclear Project No. 3 and Columbia are taxable fixed-rate bonds for the purpose of paying costs relating to the issuance of the Series 2009-A, Series 2009-B, and Series 2009-C Bonds, as well as certain costs relating to the refunding of certain outstanding bonds.

The Series 2009-C 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-term debt that contains variable rate interest. These rates are set periodically through a weekly rate reset. These rates ranged from 0.200 percent to 9.240 percent during FY 2009.

The Bond Proceeds, Weighted Average Coupon Interest Rates, Net Accounting Loss, and Total Defeased Bonds for 2009-A, 2009-B, and 2009-C are presented in the following tables:

**BOND PROCEEDS** (dollars in millions)

	2009A	2009B	2009C	Total
Project 1	\$ 51.89	\$ 0.51	\$ -	\$ 52.40
CGS	125.30	18.51	71.00	214.81
Project 3	127.76	0.97	-	128.73
Total	\$ 304.95	\$ 19.99	\$ 71.00	\$ 395.94

**WEIGHTED AVERAGE COUPON INTEREST RATE FOR REFUNDED BONDS**

	2009A	2009B	2009C
Total	5.42%*	-	-

\* The 2009A issue refunded variable rate bonds that are not included.

**WEIGHTED AVERAGE COUPON INTEREST RATE FOR NEW BONDS**

	2009A	2009B	2009C
Total	4.83%	5.67%	4.88%

**NET ACCOUNTING LOSS** (dollars in millions)

	2009A	2009B	2009C	Total
Project 1	\$ (0.51)	\$ 0.51	\$ -	\$ -
CGS	(2.15)	1.21	-	(0.94)
Project 3	0.01	0.96	-	0.97
Total	\$ (2.65)	\$ 2.68	\$ -	\$ 0.03

**TOTAL DEFEASED**

	2009A	2009B	2009C	Total
Project 1	\$ 51.89	\$ -	\$ -	\$ 51.89
CGS	125.30	-	-	125.30
Project 3	127.76	-	-	127.76
Total	\$ 304.95	\$ -	\$ -	\$ 304.95

Energy Northwest did not issue or refund any bonds associated with Packwood or Nine Canyon for FY 2009. All remaining bonded debt related to Packwood was paid off prior to June 30, 2009.

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 2009 defeasements, \$44.8 million, \$25.9 million, and \$125.3 million of defeased bonds were not called or had not matured at June 30, 2009, 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, 2009, and future debt service requirements for these bonds are presented in the following tables:

# Outstanding Long-Term Debt

As Of June 30, 2009 (Dollars In Thousands)

## COLUMBIA REVENUE AND REFUNDING BONDS

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1992A	6.30	7-1-2012	\$ 50,000
1994A	5.40	7-1-2012	100,107
2001A	5.00-5.50	7-1-13/2017	186,600
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	7-1-10/2018	33,165
2004A	5.25	7-1-10/2018	259,680
2004B	5.50	7-1-2013	12,715
2004C	5.25	7-1-10/2018	21,275
2005A	5.00	7-1-15/2018	114,985
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
2008A	5.00-5.25	7-1-14/2018	110,935
2008B	3.60-5.95	7-1-09/2021	14,850
2008C	5.00-5.25	7-1-21/2024	37,240
2008D	5.00	7-1-10/2012	127,510
2008E	4.15	7-1-2009	3,545
2009A	3.00-5.00	7-1-14/2018	116,425
2009B	4.59-6.80	7-1-14/2024	18,515
2009C	4.25-5.00	7-1-20/2024	69,170
<b>Revenue bonds payable:</b>			<b>\$ 2,414,757</b>
<b>Estimated fair value at June 30, 2009:</b>			<b>\$ 2,589,514</b> (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.

## 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	2,695
1993B	7.00	7-1-2009	5,855
1996C	6.00	7-1-2009	6,335
1998A	5.75	7-1-2009	2,810
2001A	4.50-5.50	7-1-10/2013	76,560
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
2006A	5.00	7-1-10/2017	271,325
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
2008A	5.00-5.25	7-1-13/2017	230,535
2008B	3.60	7-1-2009	2,155
2008D	5.00	7-1-10/2017	70,125
2008E	4.15	7-1-2009	2,095
2009A	3.25-5.00	7-1-14/2015	48,905
2009B	4.59	7-1-2014	515
1993-1A-1	VARIABLE		33,055
1993-1A-2	VARIABLE		33,055
1993-1A-3	VARIABLE		10,845
<b>Revenue bonds payable:</b>			<b>\$ 1,861,320</b>
<b>Estimated fair value at June 30, 2009:</b>			<b>\$ 2,039,177</b> (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.

**Outstanding Long-Term Debt (Cont'd)**

As Of June 30, 2009 (Dollars In Thousands)

**NUCLEAR PROJECT NO.3  
REFUNDING REVENUE BONDS**

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1989A	(A)	7-1-09/2014	\$ 8,893
1989B	(A)	7-1-09/2014	29,224
	7.125	7-1-2016	76,145
			105,369
1990B	(A)	7-1-09/2010	4,871
1993B	7.00	7-1-2009	9,050
1993C	(A)	7-1-13/2018	23,963
1997A	6.00	7-1-2009	5,235
2001A	5.50	7-1-10/2018	151,380
2001B	5.50	7-01-2018	10,675 (C)
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
2006A	5.00	7-1-16/2018	39,445
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
2008A	5.25	7-1-2018	13,790
2008B	3.70	7-1-2010	110
2008D	5.00	7-1-10/2017	62,270
2008E	4.15	7-1-2009	2,485
2009A	5.00-5.25	7-1-14/2018	116,055
2009B	4.59	7-1-2009	970
1993-3A-3	VARIABLE		15,795
2003E	VARIABLE		98,025
2008-F1	VARIABLE		104,415
2008-F2	VARIABLE		104,415
		<b>Compound interest bonds accretion</b>	222,335
		<b>Revenue bonds payable</b>	\$ 1,800,285
		<b>Estimated fair value at June 30, 2009</b>	\$ 1,895,512 (B)

(A) Compound Interest Bonds

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

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

**NINE CANYON WIND PROJECT  
REFUNDING REVENUE BONDS**

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
2003	3.75-5.00	7-1-10/2023	\$ 17,600
2005	4.50-5.00	7-1-10/2023	57,720
2006	4.50-5.00	7-1-10/2030	69,410
		<b>Revenue bonds payable</b>	\$ 144,730
		<b>Estimated fair value at June 30, 2009</b>	\$ 145,357 (B)
		<b>Total Bonds Payable</b>	\$ 6,221,092
		<b>Estimated fair value at June 30, 2009</b>	\$ 6,669,560

(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, 2009 (Dollars In Thousands)

## COLUMBIA GENERATING STATION

Fiscal Year	Principal	Interest	Total
6/30/2009 Balance*	\$ 22,375	\$ 56,530	\$ 78,905
2010	156,795	126,473	283,268
2011	94,395	116,239	210,634
2012	266,717	111,547	378,264
2013	69,090	97,006	166,096
2014-2017	631,765	324,754	956,519
2018-2022	884,460	178,007	1,062,467
2023-2024	289,160	22,155	311,315
	\$ 2,414,757	\$ 1,032,711	\$ 3,447,468

\* Principal and interest due July 1, 2009.

## NUCLEAR PROJECT NO. 3

Fiscal Year	Principal	Interest	Total
6/30/2009 Balance*	\$ 46,492	\$ 54,308	\$ 100,800
2010	35,232	98,844	134,076
2011	83,539	88,352	171,891
2012	70,606	84,769	155,375
2013	133,440	89,264	222,704
2014-2017	826,840	216,474	1,043,314
2018	381,801	21,889	403,690
Adjustment **	222,335	(222,335)	-
	\$ 1,800,285	\$ 431,565	\$ 2,231,850

\* Principal and interest due July 1, 2009.

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

## NUCLEAR PROJECT NO. 1

Fiscal Year	Principal	Interest	Total
6/30/2009 Balance*	\$ 40,155	\$ 47,274	\$ 87,429
2010	83,890	92,974	176,864
2011	92,550	88,687	181,237
2012	91,140	84,431	175,571
2013	313,435	80,087	393,522
2014	367,680	64,133	431,813
2015	191,540	45,529	237,069
2016	326,665	36,274	362,939
2017	354,265	18,994	373,259
	\$ 1,861,320	\$ 558,383	\$ 2,419,703

\* Principal and interest due July 1, 2009

## NINE CANYON WIND PROJECT

Fiscal Year	Principal	Interest	Total
6/30/2009 Balance*	\$ -	\$ -	\$ -
2010	3,965	6,963	10,928
2011	4,260	6,774	11,034
2012	4,575	6,570	11,145
2013	6,930	6,351	13,281
2014-2017	31,310	21,873	53,183
2018-2022	48,495	18,134	66,629
2023-2030	45,195	8,692	53,887
	\$ 144,730	\$ 75,357	\$ 220,087

\* Principal and interest due July 1, 2009.

**NOTE 6- NET BILLING****Security - Nuclear Projects Nos. 1 and 3 and Columbia**

The 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 13)

**Security - Packwood Lake Hydroelectric Project**

The Packwood participants, Benton PUD, and Franklin PUD had a Power Sales Agreement extending through October 2008. This agreement was not renewed and a new Power Sales agreement between the Packwood participants and Snohomish PUD, effective October 2008, ensued. Under the agreement, Snohomish PUD purchases all of the output directly. The power purchase agreement (PPA) provides a predetermined rate for all firm delivery, per the contract schedule and the Mid-Columbia (Mid-C) based rate for all firm deliveries above firm, or secondary power. Packwood is obligated to supply a specified amount of power. If power production does not supply the required amount of

power, Packwood is required to provide any shortfall by purchasing power on the open market which resulted in \$0.1 million of purchased power in FY 2009. Conversely, if there is excess capacity per the PPA with Snohomish PUD, Packwood sells the excess on the open market for additional revenues to be included as part of the PPA with the Packwood participants. The Packwood participants are obligated to pay annual costs of the project 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 Packwood participants also share project revenue to the extent that the amounts exceed project costs.

**NOTE 7 - PENSION PLANS**

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 27, "Accounting for Pensions by State and Local Government Employers." Any information obtained from the DRS is the responsibility of the State of Washington. Price-waterhouseCoopers LLP (PwC), independent auditors for Energy Northwest, has not audited or examined any of the information available from the DRS; accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

**Public Employees' Retirement System (PERS)****Plans 1, 2, and 3**

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 defined

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benefit plan with a defined contribution component.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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 members are vested after the completion of 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 (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount,

increased by 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of 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 AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire 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 a cost-of-living allowance is granted (based on the 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 AFC per year of service. (The AFC 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 10 years of service; or after five years of service, if 12 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. Plan 3 members who retire 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 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2007:

Retirees and beneficiaries receiving benefits	71,244
Terminated plan members entitled to but not yet receiving benefits	26,583
Active plan members vested	105,447
Active plan members non-vested	52,575
<b>Total</b>	<b>255,849</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 at 7.5 percent for state government elected officials. 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 expressed as a percentage of current year covered payroll, as of December 31, 2008, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%**	8.31%**	8.31%***
Employee	6.00%****	5.45%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.16 percent.

\*\* The employer rate for state elected officials is 12.39 percent for Plan 1 and 8.31 percent for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50 percent for Plan 1 and 5.45 percent for Plan 2.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$ 244,531	\$ 6,774,304	\$ 2,964,075
2008	\$ 201,971	\$ 4,313,031	\$ 1,702,720
2007	\$ 174,813	\$ 3,235,922	\$ 1,269,321

The contributions above represent the full liability under the system. Any future pension benefits would be reflected in future years as changes in contribution rates. Historical trends and projections are available from the DRS and also disclosed in the CAFR.

**NOTE 8 - DEFERRED COMPENSATION PLANS**

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 2009 Energy Northwest contributed \$2.2 million in employer matching funds.

**NOTE 9 - OTHER EMPLOYMENT BENEFITS  
- POST-EMPLOYMENT**

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. There are 83 retirees that remain participants in the insurance program. 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 life insurance benefit has a maximum limit of \$10,000 for retiree after December 31, 1994. The cost of coverage for retirees remained unchanged for FY 2009 and was \$2.82 per \$1,000 of coverage. Employees who retired prior to January 1, 1995, contribute \$.58 per \$1,000 of coverage while Energy Northwest pays the remainder; retirees after December 31, 1994, pay 100 percent of the cost coverage. Premiums are paid to the insurer on a current period basis. At the time each employee retired, Energy Northwest accrued an estimated liability for the actuarial value of the future premium. Energy Northwest revises the liability for the actuarial value of estimated future premiums, net of retiree contributions. The total liability recorded at June 30, 2009, was \$0.7 million for these benefits.

During FY 2009, 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 2009 for this and other allocated costs; Columbia at 94 percent; Business Development at 4 percent; and Project 1, Nine Canyon, Packwood and Project 3 receiving the residual amount of 2 percent.

**NOTE 10 - INSURANCE**

**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. As of June 30, 2009, the current limit was \$12.5 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. As required by law, Energy Northwest has purchased the maximum commercial insurance available of \$300 million, which is the primary layer of protection. The remaining 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 \$117.5 million per reactor, but not more than \$17.5 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 \$2.8 billion. The deductible for this coverage is \$5.0 million per occurrence.

**NOTE 11 - ASSET RETIREMENT OBLIGATION (ARO)**

Energy Northwest adopted SFAS No. 143 on July 1, 2002. This Statement requires an entity to recognize the fair value of a liability of an ARO 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 are discounted using a credit-adjusted-risk-free rate, and are recognized as both a liability and as an increase in the capitalized carrying amount of the related long-lived assets. Capitalized asset retirement costs are depreciated over the life of the related asset with accretion of the ARO liability classified as an operating expense on the statement of operations and Net Assets 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 Washington Energy Facility Site Evaluation Council (EFSEC) and a lease agreement with the DOE. (See Notes 1 and 13) Additionally, there are separate lease agreements for land located at Nine Canyon. Leases at these locations are considered operating leases and expenses were \$38.3k for Columbia, \$35.0k for Nuclear Project No. 1 and \$569.4k for the Nine Canyon project.

As of June 30, 2009, Columbia has a capital decommissioning net asset value of \$17.6 million and an accumulated liability of \$117.1 million for the generating plant, and for the ISFSI a net

asset value of \$1.2 million and an accumulated liability of \$1.8 million.

An adjustment was made in FY 2009 for Nuclear Project No. 1 to account for costs incurred for decommissioning and site restoration. Costs incurred in FY 2009 of \$0.1 million combined with the current year accretion expense of \$0.7 million and downward revision in future restoration estimates of \$0.1 million resulted in a small increase to the ARO of \$0.5 million. Nuclear Project No. 1 has a capital decommissioning net asset value of zero and an accumulated liability of \$14.8 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 original ARO in FY 2003 for Phase I and II. Phase III began commercial operation in FY 2008 and the original ARO was adjusted to reflect the change in scenario for the retirement obligation, with current lease agreements reflecting a 2030 expiration date. As of June 30, 2009, Nine Canyon has a capital decommissioning net asset value of \$.7 million and an accumulated liability of \$1.1 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.

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The following table describes the changes to Energy Northwest's ARO liabilities for the year ended June 30, 2009:

**ASSET RETIREMENT OBLIGATION** (dollars in millions)

<b>Columbia Generating Station</b>	
Balance At June 30, 2008	\$ 111.27
Current year accretion expense	5.82
ARO at June 30, 2009	\$ 117.09
<b>ISFSI</b>	
Balance At June 30, 2008	\$ 1.67
Current year accretion expense	0.09
ARO at June 30, 2009	\$ 1.76
<b>Nuclear Project No. 1</b>	
Balance At June 30, 2008	\$ 14.27
Less: Restoration costs incurred	(0.12)
Current year accretion expense	0.73
Revision in future restoration estimates	(0.11)
ARO at June 30, 2009	\$ 14.77
<b>Nine Canyon Wind Project</b>	
Balance At June 30, 2008	\$ 1.05
Current year accretion expense	0.04
ARO at June 30, 2009	\$ 1.09

**NOTE 12 - DECOMMISSIONING AND SITE RESTORATION**

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 (See Note 11 concerning related ARO for Columbia). 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 2009.

Energy Northwest's current estimate of Columbia's decommissioning costs in 2009 dollars is \$877.0 million (Columbia - \$872.7 million and ISFSI - \$4.3 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 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 \$107.1 million in constant dollars (based on the 2009 study) and is updated biannually along with the decommissioning estimate.

Both decommissioning and site restoration estimates (based on 2009 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, 2009, totaled approximately \$117.9 million and \$17.3 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. Energy Northwest established a second decommissioning and site restoration plan for the ISFSI. Beginning in FY 2003, an annual contribution is made to the Energy Northwest Decommissioning Fund. These contributions are held by Energy Northwest and not held in trust by BPA. The fair market value of cash and investments as of June 30, 2009, is \$0.7 million. These contributions will occur through FY 2029; cash payments will begin for decommissioning and site restoration in FY 2025 with equal installments for five years totaling \$2.06 million.

**NOTE 13 - 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 below under "Nuclear Project No. 1 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 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 Project No. 1 Site Restoration**

Site restoration requirements for Nuclear Project No. 1 is 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 Project No. 1 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 11.

**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 by the members and others of a communication network in conjunction with BPA.

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. NoaNet has \$18.4 million in network revenue bonds outstanding, based on their June 30, 2009 unaudited statements. 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

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(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 \$1.7 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 2009 the Business Development Fund contributed \$186k 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 \$9.0 million as of June 30, 2009. 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, NoaNet Headquarters, 5802 Overlook Ave. NE, Tacoma, WA 98422. Any information obtained from NoaNet is the responsibility of NoaNet. PwC has not audited or examined any information available from NoaNet; accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

#### **Other Litigation and Commitments**

Energy Northwest v. United States of America filed in U.S. Court of Federal Claims in January 2004 (Cause No. 04-0010C). This is an action for breach of contract and breach of implied covenant of good faith and fair dealing brought by Energy Northwest against the United States (Department of Energy, "DOE") for damages for DOE's failure to meet its legal obligations to accept and dispose of spent nuclear fuel and high-level radioactive waste per the contract. Energy Northwest's claim is in the amount of \$56.8 million. A bench trial was conducted in February 2009, and the Court has taken the matter under advise-

ment. No time frame has been provided for when a decision will be rendered.

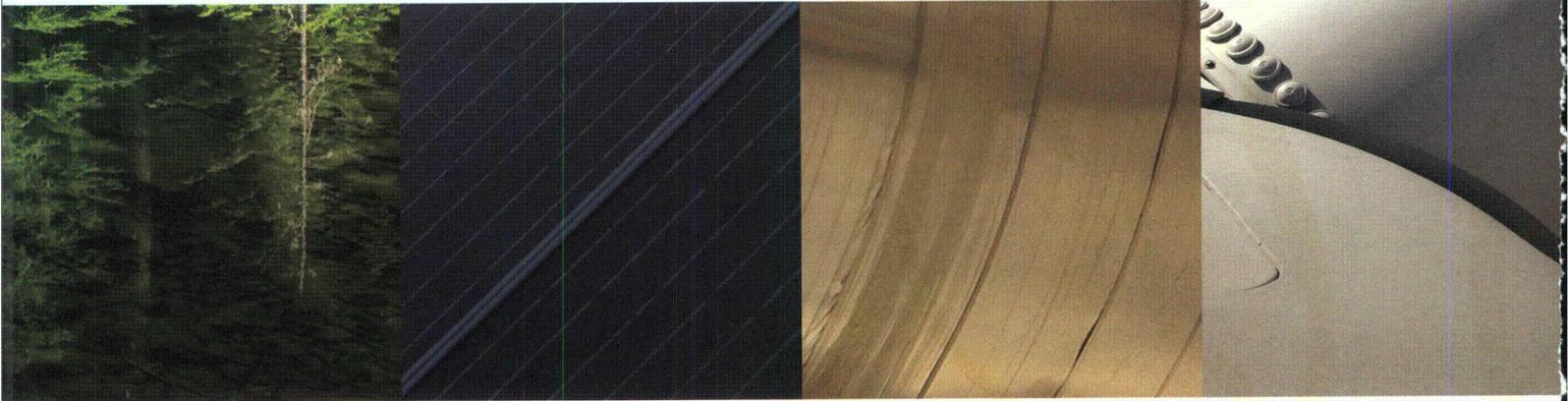
Grays Harbor Energy LLC v. Energy Northwest filed with American Arbitration Association in Seattle, WA, in April 2008 (Case No. 75-158-115-08). A demand for arbitration was filed by Invenergy (under the name Grays Harbor Energy LLC) related to the interpretation of a "First Power Purchase Option" contract between the parties. Invenergy seeks declaratory relief that the Option is null and void. Energy Northwest filed a counterclaim requesting damages for breach of the Option. The matter was fully arbitrated before an arbitration panel, with the hearing concluding on July 23, 2009. On August 18, 2009, the panel issued its decision awarding in favor of Energy Northwest on all counts. Energy Northwest received a cash settlement (\$1.3 million) as well as a month to month call option for a period of 3.5 years.

Energy Northwest is involved in other 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.

## 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>MOODYS</b>
<b>Letter of Credit Banks</b>			
Bank of America			
Long-Term	A+		Aa3
Short-Term	A-1		VMIG1
JPMorgan Chase Bank			
Long-Term	AA-	AA	Aa1
Short-Term	A-1+	F1+	VMIG1
<b>VRDN's</b>			
Liquidity Provider			
Dexia			
Long-Term	AA	AA	Aaa
Short-Term	A-1	F1+	VMIG1
<b>Bond Insurance (Long-Term)</b>			
Financial Security Assurance	AAA	AA	Aa2



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