

**ENERGY  
NORTHWEST**

P.O. Box 968 ■ Richland, Washington 99352-0968

December 19, 2000  
GO1-00-0093  
GO2-00-213

Docket Nos: 50-460  
50-397

U.S. Nuclear Regulatory Commission  
Attn: Document Control Desk  
Washington, DC 20555

Gentlemen:

Subject: **ENERGY NORTHWEST  
WNP-2 AND NUCLEAR PROJECT NO. 1  
2000 ANNUAL FINANCIAL REPORT**

In accordance with 10 CFR 50.71(b), enclosed are two copies of the Energy Northwest 2000 Annual Report.

Should you have any questions, please call RA Bresnahan at (509) 372-5730.

Respectfully,



*For*  
DW Coleman  
Manager, Regulatory Affairs  
Mail Drop PE20

Enclosure: As stated

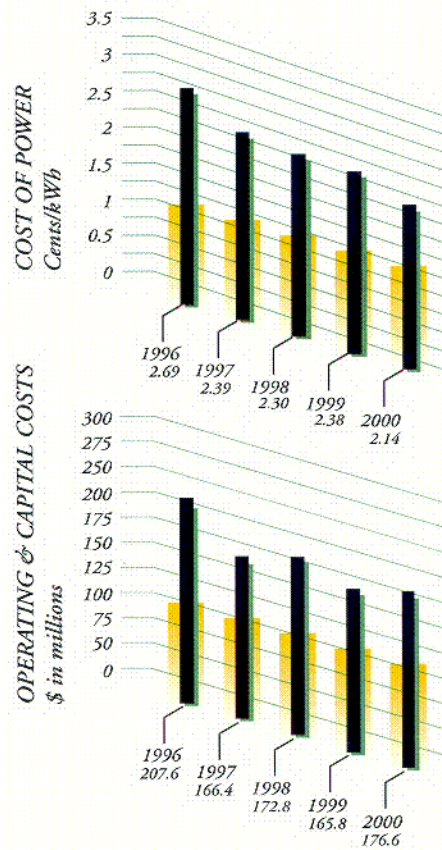
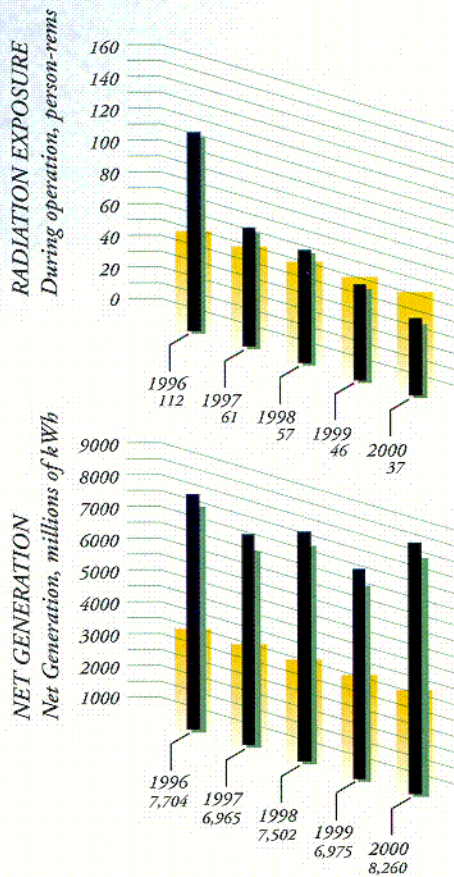
cc: EW Merschoff - NRC RIV  
JS Cushing. - NRC - NRR w/o  
MM Mendonca - NRC w/o  
NRC Sr. Resident Inspector - 988C  
DL Williams - BPA/1399 w/o  
TC Poindexter - Winston & Strawn w/o

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2000  
*Annual  
Report*

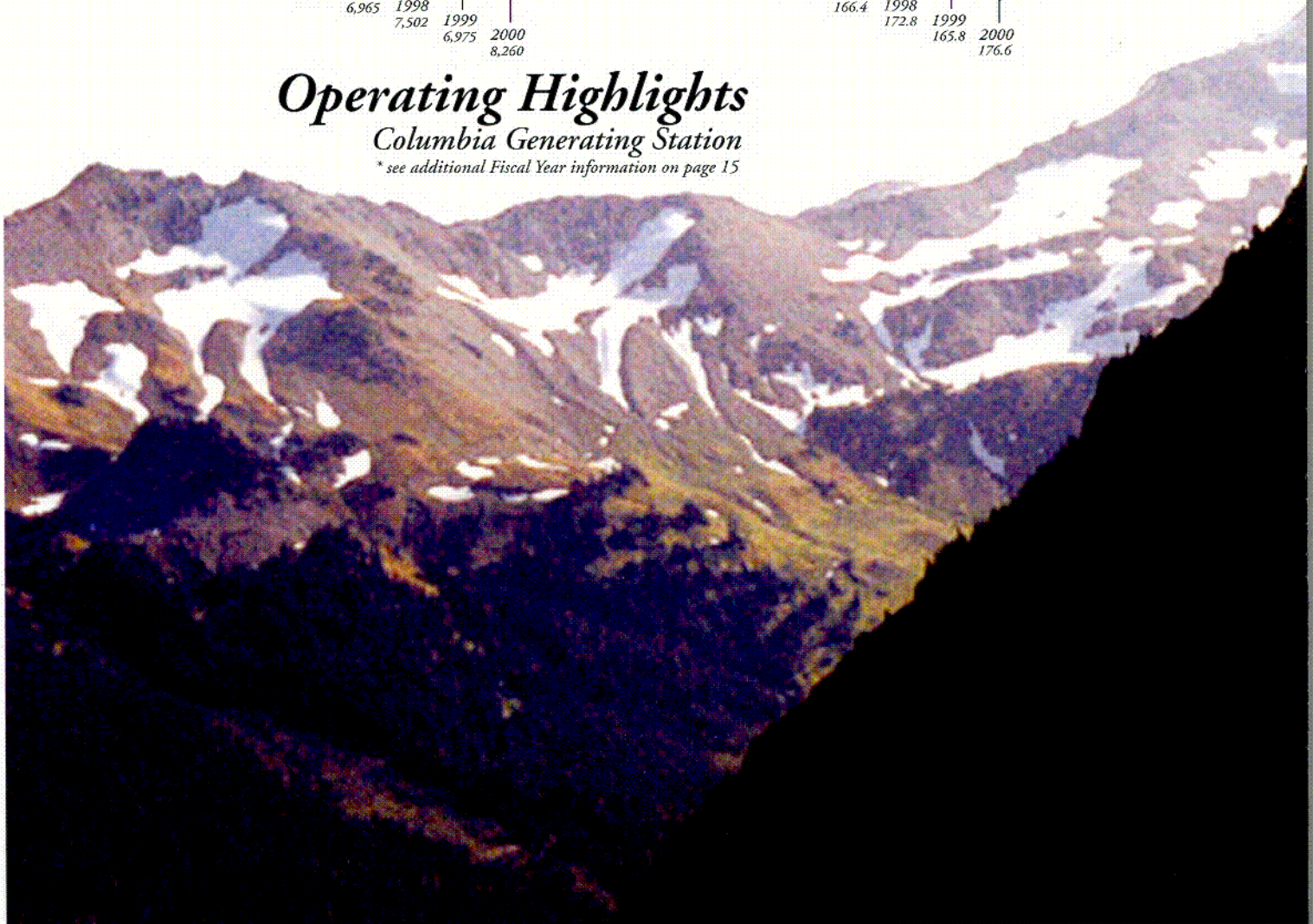
ENERGY NORTHWEST



## Operating Highlights

### Columbia Generating Station

\* see additional Fiscal Year information on page 15





# *New Formulas for the Future*

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*Executive Board*  
*Leading the way to tomorrow*



*Margret Allen*  
Attorney  
Olympia, WA

*John Cockburn*  
Retired Bank Executive  
Seattle, WA

*Vera Claussen*  
(Assistant Secretary)  
Commissioner  
Grant County PUD  
Ephrata, WA

*Louis H. Winnard*  
(Vice Chairman)  
Consultant  
Windsor, CA

*Rudi Bertschi*  
(Chairman)  
Educator  
Seattle, WA

*Larry Kenney*  
Organized Labor  
Seattle, WA

*Dan Gunkel*  
Commissioner  
Klickitat County PUD  
Goldendale, WA


*Robert Graves*  
Commissioner  
Benton County PUD  
Kennewick, WA

*Roger Sparks*  
Commissioner  
Kittitas County PUD  
Ellensburg, WA

Not pictured  
*Darrel Bunch*  
Commissioner  
Okanogan County PUD  
Okanogan, WA

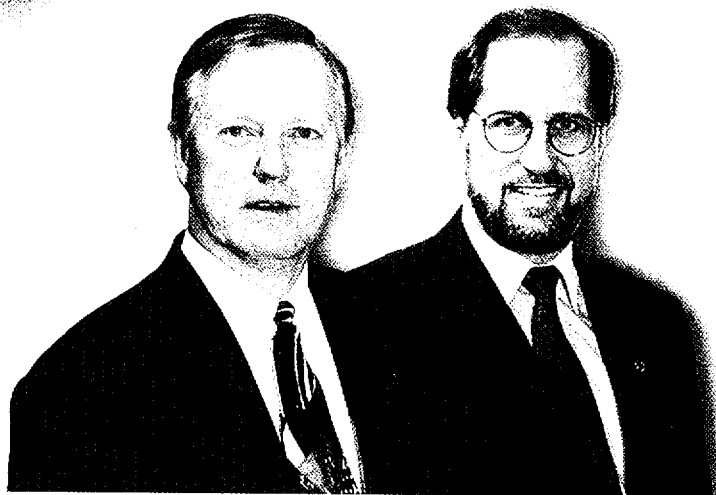
*Edward E. (Ted) Coates*  
(Secretary)  
Retired Utility Executive  
Tacoma, WA





## *Rising to the challenge*

The West Coast will remember the summer of 2000 as a turning point in the history of the utility industry. For the first time in a decade, the Northwest is focusing on energy issues. The message is simple: The West needs more energy. And there often has been a corollary to this message: Energy Northwest can generate needed power economically and reliably.



*Chief Executive  
Officer  
J. V. Parrish*

*Executive Board  
Chairman  
Rudi Bertschi*

Energy Northwest has devoted the past five years to preparing for the future and, as headlines increasingly illustrate, the future has arrived.

Heralding the region's renewed focus on energy was a name change for our commercial nuclear power plant. WNP-2 is now the Columbia Generating Station – an appropriate name for a plant that is a valued complement to the region's hydroelectric resources.

The plant's value to the Northwest was increased by our final step into a 24-month fuel cycle. Columbia Generating Station will be fueled every other year, rather than every spring. This will give the Bonneville Power Administration more flexibility in running a river system that must meet almost impossible demands. In the future, dam operators will produce even less electricity and divert even more water over spillways to help speed salmon smolt to the sea.

Columbia Generating Station positioned itself for two-year cycle operations in two 18-month strides. An outage in the autumn of 1999 prepared the plant for its longest generation campaign to date. The outage was the shortest in our history – 34 days, 12 hours. Bonneville expected a 36-day outage. The extra generation was valued at about \$1.5 million.

Because of the extra fuel loaded in 1999, Columbia was able to operate throughout the spring when, to the surprise of most energy observers, power from the plant was needed not only in the Northwest, but across the West. As spring turned into summer – and the price of electricity shot up to unheard-of levels – it became clear that Columbia is one of the keystones in generation and transmission support in the Northwest. The value of the plant's output, if sold on the open market, would have been \$5 million a day. While Columbia Generating Station's power is primarily reserved for the public power sector and sold at the cost of production, the market price of electricity demonstrates the intrinsic value Northwest ratepayers place on our plant.

As the value of electricity grows, we continue pressure to keep costs down. The cost of power from Columbia Generation Station during the 2000 fiscal year was 2.14 cents a kilowatt-hour – the lowest it has ever been.

Such value will only grow as the Northwest becomes increasingly desperate for electricity. The Bonneville Power Administration has predicted a

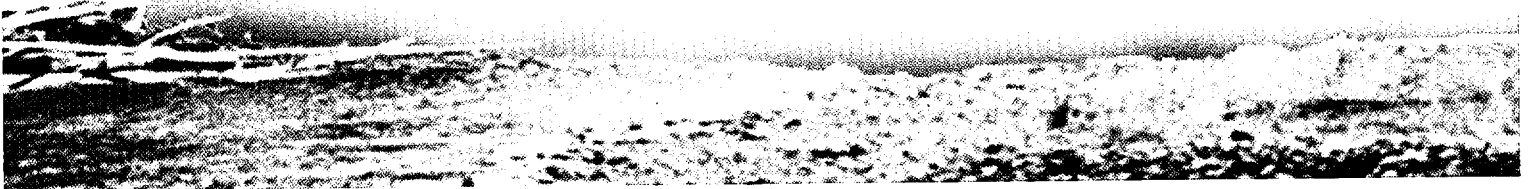
significant chance of a shortfall of power in the winter of 2007-08. The Pacific Northwest Utilities Conference Committee has projected a shortage in the winter of 2004-05. The Northwest Power Planning Council foresees a shortage in the winter of 2002-03. Each scenario predicts rolling blackouts.

None of these agencies predicted shortages in 2000, and certainly not in the summer. Yet that was when the West first flirted with significant shortfalls. The biggest test for the region will arrive with the onset of cold winter weather. Each prediction of shortage rests upon three legs: increasing water reserved for fish runs; lower than normal snowpack; and bitter temperatures in January or February. Alone among public power's generation resources in the Pacific Northwest, the Columbia Generating Station isn't affected by any of these circumstances. It can generate enough power to serve a city the size of Seattle, without relying on snowpack and without harming a single fish.

The Northwest's reliance on hydropower has sent utilities across the region scurrying for additional capacity. New generating projects have been announced almost on a weekly basis, yet progress has been made on few. Bonneville has hesitated to sponsor generation. Financial markets have been unresponsive to projects proposed by private interests, preferring investments in less risky endeavors. And the price of the feed stock for these proposed projects – natural gas – has risen 400 percent in the past four years.

Energy Northwest, the source of 12 percent of Bonneville's power, prepares to answer the call of a region on the cusp of a shortage. Among the initiatives discussed in this report is the potential to increase the capacity of Columbia Generating Station by about 150 megawatts, siting studies on a 50-megawatt wind farm, a fuel cell acquired for demonstration purposes and our continued efforts to build a combustion turbine power plant on a licensed site in western Washington.

This is an exciting time for Energy Northwest. We have been preparing for this moment for years, seeking projects to reduce the price of power from the Columbia Generating Station, as well as provide generation to keep the lights on in the Pacific Northwest. We have assembled a portfolio of viable strategies. We have the people and skills to implement those strategies. And we are gaining the support we need to move forward.





*Excelling  
in a Changing  
Market*

What a difference a year makes.

Last June, at the end of Energy Northwest's FY 1999, the Bonneville Power Administration was selling surplus electricity in the West Coast market for less than a penny a kilowatt-hour. Even though the region's hydroelectric reservoirs were flush with water, the market price was higher than the cost of generating electricity at the Columbia Generating Station. Bonneville was making a small, but comfortable margin, from the operation of the Northwest's only nuclear power plant. That was 1999.

In June 2000, after enjoying decades of plentiful, low-cost power, Northwest utilities had a rude awakening. Low water runoff, ever-increasing power demand, few new generating resources, a deregulated market in California and hot weather had made the market extremely vulnerable.

On June 26, after running continuously for more than 200 days, Columbia Generating Station unexpectedly shut down because of a frayed wire in a monitoring system on a transformer. The seven-day outage demonstrated the value of the plant to the Pacific Northwest.

By coincidence, three other large generating stations, all coal-fired plants, shut down the same day. The result was near panic on the West Coast power market. The spot price of electricity shot up to more than 75 cents a kilowatt-hour — 125 times what it cost a year earlier.

### *Production costs continue downward trend*

A six-year effort to reduce production costs and increase the reliability of the Columbia Generating Station continued in FY 2000. The station delivered electricity to the Bonneville Power Administration in FY 2000 for 2.14 cents a kilowatt-hour — down more than 10 percent from FY 1999.

Gaining control of costs required setting priorities, fixing problems in the plant and motivating the staff to realize its potential.

Innovative ways were found to give employees incentives to take ownership for plant performance.



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 1991  
 1st Generation  
 1st Marriage  
 General Counsel  
 Jerry Guerin  
 Administration/Chief Financial Officer  
 Jack Baker  
 Resource Development

Energy Northwest employees are paid a portion of their compensation in the form of incentive payments based on meeting key cost and efficiency goals. The concept is simple: If the Columbia Generating Station runs well and remains within budget, employees are rewarded at the end of the year. If the plant fails to meet its goals, some or all of the incentive payment is forfeited.

With budgets down and reliability up, Energy Northwest is continuing to look for ways to decrease the cost of power generated by the Columbia Generating Station. An example that paid big dividends this year was the transition from an annual to a 24-month refueling cycle.

The Columbia Generating Station was the last of the nation's nuclear power plants still on a 12-month refueling cycle. Because Columbia Generating Station is nestled among some of the greatest hydroelectric dams in the world, the nuclear station has always followed the ebb and flow of the Columbia River. In past springs, when water was high, the region was awash with hydro-electricity. Bonneville would meet the region's needs while selling huge amounts of surplus power in the West Coast market for a fraction of a cent per kilowatt-hour.

In previous years it made sense for Columbia Generating Station to be off line and refueling in the spring.

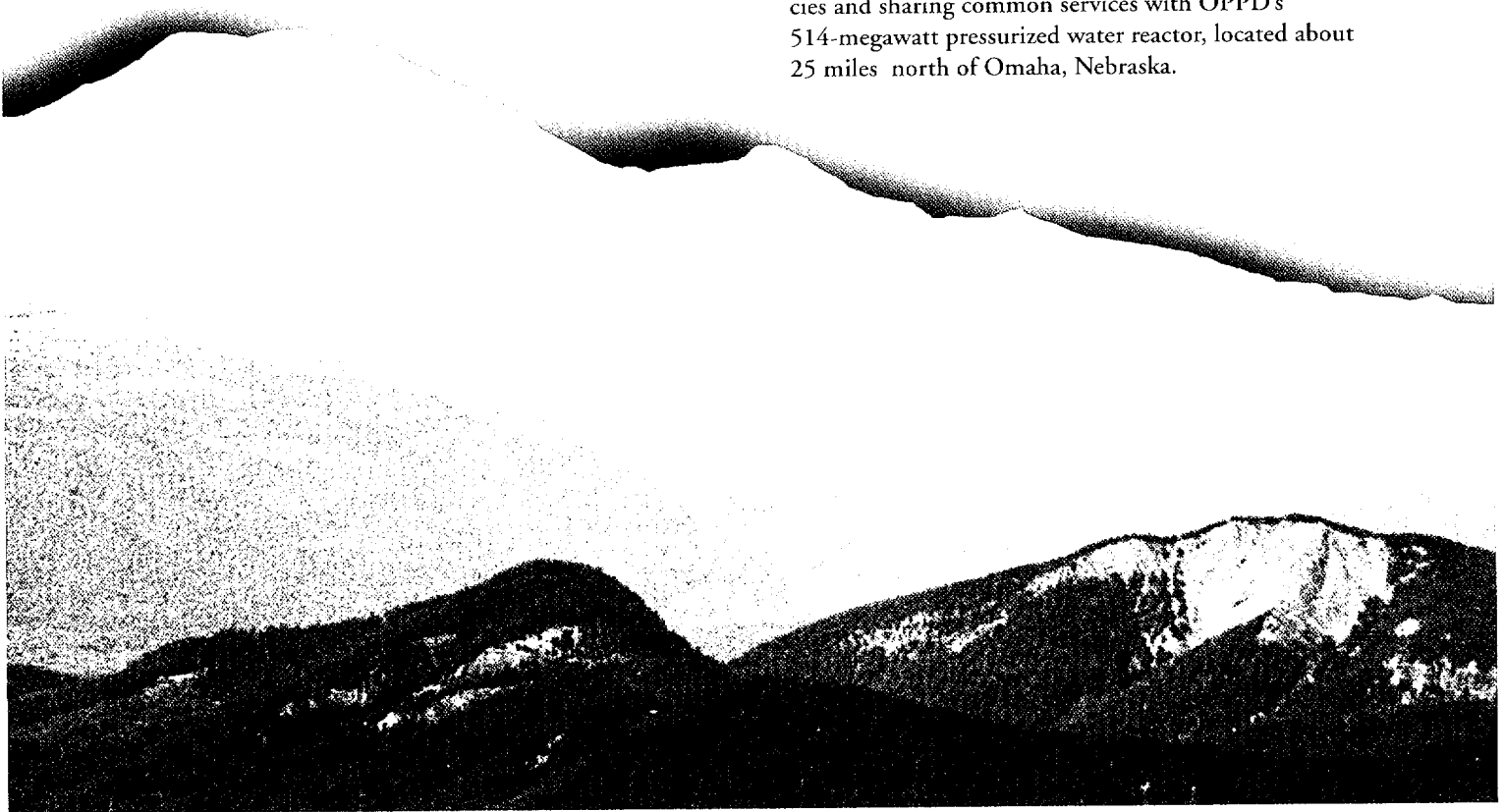
The plant simply couldn't compete with hydro-power during the spring runoff.

The situation is different now, for three reasons. First, efforts to restore runs of endangered salmon have dramatically altered the way hydroelectric dams are operated. More water for fish means less water to turn turbines.

Second, the booming Northwest economy has caught up with the power surplus the region has enjoyed for the past two decades. Utilities that a few years ago were turning away from BPA and looking for other, lower-cost suppliers are now flocking back to the federal marketing agency.

Third, the incremental cost to Bonneville of running Columbia Generating Station — the cost for fuel, generation taxes and contributions to the federal spent fuel fund — is about a half-cent a kilowatt-hour. In the spring of 2000, Bonneville realized tens of millions of dollars in additional revenue by keeping Columbia Generating Station running. This spring was the first time in its 15-year operating history that the station ran through the spring. Refueling was done in September, when enough fuel was loaded in the reactor to run the plant non-stop until the spring of 2001.

Another initiative that is expected to help reduce the cost of power is a plan to partner with the Omaha Public Power District (OPPD) to establish a service company that would use shared resources to provide centralized support functions to Columbia Generating Station and OPPD's Fort Calhoun Station. The objective of the service company is to lower costs by identifying efficiencies and sharing common services with OPPD's 514-megawatt pressurized water reactor, located about 25 miles north of Omaha, Nebraska.



## *Looking to the future*

Columbia Generating Station came a long way in the past few years.

The value of the station to BPA and the region was seriously questioned in 1997. This year that question was answered.

Columbia Generating Station is now recognized as a valued resource that is a vital counterpoint to the Pacific Northwest's traditional reliance on low-cost hydroelectric dams.



Packwood Lake, source of water for the Packwood Lake Hydro Project, is located in the Gifford Pinchot National Forest in the beautiful Cascade Mountains of Washington, a few miles south of Mount Rainier.

In June, Energy Northwest employees gathered to celebrate the importance of error-free performance.

## *Spent fuel storage project moves forward*

Last year, Energy Northwest's Executive Board approved a \$25 million contract for a spent nuclear fuel dry-cask-storage system with Holtec, International, for the design, licensing, fabrication, and furnishing of a temporary spent fuel storage installation.

Columbia Generating Station is expected to run out of space in its spent fuel storage pool in November 2004. An outdoor storage pad is being built to store spent fuel in concrete and steel casks. The project includes design, licensing and fabricating 15 canisters and their overpacks to meet Columbia Generating Station's spent fuel storage needs until a federal spent fuel repository is available. The canisters will give the plant the capability to discharge the nuclear fuel core, if necessary, and handle the 2005 refueling outage. The project includes options to meet the plant's future storage needs.

## *Packwood Hydroelectric Project goes green*

Energy Northwest's 27-megawatt Packwood Lake Hydroelectric Project is one of three projects marketed as "green power" by the Bonneville Power Administration on behalf of its Environmental Foundation.

The foundation is made up of the Renewable Northwest Project, the Northwest Energy Coalition, and the National Resource Defense Council. The environmental groups have teamed with Bonneville in a unique arrangement to market "green power" from Packwood.

Northwest consumers voluntarily pay a premium for this green power, with most of the extra revenue going to the foundation to finance future environmental projects. If all the output from Packwood is sold by BPA as "green," the foundation stands to gain about \$750,000 a year. Energy Northwest and its Packwood participants stand to gain up to \$300,000 a year.

Another benefit to Packwood as a result of the "green" designation may come down the road.



The project is up for relicensing in 2010. The recognition of Packwood as environmentally friendly could pay future dividends during the relicensing process.

## New Business Initiatives

### *Energy Services*

Energy Northwest is pursuing a number of new business initiatives to diversify the organization as well as reduce the costs of operating Columbia Generating Station.

Employees are engaged in contract work with the City of Richland, providing construction-management expertise to complete several building projects. Other contracts include providing telecommunication and instrument calibration services to Hanford contractors and supporting the Satsop Redevelopment Project.

However, like all successful companies, Energy Northwest will need to expand further to supply the evolving needs of its customers, and the increasing demand for power. Some of the additional initiatives being developed include:

- Providing hydroelectric facility engineering, modification and maintenance services to the Federal Columbia River Power System (FCRPS) and public power agencies in the Northwest.
- Participating in marketing activities to provide members and other public power entities, with cost-effective customer products and services.
- Supporting the development and deployment of cost-effective renewable energy, including developing a wind project.
- Developing new or acquiring existing generation projects for the benefit of the member utilities and other public power entities.
- Helping develop and operate a public purpose communications network serving a variety of needs across the Northwest by using dark fiber installed on 2,000 miles of BPA's transmission system.

### *Federal Columbia River Power System (FCRPS)*

Continuing to expand in the energy services industry, Energy Northwest last year began providing services to the FCRPS.

The FCRPS is made up of the Bonneville Power Administration, which markets all federal power and that from Energy Northwest, the Army Corps of Engineers and the Bureau of Reclamation. The purpose of the FCRPS is to allow direct movement of money from Bonneville to the Corps and Bureau to maintain and operate the dams. In the past, these agencies have had to rely on Congressional appropriations for much needed capital.

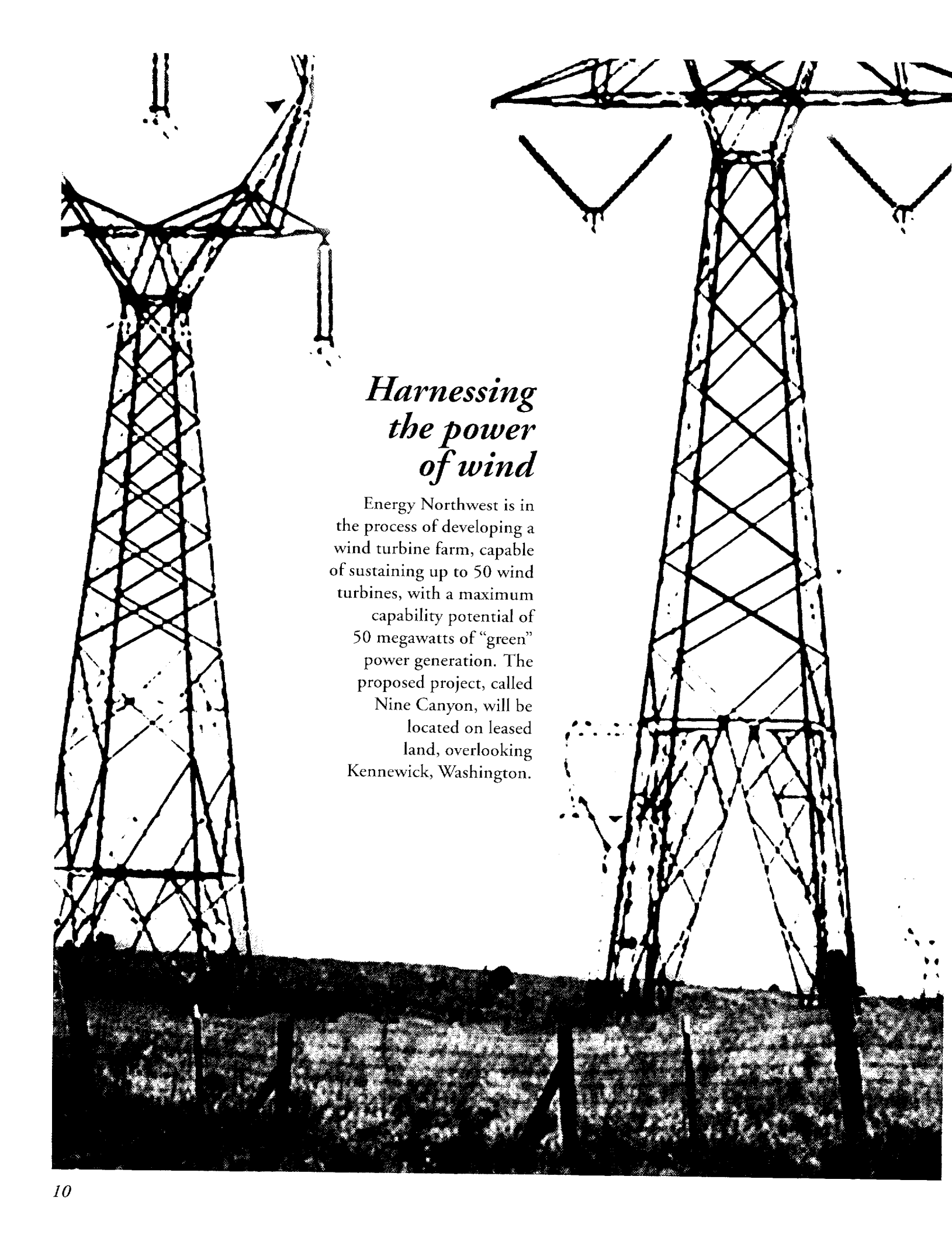
Over the past year, Energy Northwest put past lessons learned at Columbia Generating Station to work for the FCRPS, completing several assessments aimed at helping the Corps and Bureau operate their facilities more efficiently.

### *Hometown Connections*

In 1999, Energy Northwest became a marketing affiliate of Hometown Connections, a subsidiary of the American Public Power Association. Over the past year, the agency has continued building relationships and customers for Hometown's collection of services, designed to make local public power retailing utilities more economic using combined buying power to leverage better arrangements from vendors. Energy Northwest is marketing services and products, like customer surveys, customer information software, advanced meter-reading products, surge protection, workshops and energy services.

Hometown Connections helps public power systems thrive in today's competitive marketplace by aggregating public power needs to provide utilities discounted products and services.





## *Harnessing the power of wind*

Energy Northwest is in the process of developing a wind turbine farm, capable of sustaining up to 50 wind turbines, with a maximum capability potential of 50 megawatts of "green" power generation. The proposed project, called Nine Canyon, will be located on leased land, overlooking Kennewick, Washington.

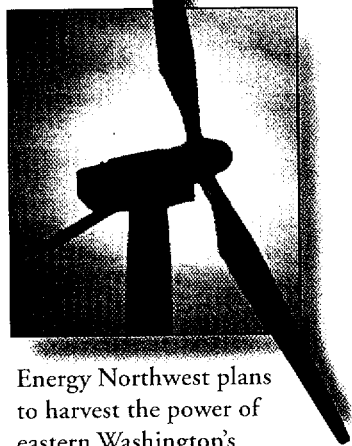


### *Applied Process Engineering Laboratory*

The Applied Process Engineering Laboratory (APEL) celebrated its second anniversary in April. The \$6 million facility, located in a former Energy Northwest warehouse in Richland, continues to exceed revenue and occupancy projections.

APEL is the only high-tech business incubator of its kind in North America. It is creating jobs in the Northwest and addressing some of the most vexing environmental problems facing the planet, such as disposal of toxic wastes. APEL is a joint venture of Energy Northwest, the Port of Benton, the City of Richland, the Pacific Northwest National Laboratory, the U.S. Department of Energy and others.

APEL hosts a diverse array of technologies, from a waste vitrification plant to chemical warfare detection devices to a robotic arm for removing debris from underground nuclear waste storage tanks.



Energy Northwest plans to harvest the power of eastern Washington's steady winds.

### *Satsop Redevelopment Project*

Energy Northwest continues to work with the Satsop Redevelopment Project (SRP) following the transfer of most assets and real estate associated with terminated Nuclear Projects 3 and 5 to local authorities for economic development in Grays Harbor County, in coastal Washington State. The site has become a showcase for rural economic development, with its prime tenant a growing computer software company.

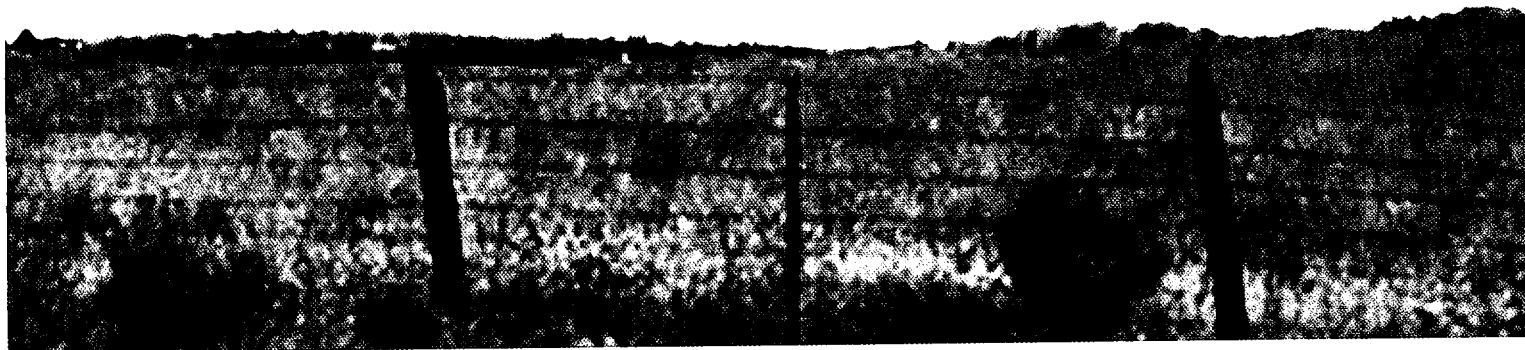
Energy Northwest retained ownership of sites for two natural gas-fired combustion turbines now licensed, but not yet built. Additional acreage was obtained for two more combustion turbine units. One of the 245-megawatt plants is committed to Bonneville for operation by Energy Northwest. The other, if built, would be operated by Energy Northwest to meet the emerging energy needs of the Northwest.

### *Nine Canyon Wind Energy Project*

Energy Northwest is in the process of developing a wind turbine farm, capable of generating up to 50-megawatts of "green" power — enough electricity to power up to 15,000 homes per year.

The farm will be located on leased land, near Kennewick, Washington, and include up to 50 wind turbines. Each turbine will have a power generating capacity factor of 500 to 1,500 kilowatts.

Currently, meteorological data is being collected at the site, which will ultimately indicate the most beneficial locations for the turbines. Pending formal approval by the Energy Northwest Board of Directors, it's expected that construction will start in May of 2001, with commercial operation beginning around September of 2001.



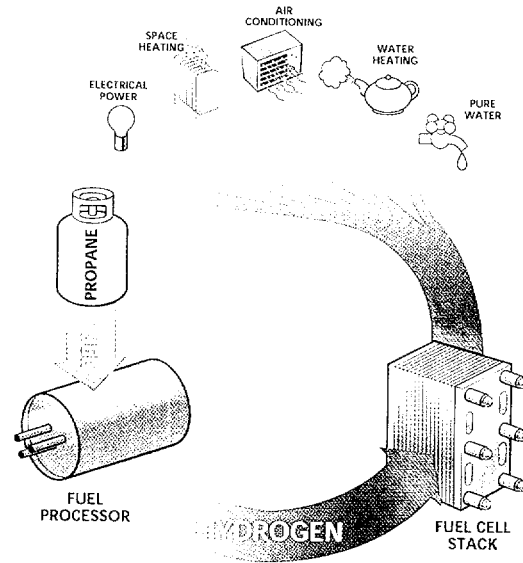
## *Fuel Cells: powering the future*

Fuel cells hold promise for independent power generation.

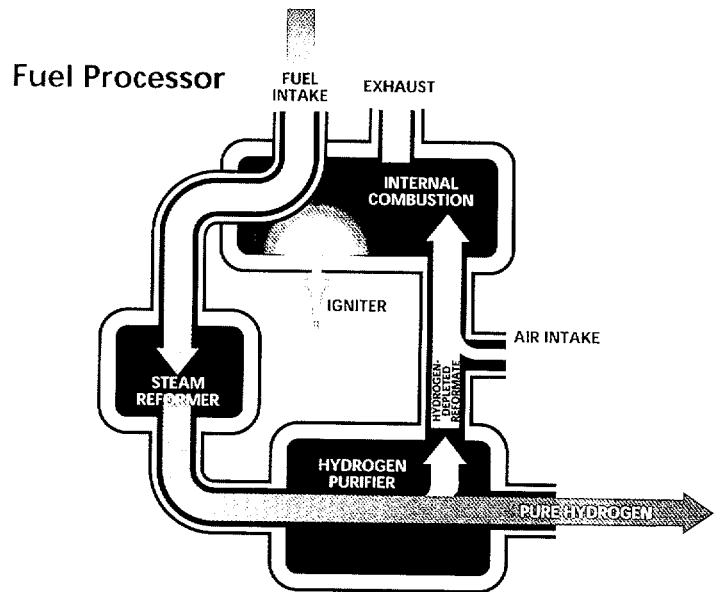
Fuel cells are one more possibility in meeting the region's ever increasing demand for power.

Fuel cells hold the potential to power small homes to larger installations, working much like a battery that doesn't run down. Fuel cells rely on chemical reaction between hydrogen and oxygen to produce electricity.

As technology advances and production increases, fuel cells will be inexpensive enough to power remote homes or add voltage support in isolated areas.



### THE FUEL CELL PROCESS



## *Fuel Cell*

Energy Northwest has joined with five of its utility members to test the latest generation of fuel cells. While other utilities are looking at major installations, the Energy Northwest fuel cell is designed to power a single-family residence.

Fuel cells are essentially batteries in which the active ingredients are constantly replenished. A fuel cell doesn't run out as a flashlight battery does. Fuel cells operate on hydrogen. But instead of burning hydrogen, fuel cells rely on chemical reaction between hydrogen and oxygen to produce electricity.

As technology improves and production increases, such small fuel cells will be inexpensive enough to power remote homes or to add voltage support in isolated areas of a local utility's distribution grid. Rather than distributing electricity to every outlying area, utilities will be able to distribute generation where the need is, not necessarily where the power lines run.

The Bonneville Power Administration commissioned the production of 110 fuel cells in 1998. These fuel cells are being sold to public power utilities throughout the Northwest in an attempt to test their reliability and to explore a variety of possible uses.

Energy Northwest has purchased one of these fuel cells. The fuel cell, contained in a modular structure, is being used to demonstrate its capabilities to the public and member utilities. This fuel cell uses methanol, a form of hydrogen, and produces about 3 kilowatts of electricity, enough electricity for a typical single-family dwelling.

## *Leased Property*

In 1998, Energy Northwest began leasing facilities in Richland, Washington to BNFL, Inc. for a period of five years. Substantial refurbishment was included in

the lease agreement. BNFL, Inc. was contracted by the U.S. Department of Energy to build a pilot vitrification facility, which would treat about 10 percent of the Hanford Site's hazardous, liquid waste.

In May of 2000, the U.S. Department of Energy terminated BNFL's contract. Consequently, BNFL, in concurrence with Energy Northwest, has elected to transfer the facility lease to the new project contractor, CH2M Hill Hanford Group, Inc.

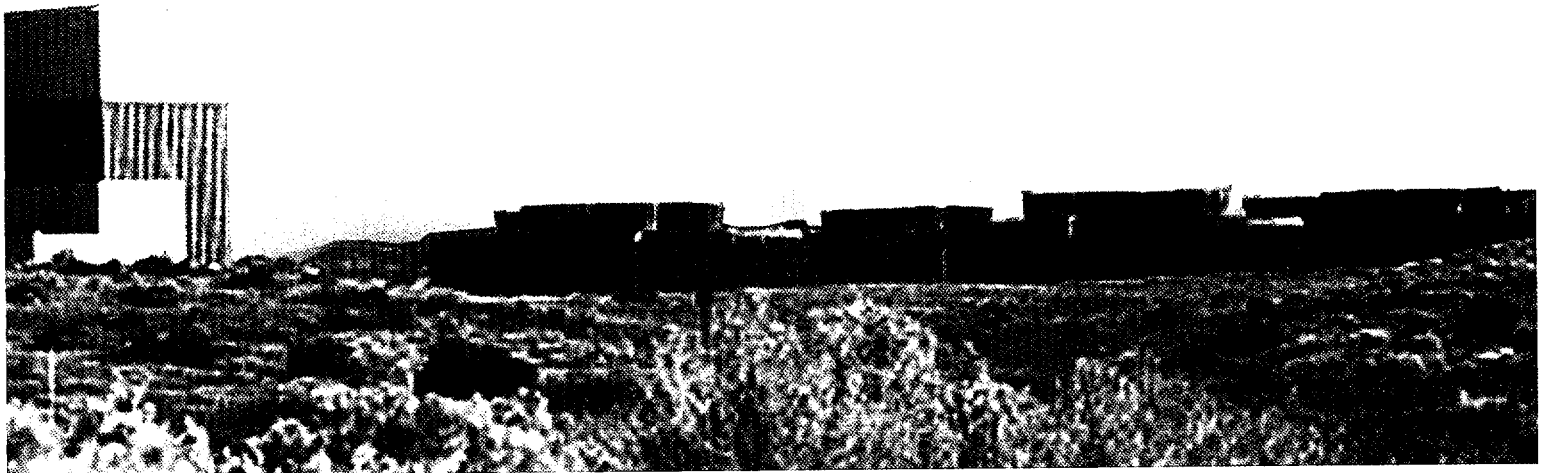
Energy Northwest continues to be protected by the terms of the lease, and termination clauses within the lease.

It is expected that refurbishment costs incurred as part of the lease agreement will be recouped by the end of 2001. The facilities lease does not expire until 2003, resulting in revenues for Energy Northwest.

## *Benton Redevelopment Initiative*

The feasibility of using Energy Northwest's terminated Nuclear Projects 1 and 4 in Benton County in southeast Washington for local economic development is also being studied. The Port of Benton, Benton County, Benton County Public Utility District and the City of Richland have banded together to assess the economic development potential of the project site.

Energy Northwest is supporting this initiative, both for its potential to stimulate the local economy by attracting industry to the project site, and because of the substantial cost of site restoration. A site restoration plan estimates that WNP-1/4 site restoration costs could run as high as \$100 million.



# *Board of Directors*

*(left to right)*

**Parker Knight** (President)  
Commissioner, Skamania County PUD

**Richard Riley**  
Commissioner, Wahkiakum County PUD

**Vera Claussen** (Secretary)  
Commissioner, Grant County PUD

**Tom Casey**  
Commissioner, Grays Harbor County PUD

**Dan Gunkel**  
Commissioner, Klickitat County PUD

**Beverley Cochran** (Vice President)  
Commissioner, Franklin County PUD

**Roger Sparks**  
Commissioner, Kittitas County PUD

**Robert Graves**  
Commissioner, Benton County PUD

*(not shown)*

**Fred Bremner**  
Commissioner, Ferry County PUD

**Darrel Bunch** (Assistant Secretary)  
Commissioner, Okanogan County PUD

**Mark Crisson**  
Director of Utilities, Tacoma Power

**Raymon Sieler**  
Energy Services Director, City of Richland

**Gary Zarker**  
Superintendent, Seattle City Light



# FINANCIAL OPERATING HIGHLIGHTS

for the year ended June 30, 2000 (Dollars in Millions)

## OPERATING STATISTICS

### COLUMBIA GENERATING STATION

	FY2000	FY1999	FY1998	FY1997	FY1996
Net generation (1)	8,260	6,975	7,502	6,965	7,704
Plant availability (2)	88.8%	76.3%	77.9%	83.7%	79.7%
Plant capacity (3)	79.3%	71.9%	71.9%	60.0%	61.3%
Cost of Power (cents/kWh)					
Production Expenses (4)	1.55	1.60	1.59	1.72	1.73
Industry Basis (5)	2.14	2.38	2.30	2.39	2.69

### PACKWOOD LAKE PROJECT

	FY2000	FY1999	FY1998	FY1997	FY1996
Net generation (1)	113	90	98	123	125
Plant availability (2)	95.0%	91.4%	92.2%	88.5%	90.1%
Plant capacity (3)	46.8%	37.3%	37.4%	51.9%	51.9%
Cost of Power (cent/kWh)					
Production Expenses (4)	0.21	0.23	0.25	0.33	0.09

## INVESTMENT PERFORMANCE

	FY 2000	FY 1999	CHANGE
Income	\$ 38	\$ 40	-5.0%
Average Balance	\$ 664	\$ 659	0.8%
Rate of Return	5.71%	6.05%	-5.6%

## BONDS OUTSTANDING

	FY 2000	FY 1999	CHANGE
Nuclear Project No. 1			
Fixed	\$ 2,012	\$ 2,082	-3.4%
Weighted Average	5.8%	5.8%	0.0%
Variable	\$ 130	\$ 135	-3.7%
Average Rate	3.7%	3.2%	15.6%
Columbia Generating Station			
Fixed (6)	\$ 2,074	\$ 2,208	-6.1%
Weighted Average (7)	5.6%	5.6%	0.0%
Variable	\$ 121	\$ 121	0.0%
Average Rate	3.7%	3.2%	15.6%
Nuclear Project No. 3			
Fixed (6)	\$ 1,506	\$ 1,573	-4.3%
Weighted Average (7)	5.6%	5.7%	-1.8%
Variable	\$ 184	\$ 185	-0.5%
Average Rate	3.7%	3.2%	15.6%
Packwood Lake Project			
Fixed	\$ 5.8	\$ 6.3	-7.9%
Weighted Average	3.7%	3.7%	0.0%

(1) Expressed in millions of kWh. Columbia's generation includes BPA economic dispatch credit of: FY2000: 553; FY1999: 0; FY1998: 532; FY1997: 1,151; FY1996: 1,759

(2) Plant availability is defined as the ratio of the sum of source hours and reserve shut down hours to total period hours.

(3) Plant capacity factor is the ratio of the actual energy production over a given period of time to the maximum energy production capability.

(4) Includes operating, maintenance, and fuel amortization costs per the EIA-412 report submitted to the Federal Energy Regulatory Commission (FERC).

(5) Industry cost of power includes expenses associated with operations and maintenance, capital additions, administrative and general, fuel-related costs and estimated cost associated with the economic dispatch generation credit.

(6) Excludes compound interest bonds accretion.

(7) Excludes compound interest bonds.



*MANAGEMENT REPORT ON  
RESPONSIBILITY FOR FINANCIAL REPORTING*

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

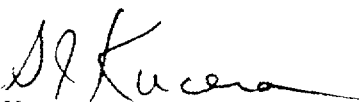
The financial statements have been audited by PricewaterhouseCoopers LLP, Energy Northwest's independent accountants. Management has made available to PricewaterhouseCoopers LLP all financial records and related data, and believes that all representations made to PricewaterhouseCoopers LLP during its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

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

Energy Northwest maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, PricewaterhouseCoopers LLP has considered the internal control structure in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and PricewaterhouseCoopers LLP concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 2000, internal control procedures are adequate.



J. Vic Parrish  
Chief Executive Officer



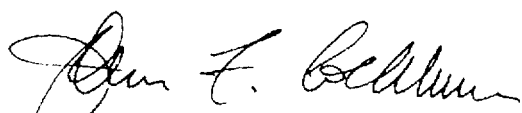
G.J. Kucera  
Vice President, Administration/  
Chief Financial Officer

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

The Executive Board's Audit, Legal and Finance Committee is composed of seven independent directors. Members of the Committee are John F. Cockburn, Chairman; Rudi Bertschi, Ex Officio; Margaret Allen; Vera Claussen; Larry Kenney; Roger Sparks; and Louis Winnard. The Committee held 12 meetings during the fiscal year ended June 30, 2000.

The Committee oversees Energy Northwest's financial reporting process on behalf of the Executive Board. In fulfilling its responsibilities, the Committee discussed with the internal auditor and the independent accountants, the overall scope and specific plans for their respective audits, and reviewed Energy Northwest's financial statements and the adequacy of Energy Northwest's internal controls.

The Committee met regularly with Energy Northwest's internal auditor and independent accountants to discuss the results of their examinations, their evaluations of Energy Northwest's internal controls, and the overall quality of Energy Northwest's financial reporting. The meetings were designed to facilitate any private communications with the Committee desired by the internal auditor or independent accountants.



John F. Cockburn  
Chairman, Audit Legal and Finance Committee

*REPORT OF INDEPENDENT ACCOUNTANTS*

To the Executive Board  
Energy Northwest  
Richland, Washington

In our opinion, the accompanying individual balance sheets and related statements of operations and of cash flows present fairly, in all material respects, the financial position of Columbia Generating Station (formerly Nuclear Project No. 2), Packwood Hydroelectric Project, Nuclear Project No. 1 and Nuclear Project No. 3 at June 30, 2000, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the projects' management; our responsibility is to express an opinion on these financial statements based upon our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 audits provide a reasonable basis for the opinions expressed above.

*PricewaterhouseCoopers LLP*  
Portland, Oregon  
August 30, 2000

# BALANCE SHEETS

As of June 30, 2000 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *
<b>ASSETS</b>				
<b>UTILITY PLANT (NOTE B)</b>				
In service	\$ 3,454,776	\$ 12,884		\$ 127
Allowance for depreciation	(1,620,632)	(11,055)		
	1,834,144	1,829		127
Nuclear fuel, net of accumulated amortization	137,072			
Construction work in progress	9,611			
	1,980,827	1,829		127
<b>RESTRICTED ASSETS (NOTE B)</b>				
Special funds				
Cash	3,250	3	\$ 4,008	3,825
Available-for-sale investments	32,855	311	68,808	18,400
Accounts and other receivables	77,583		535	26
Due from other projects			11	
Prepayments and other			39	
Debt service funds				
Cash	528	24	598	741
Available-for-sale investments	135,797	738	181,681	170,124
Other receivables	1,787		586	852
	251,800	1,076	256,266	193,968
<b>LONG-TERM RECEIVABLES (NOTE B)</b>				
	8,327			
<b>CURRENT ASSETS</b>				
Cash	193	12	74	30
Available-for-sale investments	19,237	1,113	20,532	5,304
Accounts and other receivables	6,531	125		11
Due from participants	518		203	232
Due from other projects	1,382	23	111	1,000
Due from other funds	32,945	58	23,716	19,768
Materials and supplies	60,250			
Prepayments and other	1,258	2		12
Nuclear fuel held for sale			7,561	
Plant & equipment held for sale			8,095	
	122,314	1,333	60,292	26,357
<b>DEFERRED CHARGES</b>				
Costs in excess of billings		2,738	1,903,191	1,640,306
Unamortized debt expense	13,797	4	17,710	13,145
Other deferred charges	1			
	13,798	2,742	1,920,901	1,653,451
<b>TOTAL ASSETS</b>	<b>\$ 2,377,066</b>	<b>\$ 6,980</b>	<b>\$ 2,237,459</b>	<b>\$ 1,873,903</b>

\* Project recorded on a liquidation basis

See notes to financial statements

# BALANCE SHEETS

As of June 30, 2000 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *
<b>LIABILITIES</b>				
BILLINGS IN EXCESS OF COSTS	\$ 8,706			
UNREALIZED INVESTMENT LOSSES	(2,672)		\$ (1,464)	\$ (1,222)
LONG-TERM DEBT (NOTE E)				
Revenue bonds payable	2,076,295	\$ 5,530	2,141,770	2,088,160
Unamortized discount on bonds - net	(23,951)	(17)	(9,101)	(259,481)
Unamortized loss on bond refundings	(48,358)		(55,204)	(18,027)
	2,003,986	5,513	2,077,465	1,810,652
LIABILITIES- PAYABLE FROM RESTRICTED ASSETS (NOTE B)				
Special funds				
Accounts payable and accrued expenses	84,354	6	76,461	3,910
Due to other funds	27,132	27	18,821	15,432
Due to other projects			945	
Debt service funds				
Accrued interest payable	401	71	59,080	39,031
Due to other funds	5,813	31	4,895	4,336
	117,700	135	160,202	62,709
OTHER NONCURRENT LIABILITIES	7,391	6		
CURRENT LIABILITIES				
Current maturities of long-term debt	178,580	318		
Accounts payable and accrued expenses	62,037	197	60	1,524
Due to participants	1,035	767	1,185	231
Due to other projects	303		11	9
	241,955	1,282	1,256	1,764
DEFERRED CREDITS				
Deferred gain on redemption of revenue bonds		44		
	0	44	0	0
COMMITMENTS AND CONTINGENCIES (NOTE F)				
TOTAL LIABILITIES	\$ 2,377,066	\$ 6,980	\$ 2,237,459	\$ 1,873,903

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

# STATEMENTS OF OPERATIONS

For the year ended June 30, 2000 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *
OPERATING REVENUES	\$ 432,366	\$ 1,190		
OPERATING EXPENSES				
Nuclear fuel	30,744			
Fuel disposal fee	7,313			
Decommissioning	14,927			
Depreciation and amortization	100,824	364		
Operations and maintenance	104,859	629		
Administrative & general	26,754	70		
Generation tax	2,723	24		
Total operating expenses	288,144	1,087		
NET OPERATING REVENUES	144,222	103		
OTHER INCOME & EXPENSE				
Non-operating revenues			\$ 125,880	\$ 103,018
Investment income	14,717	112	11,546	8,168
Gain/(loss) on current bond redemption	(333)	9		292
Interest expense and discount amortization	(137,215)	(224)	(130,415)	(109,042)
Plant preservation and termination costs			(5,186)	(2,553)
Spent fuel storage expense	(23,545)			
Fuel held for sale revaluation			(1,744)	
Other	2,154		(81)	117
NET REVENUES	\$ 0	\$ 0	\$ 0	\$ 0

\* Project recorded on a liquidation basis

See notes to financial statements



# STATEMENTS OF CASH FLOWS

For the year ended June 30, 2000 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *
<b>CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES</b>				
Net operating revenues	\$ 144,222	\$ 103		
Adjustments to reconcile net operating revenues to cash provided by operating activities:				
Cost incurred in excess of cash	(12,303)	(354)		
Depreciation and amortization	129,803	359		
Decommissioning	14,927			
Other	(21,709)			
Change in operating assets and liabilities:				
Accounts receivable	1,013	200		
Materials and supplies	(1,953)			
Prepaid and other assets	(289)	29		
Due from/to other projects, funds and participants	(8,527)	796		
Accounts payable	2,548	54		
Non-operating revenue receipts			\$ 155,208	\$ 136,648
Cash payments for preservation and termination expenses			(2,342)	(12,576)
Net cash provided by operating and other activities	247,732	1,187	152,866	124,072
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Payment for bond issuance and financing costs	429		134	175
Capital and nuclear fuel acquisitions	(23,144)			
Interest paid on revenue bonds	(126,413)	(226)	(124,094)	(87,195)
Principal paid on revenue bond maturities	(136,825)	(472)	(74,660)	(68,217)
Net cash used by capital and related financing activities	(285,953)	(698)	(198,620)	(155,237)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of investment securities	(1,053,080)	(8,374)	(743,222)	(531,774)
Sales of investment securities	1,075,218	7,842	778,428	555,590
Interest on investments	16,758	66	10,743	8,410
Receipts from sales of plant assets			655	
Net cash provided(used) by investing activities	38,896	(466)	46,604	32,226
<b>NET INCREASE IN CASH</b>	675	23	850	1,061
<b>CASH AT JUNE 30, 1999</b>	3,296	16	3,830	3,535
<b>CASH AT JUNE 30, 2000 (NOTE B)</b>	\$ 3,971	\$ 39	\$ 4,680	\$ 4,596

\* Project recorded on a liquidation basis

See notes to financial statements

# OUTSTANDING LONG-TERM DEBT

As of June 30, 2000 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS</u>			
1990A	7.25%	7-1-2006	\$ 35,790
1990C	7.00-7.50 (A)	7-1-2001/2002	82,435
		7-1-2004/2005	18,054
			<u>100,489</u>
1991A	6.30-6.60 (A)	7-1-2001/2004	72,430
		7-1-2006/2007	10,267
			<u>82,697</u>
1992A	5.60-6.30 6.25 6.30	7-1-2001/2009	117,445
		7-1-2012	14,525
		7-1-2012	50,000
			<u>181,970</u>
1993A	5.25-6.00 5.75	7-1-2001/2010	154,255
		7-1-2012	42,105
			<u>196,360</u>
1993B	5.00-5.65 5.55 5.625	7-1-2001/2008	80,550
		7-1-2010	51,000
		7-1-2012	43,455
			<u>175,005</u>
1994A	4.30-6.00 5.40 (A)	7-1-2001/2011	518,490
		7-1-2012	100,200
		7-1-2009	4,776
			<u>623,466</u>
1996A	5.00-6.00	7-1-2001/2012	<u>203,350</u>
1997A	5.00-6.00	7-1-2001/2012	<u>174,435</u>
1997B	5.00-5.50	7-1-2001/2011	<u>73,630</u>
1998A	5.00-5.75	7-1-2001/2012	<u>227,055</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2000 which were paid as of June 30, 2000

(C) Includes amounts due July 1, 2000

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

# OUTSTANDING LONG-TERM DEBT

As of June 30, 2000 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS (Continued)</u>			
1997-2A-1,2	Variable	7-1-2001/2012	\$ 120,865
<i>Compound interest bonds accretion</i>			<u>59,763</u>
<i>Revenue bonds payable</i>			<u>\$ 2,254,875 (B)</u>
<i>Estimated fair value at June 30, 2000</i>			<u>\$ 2,270,278 (D)</u>

## PACKWOOD LAKE PROJECT REVENUE BONDS

1962	3.625%	3-1-2012	\$ 4,408
1965	3.75	3-1-2012	<u>1,440</u>
<i>Revenue bonds payable</i>			<u>\$ 5,848</u>
<i>Estimated fair value at June 30, 2000</i>			<u>\$ 5,488 (D)</u>

## NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS

1989A	7.10-7.30	7-1-2000/2001	<u>\$ 7,160</u>
1989B	7.10-7.15	7-1-2000/2001	10,485
	7.125	7-1-2016	<u>41,070</u>
			<u>51,555</u>
1990A	7.30-7.50	7-1-2000/2002	<u>20,780</u>
1990B	7.00-7.20	7-1-2000/2003	17,720
	7.25	7-1-2009	<u>72,770</u>
			<u>90,490</u>
1990C	7.25-7.75	7-1-2000/2003	<u>76,485</u>
1991A	6.25-6.60	7-1-2000/2004	<u>21,505</u>
1992A	5.45-6.25	7-1-2000/2007	8,915
	6.25	7-1-2017	<u>68,015</u>
			<u>76,930</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2000 which were paid as of June 30, 2000

(C) Includes amounts due July 1, 2000

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

# OUTSTANDING LONG-TERM DEBT

As of June 30, 2000 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<b>NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS (Continued)</b>			
1993A	5.10-7.00%	7-1-2000/2008	\$ 150,155
	5.75	7-1-2011	80,000
	6.05	7-1-2012	35,705
	5.75	7-1-2013	37,970
	5.70	7-1-2017	176,180
			<u>480,010</u>
1993B	5.00-7.00	7-1-2000/2010	69,485
	5.60	7-1-2015	94,885
			<u>164,370</u>
1993C	4.40-5.30	7-1-2000/2010	18,990
	5.40	7-1-2012	66,400
	5.375	7-1-2015	75,650
			<u>161,040</u>
1993-1A-1,2,3	Variable	7-1-2000/2017	<u>130,200</u>
1996A	5.00-6.00	7-1-2000/2012	<u>348,695</u>
1996B	5.00-6.00	7-1-2000/2005	<u>29,675</u>
1996C	5.00-6.00	7-1-2000/2015	89,350
	5.50	7-1-2017	24,860
			<u>114,210</u>
1997A	5.00-6.00	7-1-2000/2008	<u>20,745</u>
1997B	5.00-5.125	7-1-2000/2017	<u>254,140</u>
1998A	4.50-5.75	7-1-2000/2017	<u>93,780</u>
Revenue bonds payable			<u>\$ 2,141,770 (C)</u>
Estimated fair value at June 30, 2000			<u>\$ 2,184,311 (D)</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2000 which were paid as of June 30, 2000

(C) Includes amounts due July 1, 2000

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

# OUTSTANDING LONG-TERM DEBT

As of June 30, 2000 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<b>NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS</b>			
1989A	7.10-7.30%	7-1-2000/2001	\$ 6,945
	(A)	7-1-2003/2014	18,668
			<u>25,613</u>
1989B	7.10-7.15	7-1-2000/2001	35,225
	(A)	7-1-2004/2014	70,580
	7.125	7-1-2016	76,145
	5.50	7-1-2017	62,560
	5.50	7-1-2018	65,905
			<u>310,415</u>
1990B	7.25	7-1-2000	24,920
	(A)	7-1-2001/2010	38,685
	7.375	7-1-2004	55,920
			<u>119,525</u>
1991A	6.25-6.60	7-1-2000/2004	<u>21,220</u>
1993B	5.00-7.00	7-1-2000/2010	107,800
	5.625	7-1-2012	28,295
	5.60	7-1-2015	49,095
	5.60	7-1-2017	37,795
	5.70	7-1-2018	20,605
			<u>243,590</u>
1993C	4.40-7.50	7-1-2000/2010	149,880
	5.40	7-1-2012	105,000
	(A)	7-1-2013/2018	24,143
	5.375	7-1-2015	188,335
	5.50	7-1-2018	20,805
			<u>488,163</u>
1993-3A-3	Variable	7-1-2000/2018	<u>24,720</u>
1996A	5.00-6.00	7-1-2000/2009	<u>31,865</u>
1997A	5.00-6.00	7-1-2000/2018	<u>110,585</u>
1997B	5.00	7-1-2002	<u>4,075</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2000 which were paid as of June 30, 2000

(C) Includes amounts due July 1, 2000

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

# OUTSTANDING LONG-TERM DEBT

As of June 30, 2000 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS (Continued)</u>			
1998A	4.50-5.125%	7-1-2000/2018	\$ <u>150,685</u>
1998-3A	Variable	7-1-2001/2018	<u>159,500</u>
<i>Compound interest bonds accretion</i>			<u>398,204</u>
<i>Revenue bonds payable</i>			\$ <u>2,088,160 (C)</u>
<i>Estimated fair value at June 30, 2000</i>			\$ <u>1,890,511 (D)</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 2000 which were paid as of June 30, 2000

(C) Includes amounts due July 1, 2000

(D) The estimated fair value shown has been reported to meet the disclosure requirements of SFAS 107 and does not purport to represent the amounts at which these obligations would be settle

# DEBT SERVICE REQUIREMENTS

As of June 30, 2000 (Dollars in Thousands)

FISCAL YEAR	COLUMBIA GENERATING STATION			PACKWOOD LAKE PROJECT		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/2000						
Balance:*	\$ -	\$ 401	\$ 401	\$ 159	\$ 71	\$ 230
2001	178,580	119,815	298,395	490	208	698
2002	96,750	109,089	205,839	523	190	713
2003	155,225	103,599	258,824	548	171	719
2004	163,609	106,820	270,429	574	151	725
2005	124,340	110,636	234,976	598	130	728
Balance Through						
2012	1,476,608	385,050	1,861,658	2,956	317	3,273
Adjustment **	59,763	(59,763)	0			
	\$ 2,254,875	\$ 875,647	\$3,130,522	\$ 5,848	\$ 1,238	\$ 7,086

FISCAL YEAR	NUCLEAR PROJECT NO. 1			NUCLEAR PROJECT NO. 3		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/2000						
Balance:*	\$ 74,495	\$ 59,080	\$ 133,575	\$ 71,005	\$ 39,031	\$ 110,036
2001	88,850	118,083	206,933	75,685	86,990	162,675
2002	79,635	112,668	192,303	78,457	83,196	161,653
2003	70,280	107,709	177,989	80,057	82,039	162,096
2004	81,710	103,760	185,470	63,311	94,298	157,609
2005	73,765	98,991	172,756	64,471	92,519	156,990
Balance Through						
2017	1,673,035	689,426	2,362,461			
2018				1,256,970	851,682	2,108,652
Adjustment **				398,204	(398,204)	0
	\$ 2,141,770	\$ 1,289,717	\$ 3,431,487	\$ 2,088,160	\$ 931,551	\$ 3,019,711

\* Bond Fund Account balances less accrued investment income

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - GENERAL

#### Organization

Energy Northwest, a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 2000, its membership consisted of 10 public utility districts and the cities of Richland, Seattle, and Tacoma. All members own and operate electric systems within the State of Washington. Energy Northwest is exempt from federal income tax. Energy Northwest has no taxing authority.

#### Energy Northwest Business Units

Energy Northwest operates Columbia Generating Station, a 1,153 MWe (Design Electric Rating, net) generating plant completed in 1984. On April 27, 2000, Energy Northwest's Executive Board approved a name change from Nuclear Project No. 2 to Columbia Generating Station (Columbia). Energy Northwest has obtained all permits and licenses required to operate Columbia including a Nuclear Regulatory Commission (NRC) operating license which expires in December 2023. Energy Northwest also operates the Packwood Lake Hydroelectric Project (Packwood), a 27.5 MWe generating plant completed in 1964. Packwood operates under a fifty-year license from the Federal Energy Regulatory Commission (FERC) that expires on February 28, 2010.

Nuclear Project No. 1, a 1,250 MWe plant, was placed in extended construction delay status in 1982, when it was 65 percent complete. Nuclear Project No. 3, a 1,240 MWe plant, was placed in extended construction delay status in 1983, when it was 75 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3 (see Note F - Nuclear Projects Nos. 1 and 3 Termination). In fiscal year 1999 the assets and liabilities of Hanford Generating Project were consolidated into Nuclear Project No. 1. The Hanford Generating Project site is being restored and all funding requirements are net-billed obligations of Nuclear Project No. 1. Nuclear Project No. 1 is wholly-owned by Energy Northwest. Nuclear Project No. 3 was jointly-owned, 70 percent by Energy Northwest and 30 percent by four investor-owned utilities until fiscal year 1999. In fiscal year 1999 the ownership agreements were terminated and the ownership of real and personal property interests was transferred to Energy Northwest. The financial effect of the termination of the ownership agreement was a write-off for Nuclear Project No. 3 of a \$3.7 million receivable from the former joint owners.

Each Energy Northwest business unit is financed and accounted for as a utility system separate from all other current or future business units.

All electrical energy produced by Energy Northwest business units is ultimately delivered to electrical distribution facilities owned and operated by the 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 business units, for ultimate distribution to consumers. Participants in Energy Northwest business units consist of publicly-owned utilities and rural electric cooperatives located in the western United States who have entered into net-billing agreements with Energy Northwest and BPA for participation in one or more of Energy Northwest business units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources as well as BPA's other costs. See Note E, Security - Nuclear Projects Nos. 1, 3 and Columbia, for discussion of BPA's obligations with respect to Nuclear Projects Nos. 1, 3 and Columbia.

Energy Northwest also manages the Business Development Fund, which has not been presented in this annual report. The Business Development Fund was established in April 1997 to pursue and develop new energy-related business opportunities.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

Energy Northwest has adopted accounting policies and principles that are in accordance with accounting principles generally accepted in the United States of America. Accounts are maintained in accordance with the uniform system of accounts of the FERC. Separate funds and books of account are maintained for each utility system. Payment of obligations of one utility system with funds of another utility system is prohibited, and would constitute violation of bond resolution covenants.

Pursuant to Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," Energy Northwest has elected to apply all Financial Accounting Standards Board statements and interpretations except for those that conflict with or contradict GASB pronouncements. Specifically, Statement of Governmental Accounting Standard No. 7 and



No. 23 conflict with Statement of Financial Accounting Standard (SFAS) No. 125. As such, the guidance under Statement of Governmental Accounting Standard No. 7 and No. 23 is followed. Such guidance governs the accounting for bond defeasances and refundings.

The preparation of Energy Northwest financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Certain assets and incurred expenses are allocated to the business units based on specific allocation methods and management considers the allocation methods to be reasonable.

Energy Northwest's fiscal year begins on July 1<sup>st</sup> and ends on June 30<sup>th</sup>.

#### Utility Plant

Utility plant is stated at original cost. Plant in service is depreciated by the straight-line method over the estimated useful lives of the various classes of plant, which range from five to 40 years.

During the normal construction phase of a project, Energy Northwest's policy was to capitalize all costs relating to the project, including interest expense (net of interest income), and related administrative and general expense.

Nuclear Projects Nos. 1 and 3 have been reduced to their net realizable values due to termination. A loss on the write-down of Nuclear Projects Nos. 1 and 3 was recorded in fiscal year 1995 and is included in Costs in Excess of Billings. Nuclear Project No. 1's plant and equipment held for sale includes management's best estimate of the net realizable value of the remaining inventories, buildings, equipment, tools, materials and consumables, common and operational spares, moveable equipment and land. Nuclear Project No. 3's utility plant value represents the book value of the land owned by the project. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 1 and 3 have been charged to operations.

General Fund assets are shared by all business units and they are allocated to each business unit's balance sheet based on direct labor cost incurred. Inter-unit due to/due from allocations do not fully offset because of the absence of the Business Development Fund presentation in this annual report.

#### Nuclear Fuel

All expenditures related to the purchase of nuclear fuel, including interest, are 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) is \$71 million as of June 30, 2000 for Columbia.

Energy Northwest has a contract with the Department of Energy (DOE) that requires the DOE to accept title and dispose of spent nuclear fuel. Current period operating expense for Columbia includes a \$7.3 million charge for future spent nuclear fuel storage and disposal to be provided by the DOE in accordance with the Nuclear Waste Policy Act of 1982.

Although the courts have ruled that the DOE had the obligation to accept title to spent nuclear fuel by January 31, 1998, the repository is not expected to be in operation before 2010. Columbia has capacity to store spent fuel in existing facilities until November 2004. To accommodate the spent fuel discharges after this date, Energy Northwest has initiated a project to store the spent fuel in commercially available dry storage casks on a concrete pad at the Columbia site. Effective fiscal year 2000, Energy Northwest began accruing the fuel cask obligations based on the rate of fuel consumption (\$1.5 million for fiscal year 2000). To recognize the cask costs associated with fuel consumed in prior years, an additional \$23.5 million was charged to current operations in fiscal year 2000.

Energy Northwest has entered into an agreement to transfer enriched uranium to General Electric Company in exchange for equivalent amounts of uranium at reload enrichments in future years and usage/loan fees. Energy Northwest has transferred approximately 488,151 pounds of UF<sub>6</sub> and 263,137 SWU of Columbia uranium. The exchange agreement has been secured by an irrevocable letter of credit issued in the amount of the replacement value of the loaned uranium product, adjusted semiannually. The cost of the loaned uranium, \$36 million, is included in the carrying amount of Columbia's nuclear fuel.

Until June 30, 2002 Columbia has an option to purchase the remaining fuel at Nuclear Project No. 1. At June 30, 2000 the option price is \$10.5 million including escalation.

#### Restricted Assets

In accordance with project bond resolutions, related agreements, or state law, separate restricted funds have been established

for each project. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance, termination, decommissioning and workers' compensation claims.

#### Long-Term Receivables

Long-term receivables include minimum guaranteed amounts adjusted annually pertaining to future discounts for certain goods and services to be provided to Columbia as the result of a litigation settlement and subsequent revisions. During fiscal year 2000, Energy Northwest renegotiated a settlement resulting in a substantial cash receipt and a corresponding reduction to the long-term receivable.

#### Decommissioning and Site Restoration

Energy Northwest established decommissioning and site restoration funds for Columbia and monies are being deposited each year in accordance with an established funding plan.

The NRC has issued rules to provide guidance to licensees of operating nuclear plants on decommissioning the plants at the end of each plant's operating life. In September 1998, the NRC approved and published its "Final Rule on Financial Assurance Requirements for Decommissioning Power Reactors." As provided in this rule, each power reactor licensee is required to report to the NRC the status of its decommissioning funding for each reactor or share of a reactor it owns. This reporting requirement began on March 31, 1999 and reports are required every two years thereafter. Energy Northwest submitted its initial report to the NRC on March 26, 1999.

Energy Northwest's current estimate of Columbia's decommissioning costs is approximately \$345 million (in 1999 dollars). This current estimate 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 regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC). Energy Northwest submitted a site restoration plan for Columbia that was approved by the EFSEC on June 12, 1995. Energy Northwest's current estimate of Columbia's site restoration costs is approximately \$54 million (in 1999 dollars).

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, 2000 totaled approximately \$65.9

million and \$4.7 million respectively. Since September 1996 these amounts have been held and managed by BPA in external trust funds in accordance with NRC requirements and site certification agreements.

Energy Northwest's accrued liability for decommissioning and site restoration is \$77 million as of June 30, 2000. Per the net-billing agreements BPA is obligated to provide for the entire cost of decommissioning and site restoration. A corresponding receivable has been established within Restricted Assets reflecting amounts owed to Columbia by BPA. The decommissioning and site restoration liability is not based on the funding plan. Annual decommissioning and site restoration expense is accounted for on a pro-rata basis over the life of the plant and is based on the total estimated decommissioning and site restoration costs, adjusted for inflation.

#### Materials and Supplies

Materials and supplies are valued at cost, using weighted-average methods.

#### Financing Expense, Bond Discount, and Deferred Gain and Losses

Financing expenses and bond discounts are amortized over the terms of the respective bond issues using the bonds outstanding method.

In accordance with the Statement of Governmental Accounting Standard No. 23 effective for periods after June 15, 1994, losses on debt refundings have been deferred and amortized as a component of interest expense over the shorter of the remaining life of the old or new debt. The balance sheet includes the original deferred amount less recognized amortization expense and is included as a reduction to the new debt.

#### Current Maturities of Revenue Bonds

Current maturities of revenue bonds payable from restricted assets are reflected in Long-Term Debt. Current maturities of bonds for which funds have not yet been restricted are reflected in Current Liabilities.

#### Accounts Payable

Accounts payable and accrued expenses include \$22.8 million for payroll and related benefits for Columbia. Other significant Columbia payables and accruals includes \$25.0 million for fuel casks, \$10.6 million for personal time bank, \$1.7 million for arbitrage rebate as defined by the Internal Revenue Code and \$4.7 million for operating and capital expenses. Packwood includes an accrual for FERC administrative charges of \$18.3 thousand.

## Fair Value of Financial Instruments

The fair value of financial instruments has been estimated using available market information and certain assumptions. Considerable judgment is required in interpreting market data to develop fair value estimates and such estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The following methods and assumptions were used to estimate the fair value of each of the following financial instruments. Financial instruments for which the carrying value is considered a reasonable approximation of fair value include: cash, accounts receivable, accounts payable and accrued expenses, other noncurrent liabilities due and from participants, and other business units. The fair values of investments and revenue bonds payable have been estimated based on quoted market prices for such instruments or based on the fair value of financial instruments of a similar nature and degree of risk.

## Revenues

Energy Northwest accounts for revenue on an accrual basis and recovers, through various agreements, actual cash requirements for operations and debt service for each business unit. Accordingly, Energy Northwest recognizes revenues equal to expenses for each period. No net income or loss is recognized, and no equity is accumulated.

The difference between cumulative billings received and cumulative expenses is recorded as either billings in excess of costs (liability) or as costs in excess of billings (asset), as appropriate. Such amounts will be settled during future operating periods.

## Concentration of Credit Risk

Financial instruments which potentially subject Energy Northwest to concentrations of credit risk consist of available-for-sale investments, accounts receivable, other receivables, long-term receivables and costs in excess of billings. Energy Northwest invests exclusively in U.S. Government securities and agencies. Energy Northwest's accounts receivable and costs in excess of billings are concentrated with project participants and BPA through the net-billing agreements. See Note E, Security - Nuclear Projects Nos. 1, 3 and Columbia and Security - Packwood Lake Hydroelectric Project. The long-term receivable is with a large and stable company which Energy Northwest considers to be of low credit risk. Other receivables are secured through the use of letters of credit and other similar security mechanisms or are with large and stable companies which Energy Northwest considers to be of low credit risk. As a consequence, Energy Northwest considers the exposure of the business units to concentration of credit risk to be limited.

## Statements of Cash Flows

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

## NOTE C - CASH AND INVESTMENTS

Cash and investments for each utility system are separately maintained. Energy Northwest's deposits are insured by federal depository insurance or through the Washington Public Deposit Protection Commission. Energy Northwest resolutions and investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association and Federal Home Loan Banks. All investments are held for the benefit of the individual Energy Northwest business units by safekeeping agents, custodians, or trustees. Investments are classified as available-for-sale and are stated at fair value with unrealized gains and losses reported on the balance sheet as unrealized investment gains or losses. For the year ended June 30, 2000, unrealized losses of \$2.4 million, \$0.3 million, and \$0.9 million were included in investment income for Columbia, Nuclear Project No. 1, and Nuclear Project No. 3, respectively. Available-for-sale investments at June 30, 2000 are categorized on page 32, to give an indication of the type and amounts of investments held by each business unit at year end. (See table on page 32)

# AVAILABLE-FOR-SALE INVESTMENTS

(Dollars in Thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Columbia				
U.S. Government Securities	\$ 64,648	\$ 247	\$ (992)	\$ 63,903
U.S. Government Agencies	125,913	9	(1,936)	123,986
Total	<u>\$ 190,561</u>	<u>\$ 256</u>	<u>\$ (2,928)</u>	<u>\$ 187,889</u>
Packwood				
U.S. Government Securities	\$ 2,162	\$ 0	\$ 0	\$ 2,162
U.S. Government Agencies	0	0	0	0
Total	<u>\$ 2,162</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,162</u>
Nuclear Project No. 1				
U.S. Government Securities	\$ 37,570	\$ 221	\$ (544)	\$ 37,247
U.S. Government Agencies	234,915	37	(1,178)	233,774
Total	<u>\$ 272,485</u>	<u>\$ 258</u>	<u>\$ (1,722)</u>	<u>\$ 271,021</u>
Nuclear Project No. 3				
U.S. Government Securities	\$ 15,487	\$ 65	\$ (284)	\$ 15,268
U.S. Government Agencies	179,563	0	(1,003)	178,560
Total	<u>\$ 195,050</u>	<u>\$ 65</u>	<u>\$ (1,287)</u>	<u>\$ 193,828</u>

At June 30, 2000, the contractual maturities of available-for-sale investments are:

	< 1 Year	1-5 Years	6-10 Years>	10 Years	Total
Columbia					
U.S. Government Securities	\$ 6,446	\$ 35,711	\$ 8,052	\$ 13,694	\$ 63,903
U.S. Government Agencies	53,055	38,361	17,419	15,151	123,986
Total	<u>\$ 59,501</u>	<u>\$ 74,072</u>	<u>\$ 25,471</u>	<u>\$ 28,845</u>	<u>\$ 187,889</u>
Packwood					
U.S. Government Securities	\$ 2,143	\$ 19	\$ 0	\$ 0	\$ 2,162
U.S. Government Agencies	0	0	0	0	0
Total	<u>\$ 2,143</u>	<u>\$ 19</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,162</u>
Nuclear Project No. 1					
U.S. Government Securities	\$ 4,409	\$ 30,698	\$ 0	\$ 2,140	\$ 37,247
U.S. Government Agencies	197,080	26,874	9,398	422	233,774
Total	<u>\$ 201,489</u>	<u>\$ 57,572</u>	<u>\$ 9,398</u>	<u>\$ 2,562</u>	<u>\$ 271,021</u>
Nuclear Project No. 3					
U.S. Government Securities	\$ 19	\$ 13,722	\$ 0	\$ 1,527	\$ 15,268
U.S. Government Agencies	150,695	19,313	8,552	0	178,560
Total	<u>\$ 150,714</u>	<u>\$ 33,035</u>	<u>\$ 8,552</u>	<u>\$ 1,527</u>	<u>\$ 193,828</u>

## NOTE D - RETIREMENT BENEFITS

Substantially all Energy Northwest full-time and qualifying part-time employees participate in one of the following state-wide retirement systems administered by the Washington State Dept. 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, Administrative Services Division, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers.

## Public Employee's Retirement System (PERS) Plans 1 and 2

### Plan Description

PERS is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges in a judicial retirement system); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certificated employees of school districts; and employees of local government. The PERS system includes two plans. Participants who joined the system by September 30, 1977 are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service.

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

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan 2 retirements prior to 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

### Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee rates. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the director of the Department of Retirement Systems based on recommendations by the Office of the State Actuary to continue to fully fund the plan. All employers are required to contribute at the level established by state law. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 Revised Code of Washington.

The required contribution rates expressed as a percentage of current year covered payroll, as of June 30, 2000 were:

	PERS Plan 1	PERS Plan 2
Employer	3.58%*	3.58%*
Employee	6.00%	1.54%

\*The employer rates do not include the employer administrative expense fee currently set at 0.23%.

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

	PERS Plan 1	PERS Plan 2
2000	\$415,538	\$2,929,576
1999	\$718,527	\$4,697,392
1998	\$754,672	\$4,513,332

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 and Plan 2. One hundred twenty-seven retirees have elected to participate in this insurance. Energy Northwest's Executive Board in 1994 approved provisions which continued the life insurance benefit to retirees at 25 percent of the premium for employees who retire prior to January 1, 1995, and charged the full 100 percent premium to employees who retired after December 31, 1994. The life insurance benefit is equal to the employee's annual rate of salary at retirement for non-bargaining employees retiring prior to January 1, 1995. The cost of coverage for employees who retired after January 1, 1995 is \$2.33 per \$1,000 of coverage. Employees who retired prior to January 1, 1995 contribute \$.58 per \$1,000 of coverage while Energy Northwest pays the remainder. Premiums are paid to the insurer on a current period basis.

At the time each employee retires, Energy Northwest accrues a liability for the actuarial value of estimated future premiums, net of retiree contributions. The total liability recorded at June 30, 2000 was \$2 million for these benefits.

During fiscal year 2000, pension costs for Energy Northwest employees and post-employment life insurance benefit costs for retirees were calculated and allocated to each business unit based on direct labor dollars. Approximately 92 percent of all such costs were allocated to Columbia during fiscal year 2000.

### NOTE E - LONG-TERM DEBT

Each Energy Northwest business unit is financed separately. The resolutions of Energy Northwest authorizing issuance of

revenue bonds for each business unit provide that such bonds are payable solely from the revenues of that business unit. All bonds issued under Resolution Nos. 769, 775 and 640 for Nuclear Projects Nos. 1, 3 and Columbia, respectively, have the same priority of payment within the business units. The variable rate debt issued for Nuclear Projects Nos. 1, 3 and Columbia is subordinate to the bonds stated above.

In prior fiscal years, Energy Northwest defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements, in accordance with GASB No. 7 and No. 23. Approximately \$583.7 million, \$241.8 million and \$1,215.4 million of defeased bonds were not called or had not matured at June 30, 2000 for Nuclear Projects Nos. 1, 3 and Columbia, respectively.

Outstanding revenue bonds of the various business units as of June 30, 2000, are presented on pages 22 through 26, and debt service requirements for these bonds are presented on page 27.

Energy Northwest expects to continue to refinance higher interest rate outstanding bonds, previously issued for Nuclear Projects Nos. 1, 3 and Columbia, when economically feasible. In addition to this historical refinancing program, BPA presented its "Bonneville Debt Optimization Proposal" to Energy Northwest in the spring of 2000. This Proposal involves extension of the final maturity of Columbia debt from 2012 to 2018 through a series of refunding bond issues. This Proposal is a significant component of BPA's current management strategy for its overall debt structure. Energy Northwest's Executive Board is evaluating this Proposal and is expected to make a decision in fiscal year 2001.

### Subsequent Event

In July 2000 Energy Northwest defeased Nuclear Project No. 1 outstanding bonds with a principal balance of \$4.595 million and a net carrying value of \$4.516 million by placing \$4.768 million of cash and available-for-sale investments in an irrevocable trust. Energy Northwest also defeased Nuclear Project No. 3 outstanding bonds with a principal balance of \$735 thousand and a net carrying value of \$258 thousand by placing \$233 thousand of available for sale investments in an irrevocable trust. Such differences will be recognized in fiscal year 2001.

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

Project participants have purchased all of the capability of Nuclear Projects Nos. 1, 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 their pro rata share of total annual costs of the respective projects, including debt service on bonds relating to each business unit, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA by participants under BPA power sales agreements. 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, Puget Sound Power & Light Company, PacifiCorp, Portland General Electric Company and AVISTA Corporation was terminated in fiscal year 1999. The ownership of all real and personal property interests was transferred to Energy Northwest.

### Security - Packwood Lake Hydroelectric Project

Energy Northwest and BPA signed an agreement which became effective on October 1, 1996 for the period through July 1, 2001, and states that BPA will pay Energy Northwest in exchange for the project's total output of electric capacity and energy delivered from the project. BPA will pay 17.5 mills per kWh for the first 86,750 megawatt hours delivered to the interconnections and 5 mills per kWh for any energy delivered to the interconnections in excess of 86,750 megawatt hours during the fiscal year. In addition, BPA pays to Energy Northwest their Lewis County PUD No. 1 transmission costs and Energy Northwest receives generation credit for spill requested by BPA. Packwood is now a "certified resource" in BPA's environmental foundation pool. When Packwood's generation is marketed as "green" power, a stipend of 2.5 mills per kWh will be received from BPA. The Packwood participants are obligated to pay annual costs of the project including debt service, whether or not the project is

operable, until the outstanding bonds are paid or provision is made for the retirement in accordance with provisions of the bond resolution.

## NOTE F - COMMITMENTS AND CONTINGENCIES

### Nuclear Project No. 1 Termination

Since the Nuclear Project 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. Funding for the Project has continued for administrative efforts associated with termination and planning of demolition activities for the Project. Preservation activities have been continued for certain high-value assets to maximize the return on their expected resale. At this time, the eventual disposition of the Project is unknown. Energy Northwest has reduced the assets to their estimated net realizable value and has accrued for the estimated cost of removal and site restoration.

### Nuclear Project No. 3 Termination

In June 1994, the Nuclear Project No. 3 Owners Committee voted unanimously to terminate the Project. In February 1999, Energy Northwest entered into a transfer agreement with the Satsop Redevelopment Project (SRP) to transfer the real and personal property at the site of Nuclear Project No. 3 and Nuclear Project No. 5. For further discussion, see information contained under Nuclear Projects Nos. 1, 3, 4, and 5 Site Restoration.

### Inter-Project Claims Against Revenues and Other Assets

Some creditors of Nuclear Projects Nos. 4 and 5 have attempted, and others have threatened to attempt, to obtain payment from the physical assets of other projects of Energy Northwest or from the revenues pledged as security for Energy Northwest bonds issued in connection with, and revenues pledged for the payment of costs of, such other projects. Such creditors include present and former holders of the Nuclear Projects Nos. 4 and 5 bonds and others who may assert claims in the future against Energy Northwest and/or its projects.

Energy Northwest's management and legal counsel are of the opinion that such creditors will only be able to realize upon the net assets of Nuclear Projects Nos. 4 and 5 and will not be able to realize upon any net assets or future revenues of Energy Northwest and/or its other projects.

### Nuclear Projects Nos. 1, 3, 4 and 5 Site Restoration

Site restoration requirements for Nuclear Projects Nos. 1, 3, 4 and 5 are governed by site certification agreements between Energy Northwest and the State of Washington and regulations adopted by the EFSEC, and additionally for Nuclear Projects Nos. 1 and 4, by a lease agreement with the DOE. Energy Northwest submitted a site restoration plan for Nuclear Projects Nos. 1, 3, 4 and 5 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.

Based on current estimates for site restoration, Energy Northwest has accrued liabilities of \$61.6 million for Nuclear Project No. 1. Funding for this liability will be provided by BPA. No source of funding has been identified for site restoration of Nuclear Project No. 4 which is located approximately one-half mile from Nuclear Project No. 1. Energy Northwest believes that although Nuclear Project No. 1 has no legal obligation to fund Nuclear Project No. 4, it is possible that claims may be asserted against Nuclear Project No. 1 to pay the costs of site restoration for Nuclear Project No. 4. Energy Northwest currently estimates that the cost of site restoration for Nuclear Project No. 4 is \$38.9 million.

During 1995, a group from Grays Harbor County, Washington, which is interested in economic development, formed the SRP. The SRP introduced legislation with the State of Washington under Senate Bill No. 6427 which passed and was signed by the Governor of the State of Washington on March 7, 1996. The legislation enables local governments and Energy Northwest to negotiate an arrangement allowing such local governments to assume an interest in the site on which Nuclear Project No. 3 and Nuclear Project No. 5 exists for economic development by transferring ownership of all or a portion of the site to local governmental 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 and Nuclear Project No. 5. The real property was actually transferred on August 12, 1999. As part of the agreement Energy Northwest transferred

\$26 million to the SRP and the SRP agreed to assume regulatory responsibility for site restoration. Energy Northwest will retain ownership of the combustion turbine property.

#### Other Litigation and Commitments

Energy Northwest is involved in various claims, legal actions and contractual commitments not mentioned above 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 projects or Energy Northwest as a whole. The future annual cost of the projects, however, may either be increased or decreased as a result of the outcome of these matters.

#### Nuclear Licensing and Insurance

Energy Northwest is a licensee of the Nuclear Regulatory Commission and is subject to routine licensing and user fees, to retrospective premiums for nuclear liability insurance, and to license modification, suspension, or revocation or civil penalties in the event of violations of various regulatory and license requirements.

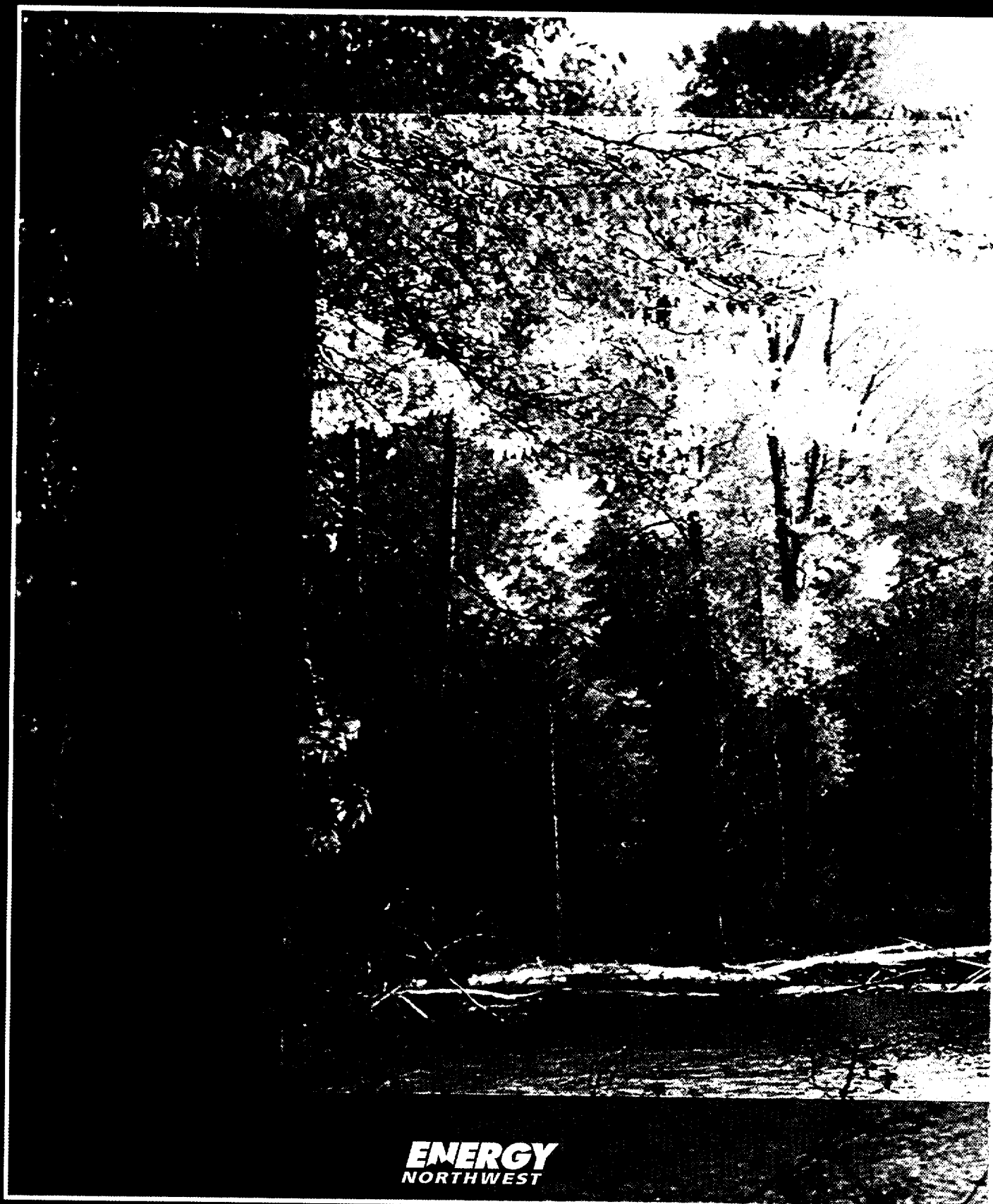
The Price Anderson Act currently provides for nuclear liability insurance of over \$9.54 billion per incident, which is covered by a combination of commercial nuclear insurance and mandatory industry self-insurance. Energy Northwest has purchased the maximum commercial insurance available of \$200 million, which is the first layer of protection. The second layer of protection is provided through a mandatory industry self-insurance plan wherein each licensed nuclear facility required to participate in the plan (currently 106) may be assessed up to \$88.1 million per incident, subject to a maximum annual assessment of \$10 million per year.

Nuclear property damage and decontamination liability insurance requirements are met through a combination of commercial nuclear insurance policies purchased by Energy Northwest and BPA. The total amount of insurance purchased is currently \$2.75 billion. The deductible for this coverage is \$5 million per occurrence.



CURRENT DEBT RATINGS (Unaudited)

ENERGY NORTHWEST (Long-Term)	<u>RATING</u>	<u>OUTLOOK</u>
Fitch	AA	Stable
Moody's Investors Service, Inc. (Moody's)	Aa1	
Standard and Poor's Rating Services (S & P)	AA-	Stable
 VARIABLE RATE DEBT	 <u>S &amp; P</u>	 <u>MOODY'S</u>
Letter of Credit Banks		
Bank of America		
Long-Term	AA-	Aa1
Short-Term	A-1+	P-1
Morgan Guaranty Trust Company		
Long-Term	AA	Aa3
Short-Term	A-1+	P-1
Bond Insurance (Long-Term)		
MBIA Insurance Corporation	AAA	Aaa
Bank Credit Facility (Short-Term)		
Credit Suisse First Boston	A-1+	P-1



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