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January 14, 2011
GO2-11-008

10 CFR 72.80(b)

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

Subject: **COLUMBIA GENERATING STATION**
INDEPENDENT SPENT FUEL STORAGE INSTALLATION
DOCKET NO. 72-35
2010 ANNUAL FINANCIAL REPORT

Dear Sir or Madam:

In accordance with 10 CFR 72.80(b), enclosed is a copy of the Energy Northwest 2010 Annual Report for the subject facility.

There are no commitments contained in this letter or its enclosure. Should you have any questions, please call Kyle Christianson at (509) 377-4315.

Respectfully,

DW Gregoire
Acting Manager, Regulatory Affairs

Enclosure: As stated

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

NMSS01

1957

1964: PACKWOOD LAKE HYDROELECTRIC FACILITY

A *legacy* of powerful solutions

1984: COLUMBIA GENERATING STATION

2002: WHITE BLUFFS SOLAR STATION
NINE CANYON WIND PROJECT

2010 ANNUAL REPORT

ENERGY NORTHWEST

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A MESSAGE TO OUR STAKEHOLDERS

Fiscal Year 2010 was a year of challenge, commitment and transition for our Energy Northwest team.

We continued our legacy of providing affordable and environmentally responsible power to Northwest ratepayers despite recurring equipment and performance challenges at Columbia Generating Station. In overcoming these challenges, we are committed to improving plant performance through individual and team professional excellence.

Meanwhile, we made progress in establishing additional renewable resources for our members. Our established Nine Canyon Wind and Packwood Lake Hydroelectric projects also continued their history of excellent performance.

Despite operational challenges at Columbia, our team excelled in reducing operating costs and saving ratepayer dollars. We ended the year $6.9 million under budget, underscoring the value Energy Northwest brings to the region's ratepayers.

We were also successful in our legal action against the U.S. Department of Energy to recover nearly $57 million spent to build and license a used fuel storage site adjacent to Columbia. This site provides safe and secure temporary dry storage until the used fuel can be recycled and reused, or transported to a permanent federal repository. The ruling is currently under appeal.

Some of our challenges in operating Columbia are associated with the plant's condenser, which converts steam from the reactor back into water to be reused. This major component will be replaced during the biennial refueling outage that begins in April 2011. The plant will be shut down for more than 70 days, the longest refueling outage in Columbia's history. The new condenser will improve plant reliability and efficiency while increasing power production by approximately 12-megawatts.

The past fiscal year also saw us submit our application to the Nuclear Regulatory Commission for a 20-year extension to Columbia's current 40-year operating license. Approval allows the plant to continue providing low-cost, carbon-free energy to the region through 2043, an especially important contribution since output from the federal hydropower system is now fully committed.

Fiscal 2010 concluded the distinguished 14-plus year career of Vic Parrish as Energy Northwest's CEO. His leadership guided our team to the largest membership base in our history, established us as a low-carbon power generator focused on renewable energy, and helped us achieve ISO: 14001 environmental certification. His contributions will continue to pay dividends.

Our Energy Northwest team emerged from the challenges and accomplishments of fiscal 2010 stronger and more committed. Their dedication reaffirms our belief that our most valuable and enduring strength will always be our people.

We are privileged to lead this team as we deliver reliable, affordable and environmentally responsible power for our member utilities and Northwest ratepayers.

Respectfully,

Sid Morrison
Chairman, Executive Board

Mark Reddemann
Chief Executive Officer

EXECUTIVE BOARD

April 12, 1982:
Board Bill 2 passes in both the Washington state House and Senate. As written, the bill requires that six members of the 11-member executive board be outside members, three appointed by the board of directors and three by the governor. The executive board sets the policies that govern the operations of the organization and maintains three committees that meet monthly to hear presentations and make recommendations to the full board: administrative and public responsibility; audit, legal and finance; and operations, construction and safety.

2010 (Left to Right):
Tom Casey, Jack Janda, Sid Morrison, Dan Gunkel, Edward E. (Ted) Coates, Kathleen Vaughn, Tim Sheldon, Bill Gordon, Dave Remington, Lawrence Kenney
Not pictured: K.C. Golden

A **HISTORY** OF SERVING PUBLIC POWER

Energy Northwest is proud of its history and its role in supporting public power in the state of Washington. In fiscal year 2010, the agency added its 28th member, Pend Oreille County Public Utility District.

Never has Energy Northwest had so much support from public power utilities throughout Washington.

Together, Energy Northwest and its members continue to create a legacy of powerful solutions that will serve Northwest ratepayers for years to come.

Below is a timeline marking the significant events in the histories of each Energy Northwest member utility.

1893:
The City of Port Angeles forms a municipal utility, making it the fourth oldest electric utility on the West Coast. Today it serves more than 10,500 customers.

1930:
The Yelm Hydro Power Plant begins producing electricity for Centralia City Light. The 12-megawatt project will celebrate its 80th year of operation in 2010.

1934:
Mason County Public Utility District 1 begins operations, making it the longest serving PUD in the state of Washington.

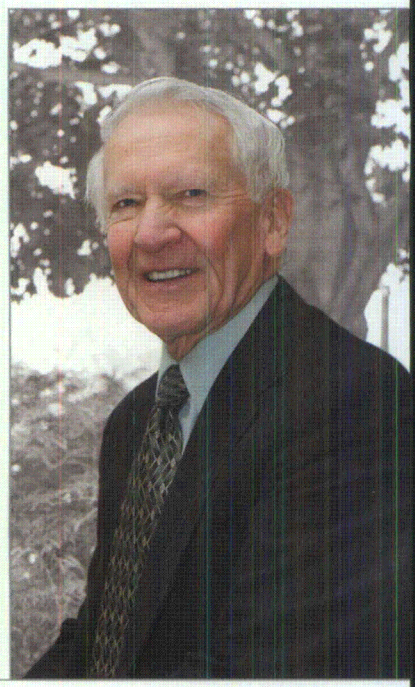
1936:
Kittitas County PUD is established by a vote of local residents. The District's service area of 2,315 square miles covers most of Kittitas County and a small portion of Yakima County.

The Energy Northwest 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.

A LEGACY OF **COMMITMENT**

The Energy Northwest Executive Board said goodbye to long-time member Ted Coates, who retired in June after serving 15 years as a member of the board, including three years as its chairman. Before that, he served on the board of directors from 1986 to 1991.

In a letter to Coates thanking him for his service, former Energy Northwest CEO Vic Parrish wrote, "... you leave us with an incredible legacy. It is people like you who have made public power great, and we all owe you a huge debt of gratitude."



1938:
Skamania County PUD is established and begins acquiring the infrastructure that will serve ratepayers for decades to come.

1939:
Mason County PUD 3 begins serving its first electric customers, eight in total. Today, it serves more than 32,000 customers and is the 95th largest public utility in the U.S.

1939:
Grays Harbor County PUD becomes the first to successfully carry out condemnation proceedings under the Grange Power Law.

1940:
Commissioners of the Clallam County PUD hold their first meeting on Dec. 7.

1940:
Bonneville Power Administration energizes the lines for Pacific County PUD 2, serving 4,800 customers. Today, the customer-owned utility serves nearly 17,000 customers.

1946:
Benton County PUD assumes operation of the electrical distribution system from Pacific Power and Light serving 3,754 customers. The utility now serves more than 45,000 customers.

1952:
Pend Oreille County PUD, the first PUD in the state to build its own dam, begins work on the Box Canyon Hydroelectric Project.

1952:
Whatcom County PUD signs its first electric customer, a refinery owned by General Petroleum. The agreement was recently renewed with the refinery, now owned by Conoco Phillips Corporation.

BOARD OF **DIRECTORS**

1956:
An application is filed by 17 public utility districts with William Galbraith, director of the Department of Conservation and Development, to form Washington state's first joint operating agency.

1957:
The first meeting of the Washington Public Power Supply System is held. Bylaws are adopted and board of directors officers are elected. The first meeting was in the Admiralty Room, Roosevelt Hotel, Seattle. Later in 1957 the principal office moved to a $125-a-month office in Angus Village in Kennewick. The staff was a general manager, an engineer and a secretary.

1958:
The first board of directors represented the charter members of the Supply System, including public utility districts in Benton, Chelan, Clallam, Clark, Douglas, Ferry, Franklin, Grays Harbor, Kittitas, Klickitat, Lewis, Okanogan, Skamania, Snohomish, Pacific, Grant and Mason counties. Each member PUD was authorized one member on the board of directors. The rules also provided for a seven-member executive committee, elected from the board, to take action between board meetings.

A **HISTORY** OF SERVING PUBLIC POWER (Cont'd)

1955:
Grant County PUD is issued a license to build and operate the Priest Rapids Dam Project on the Columbia River. It begins producing electricity in 1961.

1961:
The seven generators of Chelan County PUD's Rocky Reach Hydroelectric Project begin operation. Four larger generators are added 10 years later.

1968:
Tacoma Power completes construction of Mossyrock Dam, the tallest dam (606 feet) in the state of Washington. The facility supplies 40 percent of Tacoma Power's electricity.

1980:
Snohomish County PUD establishes its conservation department Since then, the utility has helped customers weatherize 60,000 homes, distributed four million compact fluorescent lamps and provided a model to other utilities in the region.

1991:
Lewis County PUD begins construction on the 70-megawatt Cowlitz Falls Hydroelectric Project. The dam, which is 140-feet tall and 700-feet wide, began operations in 1994.

1994:
Asotin County PUD enters the electrical business by purchasing three miles of underground electrical distribution lines from Clearwater Power Company.

1996:
Wahkiakum County PUD begins to re-focus efforts on infrastructure improvements and vegetation management.

1997:
Clark Public Utilities completes construction of River Road Generating Plant. River Road, a combined-cycle plant, is one of the most efficient electricity generating facilities in the world.

The Energy Northwest Board of Directors includes a representative from each of its member utilities. The powers and duties of the board of directors include final authority on any decision to purchase, acquire, construct, terminate or decommission any plants and/or facilities of Energy Northwest.

Board members represent utilities with strong histories of serving the public power needs of Washington ratepayers. Their experience helps guide the agency as a continuing and effective source of powerful energy solutions.

2010 (Left to Right):
Greg Hansen, Tom Casey, Larry Reese, Kathy Vaughn, Will Purser, Larry Dunbar, Steve Kern, Diana Thompson, Ken Hirsch, Mike Murphy, Linda Gott, Judy Ridge, Dave Womack, Lori Sanders, Ray Sieler, Doug Aubertin, Carol Curtis, Clyde Leach, Buz Ketcham, Chuck TenPas, Ann Congdon, Roger Sparks, Bill Gordon, Dan Gunkel, Jack Janda, Bill Gaines. Not Pictured: Ed Williams, Ken McMillen.

1997:
Klickitat County PUD collaborates with Northern Wasco County PUD (Ore.) on the McNary Dam Hydro Fishway Project, a 10-megawatt project designed to be fish-friendly.

2002:
Cowlitz County PUD's Swift 2 power canal wall collapses, causing near total destruction of the powerhouse. The project is rebuilt in six years, and in 2008 is successfully relicensed for 50 years.

2005:
Seattle City Light becomes the first utility in the country to be a net-zero carbon emitter. It has been so every year since then.

2008:
Kinross Gold reopens the Buckhorn Mountain gold mine, boosting employment in the area and the local economy. The improvements help Ferry County PUD keep residential rates lower.

2008:
Voters authorize Jefferson County PUD to launch an electric utility. It will be the first new public power utility in Washington since 1949.

2010:
Franklin PUD unveils its remodeled and expanded administration building. The building is Leadership in Energy and Environmental Design (LEED) certified and offers customers better access to services.

2010:
City of Richland Energy Services breaks ground on a new solar project at Richland's Renewable Energy Park. It is a major step in adding solar power to its grid.

2010:
After 70 years in its former office space, Okanogan County PUD opens a new office building that will be home to a majority of their employees.

SENIOR LEADERSHIP

Joseph V. (Vic) Parrish
Chief Executive Officer

Dale Atkinson
Vice President,
Operational Support

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

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.

W. Scott Oxenford
Vice President,
Nuclear Generation,
Chief Nuclear Officer

Jack Baker
Vice President,
Energy/Business Services

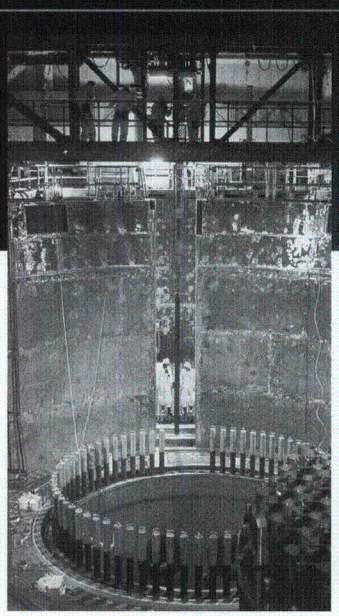
Sudesh Gambhir
Vice President,
Technical Services

COLUMBIA GENERATING STATION

Aug. 14, 1972:
Utility and government officials join a large crowd to celebrate the ground-breaking for WNP-2.

March 15,1973:
The Atomic Safety and Licensing Board of the Atomic Energy Commission issues the construction permit for WNP-2.

Dec. 25, 1983:
WNP-2 fuel loading begins and proceeds at a rate of 50 fuel assemblies per day. The process is completed on Jan. 12, 1984.



While long-term performance has been strong, the plant had power production challenges during fiscal year 2010 which took the plant offline several times to deal with non-safety-related equipment problems. The first shutdown was caused by an electrical bus duct failure and subsequent repairs in August 2009. This was followed in September 2009 with a shutdown and maintenance outage to implement further repairs to the electrical bus duct connections. Another shutdown occurred in November 2009 when a turbine control oil system failed.

Significant improvements are under way as we strengthen human performance and recover from inadequate equipment maintenance and insufficient upgrades. During the fiscal year, Columbia reduced power to repair plant equipment. This included work on a main condenser leak, an inboard main steam isolation valve, two emergency diesel generators, two

COLUMBIA GENERATING STATION, LOCATED 10 MILES NORTH OF RICHLAND, WASH., HAS SAFELY PRODUCED RELIABLE, AFFORDABLE, ENVIRONMENTALLY RESPONSIBLE POWER FOR MORE THAN 25 YEARS.

Dec. 13, 1984:
WNP-2 is declared to be in commercial operation, following the successful completion of a 100-hour warranty run at full power. The 12-month time from fuel loading to commercial operation compares favorably to the industry average of 14 months.

1991:
The executive board approves the Megawatt Improvement Program, an initiative to boost the output of WNP-2 by increasing the amount of power produced and reducing the amount it took to run the plant. Recirculation pump motor adjustable speed drives and more efficient turbine rotors are installed as part of this program.

July 30, 2006:
Columbia Generating Station surpasses longest continuous run record of 393 days. The following October, it sets the new record for longest continuous run in the plant's 22-year history at 486 days (just over 16 months).

Jan. 19, 2010:
Energy Northwest takes the first step in the long journey of license renewal for Columbia Generating Station. The 20-year renewal will take Columbia to 2043. The renewal process can take two-and-a-half years to complete.

condensate booster pumps, and a heater drain control system.

The challenges have driven a renewed commitment and implementation of plans to focus on equipment reliability as part of the Pride in Performance initiative. The Pride in Performance initiative and excellence plans are centered around five focus areas, or ROLES: radiological safety, outage and forced outage excellence, leadership effectiveness, equipment reliability, and safety and human performance.

Department-level excellence plans will also drive the individual behaviors and accountability necessary for improved plant performance.

In the last half of the fiscal year, the plant's performance improved and no plant shutdowns occurred.

Additionally, preparations are on track for Columbia's largest-scope refueling outage in 2011.

Columbia to Get New Condenser

A big job awaits Energy Northwest during Columbia Generating Station's refueling outage in 2011, replacing the main condenser. Columbia's current condenser is more than 25 years old and was requiring periodic repairs and significant lost generation. Overall, the condenser was gradually becoming less and less efficient.

The condenser is vital to the operation of Columbia. It turns the steam generated by boiling water in the nuclear reactor back into water for re-use after the useable energy is extracted by the main turbine. By making that cycle more efficient, Columbia will gain approximately 12-megawatts of electricity generation, essentially off-setting some of the replacement cost for the new condenser over time.

Big Numbers-Condenser Replacement

$113 MILLION (Approx.) ..... COST OF PROJECT

100,000 POUNDS ..... APPROXIMATE WEIGHT OF EACH MODULE

6,000 ..... NUMBER OF TITANIUM TUBES IN EACH MODULE

350 ..... PEOPLE WHO WILL WORK ON THE PROJECT

12 ..... TOTAL CONDENSER MODULES

COLUMBIA PREPARES FOR **REFUELING OUTAGE 20**

In April 2011, Columbia Generating Station will shut down for Refueling Outage 20. During the outage, approximately one-third of the reactor's 764 fuel assemblies will be replaced with fresh fuel assemblies. The outage is scheduled to last more than 70 days.

A refueling outage is a major effort. About 1,800 additional, temporary workers will be hired to complete the work. These skilled men and women work on pumps, valves, motors and other components, and perform a methodical inspection of the plant's systems not accessible while the plant is in operation.

During the 2011 refueling outage, the plant's main condenser will also be replaced (see previous page); this will be the largest project ever undertaken at Columbia.

In fiscal year 2010, the Energy Northwest outage organization laid the foundation for a successful outage cycle; much of the preparation was completed by the close of the fiscal year.

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 of replacement power for the region while the plant is offline.

COLUMBIA FILES FOR OPERATING **LICENSE RENEWAL**

On Jan. 19, 2010, Energy Northwest filed an application with the Nuclear Regulatory Commission for a 20-year license renewal for Columbia Generating Station. The initial 40-year license was granted in December 1983.

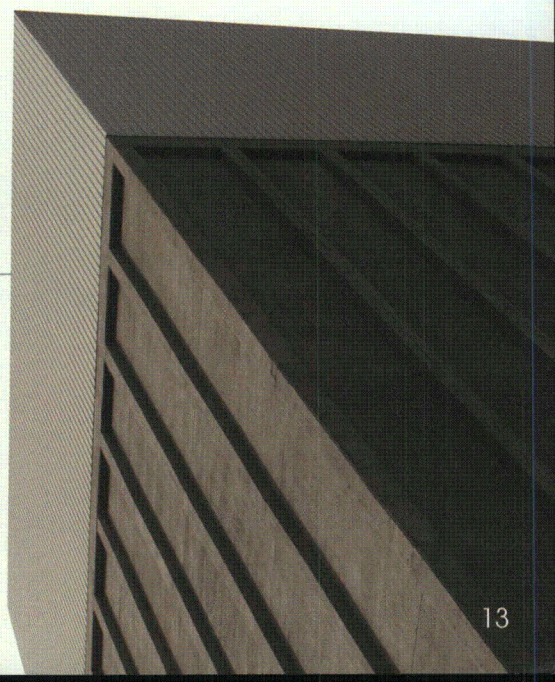
+20

The application was the culmination of a three-year effort by the Energy Northwest team. The application is more than 2,200 pages long and has two parts: safety and environmental. The commission formally accepted the application in March 2010.

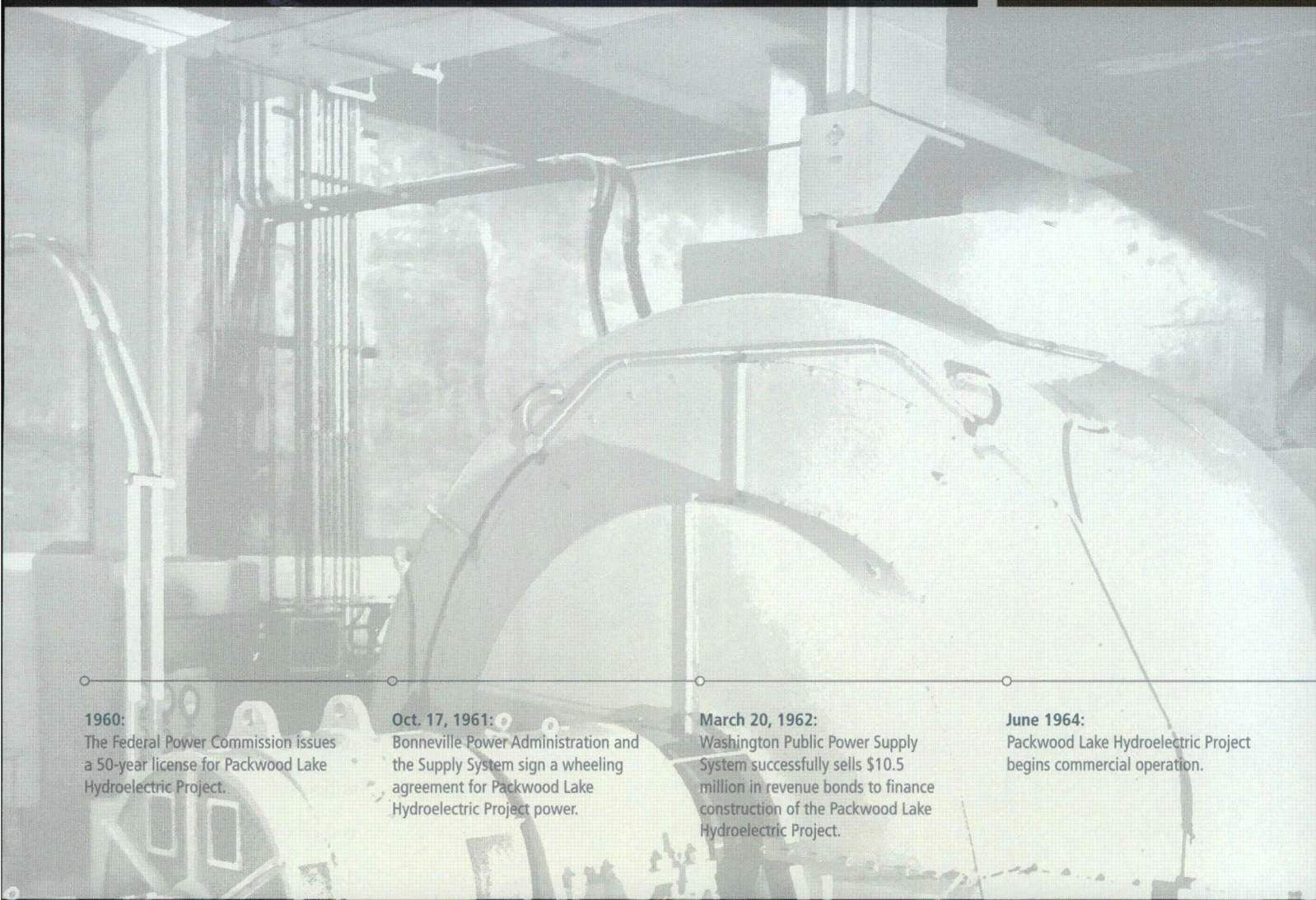
As part of the process, the commission sent three audit teams to Columbia during the fourth quarter of fiscal year 2010 to evaluate the accuracy and completeness of the application. The three audits, scoping and screening, aging management review/aging management programs and environmental, resulted in requests for additional information from the NRC. The first were received near the end of fiscal 2010.

In fiscal 2011, the process continues with regional inspections by the NRC in October and November; the issuance of the draft supplemental environmental impact statement and safety evaluation report; and a meeting with the commission's Advisory Committee on Reactor Safeguards.

Columbia is designed to safely produce electricity for decades beyond the license of 40 years. The initial 40-year license, granted to all U.S. nuclear power plants, was specified by Congress under the Atomic Energy Act of 1954. The license term was not based on safety, technical or environmental factors but rather on financing considerations - this was the typical amortization period for an electric power plant.



PACKWOOD LAKE HYDROELECTRIC PROJECT

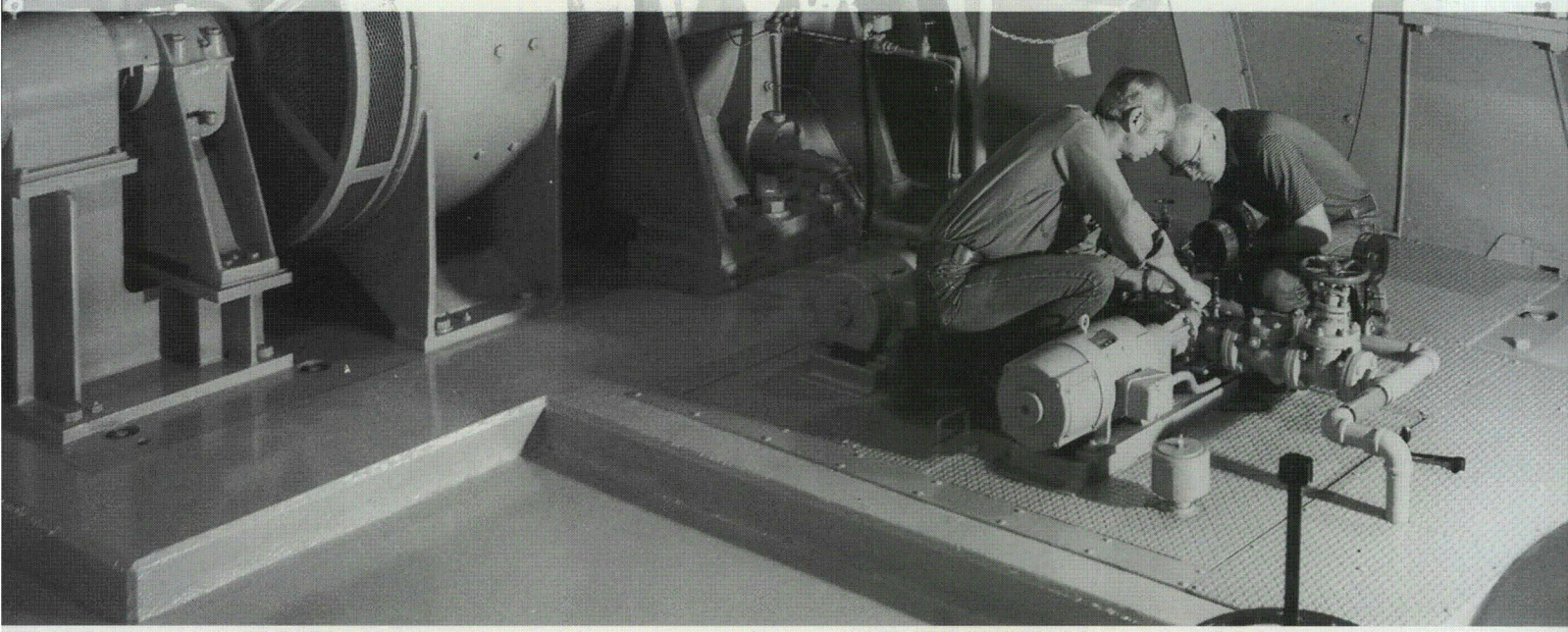


1960:
The Federal Power Commission issues a 50-year license for Packwood Lake Hydroelectric Project.

Oct. 17, 1961:
Bonneville Power Administration and the Supply System sign a wheeling agreement for Packwood Lake Hydroelectric Project power.

March 20, 1962:
Washington Public Power Supply System successfully sells $10.5 million in revenue bonds to finance construction of the Packwood Lake Hydroelectric Project.

June 1964:
Packwood Lake Hydroelectric Project begins commercial operation.



PACKWOOD HAS PRODUCED 4,254,781 MEGAWATT-HOURS OF ELECTRICITY SINCE COMMERCIAL OPERATION BEGAN IN 1964.

In March 2010, the 27.5-megawatt Packwood Lake Hydroelectric Project celebrated the 50th anniversary of its initial 50-year license. The Packwood project produces the lowest-cost energy in the Energy Northwest portfolio, including wind and solar.

Aug. 28, 2004:
Packwood Lake Hydroelectric Project participants, Energy Northwest board members and staff, and the public gather to celebrate the plant's 40 years of service to the Northwest.

November 2004:
Energy Northwest files notification of intent and pre-application document with the Federal Energy Regulatory Commission, marking the beginning of formal re-licensing proceedings for the Packwood Lake Hydroelectric Project. The current license expired in 2010.

Packwood's fiscal year 2010 capacity factor was 37.8 percent with a generation total of 86,065 megawatt-hours. This is down 14 percent from fiscal 2009 primarily due to less rainfall and lower snowfall accumulation in the Cascade mountains. Snohomish County Public Utility District purchases the plant's output.

Throughout the year, the project attained 100 percent availability, due in large part to the dedicated team of operations and supplemental support employees who performed preventative maintenance and identified and corrected small issues before they could lead to forced outages.

Project managers also submitted a final re-licensing application. The project was granted a continuance to operate under the existing license for a year-to-year basis until the new license is issued.

In fall 2007, a large landslide damaged the pipeline supports. The repair costs were nearly $1 million. During fiscal 2010, the project was denied on its second and final appeal to recover costs from the Federal Emergency Management Agency for these repairs. The costs will be paid from operating margins from electricity sales on the secondary market over the next two years.

NINE CANYON WIND PROJECT

November 1999:
Energy Northwest begins investigation of the wind power business and identifies a site 10 miles southeast of Kennewick, Wash.

March 11, 2002:
Energy Northwest and public utility district officials and dignitaries gather to break ground on the project.

Oct. 11, 2002:
Energy Northwest dedicates the first phase (48 megawatts) of the Nine Canyon Wind Project, following the beginning of commercial production on Sept. 25, 2002.

December 2003:
Nine Canyon Wind Project, Phase II commercial production begins, adding another 15.6 megawatts.

May 2008:
Work is completed on
Nine Canyon Wind Project, Phase III.

The Nine Canyon Wind Project is one of the largest publicly 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.

In fiscal year 2010, the project produced 226,728 net megawatt-hours of electricity and achieved a 98.2 percent availability factor, up from 98.1 percent in fiscal 2009. This improvement is directly related to a reduction in the number of premature bearing failures. Siemens AG provided a monetary settlement for future bearing replacements.

Nine Canyon workers also completed the installation of hardware and set-up controls to meet Bonneville Power Administration's "limit to schedule" requirement implemented following the installation of 2,500 megawatts of wind projects in the region. This requirement allows BPA to automatically shutdown the wind project when necessary to balance the power flowing through the grid.

Energy Northwest also successfully developed a wind technician training curriculum with local community colleges, which produced the first graduating class of an associate level certification. This program helped increase the availability of local talent ready to enter the growing wind energy job market.

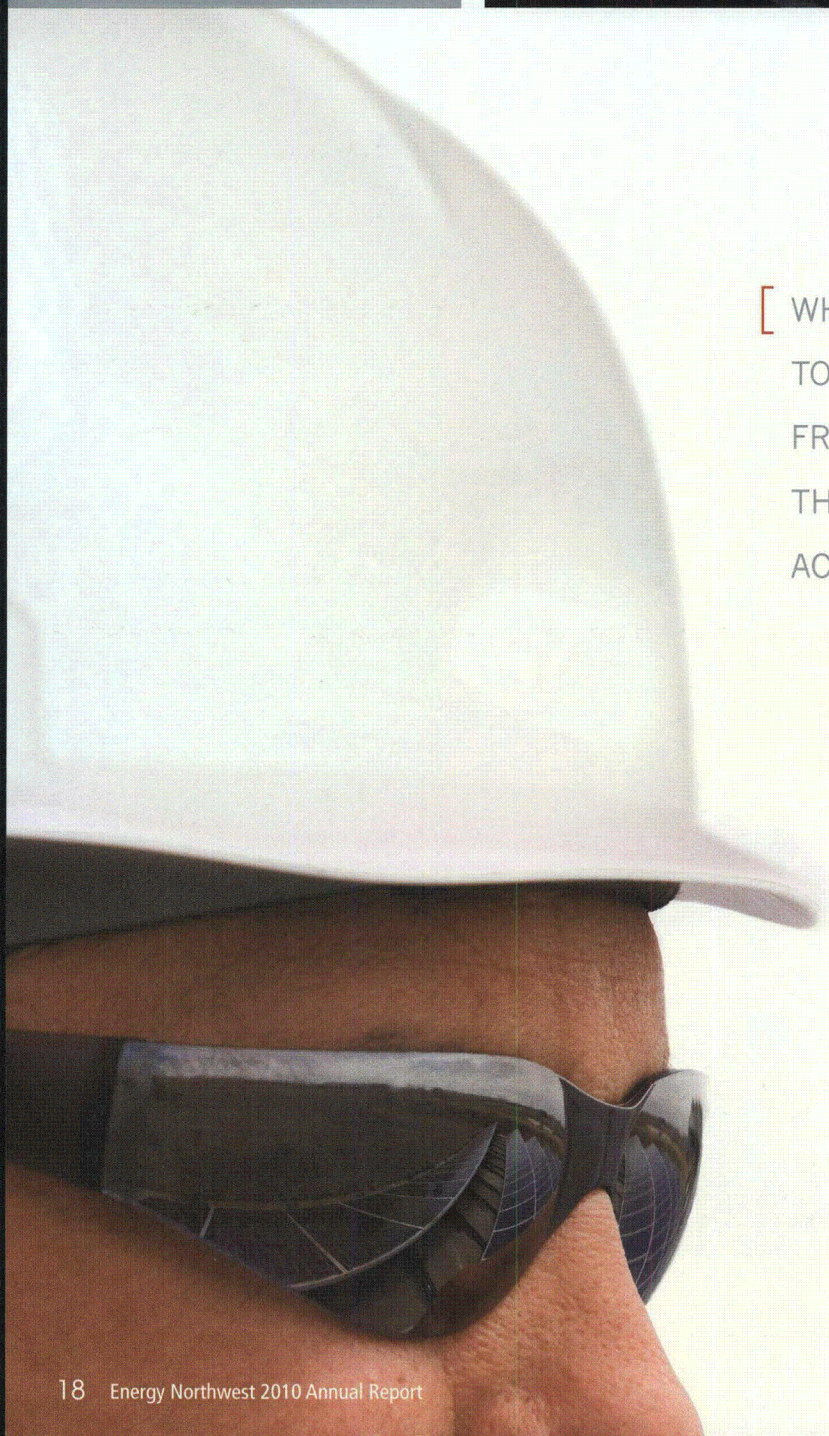
THE PROJECT'S 14 2.3-MEGAWATT TURBINE TOWERS ARE EACH 260 FEET TALL. EACH OF THE THREE ROTOR BLADES ARE 148 FEET LONG.

June 2001:
Energy Northwest, in partnership with the Bonneville Environmental Foundation, the Bonneville Power Administration, the U.S. Department of Energy and Newport Northwest LLC, begins planning on a 38.7-kilowatt solar demonstration project just south of Columbia Generating Station. Each of these entities invests $50,000 in the project. Washington State University's Cooperative Extension Energy Service coordinates a "Brightfields" solar grant, using the U.S. Department of Energy contribution. BP Solar is awarded the construction contract, with the project using existing infrastructure.

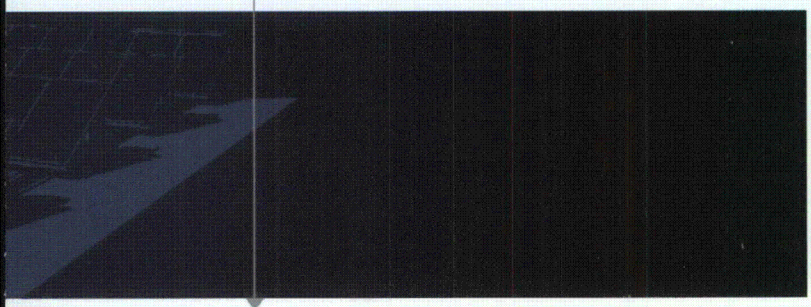
April 2002:
The first electricity is produced at White Bluffs Solar Station.

May 30, 2002:
Energy Northwest and its partners dedicate the White Bluffs Solar Station. Commercial operation begins.

WHITE BLUFFS SOLAR STATION



[WHITE BLUFFS CONTINUES TO GENERATE INTEREST FROM INNOVATORS WITHIN THE UTILITY, SOLAR AND ACADEMIC COMMUNITIES.]



It is the epitome of clean energy. From sunrise to sunset, the photovoltaic panels of White Bluffs Solar Station harness the sun's light and convert it into power.

White Bluffs produced 47,035 net kilowatt-hours of electricity during fiscal year 2010. With a rating of 38.7 kilowatts direct current, the 242-panel demonstration project is located at the Industrial Development Complex near Columbia Generating Station.

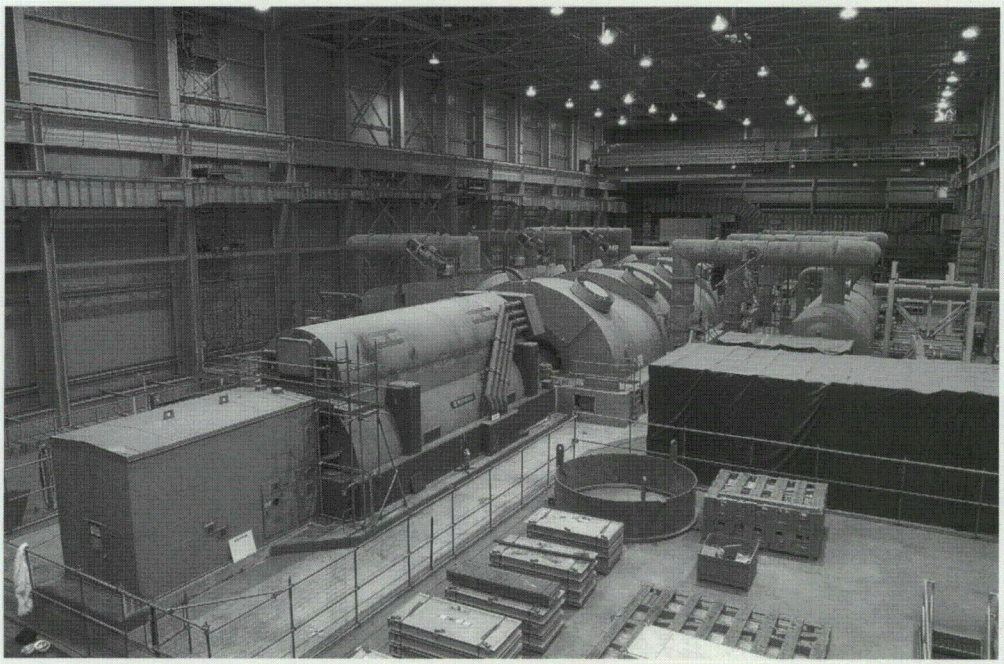
Energy Northwest provided the leadership to develop this first-of-its-kind generating plant in the Northwest. White Bluffs continues to generate interest from innovators within utility, solar and academic communities. While the project has experienced some individual panel failures, the supplier has replaced them at no charge as part of the 10-year warranty.

IDC INDUSTRIAL DEVELOPMENT COMPLEX

Energy Northwest has developed a facilities leasing business at the Industrial Development Complex, located just east of Columbia Generating Station. This program includes leasing the existing out-lying buildings for warehouse and office space, power block facilities, and land for future use within the IDC boundaries.

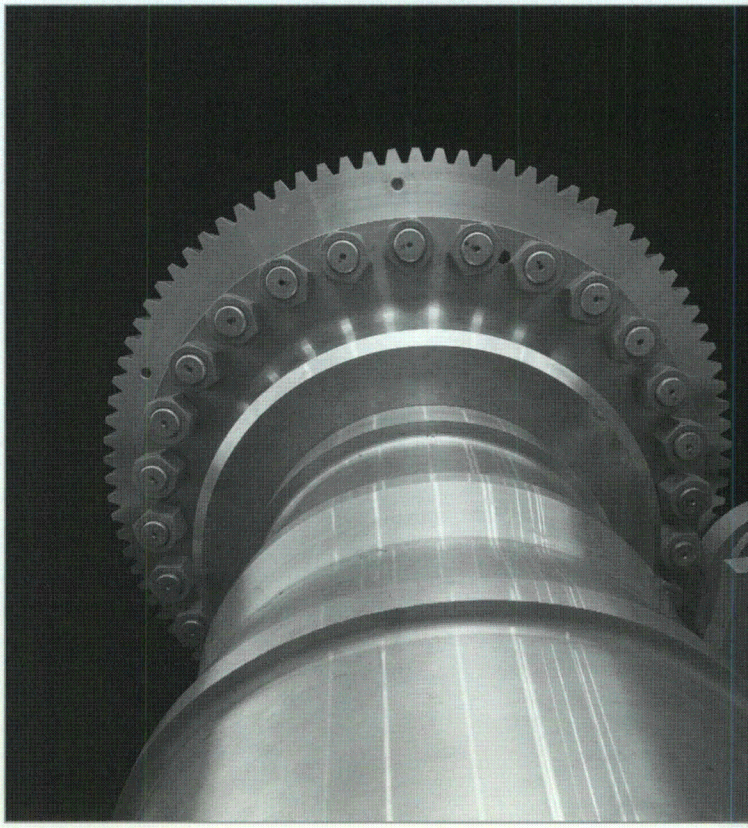
Fiscal year 2010 proved to be a positive year at IDC. The original budgeted revenue was $890,000. This would have resulted in a net margin loss of $28,000. The actual revenue for the year came to $1.23 million, which resulted in a net gain of $163,000. The increased revenue aids in reducing fixed costs for the site, which are the responsibility of the Bonneville Power Administration. This also provides the financial ability to continue on-site restoration efforts and prepare additional structures for potential lease.

IDC also reached a milestone with the completion of the asset recovery program. This program liquidates unused equipment originally intended for use at one of the unfinished reactor sites. The turbine, generator and exciter were sold in 2007. The purchaser completed removal of this equipment in October 2009. It was a large demolition project, and was completed safely and on time. This completes all salvage operations related to the asset recovery program.



2009:
The purchaser of the turbine, generator and exciter completed removal of the equipment in October.

[THE MAJOR FOCUS IS TO SECURE AN ANCHOR TENANT, OR TENANTS, FOR LONG-TERM OCCUPANCY OF THE FACILITIES.]



The overall IDC strategy is to maintain the leasing business line. The major focus is to secure an anchor tenant, or tenants, for long-term occupancy of the facilities. As the leasing program expands, the site infrastructure will need to be improved, making the site more attractive to other potential tenants and business opportunities. In addition, maintaining the site will also aid in efforts to complete studies on potential new power generation projects at IDC.

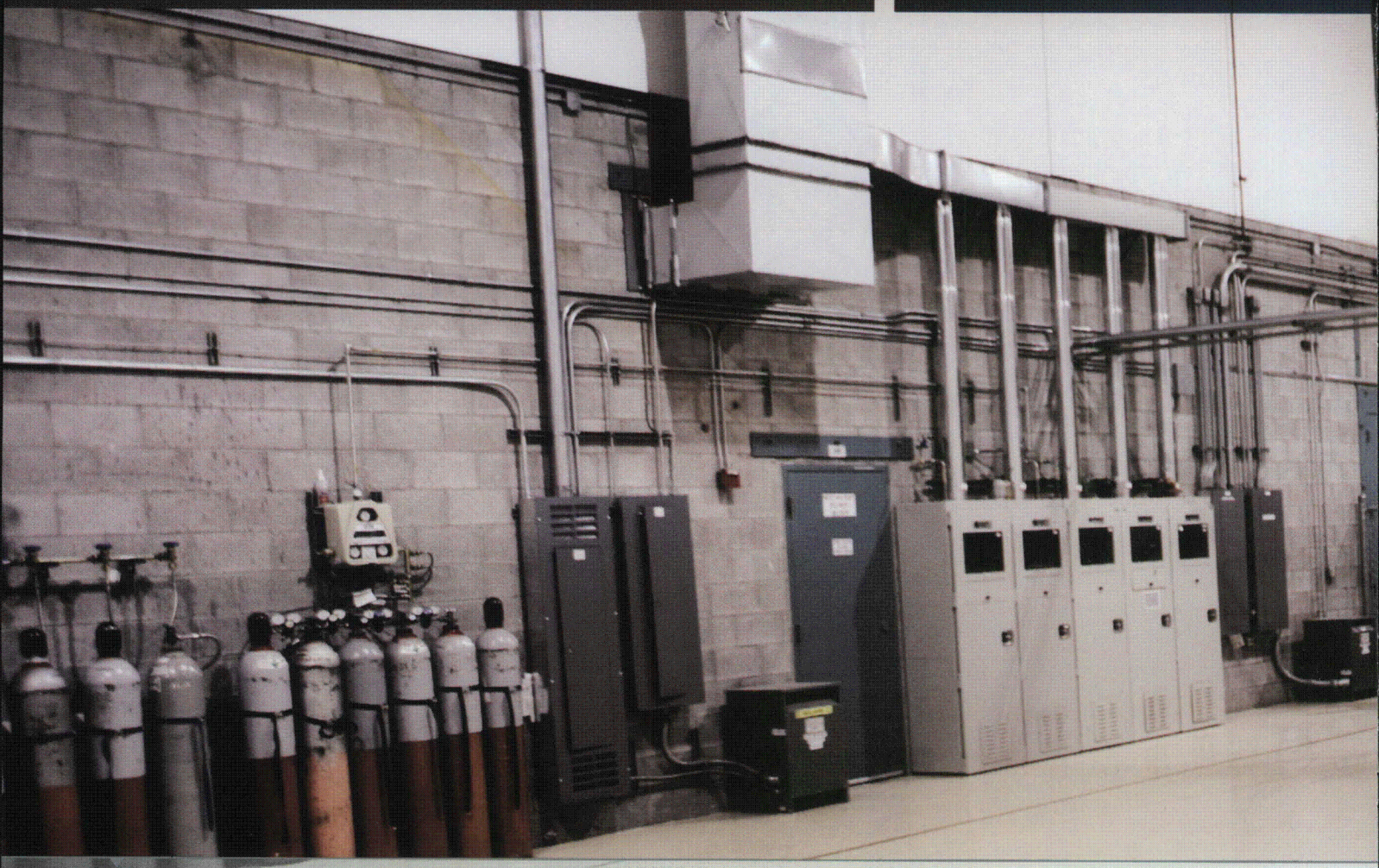
OPERATIONS & MAINTENANCE SERVICES

Energy Northwest continued maintenance services for Olympic View Generating Station during fiscal year 2010, ensuring the two 2.8-megawatt generating units, powered by natural gas-fired reciprocating engines, remain in operating condition. Operations and Maintenance Services has performed these services full time for the station since 2001.

Olympic View is owned by Mason County Public Utility District 3. The nominal station output is 5.4 net megawatts. The plant is designed to be operated remotely, depending on load requirements.

Energy Northwest also provided 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 LABORATORY

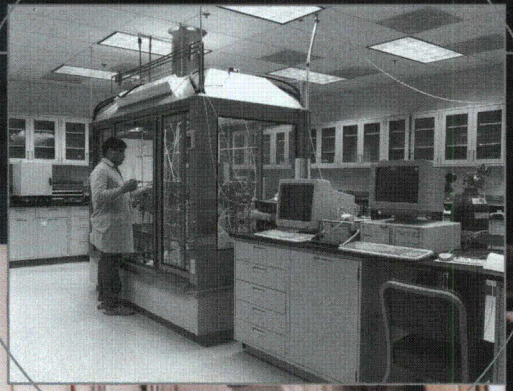


The Applied Process Engineering Laboratory is evidence of Energy Northwest's continuing commitment to local economic development. By re-purposing an office building into a laboratory, office and light manufacturing rental space, APEL fills a community need for entrepreneurial starter space, as well as provides suitable environments for controlled testing of advanced processes.

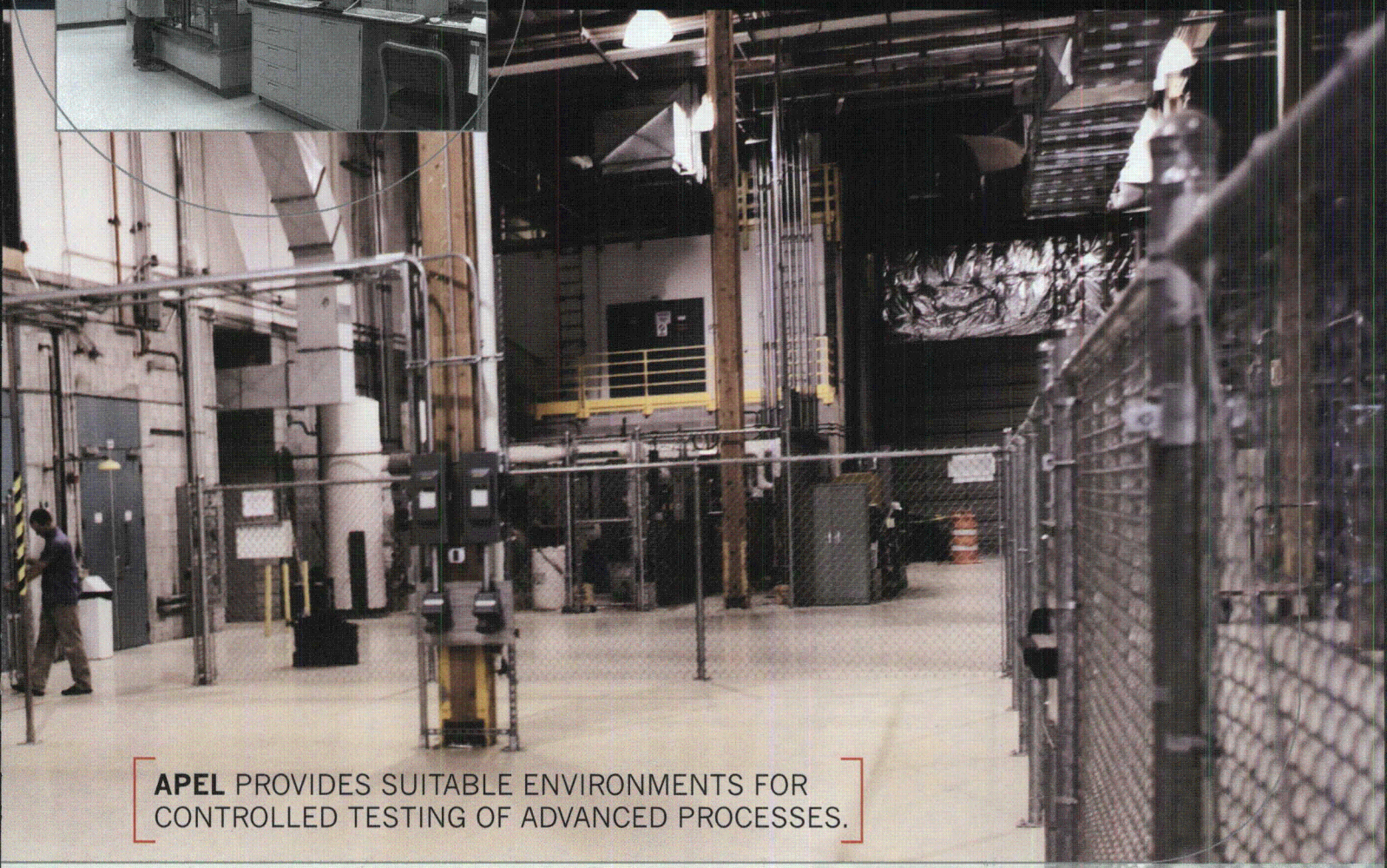
APEL is supported and sponsored by major institutions including Energy Northwest, the Port of Benton, the Department of Energy, Washington State University Tri-Cities, Pacific Northwest National Laboratory and the Tri-Cities Industrial Development Council.

Located in the heart of the Tri-Cities Research District Innovation Partnership Zone, APEL is the "launch pad" to leverage regional technological expertise into early stage entrepreneurial ventures. By creating an environment rich with resources and potential partners, APEL fosters collaboration in innovation and commercialization.

In 2010, InnovaTek, a long-time tenant, graduated to new facilities at the Port of Benton, having reached a level of sustainable operations. Wind Tower Energy Company is a new APEL client that hopes to have the same level of success. WindTEC's patented technology uses wind tunnel velocity accelerator principles to "multiply" the



June 1996:
Energy Northwest signs a memorandum of understanding with Battelle Memorial Institute's Pacific Northwest National Laboratory and the Port of Benton to develop a large-scale technical facility to serve as an incubator for new technology. The Applied Process Engineering Laboratory is born, and construction begins the following summer. As part of the agreement, Energy Northwest offers the use of office and warehouse facilities, as well as facility management services.



APEL PROVIDES SUITABLE ENVIRONMENTS FOR CONTROLLED TESTING OF ADVANCED PROCESSES.

wind, allowing a turbine system to operate at both higher and lower wind speeds to maximize electricity generation. WindTEC awaits final testing of a complete, integrated unit to commence commercial sales.

Like the clean energy businesses it incubates, APEL is doing its part for the environment. A necessary roof replacement project for APEL provided an opportunity to select a material that improves the insulation of the laboratory's roof with a beneficial impact on heating/cooling energy consumption. Anchor tenant Pacific Northwest National Laboratory worked with APEL to replace a single-pass process water cooling system in one laboratory with a closed-loop system, with a net water savings of about 1.6 million gallons per year. Lighting replacement in the 28-foot high bay using long-life, energy-efficient fixtures and bulbs produced an immediate reduction in utility costs. A rebate for the lighting replacement from the city of Richland added to the savings. Rounding out the program were: timers for lighting in areas seldom active at night, a drip irrigation system, and migration of invoicing and documents retention to electronic files.

February 1999:
Energy Northwest is awarded a contract to begin providing calibration services to the Hanford site.

CALIBRATION SERVICES LABORATORY

The Energy Northwest Calibration Services Laboratory celebrated its 10-year anniversary as the sole-source provider for calibration services to the Department of Energy's Hanford site. The current contract with Mission Support Alliance runs through June 2011.

The multi-disciplined laboratory performs calibrations in virtually every aspect of metrology, including torque, force, pressure, mass, dimensional, electrical, electronic, temperature, humidity, flow, vibration and light.

Over the years, the laboratory's move into performing work in the commercial sector has enhanced the quality of work and the capabilities and technical expertise of the staff. This has proved a great benefit, not only to the commercial customers, but for the laboratory's primary customer, Columbia Generating Station.

Those improvements were a major factor in securing a new multi-year contract with Bechtel National. The contract provides Bechtel with calibration services in support of construction activities at the Waste Treatment Plant on the Hanford site, anticipated to be completed in 2019.

Energy Northwest has provided Bechtel with calibration services over the past several years. The quality, timeliness, technical expertise and customer support provided by the laboratory enabled Energy Northwest to compete for the exclusive-provider contract.

In fiscal year 2010 laboratory staff also successfully completed the American Association for Laboratory Accreditation on-site assessment process and the laboratory was officially re-accredited. This status provides assurance to customers that calibration activities are in compliance with International Standard ANS/ISO/IEC 17025, which designates the requirements for competence of laboratory testing and calibration. The lab was first accredited in January 2009. This current accreditation is valid through January 2011.

ENVIRONMENTAL
AND ANALYTICAL SERVICES LABORATORY

In Fiscal Year 2010, Energy Northwest's Environmental and Analytical Services Laboratory performed the majority of the key environmental assessments at the Shepherds Flat Wind Farm which, when completed, is projected to be the largest single wind farm in the world.

Caithness Shepherds Flat, LLC of Sacramento, Calif., is developing the $2 billion project entirely on private property located in north-central Oregon, just south of the Columbia River. The wind farm's most recent design has the facility producing 845 megawatts of electricity from 338 turbines.

Environmental monitoring and assessments performed by laboratory employees included initial vegetative studies; surveys of avian use, raptor nesting and endangered/threatened/sensitive species; data compilation; and preparation of summary reports. Monitoring was performed from 2002 through spring of 2010 at various degrees of frequency and duration.

During this same period, environmental assessments were performed at wind projects located in several western states, including New Mexico, California, Idaho, Oregon and Washington. In addition, commencing in fiscal 2011, the laboratory will be the primary provider for environmental studies at a new Oregon wind facility, Juniper Canyon. This project is located along the Washington and Oregon borders, just south of Wallula, Wash.

For more than 15 years, the laboratory, accredited by the Washington state departments of Health and Ecology, has provided chemical analysis and environmental monitoring expertise for utility, municipal and residential customers.

A LEGACY OF POWER GENERATION

Energy Northwest is recognized in the region as an experienced power generation developer. The agency works with its members to understand and anticipate their thermal and renewable resource needs and identifies regional generation supply opportunities to develop appropriate low-cost generation resources. The goal is to offer competitive generation supply options and solutions to meet utility member needs. The process includes technology evaluation, financial analysis, site selection and acquisition, development marketing and funding, plant permitting and infrastructure interconnection, among other supporting services.

There were challenges in developing various projects in fiscal year 2009 due to worsening economic conditions and corresponding lower utility market demand. Some of those same conditions carried over into fiscal 2010, along with dynamic changes in public policy, federal and state tax incentives, utility growth, and regional weather impacts on power supply and pricing.

Having implemented a new approach to seek and acquire investment partners for 75 percent of development costs, Energy Northwest was successful in negotiating unique development and consulting services agreements for several energy generation projects:

Kalama Energy: 346-megawatt Natural Gas Combined-Cycle Plant

During fiscal 2010, Pristine Power of Calgary, Alberta, was secured as the development partner, and all major preliminary engineering and technical analysis were completed. The permitting processes are moving forward and are scheduled to be completed in early 2011.

Radar Ridge: 60 to 80-megawatt Wind Generation Project

Radar Ridge is the first commercial-sized wind development project slated for west of the Cascades. The project has had permitting challenges relating to the Marbled Murrelet, a threatened species of bird. Significant studies and evaluations verify that the project will have minimal impact on the species. The permitting process is moving ahead and is expected to be completed in fiscal 2012.

Outback: 5-megawatt Solar Project

A utility-grade solar generation plan was completed during fiscal 2010 and work began on site selection. Key components included capturing state and federal incentives, utilizing the best solar resources, and attaining a development partner to utilize tax credits, reduce development costs and lower the cost of power. This led to a co-development consulting agreement with Obsidian Finance Group on a site in south-central Oregon.

Solar 1: 5-megawatt Solar Project

A development and consulting agreement with Energetics Renewables was completed on another site in south-central Oregon. The project is fully permitted, has a preliminary Oregon Business Energy Tax Credit, and is scheduled to begin construction in fiscal 2011. Energy Northwest will oversee construction to ensure utility-grade quality and performance.

This project and the Outback solar project will be the largest solar energy projects in the Northwest.

Grays Harbor 50-megawatt Power Call Option:

A 50-megawatt power call option was included as part of the compensation package for selling the 600-megawatt Satsop Natural Gas Combined-Cycle Plant development rights to Duke Energy in 2001. Construction of the plant was stopped in 2002 due to challenges in the power market. The partially completed project was sold to Invenergy in 2008 and completed in 2009. This sale included the 50-megawatt call option. Energy Northwest also negotiated additional terms with Invenergy and commercially implemented power management with technical support from The Energy Authority.

A call option provides the right but not the obligation to purchase power. The value to Energy Northwest is financial. In times when the spread between natural gas and power are significant, the option will create substantial revenues for the agency's business development fund.

Other developments during fiscal 2010 included completing a co-development and consulting agreement with ADAGE for wood biomass generation projects in the Northwest, including a 50-megawatt project proposed in Shelton, Wash.; initial work with the Department of Energy to lease land for a clean energy park as part of the Mid-Columbia Energy Initiative; and establishing a regional nuclear study group to explore modular nuclear technologies.

A LEGACY OF ENVIRONMENTAL STEWARDSHIP

ISO 14001

April 2005:
Energy Northwest achieves ISO 14001:2004 registration, certifying that its environmental management system conforms to the stringent requirements of the international environmental standard.

Energy Northwest is committed to integrating environmental stewardship into everything it does. The agency's 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 consideration of the environment is integrated into all aspects of the organization, including its structure, resources, responsibilities, planning, practices, procedures and processes.

Energy Northwest's EMS was designed to meet the rigorous requirements of the globally recognized International Organization for Standardization 14001:2004 standard, with additional emphasis on compliance, pollution prevention and communication. Energy Northwest's EMS has been registered to the ISO 14001:2004 standard since April 2005 by NSF International Strategic Registrations, an accredited registrar. In March 2010, Energy Northwest's EMS was recommended for continued registration after a successful surveillance audit by the registrar.

To further establish and enhance its environmental programs, new corporate procedures were developed in its air, water and natural resources programs. Other procedures in chemical management, pollution prevention, regulated waste, and spill prevention and response programs were revised to further strengthen and institutionalize these efforts.

To better assess the impact on the environment and the effectiveness of the EMS, trends for environmental performance are established through the use of key performance indicators. These indicators monitor performance in areas such as effluents, emissions, wastes, compliance, pollution prevention, recycling and chemical management. In fiscal 2010, success was achieved against established targets for all environmental goals.

In September 2009, the Washington State Department of Ecology completed hazardous waste inspections of Columbia Generating Station and the Industrial Development Complex to close out two administrative orders issued in 2007. No non-compliances or other issues were identified, and the inspectors were impressed with the orderliness of waste storage areas and employee awareness in handling and managing wastes. The Department of Ecology subsequently closed out the orders in November 2009.

A LEGACY OF COMMUNITY SERVICE

Energy Northwest has been a member of the Tri-Cities business community for more than 50 years. As a major non-Hanford employer, the agency strongly believes in the importance of supporting the communities and non-profit agencies where our employees work and live.

From the CEO to the newest employees, Energy Northwest cares about the Tri-Cities community through direct, hands-on involvement.

The agency officially sponsors three vital community organizations: United Way, Head Start and March of Dimes.

United Way

Approximately 380 employees donated nearly $130,000 to United Way in 2009. And 42 stepped forward to join the United Way Vintner Club leadership program. These pledges help provide hot meals to elderly neighbors, fund youth developmental programs, provide disaster relief planning for our community and build self-esteem in at-risk youths.

Head Start

Energy Northwest employees dressed as Santa and his elves delivered gifts to 387 children at six local schools as part of an annual tradition of supporting the Benton-Franklin Head Start program. This joyous program for underprivileged children offers employees positive community involvement with the warm feeling of giving to those in need.

March of Dimes

Energy Northwest's "Power Marchers" team raised $37,876 this year for the March of Dimes. Vic Parrish, former CEO, was the Top Adult Walker for the 2010 event, leading the team of 97 Power Marchers who turned out for the spring event that helps support neo-natal birth centers and local families in need.

VIC PARRISH:
A LEGACY OF LEADERSHIP

Vic Parrish served as CEO of Energy Northwest for more than 14 years before retiring in July 2010.

Parrish joined the agency in 1992, a retired U.S. Naval officer with more than 26 years experience in nuclear and management positions, including at Mississippi's Grand Gulf Nuclear Station.

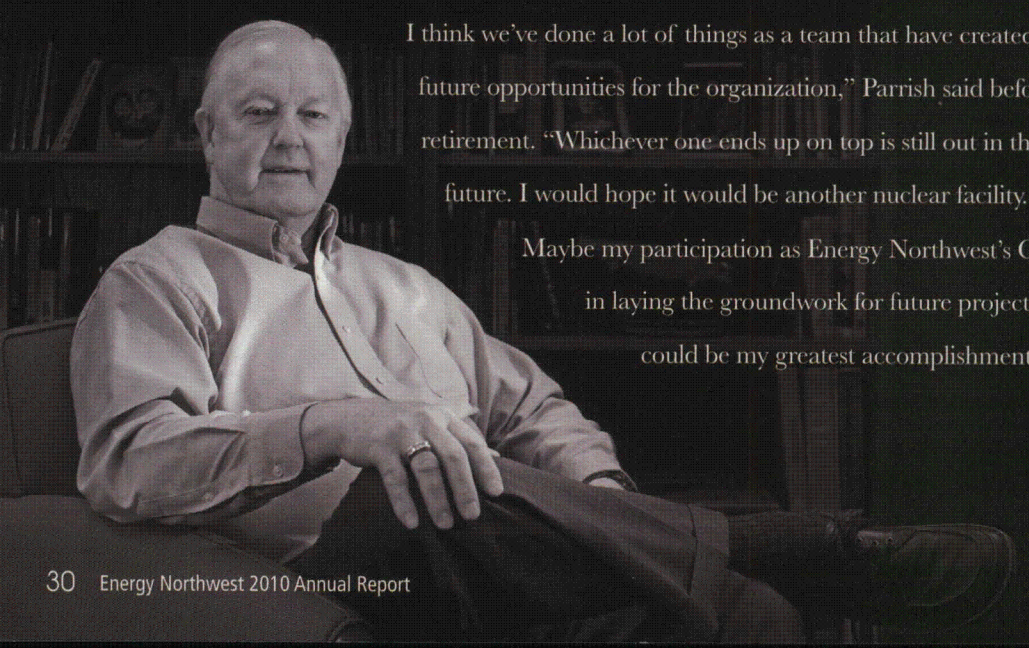
He came to the Tri-Cities at a difficult time for Columbia Generating Station; performance issues, both human and mechanical, hampered operations. However, Parrish had a vision for what Columbia could be and how to achieve that success. He put those changes in motion and three years later, not only was he named CEO of Energy Northwest but Columbia was firmly on the right track and headed for better days.

In a letter to Parrish honoring his retirement, Executive Board Chairman Sid Morrison wrote, "You have accumulated an amazing list of accomplishments as the commanding officer of our Energy Northwest fleet during your years at the helm.

"I thank you for the many talents you have shared with us through the years, the personal friendships, and for the legacy of dynamic leadership and progress you leave."

The years of leadership Parrish provided were a game-changer for the agency. Under his watch, there was the name change to Energy Northwest, but also the formation of a leadership academy in 1999; the Wellness Program; a very successful Applied Process Engineering Laboratory with Battelle; the CEO Lifesaving Award program; Columbia's transition to a 24-month fuel cycle; the creation of Energy/Business Services for new generation development; and construction of Nine Canyon Wind Project, White Bluffs Solar Station and the used nuclear fuel dry-cask storage facility.

"I really don't know my greatest accomplishment as CEO, but I think we've done a lot of things as a team that have created future opportunities for the organization," Parrish said before retirement. "Whichever one ends up on top is still out in the future. I would hope it would be another nuclear facility. Maybe my participation as Energy Northwest's CEO in laying the groundwork for future projects could be my greatest accomplishment."



1992:
Joseph V. (Vic) Parrish joins the Supply System as assistant managing director for operations.

1996:
Named managing director by executive board (Jan. 18).

1998:
Energy Northwest name change (Nov. 19).

1999:
Applied Process Engineering Laboratory is established.

2000:
WNP-2 renamed Columbia Generating Station (April 27).

2002:
- Site dedication for White Bluffs Solar Station (May).
- Phase I commercial operation begins at Nine Canyon Wind Project (September).

2003:
Phase II commercial operation begins at Nine Canyon Wind Project (December).

2005:
ISO 14001 initial certification received for environmental management system (April).

2006:
Longest continuous run recorded for Columbia – 486 days (October).

2008:
Phase III commercial operation begins at Nine Canyon Wind Project (May)

2010:
- Energy Northwest applies for 20-year license renewal (January).
- Pend Oreille County PUD becomes the 28th member of Energy Northwest, marking a new membership milestone (January).
- July 14, 2010: Vic Parrish retires after leading Energy Northwest for more than 14 years as CEO.

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, 2010, internal control procedures are adequate.

M.E. Reddemann
Chief Executive Officer

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

AUDIT, LEGAL AND FINANCE COMMITTEE CHAIRMAN'S LETTER

The Executive Board's Audit, Legal and Finance Committee (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, 2010.

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

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, 2010, 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 23, 2010

ENERGY NORTHWEST MANAGEMENT'S **DISCUSSION & 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, 2010, with the basic financial statements for the FY ended June 30, 2009.

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 standards prescribed by the Financial Accounting Standards Board (FASB). (See Note 1 to the Financial Statements.) Effective July 1, 2009, the FASB issued the Accounting Standards Codification (ASC). The ASC does not change GAAP and does not have an effect on the Energy Northwest's financial position or results of operation. Technical references to GAAP included in this report are provided under the new ASC structure.

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 2010 and FY 2009 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,

COMBINED FINANCIAL INFORMATION

June 30, 2010 and 2009 (dollars in thousands)

	2009	2010	Change
Assets			
Current Assets	$ 187,671	$ 189,918	$ 2,247
Restricted Assets			
Special Funds	104,325	93,454	(10,871)
Debt Service Funds	279,241	421,110	141,869
Net Plant	1,497,182	1,485,233	(11,949)
Nuclear Fuel	222,927	196,379	(26,548)
Deferred Charges	4,455,067	4,306,114	(148,953)
TOTAL ASSETS	$ 6,746,413	$ 6,692,208	$ (54,205)
Current Liabilities	$ 243,042	$ 374,924	$ 131,882
Restricted Liabilities			
Special Funds	135,373	141,811	6,438
Debt Service Funds	137,293	145,396	8,103
Long-Term Debt	6,226,186	6,022,980	(203,206)
Other Long-Term Liabilities	10,597	12,373	1,776
Deferred Credits	6,179	6,020	(159)
Net Assets	(12,257)	(11,296)	961
TOTAL LIABILITIES & NET ASSETS	$ 6,746,413	$ 6,692,208	$ (54,205)
Operating Revenues	$ 545,775	$ 475,985	$ (69,790)
Operating Expenses	428,946	360,876	(68,070)
Net Operating Revenues	116,829	115,109	(1,720)
Other Income and Expense	(119,870)	(113,498)	6,372
(Distribution)/Contribution	829	(650)	(1,479)
Beginning Net Assets	(10,045)	(12,257)	(2,212)
ENDING NET ASSETS	$ (12,257)	$ (11,296)	$ 961

financing and investment activities. The Statements of Cash Flows 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.

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.

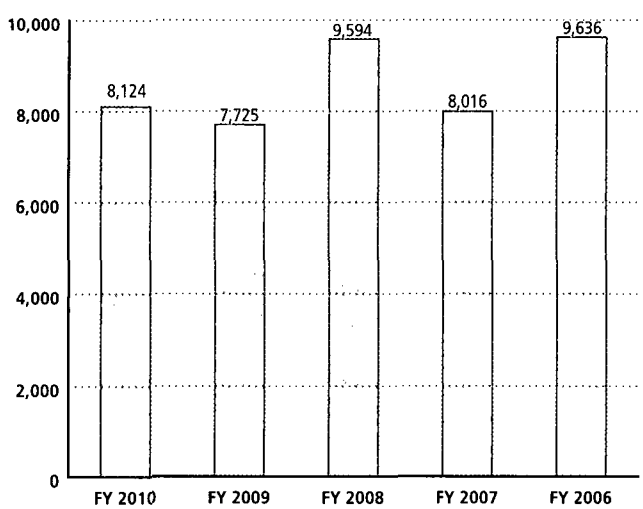
Columbia produced 8,124 gigawatt-hours (GWh) of electricity in FY 2010, as compared to 7,725 GWh of electricity in FY 2009, which included economic dispatch of 119 and 15 GWh respectively. Generation increased 5.2 percent from FY 2009 due to the off year cycle of the two-year refueling and maintenance outage. Generation was lower than anticipated for a non-outage year due to an electrical fire impacting August and September generation along with down powers in October and November to allow for valve and hydraulic leak repairs

Columbia's cost performance is measured by the cost of power indicator. The cost of power for FY 2010 was 3.74 cents per kilowatt-hour (kWh) as compared with 4.94 cents per kWh in FY 2009. The industry cost of power fluctuates year to year depending on various factors such as refueling outages and other planned activities. The cost of power was lower in FY 2010 due to the off cycle refueling period which equates to higher generation but costs were higher and generation lower than anticipated due to the outages and down powers in the first two quarters of FY 2010.

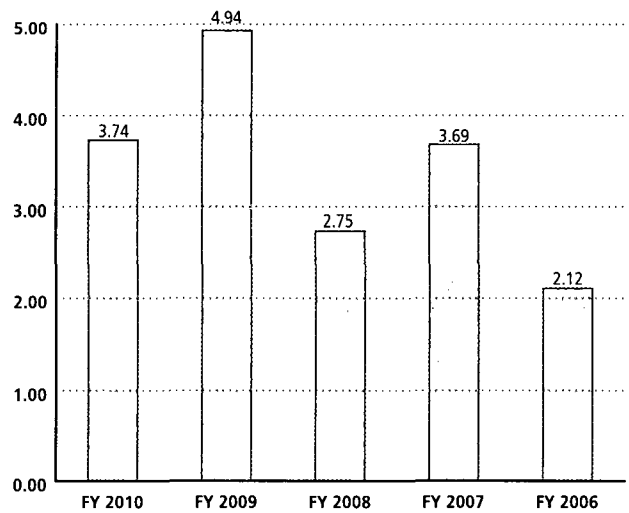
Balance Sheet Analysis

The net decrease to Plant in Service (Plant) and Construction Work In Progress (CWIP) from FY 2009 to FY 2010 (excluding nuclear fuel) was $5.4 million. The additions to Plant/CWIP of $64.8 million were offset by an increase to Accumulated Depreciation of $70.2 million resulting in the net decrease to Plant. The additions to Plant for FY 2010 were captured in six major projects: Main Condenser Replacement, Software Programs, Cooling Tower Fill Replacement, Security Upgrades, Radio Obsolescence, and Service Water Pump and Motor Overhaul. These projects resulted in 73 percent of the additions to Plant. The remaining 27 percent of additions were made up of 143 separate projects.

Columbia Generating Station
Net Generation - GWhrs



Columbia Generating Station
Cost of Power - Cents / kWh



Nuclear fuel, net of accumulated amortization, decreased $26.5 million from FY 2009 to $196.4 million for FY 2010. During FY 2010 Columbia incurred $13.6 million in capitalized fuel purchases of which $9.2 million was reclassified during FY 2010 as expensed fuel litigation costs for a net increase to capitalized fuel purchases of $4.4 million. There was a bi-annual adjustment of fuel and amortization for the removal of fuel assemblies related to the maintenance and refueling outage in FY 2009 (R-19). The adjustment of $53.5 million represents the original cost of the fuel assemblies removed and those that are past the required six month cooling period per the Federal Energy Regulatory Commission (FERC) guidelines. The adjustment and capital activity was off set by a decrease of $22.6 million in current year amortization.

Current assets increased $13.6 million in FY 2010 to $152.7 million. The main cause of this increase was from an increase to materials and supplies of $12.4 million. The remaining change was due to vendor invoice timing related to year end obligations along with inter business unit activity incurred which amounted to approximately $1.2 million.

The Restricted Assets Special Funds decreased $7.3 million to $77.9 million in FY 2010 due to the FY 2010 bond financing plan and schedule of construction costs for these funds in FY 2010.

The Debt Service Funds increased $119.1 million in FY 2010 to $200.0 million. The increase was created due to restructuring and funding activities as a result of the bond sale.

Deferred Charges decreased $31.6 million in FY 2010 from $853.3 million to $821.7 million. Components of this decrease were changes in Costs in Excess of Billings, related to the net effect of payment of current maturities and refunding activity related to available debt of $35.0 million. There was also a slight decrease to unamortized debt expense of $1.1 million due to refunding activity. The balances in these external trust funds are not reflected on Energy Northwest's Balance Sheet. Relicensing activities for Columbia accounted for $4.5 million of the increase. Columbia was issued a standard 40-year operating license by the Nuclear Regulatory Commission (NRC) in 1983. On January 19, 2010, Energy Northwest submitted an application to the NRC to renew the license for an additional 20 years, thus continuing operations to 2043. The estimated duration of the license renewal process is 20 to 24 months from acceptance of the application. 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.)

Current Liabilities increased $131.3 million in FY 2010 to $218.6 million mostly due to the increase of $118.4 million in current maturities of long-term debt. Other increases of $12.9 million were year end incurred cost timing issues.

Restricted Liabilities (Special Funds and Debt Service) increased $4.5 million in FY 2010 to $195.6 million due to bond activity.

Long-Term Debt decreased $75.7 million in FY 2010 from $2.5 billion to $2.4 billion, excluding current maturities, due to current maturities of debt combined with refunding results of the FY 2010 bond Issue. In FY 2010, new debt was issued for various Columbia construction projects, conversion of variable rate debt to fixed, and extension of some maturing debt.

Other long-term liabilities increased $1.8 million in FY 2010 to $12.4 million related to nuclear fuel cask activity.

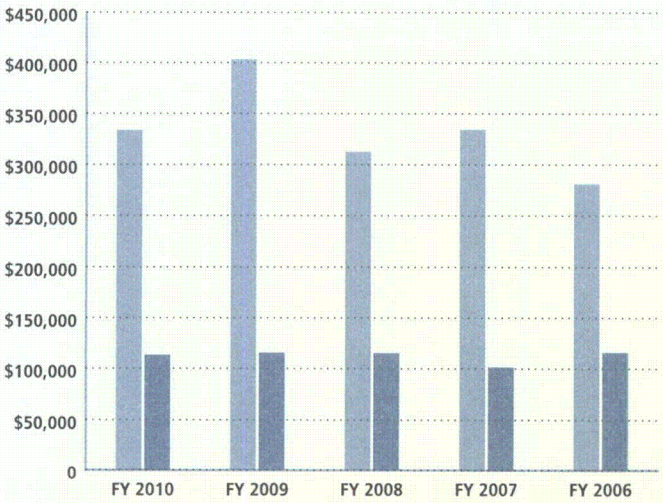
Statement of Operations Analysis

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 decreased $69.2 million from FY 2009 to $334.4 million due to less activity related to the off cycle year of the two year refueling and maintenance program. Operations and Maintenance costs decreased $83.0 million which is attributable to the off cycle year. The decrease in operations and maintenance costs were offset by increases to generation fuel, taxes and administrative and general expenses. Fuel costs and disposal increased $8.6 million with generation taxes increasing $0.6 million. Both of these increases were directly related to generation activity. Administrative and general expenses increased $5.5 million; which was driven by staffing requirements, increases to related benefit programs and regulatory requirements. Depreciation and amortization decreased $1.2 million with an increase to decommissioning costs of $0.3 million accounting for the remainder of the change.

Columbia Generating Station
Total Operating Costs (dollars in thousands)



Other Income and Expenses decreased $2.4 million from FY 2009 to $113.7 million net expenses in FY 2010. Expenses associated with bond activity decreased $3.5 million but were offset by lower investment income of $1.5 million, due to market conditions. The remaining decrease was due to increased net revenues of $0.4 million associated with inter-business unit services.

Columbia's total operating revenue decreased from $519.8 million in FY 2009 to $448.1 million in FY 2010. The decrease of $71.7 million was due to the off cycle year of the two year refueling and maintenance program and the related effect of the net billing agreement on total revenue.

Columbia continued to incur costs as a result of the FY 2008 (February) wind storm that damaged siding on the Reactor Building and Turbine Generator Building. Columbia had submitted an insurance claim for reimbursement of the $14.4 million incurred due to wind damage. Columbia incurred costs of $5.0 million for the deductible and $7.7 million of the claim was covered by the insurer, which was paid directly to BPA in FY 2009. Columbia submitted an additional claim in FY 2010 for $9.0 million. The insurer has agreed to cover $6.3 million of the claim and will be paid directly to BPA as part of the final claim submittal.

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 86.07 GWh of electricity in FY 2010 versus 99.34 GWh in FY 2009. The 13.4 percent decrease in generation can be attributed to lower water availability than the previous year. FY 2010 was near the 30 year average of 87 GWh while FY 2009 was the 12th highest generation year on record.

In November 2006, Lewis County was declared a disaster area because of torrential rain and flooding. Packwood incurred expenditures of $1.0 million in FY 2008 to install improvements. Packwood applied for grant assistance but was denied and all subsequent appeals expired in FY 2010. A bank line of credit was established for $1.3 million in FY 2008 while grant acceptance was being resolved and has since been closed with the expiration of any grant receipt possibilities.

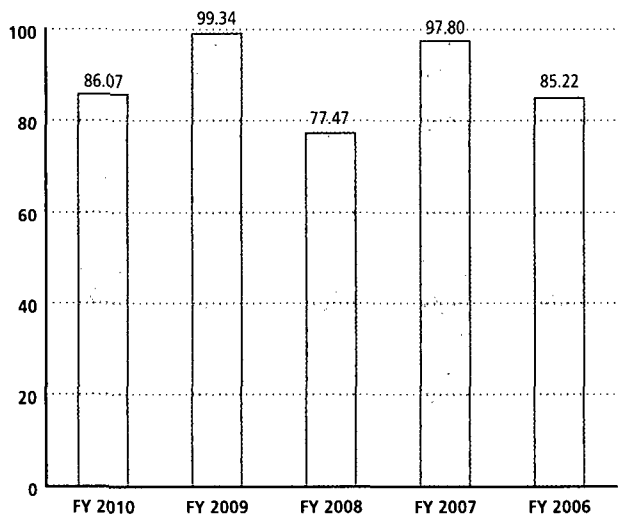
Packwood's cost performance is measured by the cost of power indicator. The cost of power for FY 2010 was $1.82 cents/kWh as compared to $1.62 cents/kWh in FY 2009. The cost of power fluctuates year-to-year depending on various factors such as outage, maintenance, generation and other operating costs. The FY 2010 cost of power increase of 12.3 percent was a result of lower than anticipated generation.

Balance Sheet Analysis

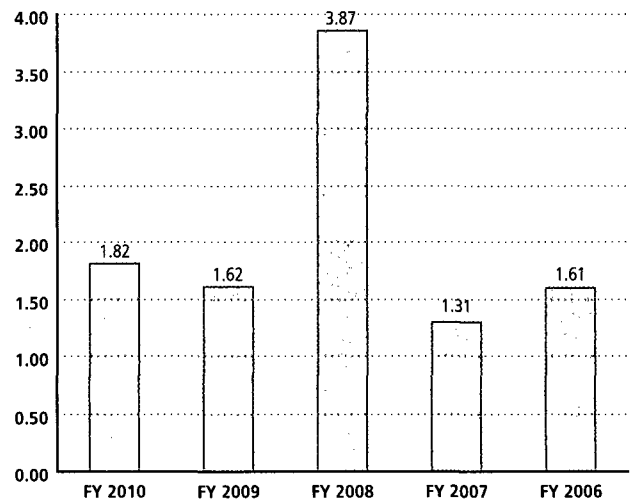
Total assets decreased $0.7 million from FY 2009, with the major driver being the decrease to restricted assets from $0.8 million to $0 reflecting the elimination of the letter of credit established for the Packwood flood of FY 2008. The impact of this elimination was offset by an increase to relicensing of $0.1 million and net participant and receivable activity of $0.2 million along with an increase to accumulated depreciation of $0.1 million. Significant changes to total liabilities were a result of the letter of credit elimination and timing of year-end cost recognition.

Packwood has incurred $3.7 million in relicensing costs through FY 2010. These costs are shown as Deferred Charges on the Balance Sheet. Packwood has been operating under a 50-year license issued by the Federal Energy Regulatory Commission (FERC), which expired on February 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on February 22, 2008. On March 4, 2010, FERC issued a one-year extension to operate under the original license. FERC can continue issuing annual license extensions until a new operating license is received.

Packwood Lake Hydroelectric Project
Net Generation - GWhrs



Packwood Lake Hydroelectric Project
Cost of Power - Cents / kWh

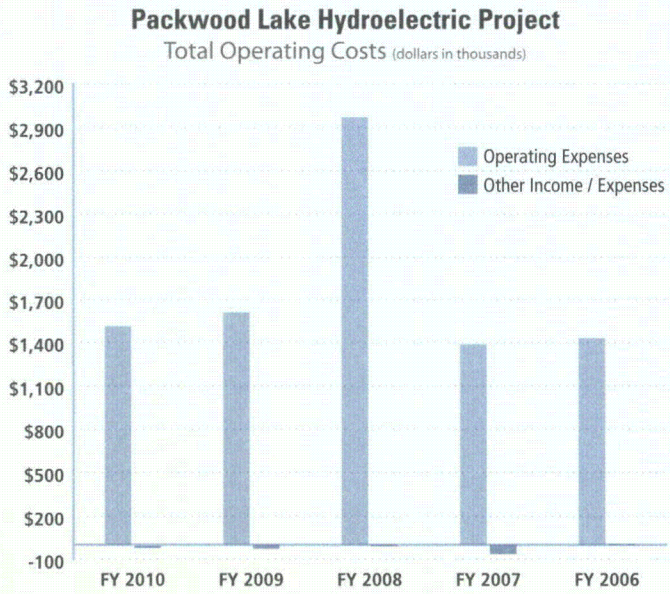


Statement of Operations Analysis

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 $0.1 million from FY 2009 amounts. Most costs remained steady from FY 2009 to FY 2010; the major change in cost was a reduction of purchased power costs of $0.1 million, which reflected the favorable timing of runoff and available generation to meet minimum supply requirements.

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 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 increased from a net loss of $28k in FY 2009 to a net loss of $15k in FY 2010. The $13k decrease in net loss was due to decreased borrowing expenses of $28k offset by lower investment earnings of $15k in FY 2010.

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 $86.0 million from $1.885 billion in FY 2009 to $1.799 billion in FY 2010 as a result of maturing debt per schedule. The decrease in long-term debt was offset by the $35.4 million increase in the current long-term debt per the debt maturity schedule. The remaining change of $2.3 million was related to year-end timing of planned expenses and effects of net billing operations.

Statement of Operations Analysis

Other Income and Expenses showed a net decrease to costs of $11.4 million from $97.6 million in FY 2010 to $86.2 million in FY 2010. Investment revenue decreased $0.4 million due to market conditions. The lower investment revenue was offset by lower bond-related expenses of $11.8 million. Costs for plant preservation and decommissioning were steady from FY 2009 to FY 2010.

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 $37.3 million from $1.718 billion in FY 2009 to $1.681 billion in FY 2010, as a result of refunding all variable rate debt and a portion of the fixed rate maturing debt. Current maturities decreased $27.2 as a result of debt restructuring with net billing impacts related to debt related refunding and maturity entries of $14.3 million accounting for the net decrease of $50.2 million.

Statement of Operations Analysis

Overall expenses decreased $11.4 million from FY 2010 related to bond activity. The change in investment income of $0.4 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 increased $3.8 million from $5.7 million in FY 2009 to $9.5 million in FY 2010. The increase to current assets of $2.4 million was due to current funding of operations, mainly due to generation sector development activities, an increase to other deferred charges of $1.0 million for power option derivatives (see note 14) and an increase to plant of $0.4 million due to calibration and environmental laboratory equipment purchases. Liabilities decreased $0.9 million from FY 2009 to FY 2010 due to operating activity. Net Assets increased $4.7 million from $3.2 million in FY 2009 to $7.9 million in FY 2010 due to generation project revenue realization, increased gross margin on calibration services, $1.1 million associated with power options and a $2.5 million contribution from the Internal Service Fund.

Statement of Operations Analysis

Operating Revenues in FY 2010 totaled $10.6 million as compared to FY 2009 revenues of $8.7 million, an increase of $1.9 million. The majority of the increase was in two sectors, Generation and General Services. Generation projects received $1.0 million on the Kalama and Grays Harbor projects. General Services had a $0.9 million increase from FY 2009 due to the Rattlesnake relocation project.

Other Income and Expenses increased $2.2 million from $2.3 million in net revenues in FY 2009 to $4.5 million in FY 2010 with the major drivers being a $1.4 million settlement from a power sales agreement and $1.1 million for amounts associated with power sales options (see note 14) offset by a decrease of $0.3 million in miscellaneous reimbursements.

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 2010, the Business Development Fund received contributions (transfers) of $2.5 million, in FY 2009 there were no contributions (transfers).

NINE CANYON WIND PROJECT

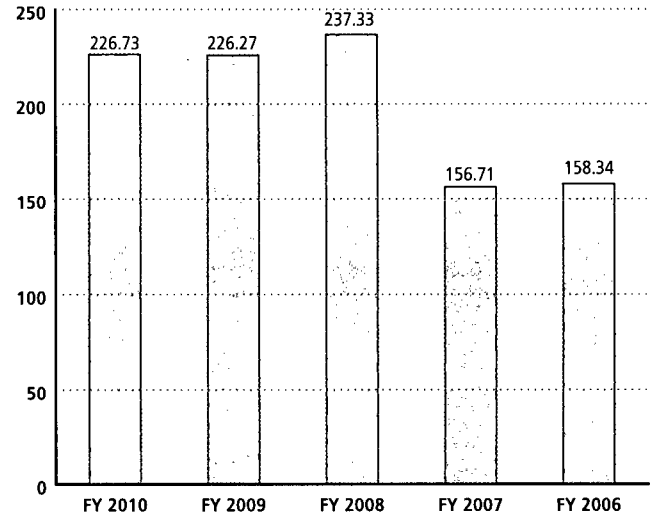
The Nine Canyon Wind Project (Nine Canyon) is wholly owned and operated by Energy Northwest. Nine Canyon is located in the Horse Heaven Hills area southwest of Kennewick, Washington. Electricity generated by Nine Canyon is purchased by Pacific Northwest Public Utility Districts (purchasers). Each purchaser 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 has 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 Canyon generating capability is 95.9 MW, enough energy for approximately 39,000 average homes.

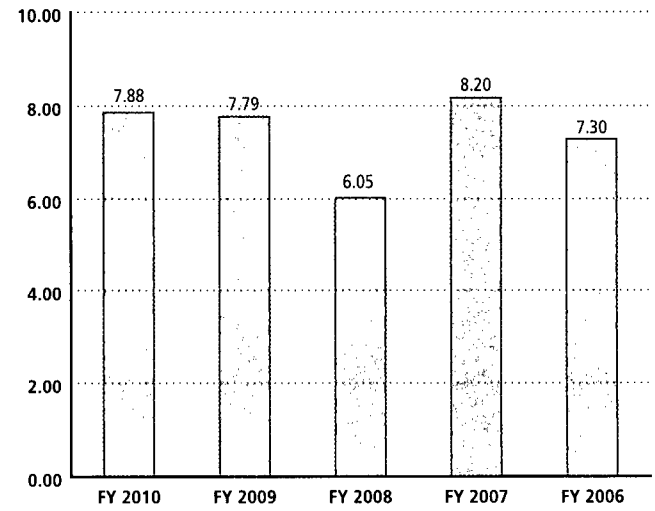
Nine Canyon produced 226.73 GWh of electricity in FY 2010 versus 226.27 GWh in FY 2009 with similar wind conditions from the previous year and no major component outages experienced in FY 2010.

Nine Canyon's cost performance is measured by the cost of power indicator. The cost of power for FY 2010 was $7.88 cents/kWh as compared to $7.79 cents/kWh in FY 2009. The cost of power fluctuates year to year depending on various factors such as wind totals and unplanned maintenance. The slight increase of 1.2 percent in cost of power was due to lower than forecasted generation in FY 2010.

Nine Canyon Wind Project
Net Generation - GWhrs



Nine Canyon Wind Project
Cost of Power - Cents / kWh



Balance Sheet Analysis

Total Assets increased $1.8 million from $131.2 million in FY 2009 to $133.0 million in FY 2010. Major drivers for the change in assets was an increase of $6.4 million in restricted assets related to principal maturities related to the debt service schedule, increases to cash and investments of $1.8 million which was offset by increases to net plant of $6.4 million. There was an overall increase to liabilities of $2.5 million with a decrease to long-term debt of $4.5 million, increases to current debt maturities of $4.0 million, accrued debt-related interest of $3.5 million, with the remaining decrease of $0.5 million due to timing and operating activities. The decrease in Net Assets was $0.7 million in FY 2010 as compared to $1.2 million in FY 2009. The decline experienced in previous years is continuing, though the trend is consistent with the rate stabilization approach for Nine Canyon planning. 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. Energy Northwest did not receive REPI funding in FY 2010 and is not anticipating future REPI incentives.

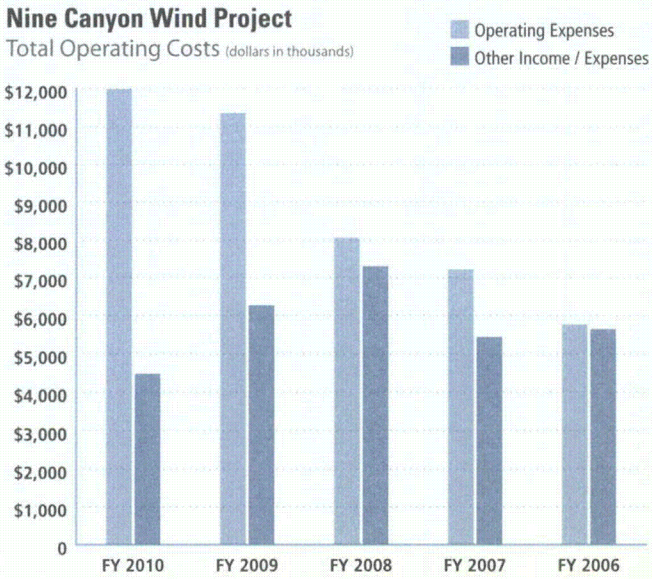
Statement of Operations Analysis

Operating Revenues increased $0.2 million from $15.6 million in FY 2009 to $15.8 million in FY 2010. The project received revenue from the billing of the purchasers at an average rate of $66.81 per MWh for FY 2010, as compared to $68.62 per MWh for FY 2009, which is reflective of the implementation of the revised rate plan in FY 2008 to account for REPI funding shortfalls and costs of operations. Generation was relatively similar to FY 2009. The slight increase in operating revenues was due to higher BPA scheduling/firming costs of $0.6 million, which are invoiced to participants offset by a decrease in REPI revenue of $0.8 million. There was an increase in operating expenses of $0.6 million from $11.4 million in FY 2009 to $12.0 million in FY 2010. Increased operating expenses were mainly due to higher BPA scheduling/firming charges discussed above.

Other Income and Expenses decreased $1.8 million from $6.3 million in net expenses FY 2009 to $4.5 million in FY 2010 with the major driver being a $2.0 million settlement received for bearing replacement on Phase I and II. Investment income associated with bond funds decreased $0.4 million due to market conditions with lower bond-related expenses of $0.2 million accounting for the remainder of other revenues and expenses. Net losses of $0.7 million for FY 2010 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 2009 of $2.0 million. A declining net asset balance is expected in future years until bond principal payments exceed annual depreciation requirements.

In previous years Energy Northwest has accrued, as income (contribution) from DOE, REPI payments that enable Nine Canyon to receive funds 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 did not receive funding for FY 2010. 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 six (FY 2013), 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.

INTERNAL SERVICE FUND

The Internal Service Fund (ISF) (formerly the General Fund) was established in May 1957. The Internal Service Fund provides services to the other funds. This fund accounts for the central procurement of certain common goods and services for the business units on a cost reimbursement basis. (See Note 1 to Financial Statements.)

Balance Sheet Analysis

Total Assets for FY 2010 decreased $16.1 million from $53.7 million in FY 2009 to $37.6 million in FY 2010. The six major items for the change were 1) a decrease of $13.4 million to Cash for anticipated year-end check and warrant redemption, 2) a decrease in performance fee of $3.2 million for payments to Packwood ($0.7 million) and Business Development ($2.5 million), 3) an increase of $0.3 million to Personal Time Bank investments and cash, 4) an increase of $0.2 million in restricted assets due to maturity schedule and escrow requirements processing schedule, 5) a decrease in net plant due to depreciation of $0.5 million, and 6) an increase to operational activities of $0.4 million.

The net decrease in Net Assets and Liabilities is due to decreases in Accounts Payable and Payroll-related liabilities of $7.8 million due to year-end timing, a decrease to Sales Tax Payable of $4.8 million, due to off-cycle year fuel activity and a $0.3 million decrease to bearer bond activity. The remaining change is due to a decrease in incentive fee of $3.1 million and a $0.1 million decrease to Net Assets.

Statement of Operations Analysis

Net Revenues for FY 2010 decreased $144k from FY 2009. Investment income decreased $102k due to lower invested balance relating to lower yields. Lease activity resulted in a decrease of $45k to revenues. Results from operations resulted in a net increase to costs of $922k with an offsetting change of $925k due to decrease in depreciation.

BALANCE SHEETS As of June 30, 2010 (dollars in thousands)

ASSETS

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project No.1*	Nuclear Project No.3*	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	2010 Combined Total
CURRENT ASSETS									
Cash	$ 16,410	$ 991	$ 625	$ 186	$ 1,377	$ 8,363	$ 27,952	$ 5,496	$ 33,448
Available-for-sale investments	14,543	-	2,559	3,134	4,164	-	24,400	21,623	46,023
Accounts and other receivables	947	422	-	-	1,085	137	2,591	221	2,812
Due from other business units	3,260	47	343	121	134	29	3,934	-	-
Due from other funds	11,278	-	324	38,888	-	996	51,486	-	-
Materials and supplies	105,051	-	-	-	-	-	105,051	-	105,051
Prepayments and other	1,250	67	-	-	53	121	1,491	1,093	2,584
TOTAL CURRENT ASSETS	152,739	1,527	3,851	42,329	6,813	9,646	216,905	28,433	189,918
CURRENT RESTRICTED ASSETS (NOTE 1)									
Special funds									
Cash	2,420	-	34	3	-	-	2,457	234	2,691
Available-for-sale investments	75,146	-	3,286	7,980	-	1,555	87,967	2,460	90,427
Accounts and other receivables	335	-	1	-	-	-	336	-	336
Debt service funds									
Cash	8,085	-	6,820	5,310	-	7,557	27,772	-	27,772
Available-for-sale investments	191,886	-	115,645	74,545	-	11,251	393,327	-	393,327
Accounts and other receivables	-	-	-	-	-	11	11	-	11
TOTAL CURRENT RESTRICTED ASSETS	277,872	-	125,786	87,838	-	20,374	511,870	2,694	514,564
NONCURRENT ASSETS									
Utility Plant (Note 2)									
In service	3,620,919	13,647	-	-	2,399	134,527	3,771,492	47,505	3,818,997
Not in service	-	-	25,253	-	-	-	25,253	-	25,253
Construction work in progress	146,030	-	-	-	-	-	146,030	-	146,030
Accumulated depreciation	(2,391,614)	(12,668)	(25,253)	-	(742)	(33,771)	(2,464,048)	(40,999)	(2,505,047)
Net Utility Plant	1,375,335	979	-	-	1,657	100,756	1,478,727	6,506	1,485,233
Nuclear fuel, net of accumulated amortization	196,379	-	-	-	-	-	196,379	-	196,379
TOTAL NONCURRENT ASSETS	1,571,714	979	-	-	1,657	100,756	1,675,106	6,506	1,681,612
DEFERRED CHARGES									
Costs in excess of billings	798,041	-	1,800,195	1,662,364	-	-	4,260,600	-	4,260,600
Unamortized debt expense	10,917	-	7,428	7,422	-	2,242	28,009	-	28,009
Other deferred charges	12,747	3,737	-	-	1,021	-	17,505	-	17,505
TOTAL DEFERRED CHARGES	821,705	3,737	1,807,623	1,669,786	1,021	2,242	4,306,114	-	4,306,114
TOTAL ASSETS	$ 2,824,030	$ 6,243	$ 1,937,260	$ 1,799,953	$ 9,491	$ 133,018	$ 6,709,995	$ 37,633	$ 6,692,208

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

LIABILITIES & NET ASSETS

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project No.1*	Nuclear Project No.3*	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	2010 Combined Total
CURRENT LIABILITIES									
Current maturities of long-term debt	$ 140,790	$ -	$ 75,505	$ 44,050	$ -	$ 3,965	$ 264,310	$ -	$ 264,310
Accounts payable and accrued expenses	48,941	249	148	106	1,565	680	51,689	29,106	80,795
Due to Participants	28,906	913	-	-	-	-	29,819	-	29,819
Due to other funds	-	-	-	-	-	-	-	-	-
Due to other business units	-	-	-	-	-	-	-	3,934	-
TOTAL CURRENT LIABILITIES	218,637	1,162	75,653	44,156	1,565	4,645	345,818	33,040	374,924
LIABILITIES- PAYABLE FROM CURRENT RESTRICTED ASSETS (NOTE 1)									
Special funds									
Accounts payable and accrued expenses	125,142	-	15,295	-	-	1,140	141,577	234	141,811
Due to other funds	11,272	-	321	4,983	-	996	17,572	-	-
Debt service funds									
Accrued interest payable	59,175	-	46,957	35,783	-	3,481	145,396	-	145,396
Due to other funds	6	-	3	33,905	-	-	33,914	-	-
TOTAL CURRENT RESTRICTED LIABILITIES	195,595	-	62,576	74,671	-	5,617	338,459	234	287,207
LONG-TERM DEBT (NOTE 5)									
Revenue bonds payable	2,327,455	-	1,739,835	1,637,715	-	140,765	5,845,770	-	5,845,770
Unamortized (discount)/ premium on bonds - net	78,202	-	71,488	47,646	-	4,633	201,969	-	201,969
Unamortized loss on bond refundings	(8,232)	-	(12,292)	(4,235)	-	-	(24,759)	-	(24,759)
TOTAL LONG-TERM DEBT	2,397,425	-	1,799,031	1,681,126	-	145,398	6,022,980	-	6,022,980
OTHER LONG-TERM LIABILITIES	12,373	-	-	-	-	-	12,373	-	12,373
DEFERRED CREDITS									
Billings in excess of cost	-	5,081	-	-	-	-	5,081		5,081
Advances from Members and others	-	-	-	-	-	-	-	706	706
Other deferred credits	-		-	-	-	229	229	4	233
TOTAL DEFERRED CREDITS	-	5,081	-	-	-	229	5,310	710	6,020
NET ASSETS									
Invested in capital assets, net of related debt	-	-	-	-	1,657	(46,365)	(44,708)	6,505	(38,203)
Restricted, net	-	-	-	-	-	14,529	14,529	2,460	16,989
Unrestricted, net	-	-	-	-	6,269	8,965	15,234	(5,316)	9,918
NET ASSETS	-	-	-	-	7,926	(22,871)	(14,945)	3,649	(11,296)
TOTAL LIABILITIES	2,824,030	6,243	1,937,260	1,799,953	1,565	155,889	6,724,940	33,984	6,703,504
TOTAL LIABILITIES AND NET ASSETS	$ 2,824,030	$ 6,243	$ 1,937,260	$ 1,799,953	$ 9,491	$ 133,018	$ 6,709,995	$ 37,633	$ 6,692,208

*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

As of June 30, 2010 (dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project No.1*	Nuclear Project No.3*	Business Development Fund	Nine Canyon Wind Project	Subtotal	Internal Service Fund	2010 Combined Total
OPERATING REVENUES	$ 448,075	$ 1,535	$ -	$ -	$ 10,618	$ 15,757	$ 475,985	$ -	$ 475,985
OPERATING EXPENSES									
Nuclear fuel	35,433	-	-	-	-	-	35,433	-	35,433
Spent fuel disposal fee	7,655	-	-	-	-	-	7,655	-	7,655
Decommissioning	6,766	-	-	-	-	78	6,844	-	6,844
Depreciation and amortization	75,883	53	-	-	173	6,789	82,898	-	82,898
Operations and maintenance	172,390	1,282	-	-	12,739	5,076	191,487	-	191,487
Other power supply expense	-	21	-	-	-	-	21	-	21
Administrative & general	32,583	146	-	-	-	34	32,763	-	32,763
Generation tax	3,708	18	-	-	-	49	3,775	-	3,775
TOTAL OPERATING EXPENSES	334,418	1,520	-	-	12,912	12,026	360,876	-	360,876
NET OPERATING REVENUES	113,657	15	-	-	(2,294)	3,731	115,109	-	115,109
OTHER INCOME AND EXPENSE									
Other	1,298	-	86,187	76,060	3,448	2,000	168,993	69,564	169,107
Investment income	475	4	58	85	1,092	220	1,934	47	1,934
Interest expense and discount amortization	(115,430)	(19)	(84,406)	(74,049)	-	(6,700)	(280,604)	-	(280,604)
Plant preservation and termination costs	-	-	(1,313)	(2,096)	-	-	(3,409)	-	(3,409)
Depreciation and amortization	-	-	(4)	-	-	-	(4)	(1,802)	(4)
Decommissioning	-	-	(522)	-	-	-	(522)	-	(522)
Services to other business units	-	-	-	-	-	-	-	(67,695)	-
TOTAL OTHER INCOME AND EXPENSE	(113,657)	(15)	-	-	4,540	(4,480)	(113,612)	114	(113,498)
Changes in Net Assets	-	-	-	-	2,246	(749)	1,497	114	1,611
(DISTRIBUTION)/CONTRIBUTION	-	-	-	-	2,500	-	2,500	(3,150)	(650)
TOTAL NET ASSETS, BEGINNING OF YEAR	-	-	-	-	3,180	(22,122)	(18,942)	6,685	(12,257)
TOTAL NET ASSETS, END OF YEAR	$ -	$ -	$ -	$ -	$ 7,926	$ (22,871)	$ (14,945)	$ 3,649	$ (11,296)

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

STATEMENTS OF CASH FLOWS

As of June 30, 2010 (dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project No.1*	Nuclear Project No.3*	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2010 Combined Total
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES								
Operating revenue receipts	$ 491,466	$ 1,087	$ -	$ -	$ 7,827	$ 16,457	$ -	$516,837
Cash payments for operating expenses	(221,557)	(951)	-	-	(6,071)	(5,696)	-	(234,275)
Other revenue receipts	-	-	167,085	113,833	1,383	2,000	-	284,301
Cash payments for preservation, termination expense	-	-	(317)	(44)	-	-	-	(361)
Cash payments for services	-	-	-	-	-	-	(14,920)	(14,920)
Net cash provided/(used) by operating and other activities	269,909	136	166,768	113,789	3,139	12,761	(14,920)	551,582
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from bond refundings	91,171	-	77,512	355,467	-	-	-	524,150
Refunded bond escrow requirement	(16,005)	-	(77,790)	(357,079)	-	-	-	(450,874)
Payment for bond issuance and financing costs	(549)	-	(818)	(2,203)	(2)	(37)	-	(3,609)
Payment for capital items	(67,596)	(16)	-	-	(459)	(376)	(1,457)	(69,904)
Receipts from sales of plant assets	-	-	18	-	-	(31)	-	(13)
Nuclear fuel acquisitions	(13,541)	-	-	-	-	-	-	(13,541)
Interest paid on revenue bonds	(125,098)	-	(94,020)	(95,635)	-	(3,481)	-	(318,234)
Principal paid on revenue bond maturities	(22,282)	(2)	(40,155)	(38,345)	-	-	-	(100,784)
Escrow refund	1	-	4	15	-	-	-	20
Net cash provided/(used) by capital and related financing activities	(153,899)	(18)	(135,249)	(137,780)	(461)	(3,925)	(1,457)	(432,789)
CASH FLOWS FROM NON-CAPITAL FINANCE ACTIVITIES	-	-	-	-	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of investment securities	(819,117)	(850)	(387,266)	(272,903)	(5,866)	(25,138)	(32,658)	(1,543,798)
Sales of investment securities	713,639	850	362,832	301,856	4,195	31,408	35,292	1,450,072
Interest on investments	516	4	145	197	10	594	14	1,480
Net cash provided/(used) by investing activities	(104,962)	4	(24,289)	29,150	(1,661)	6,864	2,648	(92,246)
NET INCREASE (DECREASE) IN CASH	11,048	122	7,230	5,159	1,017	15,700	(13,729)	26,547
CASH AT JUNE 30, 2009	15,867	869	249	340	360	220	19,459	37,364
CASH AT JUNE 30, 2010 (NOTE B)	$ 26,915	$ 991	$ 7,479	$ 5,499	$ 1,377	$ 15,920	$ 5,730	$ 63,911

*Project recorded on a liquidation basis.

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

STATEMENTS OF CASH FLOWS (Cont'd)

As of June 30, 2010 (dollars in thousands)

	Columbia Generating Station	Packwood Lake Hydroelectric Project	Nuclear Project No.1*	Nuclear Project No.3*	Business Development Fund	Nine Canyon Wind Project	Internal Service Fund	2010 Combined Total
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES								
Net operating revenues	$ 113,657	$ 15	$ -	$ -	$ (2,294)	$ 3,731	$ -	$ 115,109
Adjustments to reconcile net operating revenues to cash provided by operating activities:								
Depreciation and amortization	109,613	55	-	-	102	6,773	-	116,543
Decommissioning	6,766	-	-	-	-	33	-	6,799
Other	1,804	18	-	-	2,066	48	-	3,936
Change in operating assets and liabilities:							-	
Deferred charges/costs in excess of billings	43,680	(45)	-	-	-	-	-	43,635
Accounts receivable	(595)	(159)	-	-	(577)	829	-	(502)
Materials and supplies	(12,422)	-	-	-	-	-	-	(12,422)
Prepaid and other assets	580	13	-	-	-	(112)	-	481
Due from/to other business units, funds and Participants	-	1,030	-	-	889	(553)	-	1,366
Accounts payable	6,826	(791)	-	-	(930)	12	-	5,117
Other revenue receipts	-	-	167,085	113,833	3,883	2,000	-	286,801
Cash payments for preservation, termination expense	-	-	(317)	(44)	-	-	-	(361)
Cash payments for services	-	-	-	-	-	-	(14,920)	(14,920)
Net cash provided (used) by operating and other activities	$ 269,909	$ 136	$ 166,768	$ 113,789	$ 3,139	$ 12,761	$ (14,920)	$ 551,582

*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 23 public utility districts and 5 municipalities. 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. On January 19, 2010, Energy Northwest submitted an application to the NRC to renew the license for an additional 20 years, thus continuing operations until 2043. The estimated duration of the license renewal process is 20 to 24 months from acceptance of the application. Costs to date for Columbia relicensing are $12.7 million.

Energy Northwest also operates the Packwood Lake Hydroelectric Project (Packwood), a 27.5-MWe generating plant completed in 1964. Packwood has been operating under a 50-year license issued by the Federal Energy Regulatory Commission (FERC), which expired on February 28, 2010. Energy Northwest submitted the Final License Application (FLA) for renewal of the operating license to FERC on February 22, 2008. On March 4, 2010, FERC issued a one-year extension to operate under the original license. Annual extensions for the current license can be issued by FERC for the continued operations of Packwood until the new operating license is issued by FERC. FERC is awaiting issuance of the National Oceanic and Atmospheric Administration's (NOAA) Biological Opinion (BO), after which FERC will complete the final license renewal documentation for Packwood. Costs incurred to date for relicensing are $3.7 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). This contract will be extended in fall of 2010 and continue until the fall of 2011. The Packwood participants will then assume the responsibility to purchase their respective shares in the fall of 2011, or they can re-assign their shares to other participants.

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, 2010, 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) standards except for those conflicting with or in contradiction to GASB pronouncements. Effective July 1, 2009, the FASB issued the Accounting Standards Codification (ASC). The ASC does not change GAAP and does not have an effect on the Energy Northwest's financial position or results of operation. Technical references to GAAP included in this report are provided under the new ASC structure. 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 2010 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 standards, 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 ASC 860, "Transfers and Servicing". As such, the guidance under GASB No. 7 and No. 23 is followed. Such guidance governs the accounting for bond defeasances and refundings.

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 2010 totaled $1.2 million and related to Columbia.

d) **Nuclear Fuel:** Energy Northwest has various agreements for uranium concentrates, conversion, and enrichment to provide for short-term enriched uranium product and long-term enrichment services. These contracts do not obligate Energy Northwest to purchase fuel components in excess of the requirements of operations. 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 $53.5 million as of June 30, 2010. Fees for disposal of fuel in the reactor

are being expensed as part of the fuel cost.

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 (reference of the use of spent fuel is due to the DOE contract and current court proceedings. Used fuel is the preferred term by Energy Northwest.) 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 sought damages and an opinion was issued awarding 100 percent of the claim; however, the DOE has appealed the opinion (see Note 13). Spent nuclear fuel litigation costs of $9.4 million were expensed as a result of the DOE opinion rendered.

The current period operating expense for Columbia includes a $7.7 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 2010. Spent fuel is transferred from the spent fuel pool to the ISFSI periodically to allow for future refuelings. Current period costs include $33.6 million for nuclear fuel and $1.2 million for dry cask storage costs.

e) **Asset Retirement Obligation:** Energy Northwest has adopted ASC 410, "Asset Retirement and Environmental Obligations". This standard 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) **Derivative Instruments:** In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." Statement No. 53 provides a comprehensive framework for the measurement, recognition and disclosure of derivative instrument transactions for the purpose of enhancing the usefulness and comparability of derivative instrument information reported by state and local governments. GASB Statement No. 53 is effective for FY 2010. (See Note 14)

h) **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.

i) **Cash and Investments:** For purposes of the Statement of Cash Flows, cash includes unrestricted and restricted cash balances and each business unit maintains its 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.

j) **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.

k) **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.

l) **Materials and Supplies:** Materials and supplies are valued at cost using the weighted average cost method.

m) **Long-Term Liabilities:** Consist of obligations related to bonds payable and the associated premiums/discounts and gains/losses. Other noncurrent liabilities for Columbia relates to the dry storage cask activity.

Long-Term Liability activity for the year ended June 30, 2010 was as follows:

LONG-TERM LIABILITIES (dollars in thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Columbia Generating Station				
Revenue bonds payable	$ 2,392,382	$91,775	$156,702	$2,327,455
Unamortized (discount)/premium on bonds - net	91,995	112	13,905	78,202
Unamortized gain/(loss) on bond refundings	(11,339)	3,129	22	(8,232)
Other noncurrent liabilities	10,597	1,776		12,373
Current portion	22,375	140,790	22,375	140,790
	$ 2,506,010	$ 237,582	$ 193,004	$ 2,550,588
Nuclear Project No.1				
Revenue bonds payable	$ 1,821,165	$ 71,965	$ 153,295	$ 1,739,835
Unamortized (discount)/premium on bonds - net	81,365	5,819	15,696	71,488
Unamortized gain/(loss) on bond refundings	(17,641)	5,349		(12,292)
Current portion	40,155	75,505	40,155	75,505
	$ 1,925,044	$ 158,638	$ 209,146	$ 1,874,536
Nuclear Project No.3				
Revenue bonds payable	$1,729,005	$309,845	$401,135	$1,637,715
Unamortized (discount)/premium on bonds - net	(2,548)	50,378	184	47,646
Unamortized gain/(loss) on bond refundings	(8,054)	3,854	35	(4,235)
Current portion	71,280	44,050	71,280	44,050
	$ 1,789,683	$ 408,127	$ 472,634	$ 1,725,176
Nine Canyon Wind Project				
Revenue bonds payable	$ 144,730	$ -	$ 3,965	$ 140,765
Unamortized (discount)/premium on bonds - net	5,126		493	4,633
Current portion	-	3,965		3,965
	$ 149,856	$ 3,965	$ 4,458	$ 149,363

n) **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.

o) **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.

p) **Capital Contribution:** Energy Northwest has accrued through FY 2009, 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 did not record a receivable for FY 2010 REPI funding as no funds are anticipated to be disbursed to Energy Northwest under this program. The payment stream from Nine Canyon participants and the anticipated 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 2010 and projections out to the 2030 proposed end date.

q) **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 $19.0 million at June 30, 2010, and is recorded as a current liability.

r) **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.

NOTE 2 · UTILITY PLANT

Utility plant activity for the year ended June 30, 2010 was as follows:

UTILITY PLANT ACTIVITY (dollars in thousands).

	Beginning Balance	Increases	Decreases	Ending Balance
Columbia Generating Station				
Generation	$ 3,577,229	$ 13,545	$ (2,324)	$ 3,588,450
Decommissioning	32,469			32,469
Construction Work-in-Progress	92,390	53,640	-	146,030
Accumulated Depreciation and Decommissioning	(2,321,450)	(71,881)	1,717	(2,391,614)
Utility Plant, net*	$ 1,380,638	$ (4,696)	$ (607)	$ 1,375,335
Packwood Lake Hydroelectric Project				
Generation	$ 13,642	$ 5	$ -	$ 13,647
Accumulated Depreciation	(12,542)	(126)	-	(12,668)
Utility Plant, net	$ 1,100	$ (121)	$ -	$ 979
Business Development				
General	$ 1,948	$ 451	$ -	$ 2,399
Construction Work-in-Progress	-	-	-	-
Accumulated Depreciation	(648)	(94)	-	(742)
Utility Plant, net	$ 1,300	$ 357	$ -	$ 1,657
Nine Canyon Wind Project				
Generation	$ 133,290	$ 376	$ -	$ 133,666
Decommissioning	861		-	861
Construction Work-in-Progress	-	-	-	-
Accumulated Depreciation and Decommissioning	(26,965)	(6,806)	-	(33,771)
Utility Plant, net	$ 107,186	$ (6,430)	$ -	$ 100,756
Internal Service Fund				
General	$ 47,475	$ 1,350	$ (1,320)	$ 47,505
Construction Work-in-Progress	0	-		-
Accumulated Depreciation	(40,517)	(1,802)	1,320	(40,999)
Utility Plant, net	$ 6,958	$ (452)	$ -	$ 6,506

* Does not include Nuclear Fuel Amount of $196 million, net of amortization.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2010, Energy Northwest had the following unrealized gains and losses:

AVAILABLE-FOR-SALE-INVESTMENTS (dollars in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (1) (2)
Columbia Generating Station	$ 281,518	$ 57	$ -	$ 281,575
Packwood Lake Hydroelectric Project	-	-	-	-
Nuclear Project No. 1	121,490	-	-	121,490
Nuclear Project No. 3	85,659	-	-	85,659
Business Development Fund	4,163	1	-	4,164
Internal Service Fund	24,011	72	-	24,083
Nine Canyon Wind Project	12,730	78	(2)	12,806

(1) All investments are in U.S. Government backed securities including U.S. Government Agencies and Treasury Bills.
(2) The majority of investments have maturities of less than 1 year. Approximately $11.86 million have a maturity beyond 1 year with the longest maturity being December 14, 2012.

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 (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 depositories 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 – OTHERS DEFERRED CHARGES AND DEFERRED CREDITS

Other deferred charges of $12.7 million and $3.7 million relate to the Columbia and Packwood relicensing effort, respectively. The Business Development deferred charge of $1.0 million is due to derivative power options. (See Note 14) Deferred Credits of $0.2 million consist of turbine elevator purchases for Nine Canyon that will be completed in FY 2013.

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 the 2006 Bonds.

During the year ended June 30, 2010, Energy Northwest issued, for Nuclear Projects No. 1 and 3, the Series 2010-A Bonds. The Series 2010-B Bonds were issued for Nuclear Projects No. 1 and 3, and Columbia. The Series 2010-C Bonds were issued for Columbia. The Series 2010-A, 2010-B, 2010-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 4.49 percent to 4.86 percent. These transactions resulted in a net gain for accounting purposes of $0.23 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 2010-A Bonds issued for Nuclear Project No. 1 and Nuclear Project No. 3 are tax exempt fixed-rate bonds that refunded variable rate bonds.

The Series 2010-B Bonds, issued for Nuclear Project No. 1, Nuclear Project No. 3 and Columbia are tax exempt fixed-rate bonds that extended debt.

The Series 2010-C Bonds issued for Columbia are taxable fixed-rate Build America Bonds to finance a portion of the cost of certain capital improvements at Columbia.

The Bond Proceeds, Weighted Average Coupon Interest Rates, Net Accounting Loss, and Total Defeased Bonds for 2010-A, 2010-B, and 2010-C are presented in the following tables:

BOND PROCEEDS (dollars in millions)

	2010A	2010B	2010C	Total
Project 1	$ 76.95	$ 0.83	$ -	$ 77.78
CGS	-	16.01	75.77	91.78
Project 3	322.65	34.43	-	357.08
Total	$ 399.60	$ 51.27	$ 75.77	$ 526.64

WEIGHTED AVERAGE COUPON INTEREST RATE FOR REFUNDED BONDS

	2010A	2010B
Total	N/A*	5.00%

* The 2010A issue refunded variable rate bonds that are not included.

WEIGHTED AVERAGE COUPON INTEREST RATE FOR NEW BONDS

	2010A	2010B	2010C
Total	4.85%	4.49%	4.86%

NET ACCOUNTING LOSS (Gain) ($ in millions)

	2010A	2010B	2010C	Total
Project 1	$ (0.12)	$ (0.01)	$ -	$ (0.13)
CGS	0.00	0.02	-	0.02
Project 3	(0.52)	0.40	-	(0.12)
Total	$ (0.64)	$ 0.41	$ -	$ (0.23)

TOTAL DEFEASED ($ in millions)

	2010A	2010B	2010C	Total
Project 1	$ 76.96	$ 0.83	$ -	$ 77.79
CGS		16.01	-	16.01
Project 3	322.65	34.43	-	357.08
Total	$ 399.61	$ 51.27	$ -	$ 450.88

Energy Northwest did not issue or refund any bonds associated with Packwood or Nine Canyon for FY 2010.

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 2010 defeasements, $34.4 million, $45.4 million, and $43.9 million of defeased bonds were not called or had not matured at June 30, 2010, 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, 2010, and future debt service requirements for these bonds are presented in the following tables:

OUTSTANDING LONG-TERM DEBT

As Of June 30, 2010 (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	100,200
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
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	4.40-4.74	7-1-10/2015	80,415
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	5.95	7-1-20/2021	12,025
2008C	5.00-5.25	7-1-21/2024	37,240
2008D	5.00	7-1-10/2012	111,505
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
2010B	3.75-4.25	7-1-20/2024	16,005
2010C	4.524-5.124	7-1-20/2024	75,770
		Revenue bonds payable	$ 2,468,245
		Estimated fair value at June 30, 2010	$ 2,716,493 (B)

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Accounting Standards Codification (ASC) 820 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
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
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	270,490
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
2008D	5.00	7-1-10/2017	70,125
2009A	3.25-5.00	7-1-14/2015	48,905
2009B	4.59	7-1-2014	515
2010A	2.00-5.00	7-1-11/2017	71,150
2010B	2.00	7-1-2011	815
		Revenue bonds payable	$1,815,340
		Estimated fair value at June 30, 2010	$2,033,472 (B)

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Accounting Standards Codification (ASC) 820 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, 2010 (dollars In thousands)

NUCLEAR PROJECT NO.3 REFUNDING REVENUE BONDS

Series	Coupon Rate (%)	Serial or Term Maturities	Amount
1989A	(A)	7-1-10/2014	$ 7,633
1989B	(A)	7-1-10/2014	24,513
	7.125	7-1-2016	76,145
			100,658
1990B	(A)	7-1-2010	2,694
1993C	(A)	7-1-13/2018	23,963
2001A	5.50	7-1-11/2018	139,275
2002B	6.00	7-01-2016	75,360
2003A	5.50	7-1-11/2017	241,915
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	7-1-11/2017	50,615
2009A	5.00-5.25	7-1-14/2018	116,055
2009B	4.59	7-1-2014	970
2010A	5.00	7-1-16/2018	279,980
2010B	5.00	7-1-2016	29,865
		Compound interest bonds accretion	197,547
		Revenue bonds payable	$ 1,681,765
		Estimated fair value at June 30, 2010	$ 1,866,870 (B)

(A) Compound Interest Bonds
(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Accounting Standards Codification (ASC) 820 and does not purport to represent the amounts at which these obligations would be settled.

NINE CANYON WIND PROJECT REVENUE AND REFUNDING 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
		Revenue bonds payable	$ 144,730
		Estimated fair value at June 30, 2010	$ 150,701 (B)

(B) The estimated fair value shown has been reported to meet the disclosure requirements of the Accounting Standards Codification (ASC) 820 and does not purport to represent the amounts at which these obligations would be settled.

Total bonds payable	$ 6,110,080
Estimated fair value at June 30, 2010	$ 6,767,536

DEBT SERVICE REQUIREMENTS

As Of June 30, 2010 (Dollars In Thousands)

COLUMBIA GENERATING STATION

Fiscal Year	Principal	Interest	Total
6/30/2010 Balance*	$ 140,790	$ 59,175	$ 199,965
2011	94,395	120,543	214,938
2012	266,810	115,758	382,568
2013	69,090	101,310	170,400
2014	113,235	97,837	211,072
2015-2017	518,530	244,133	762,663
2018-2022	937,755	197,210	1,134,965
2023-2024	327,640	25,013	352,653
	$ 2,468,245	$ 960,979	$ 3,429,224

* Principal and Interest due July 1, 2010.

NUCLEAR PROJECT NO. 1

Fiscal Year	Principal	Interest	Total
6/30/2010 Balance*	$ 75,505	$ 46,957	$ 122,462
2011	93,045	91,136	184,181
2012	91,495	86,737	178,232
2013	313,770	82,095	395,865
2014	368,040	65,788	433,828
2015	191,970	46,787	238,757
2016	326,980	37,197	364,177
2017	354,535	19,372	373,907
	$ 1,815,340	$ 476,069	$ 2,291,409

* Principal and Interest due July 1, 2010.

NUCLEAR PROJECT NO. 3

Fiscal Year	Principal	Interest	Total
6/30/2010 Balance*	$ 10,167	$ 69,666	$ 79,833
2011	82,149	101,879	184,028
2012	69,132	98,299	167,431
2013	131,875	102,797	234,672
2014	124,704	94,732	219,436
2015	151,885	66,481	218,366
2016	264,214	61,179	325,393
2017	272,812	46,059	318,871
2018	377,281	28,209	405,490
Adjustment **	197,546	(197,546)	-
	$ 1,681,765	$ 471,755	$ 2,153,520

* Principal and Interest due July 1, 2010.
** *Adjustment for Compound Interest Bonds accretion; Compound Interest Bonds are reflected at* their face amount less discount on the balance sheet

NINE CANYON WIND PROJECT

Fiscal Year	Principal	Interest	Total
6/30/2010 Balance*	$ 3,965	$ 3,481	$ 7,446
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
2018-2021	37,835	15,445	53,280
2022-2025	30,460	7,827	38,287
2026-2029	19,855	3,305	23,160
2030	5,540	249	5,789
	$ 144,730	$ 71,875	$ 216,605

* Principal and Interest due July 1, 2010.

NOTE 6 - NET BILLING

Security - Nuclear Projects Nos. 1 and 3 and Columbia Generating Station

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 and Snohomish PUD have a Power Sales agreement that became effective in October 2008. 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 $22k 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; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

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 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 Plan 1 and Plan 2 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.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement 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.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 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.

PERS 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 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.

PERS 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, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. PERS 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 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-vested	56,456
Total	**262,057**

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. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. 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, 2009, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16 percent.
** The employer rate for state elected officials is 7.89 percent for Plan 1 and 5.31 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 3.90 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 ending June 30 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	$ 214,117	$ 7,238,997	$ 3,971,410
2009	$ 244,531	$ 6,774,304	$ 2,964,075
2008	$ 201,971	$ 4,313,031	$ 1,702,720

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 is 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 2010 Energy Northwest contributed $2.9 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 retirees after December 31, 1994. The cost of coverage for retirees remained unchanged for FY 2010 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, 2010, was $0.7 million for these benefits.

During FY 2010, 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 2010 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, 2010, the current limit was $12.6 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 $375 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 ASC 410 on July 1, 2002. This standard 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 $577.6k for the Nine Canyon project.

As of June 30, 2010, Columbia has a capital decommissioning net asset value of $17.1 million and an accumulated liability of $123.2 million for the generating plant, and for the ISFSI a net asset value of $1.1 million and an accumulated liability of $1.8 million.

An adjustment was made in FY 2010 for Nuclear Project No. 1 to account for costs incurred for decommissioning and site restoration. Costs incurred in FY 2010 of $0.1 million combined with the current year accretion expense of $0.8 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 $15.3 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, 2010, Nine Canyon has a capital decommissioning net asset value of $0.7 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.

The following table describes the changes to Energy Northwest's ARO liabilities for the year ended June 30, 2010:

ASSET RETIREMENT OBLIGATION (dollars in millions)

Columbia Generating Station		
Balance At June 30, 2009	$	117.09
Current year accretion expense		6.13
ARO at June 30, 2010	$	123.22
ISFSI		
Balance At June 30, 2009	$	1.76
Current year accretion expense		0.09
ARO at June 30, 2010	$	1.85
Nuclear Project No. 1		
Balance At June 30, 2009	$	14.77
Less: Restoration costs incurred		(0.10)
Current year accretion expense		0.77
Revision in future restoration estimates		(0.14)
ARO at June 30, 2010	$	15.30
Nine Canyon Wind Project		
Balance At June 30, 2009	$	1.09
Current year accretion expense		0.05
ARO at June 30, 2010	$	1.14

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 for Columbia ARO). 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 FY 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, 2010, totaled approximately $134.6 million and $20.6 million, respectively. Since September 1996, these amounts have been held in an irrevocable trust that recognizes asset retirement obligations according to the fair value of the dismantlement and restoration costs of certain Energy Northwest assets. The trustee is a non-U.S. Treasury bank that certifies the funds for use when needed to retire the asset. The trust is funded by BPA ratepayers and managed by BPA 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 decommissioning and site restoration plan for the ISFSI in 1997. 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, 2010, is $0.8 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 in constant dollars based on the 1997 study.

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 $16.4 million in network revenue bonds and note payables outstanding, based on their June 30, 2010, 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 (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 2010 the Business Development Fund contributed $112k to NoaNet based on assessments by the NoaNet members. This equity contribution was reduced to zero at year-end because NoaNet had a negative net equity position of $6.2 million as of June 30, 2010. 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. The Court issued its opinion in February 2010, awarding Energy Northwest 100 percent of its claim. The Government has appealed the trial court's decision. No time frame has been provided for when the appeal will be concluded. Energy Northwest is accounting for this lawsuit as a gain contingency and therefore has not recorded any amounts as receivable within the financial statements.

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.

NOTE 14 – DERIVATIVE INSTRUMENTS

GASB Statement No. 53, "Accounting and Reporting for Derivative Instruments" was adopted for FY 2010. Energy Northwest's policy is to review and apply as appropriate the normal purchase and normal sales exception under

GASB No. 53. Energy Northwest has reviewed various contractual arrangements to determine applicability of this statement. Purchases and sales of nuclear fuel and components that require physical delivery and are expected to be used and/or sold in the normal course of business are generally considered normal purchase and normal sales. These transactions are excluded under GASB No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain contracts for power options were evaluated and the following contract did not meet the exclusion for normal purchase and normal sale:

Call options valued at $1.1 million with a notional amount of 50 MWh. The fair value of the option contract was based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity and the Sumas index for natural gas. This contract has an end date of June 2013. Assets associated with the call options are classified on the Balance Sheet as current assets (prepayments and other for $53K) and deferred charges (other deferred charges) of $1.0 million for the remainder of the call option value. The measurement of the fair value of the call options are classified as non-operating revenue and expenses – investment income on the Statements of Revenues, Expenses and Changes in Net Assets.

CURRENT DEBT RATINGS

(Unaudited)

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

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