

ENERGY NORTHWEST

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

January 3, 2000
GO1-00-0001
GO2-00-001

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
1999 ANNUAL FINANCIAL REPORT**

In accordance with 10 CFR 50.71(b), enclosed are two copies of the Energy Northwest 1999 Annual Report.

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

Respectfully,



GJ Kucera
Vice President, Administration/Chief Financial Officer
Mail Drop PE01

Enclosure: As stated

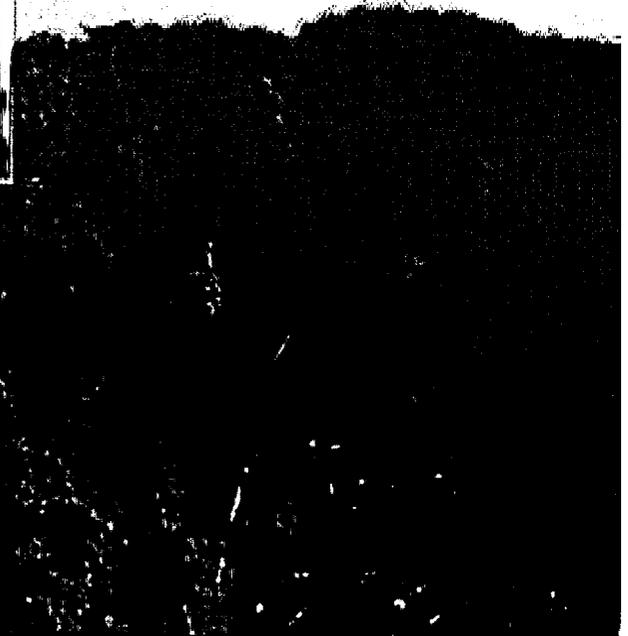
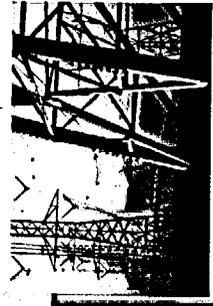
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JS Cushing. - NRC - NRR w/o
MM Mendonca - NRC w/o
NRC Sr. Resident Inspector - 927N
DL Williams - BPA/1399 w/o
TC Poindexter - Winston & Strawn w/o

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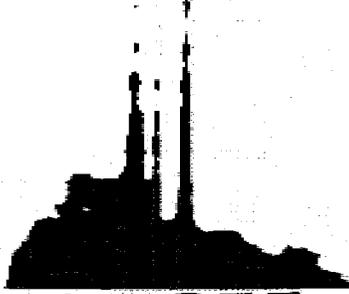
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ENERGY
NORTHWEST



*1999
Annual Report*



**ENERGY
NORTHWEST**

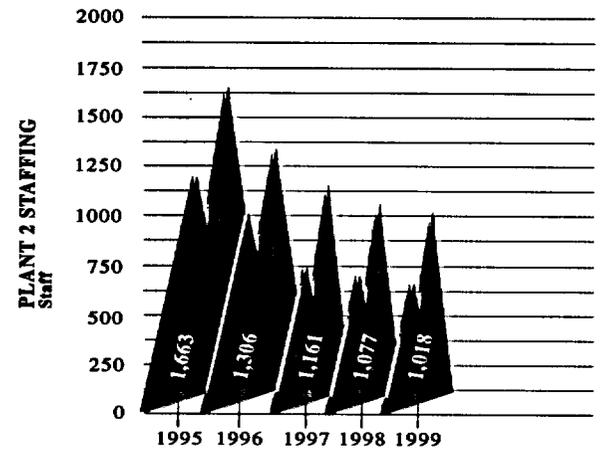
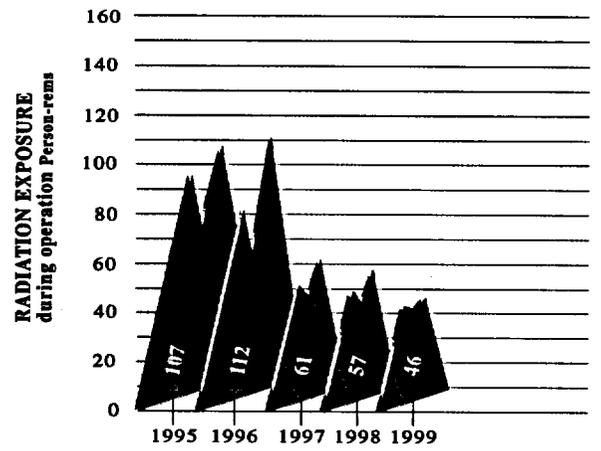
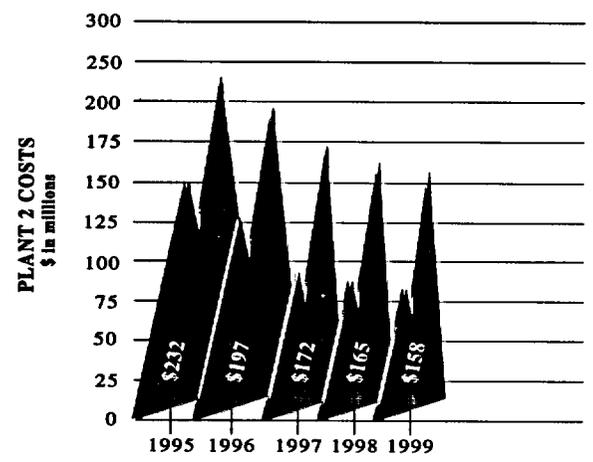
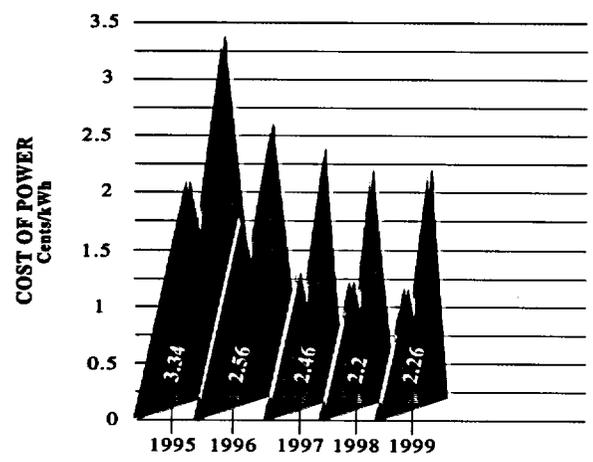
Pursuing Excellence

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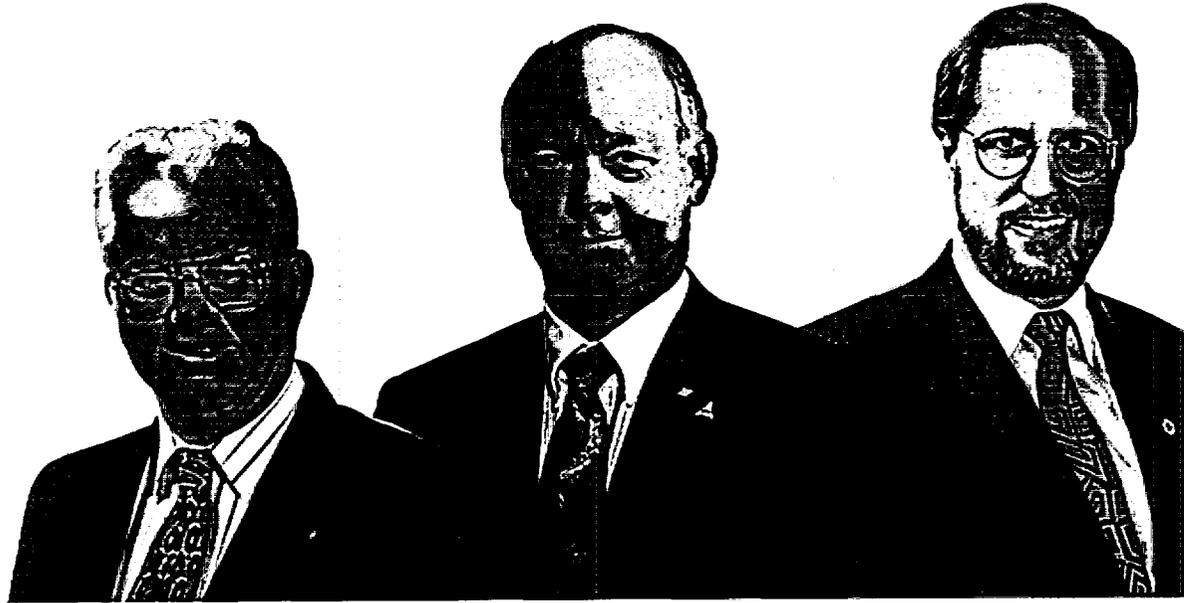
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The southern flank of Mt. Rainier, at 14,410 feet the highest mountain in the Pacific Northwest, as seen from Packwood Lake. The lake is the source of water for Energy Northwest's 27-megawatt hydroelectric plant.

OPERATING HIGHLIGHTS



Leading the way



Darrel Bunch
Commissioner
Okanogan County PUD
Okanogan, WA

Don Carter
Deputy City Manager for
Utilities and Physical Services.
City of Richland, WA

Rudi Bertschi
(Vice Chairman)
Consultant
Economic & Technical
Analysis Group
Seattle, WA



Louis H. Winnard
Chairman
Consultant
Windsor, CA

Executive Board



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

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

John Cockburn
Retired
Bank Executive
Seattle, WA

Dan Gunkel
Commissioner
Klickitat County PUD
Goldendale, WA

Roger Sparks
Commissioner
Kittitas County PUD
Ellensburg, WA

ENERGY NORTHWEST

Pursuing Excellence

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

**Executive Board Chairman
Louis H. Winnard**

After four decades of doing business as the Washington Public Power Supply System, sometimes marked by turbulence and turmoil, we are ready to enter the new millennium with a new name: Energy Northwest. This change signifies the end of one era of our journey, and the beginning of a new one in our pursuit of excellence.

We are not fleeing from our past. Rather, we are running toward our future.

Five years ago our journey almost ended prematurely. Plant 2, our sole operating nuclear generating station, was over-staffed, over-priced, and under-productive. The cost of power was too high, at 3.34 cents per kilowatt-hour, to be competitive. The plant was unreliable, worker radiation exposure was too high, and our staff was wasting far too much time trying to keep the plant running, rather than operating it reliably. We were faced with a clear choice: cut costs and increase reliability, or terminate the plant.

Here is what has been accomplished since 1995:

- Lowered the cost of power from 3.34 cents per kilowatt-hour to 2.26 cents in fiscal 1999 and met the market test benchmark established by the Bonneville Power Administration.
- Cut the plant budget from \$232 to \$158 million.
- Downsized our staff by 36 percent while cutting overtime expenditures from \$10.9 million in fiscal 1994 to \$1.5 million in fiscal 1999.
- Reduced worker radiation exposure, a key indicator of safety and efficiency, by 67 percent.

Increased reliability and availability, rather than continued drastic budget reductions, will ensure a strong future for Plant 2 and Energy Northwest. Reducing the price of power is still a key goal (the fiscal 2000 target is 2.15 cents a kilowatt-hour), but increased generation is the principle tool we will use to achieve our goal.

The budget is only one side of the cost equation. A recent report by an independent consultant commissioned by the Bonneville Power Administration praised our cost-cutting efforts, with one caveat: continued cost-cutting could hurt the reliability of our nuclear station and actually increase the cost of its power. A number of U.S. nuclear utilities have made that very mistake. We don't intend to follow their example.

We are following the industry in making a major change in Plant 2's operating cycle. This year was the first time in its 15-year history that Plant 2 was not refueled in the spring. Refueling was put off until September as we transition the plant from an annual to a 24-month refueling schedule. This transition will result in a relatively small increase in fuel costs, but it will be more than offset by increased generation, reliability and availability.

Here is why that is important: In the past, when Plant 2's power output wasn't needed as the runoff from mountain snowpacks powered the region's numerous hydroelectric generators, it made sense to shut the plant down every spring.

That is no longer the case.

The Bonneville Power Administration has warned the region that, under certain circumstances, the Pacific Northwest might see a shortfall of up to 7,000 megawatts of electrical capacity in the winter of 2001.

Generation in the Northwest hasn't met the pace of increasing demand and, even more troubling, is the possibility of removing existing hydroelectric resources. Hydropower no longer is bountiful, nor is it cheap. Fish protection measures have increased the cost of running the Northwest's hydro system tremendously while fish passage and spawning regimens have cut generation.

But Plant 2 doesn't hurt fish, and fish protection measures don't impact Plant 2. When the water is low in the Columbia River system, we generate vast amounts of power. When the water is high, but the dams are forced to spill huge amounts of water to help migrating salmon, we continue to produce power.

We generate about 10 percent of Bonneville's firm power, and provide the federal agency with the flexibility to operate the river system in a way that balances the competing needs of fish protection, flood control, irrigation, transportation and recreation.

This added flexibility has been instrumental in Bonneville's resurgence as the region's preferred electricity provider. A few years ago critics predicted the demise of Bonneville. They said BPA was too expensive, too bureaucratic, and would be unable to meet its fish-recovery obligations without large increases in the wholesale price of electricity. They said Bonneville was doomed. Utilities began searching for other, lower-cost sources of power.

But the critics were wrong.

Bonneville tightened its belt and cut the wholesale price of electricity sold to its public power customers by 20 percent. Customers that a few years ago were scrambling to abandon BPA now are competing fiercely for their share of low-cost BPA power.

BPA's progress has also been helped by Energy Northwest's bond refinancing program. Early planning paid off handsomely as we, with Bonneville's cooperation, took advantage of favorable credit ratings and low interest rates, thereby cutting the average interest rate on billions of dollars in outstanding bonds nearly in half since 1989, from 10.5 percent to 5.3 percent.

The result: Northwest consumers will save \$1.83 billion over the life of the bonds.

This Annual Report details other ways in which we are supporting Bonneville and our member public power utilities. Among them is our Packwood Hydroelectric Project, one of three of the region's "green" resources marketed by BPA.

We also hold two licenses on combustion turbine sites in Western Washington and are marketing energy services to public power utilities statewide. We are also embarking on several new business initiatives that will diversify our operations and cut the overhead costs charged to Plant 2.

These new endeavors, coupled with the changing face of Plant 2, convinced our Executive Board that a new name for the organization was needed. They selected Energy Northwest because in two words it says who we are, where we are and what we do.

We belong to the Northwest because we're a public power agency, created by the people. We belong in the Northwest because our roots are here. We're going to stay in the Northwest because ratepayers in the region made an investment in us over the years. Now they are collecting the dividends on that investment: energy services and inexpensive power.

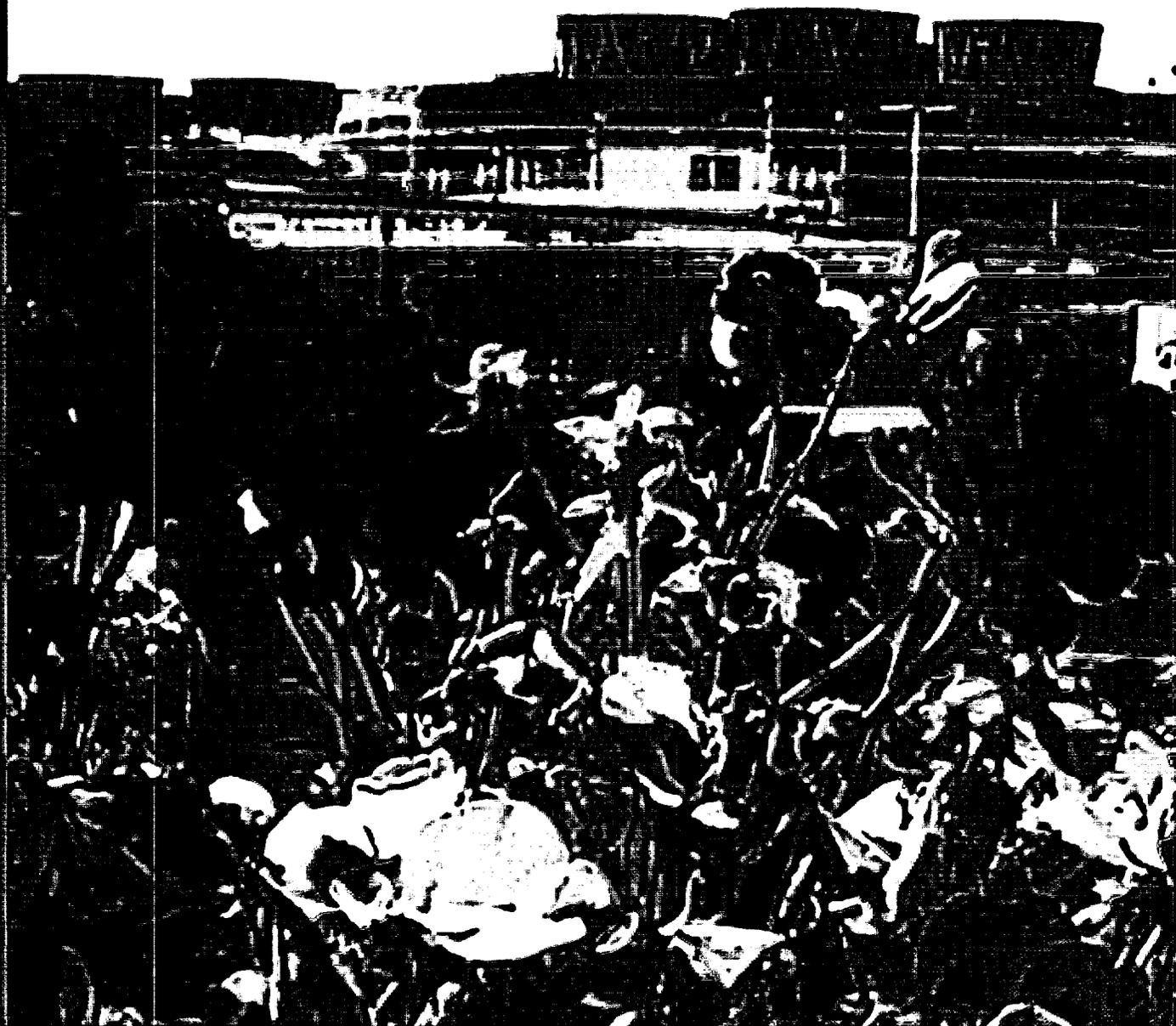
The entire Energy Northwest team of employees, management and its governing boards pledge their best efforts to continue to serve the future best interests of our owners — the Northwest ratepayers.

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OPERATIONAL HIGHLIGHTS

Energy Northwest is on a journey; a journey to excellence that began in 1995 when the cost of power from Plant 2 was not competitive at 3.34 cents a kilowatt-hour.

By reducing costs and increasing reliability, Plant 2 delivered electricity to the Bonneville Power Administration in fiscal year 1999 at a price — 2.26 cents a kilowatt-hour — that is competitive with other available resources.



ENERGY NORTHWEST

Increasing Reliability and Availability

Getting to this point of the journey was difficult. 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. Energy Northwest employees are paid a portion of their compensation in the form of incentive payments based on meeting key Plant 2 cost and efficiency goals. The concept is simple: If Plant 2 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. This year's major initiative is transitioning Plant 2 from an annual to a 24-month refueling cycle.

Plant 2 was the last of the nation's nuclear power plants still on a 12-month refueling cycle. Most plants operate on an 18-month cycle and about 20 percent run two years before refueling. Because Plant 2 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 system. In the past, each spring when water was high, the region was awash with hydropower. Bonneville would meet the region's needs while selling huge amounts of surplus power in the West Coast market for less than a cent per kilowatt-hour.

have dramatically altered the way hydroelectric dams are operated. More water for fish means less water to run 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 lower-cost suppliers are now flocking back to the federal marketing agency.

Third, the incremental cost to Bonneville of running Plant 2 — the cost for fuel, generation taxes and contributions to the federal spent fuel fund — are about a half-cent a kilowatt-hour. In the spring of 1999, Bonneville could have realized millions of dollars in additional revenue if Plant 2 had been operating.

Plant 2 was not refueled this spring for the first time in its 15-year operating history. The plant was shut down, not for refueling, but to conserve fuel to meet the high power demand in the summer. Refueling was put off until September, when enough fuel was loaded in the reactor to run the plant non-stop until the spring of 2001.

Changing to a 24-month refueling cycle will increase fuel costs somewhat, but the expense will be relatively small compared to the benefits. And Plant 2 already has among the lowest fuel costs in the industry. Last year Energy Northwest had the lowest costs for conversion and enrichment services and beat out all other boiling water reactors in its cost for fuel fabrication services.

Moving to a 24-month fuel cycle is expected to save between \$100 million and \$120 million over the life of Plant 2. The transition will cost about \$22 million but, if Plant 2 skips an outage every other spring, the yearly average price for its power is likely to drop because the plant will generate more electricity over the two-year period. And, by skipping every other outage, Plant 2 will save about \$15 million for each one missed.

Another initiative that is expected to help reduce the cost of power from Plant 2 is a plan to partner with the Omaha Public Power District (OPPD) to establish a service company that will use shared resources to provide centralized support functions to Plant 2 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.

Plant 2 has come a long way in its pursuit of excellence. It has developed into a valued resource that is a counterpoint to the Pacific Northwest's traditional reliance on low-cost hydroelectric dams.

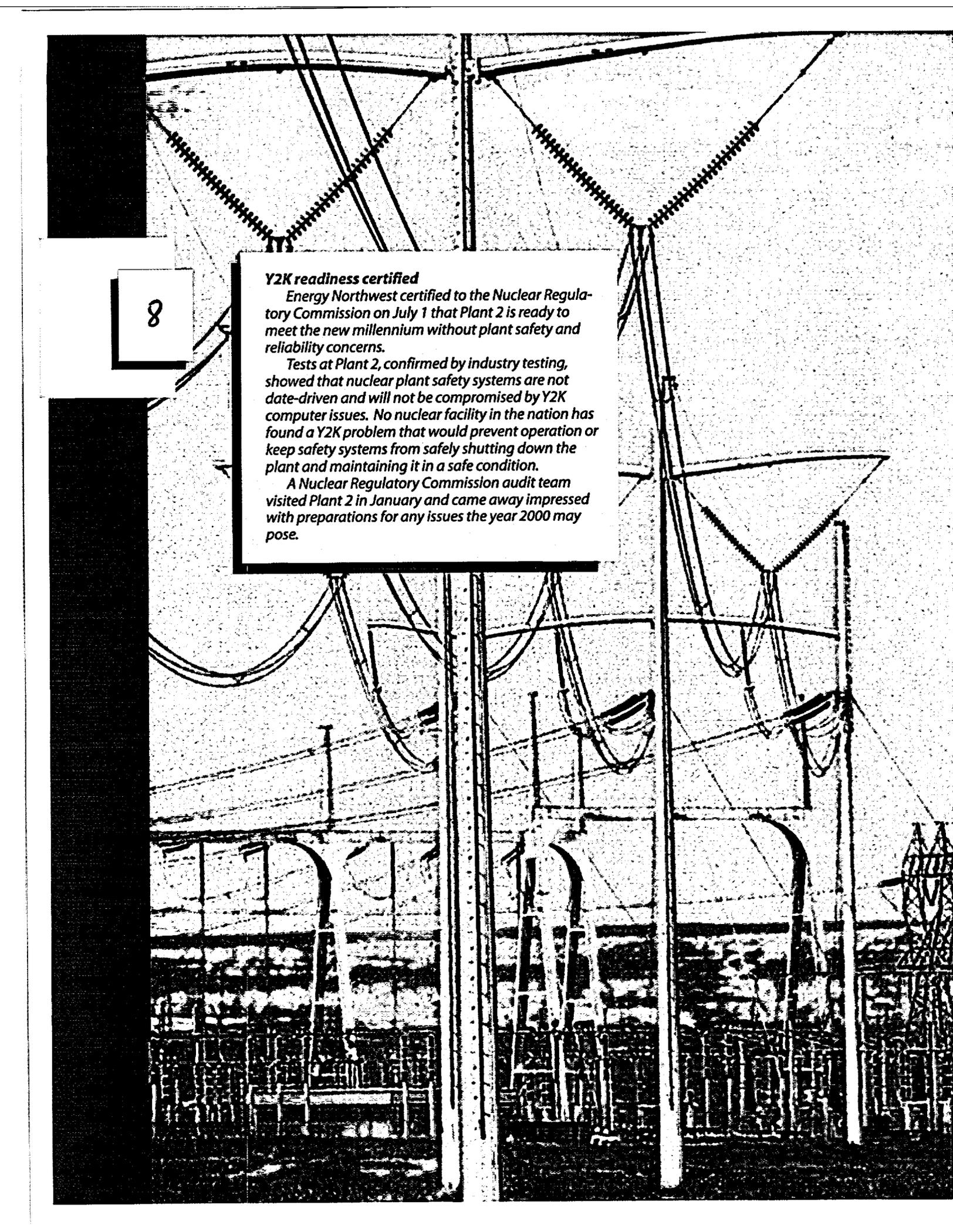


From left:

Vice President, Operations Support/PIO **Rod Webring**
Vice President, Generation/Plant General Manager **Greg Smith**
Vice President/General Counsel **Al Mouncer**
Vice President, Administration/Chief Financial Officer **Jerry Kucera**
Vice President, Resource Development **Jack Baker**

Then it made sense to have Plant 2 off line and refueling. The plant simply couldn't compete with hydropower during the spring runoff.

The situation is different now, for three reasons. First, efforts to restore runs of endangered salmon



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Y2K readiness certified

Energy Northwest certified to the Nuclear Regulatory Commission on July 1 that Plant 2 is ready to meet the new millennium without plant safety and reliability concerns.

Tests at Plant 2, confirmed by industry testing, showed that nuclear plant safety systems are not date-driven and will not be compromised by Y2K computer issues. No nuclear facility in the nation has found a Y2K problem that would prevent operation or keep safety systems from safely shutting down the plant and maintaining it in a safe condition.

A Nuclear Regulatory Commission audit team visited Plant 2 in January and came away impressed with preparations for any issues the year 2000 may pose.

ENERGY NORTHWEST

Energizing the new Millennium

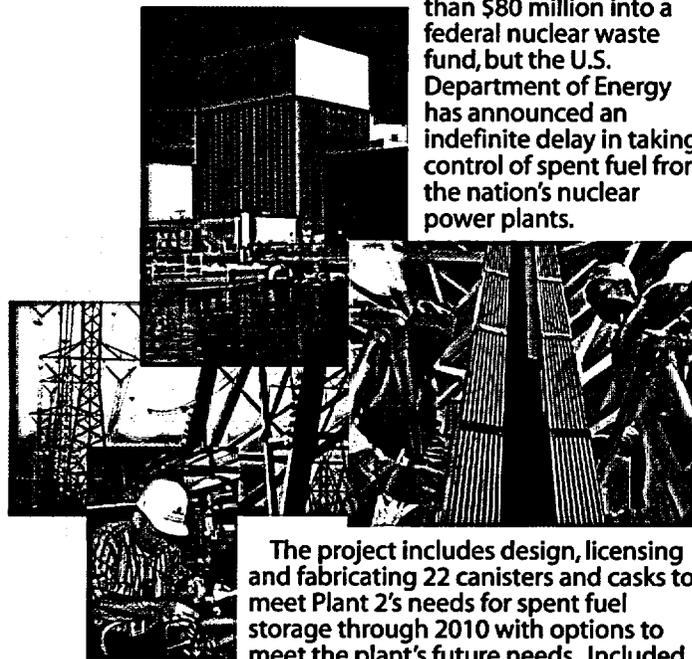
Energy Northwest's Y2K readiness team spent about \$6 million over two years testing and updating plant systems to ensure they were Y2K ready. Overall, Energy Northwest spent about \$17 million on testing and upgrades. One benefit to this effort was upgrades made to application systems, including moving from a mainframe to a client-server environment.

Spent fuel storage contract signed

Energy Northwest's Executive Board approved a \$25 million contract in May for a spent nuclear fuel dry-storage system to Holtec, International. The contract provides for the design, licensing, fabrication, and furnishing of an independent spent fuel storage installation.

Plant 2 is expected to run out of storage space in its spent fuel storage pool, located on the top floor of the Reactor Building, after its spring 2003 refueling outage. Energy Northwest has paid more

than \$80 million into a federal nuclear waste fund, but the U.S. Department of Energy has announced an indefinite delay in taking control of spent fuel from the nation's nuclear power plants.



The project includes design, licensing and fabricating 22 canisters and casks to meet Plant 2's needs for spent fuel storage through 2010 with options to meet the plant's future needs. Included

are auxiliary equipment for loading, sealing and moving the canisters and casks to the storage site, and engineering support for required storage site evaluation.

Regulatory reform becoming a reality

The Nuclear Regulatory Commission has made substantial strides towards regulatory reform.

A major element in the reform is a change to the enforcement policy to expand use of non-cited violations at nuclear power plants. Under the new

policy, which went into effect in March, most instances of non-compliance that in the past would have been treated as level IV violations are instead treated as non-cited violations, provided the licensee takes corrective actions.

Packwood Hydroelectric Project goes green

Energy Northwest's 27-megawatt Packwood Lake Hydroelectric Project is one of three regional generating 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, the Idaho Falls Hydroelectric Project and a Wyoming wind farm.

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 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.

Applied Process Engineering Laboratory

The Applied Process Engineering Laboratory (APEL) celebrated its first anniversary in April. The \$6 million lab, located in a former Energy Northwest warehouse in Richland, exceeded projections for tenants and revenue in its first year.

The lab is the only high-tech business incubator of its kind in North America. It will create jobs in the Northwest and address 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.

After a year of operation, APEL hosts a diverse array of technologies, from a waste vitrification pilot plant to chemical warfare detection devices to a robotic arm used to remove debris from underground nuclear waste storage tanks.

Hometown Connections

To expand into the energy services industry, Energy Northwest last year became a marketing affiliate of Hometown Connections, a subsidiary of the American Public Power Association. Hometown Connections is a collection of services designed to make local public power retailing utilities more competitive by using combined buying power to leverage better arrangements from vendors. Energy Northwest is marketing such services and products as customer surveys, customer information software, advanced meter-reading products, surge protection, workshops and energy services.

Energy Northwest is selling a wide variety of products and services offered by APPA's subsidiary directly to its 13 member utilities and other public power systems in the Northwest. Hometown Connections uses the market leverage of the nation's 2,000 public power systems to negotiate better financial and service arrangements from vendors than utilities can obtain on their own.



ENERGY NORTHWEST

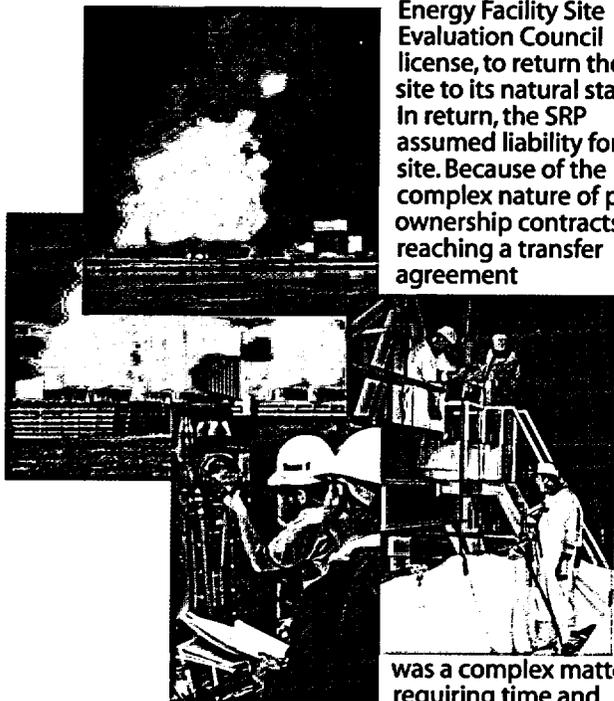
Expanding our Horizons

Satsop Redevelopment Project

Energy Northwest continues to work with the Satsop Redevelopment Project (SRP) following the transfer of most of the assets and real estate associated with terminated Nuclear Projects 3 and 5 for economic development in Grays Harbor County, in coastal Washington State.

The Bonneville Power Administration provided about \$25 million to take over the site. That is far less than if Energy Northwest had retained ownership and was required, under terms of its

Energy Facility Site Evaluation Council license, to return the site to its natural state. In return, the SRP assumed liability for the site. Because of the complex nature of past ownership contracts, reaching a transfer agreement



was a complex matter, requiring time and

great attention to detail. However, all parties have agreed Energy Northwest would retain ownership of the sites projected 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 the Bonneville Power Administration for operation by Energy Northwest. The other, if built, would be operated by Energy Northwest to meet the emerging energy needs of the West.

Benton Redevelopment Initiative

The feasibility of a similar arrangement is being investigated for Energy Northwest's terminated Nuclear Projects 1 and 4 in Benton County in southeast Washington. 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 1995 site restoration plan, updated in June, estimates that WNP-1/4 site restoration costs could run as high as \$100 million. This cost would be included in the Bonneville Power Administration's rates and would be borne by the region's electric ratepayers.

New Business Initiatives

Energy Northwest is pursuing several new business initiatives to diversify the organization as well as reduce the costs of operating Plant 2.

A contract was signed this spring with a contractor on the U.S. Department of Energy's Hanford Site to provide instrument calibration services that will mean about \$1 million in new business for the utility. Other new business initiatives being investigated include:

- Supporting the development and deployment of new cost-effective renewable energy technologies, including a wind project to provide green power to regional utilities;
- Supporting development and deployment of new cost effective distributed generation technologies, including establishing a Center for Energy Innovation in Renewable and Distributed Generation Technologies to provide financial, technical and business planning support to clients with new technologies;
- Developing new or acquiring existing thermal generation projects to benefit members and other public power entities;
- Providing hydroelectric facility engineering, technical, modification and maintenance services to the Federal Columbia River Power System and public power agencies in the Northwest; and
- Participating in the development and operation of a public power/public purpose communications network serving a variety of needs across the Northwest by making use of the dark fiber that Bonneville has built on 2,000 miles of its transmission system.

(left to right)

Robert Graves (President)
Commissioner, Benton County PUD

Darrel Bunch (Assistant Secretary)
Commissioner, Okanogan County PUD



Board of Directors

Charles Buennagel
Commissioner, Wahkiakum County PUD

James Todd (Alternate)
Seattle City Light

Beverley Cochrane (Vice President)
Commissioner, Franklin County PUD

Roger Sparks
Commissioner, Kittitas County PUD

Vera Claussen (Secretary)
Commissioner, Grant County PUD

Dan Gunkel
Commissioner, Klickitat County PUD

Don Carter
Deputy City Manager for Utilities and Physical Services,
City of Richland

Parker Knight
Commissioner, Skamania County PUD

Dale Bly (Alternate)
Commissioner, Ferry County PUD

Tom Casey
Commissioner, Grays Harbor County PUD

Not pictured: **Mark Crisson**
Director of Utilities, Tacoma Power

FINANCIAL OPERATING HIGHLIGHTS

For the year ending June 30, 1999 (Dollars in millions)

OPERATING STATISTICS

NUCLEAR PROJECT NO. 2

	FY 1999	FY 1998	FY 1997	FY 1996	FY 1995
Total production costs*	\$ 111.4	\$ 119.1	\$ 119.5	\$ 133.3	\$ 139.9
Net generation (millions of kWh)**	6,975.0	7,502.0	6,965.3	7,703.6	6,942.7
Cost in cents/kWh*	1.60	1.59	1.72	1.73	2.02
Plant availability***	76.3%	77.9%	83.7%	79.7%	75.0%
Plant capacity****	71.9%	71.9%	60.0%	61.3%	67.9%
Regional cost of power cents/kWh*****	2.26	2.20	2.46	2.56	3.34

PACKWOOD LAKE PROJECT

	FY 1999	FY 1998	FY 1997	FY 1996	FY 1995
Total production costs*	\$ 0.2	\$ 0.3	\$ 0.4	\$ 0.1	\$ 1.0
Net generation (millions of kWh)	89.8	98.4	123.1	125.4	60.7
Cost in cents/kWh*	.23	.25	.33	.09	1.63
Plant availability***	91.4%	92.2%	88.5%	90.1%	60.0%
Plant capacity****	37.3%	37.4%	51.9%	51.9%	22.9%

INVESTMENT PERFORMANCE

	FY 1999	FY 1998	CHANGE
Income	\$ 39.9	\$ 41.8	- 4.5%
Average Balance	\$ 659.0	\$ 627.6	+ 5.0%
Rate of Return	6.05%	6.65%	- 9.0%

BONDS OUTSTANDING

	FY 1999	FY 1998	CHANGE
PROJECT -1 fixed	\$ 2,081.9	\$ 2,137.3	-2.6%
weighted average	5.8%	5.8%	0.0%
variable	\$ 134.5	\$ 138.7	-3.0%
average rate	3.2%	3.6%	-11.1%
PROJECT-2 fixed#	\$ 2,207.8	\$ 2,335.1	-5.5%
weighted average##	5.6%	5.6%	0.0%
variable	\$ 120.9	120.9	0.0%
average rate	3.2%	3.7%	-13.5%
PROJECT-3 fixed #	\$ 1,573.1	\$ 1,605.6	-2.0%
weighted average##	5.7%	5.7%	0.0%
variable	\$ 184.9	\$ 185.6	-0.4%
average rate	3.2%	3.6%	-11.1%
PACKWOOD			
fixed	\$ 6.3	\$ 6.7	-6.0%
weighted average	3.7%	3.7%	0.0%

Excludes compound interest bonds accretion.

Excludes compound interest bonds.

* Includes operating, maintenance, and fuel amortization costs per FERC report.

** Includes BPA economic dispatch generation (millions of kWh) credit of 0; 532; 1,150.9; 1,759.2; and 480 in FY 1999, FY 1998, FY 1997, FY 1996 and FY 1995, respectively.

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

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

***** Regional cost of power uses a broader measure of cost and is primarily used by BPA and the Supply System to evaluate cost competitiveness.

**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.

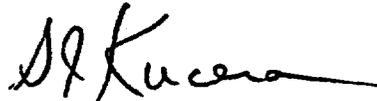
The financial statements have been audited by PricewaterhouseCoopers LLP, Energy Northwest's independent accountants. Management has made available to PricewaterhouseCoopers LLP all financial records and related data, and believes that all representations made to PricewaterhouseCoopers LLP during its 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 for 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, 1999, 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 five independent directors. Members of the Committee are John F. Cockburn, Chairman; Rudi Bertschi; Vera Claussen; Roger Sparks; and Louis Winnard, Ex Officio. The Committee held 12 meetings during the fiscal year ended June 30, 1999.

The Committee oversees Energy Northwest's financial reporting process on behalf of the Executive Board. In fulfilling its responsibility, 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 communication 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 of Energy Northwest

In our opinion, the accompanying individual balance sheets and related statements of operations and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Energy Northwest Nuclear Project No. 1, Nuclear Project No. 2, Nuclear Project No. 3 and Packwood Hydroelectric Project at June 30, 1999, and the results of each of their operations and each of their cash flows for the year then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of Energy Northwest's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, 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 opinion expressed above.

The Year 2000 information, shown as required supplementary information on page 35, is not a required part of the basic financial statements but is supplementary information required under Technical Bulletin 98-1, as amended, issued by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because the disclosure criteria specified by Technical Bulletin 98-1, as amended, are not sufficiently specific and, therefore, preclude the prescribed procedures from providing meaningful results. In addition, we do not provide assurance that the Projects are or will become year 2000 compliant, that the Projects' year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Projects do business are or will become year 2000 compliant.

PricewaterhouseCoopers LLP

Portland, Oregon
September 10, 1999

BALANCE SHEETS

As of June 30, 1999 (Dollars in thousands)

	NUCLEAR PROJECT NO.2	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1#	NUCLEAR PROJECT NO.3#
ASSETS				
UTILITY PLANT (NOTE B)				
In service	\$ 3,465,569	\$ 12,895		\$ 1,047
Allowance for depreciation	(1,520,069)	(10,865)		(504)
	1,945,500	2,030		543
Nuclear fuel, net of accumulated amortization	123,924			
Construction work in progress	7,931			
	2,077,355	2,030		543
RESTRICTED ASSETS (NOTE B)				
Special funds				
Cash	2,916	4	\$ 2,704	2,957
Available-for-sale investments	28,248	295	80,246	18,312
Accounts and other receivables	62,642		363	13
Due from other projects			1,819	
Prepayments and other			9	
Debt service funds				
Cash	49	10	205	501
Available-for-sale investments	146,745	756	203,452	181,932
Other receivables	1,585		1,030	1,096
	242,185	1,065	289,828	204,811
LONG-TERM RECEIVABLES (NOTE B)				
	30,070			
CURRENT ASSETS				
Cash	331	2	921	77
Available-for-sale investments	33,614	505	21,237	17,324
Accounts and other receivables	7,336	325	8	24
Due from participants	180		51	72
Due from other projects	2,575	181	9	1,574
Due from other funds	24,589	45	24,781	16,885
Materials and supplies	58,296			
Prepayments and other	959	31		74
Nuclear fuel held for sale			9,304	
Plant & equipment held for sale			9,515	
	127,880	1,089	65,826	36,030
DEFERRED CHARGES				
Costs in excess of billings		3,018	1,933,882	1,675,059
Unamortized debt expense	15,679	5	19,561	14,462
Other deferred charges	1			
	15,680	3,023	1,953,443	1,689,521
TOTAL ASSETS	\$ 2,493,170	\$ 7,207	\$ 2,309,097	\$ 1,930,905

Project recorded on a liquidation basis
See notes to financial statements

BALANCE SHEETS

As of June 30, 1999 (Dollars in thousands)

	NUCLEAR PROJECT NO.2	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1#	NUCLEAR PROJECT NO.3#
LIABILITIES				
BILLINGS IN EXCESS OF COSTS	\$ 27,625			
UNREALIZED INVESTMENT LOSSES	(287)		\$ (1,206)	\$ (357)
LONG-TERM DEBT (NOTE E)				
Revenue bonds payable	2,254,875	\$ 6,016	2,216,430	2,159,635
Unamortized discount on bonds - net	(33,373)	(20)	(9,678)	(284,154)
Unamortized loss on bond refundings	(53,954)		(61,151)	(20,413)
	<u>2,167,548</u>	<u>5,996</u>	<u>2,145,601</u>	<u>1,855,068</u>
LIABILITIES- PAYABLE FROM RESTRICTED ASSETS (NOTE B)				
Special funds				
Accounts payable and accrued expenses	66,124	8	76,679	4,078
Due to other funds	22,438	12	19,875	15,290
Debt service funds				
Accrued interest payable	378	77	61,134	42,594
Due to other funds	2,151	33	4,906	1,595
	<u>91,091</u>	<u>130</u>	<u>162,594</u>	<u>63,557</u>
OTHER NONCURRENT LIABILITIES	8,368	5		
CURRENT LIABILITIES				
Current maturities of long-term debt	142,630	310		
Accounts payable and accrued expenses	49,137	141		12,182
Due to participants	1,616	577	1,392	455
Due to other projects	5,442		716	
	<u>198,825</u>	<u>1,028</u>	<u>2,108</u>	<u>12,637</u>
DEFERRED CREDITS				
Deferred gain on redemption of revenue bonds		48		
		<u>48</u>		
COMMITMENTS AND CONTINGENCIES (NOTE F)				
TOTAL LIABILITIES	<u>\$ 2,493,170</u>	<u>\$ 7,207</u>	<u>\$ 2,309,097</u>	<u>\$ 1,930,905</u>

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended June 30, 1999 (Dollars in thousands)

	NUCLEAR PROJECT NO.2	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 #	NUCLEAR PROJECT NO.3 *#
OPERATING REVENUES	\$ 401,980	\$ 1,185		
OPERATING EXPENSES				
Nuclear fuel	23,978			
Fuel disposal fee	6,613			
Decommissioning	10,299			
Depreciation and amortization	105,212	348		
Operations and maintenance	95,354	566		
Administrative & general	27,437	91		
Generation tax	2,442	19		
Total operating expenses	271,335	1,024		
NET OPERATING REVENUES	130,645	161		
OTHER INCOME & EXPENSE				
Non-operating revenues			\$ 139,319	\$ 99,553
Investment income	16,077	63	13,753	10,375
Gain/(loss) on current bond redemption	(924)	17		(376)
Interest expense and discount amortization	(144,525)	(241)	(134,310)	(111,199)
Plant preservation and termination costs			(5,145)	(18,956)
Site Restoration			(13,800)	25,500
Write off assets and liabilities			29	(5,241)
Write off MOX Fuel	(763)			
Fuel settlement cost recovery	13		193	
Joint owners' share of costs				176
Other	(523)		(39)	168
NET REVENUES	\$ 0	\$ 0	\$ 0	\$ 0
OTHER COMPREHENSIVE INCOME:**				
Net revenue	\$ 0	\$ 0	\$ 0	\$ 0
Unrealized holding investment losses arising during period	(611)		(1,206)	(358)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (611)	\$ 0	\$ (1,206)	\$ (358)

* Energy Northwest's ownership share (Note A)

** As described in Note B

Project recorded on a liquidation basis

See notes to financial statements

STATEMENTS OF CASH FLOWS

For the year ended June 30, 1999 (Dollars in thousands)

	NUCLEAR PROJECT NO.2	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 #	NUCLEAR PROJECT NO.3 * #
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES				
Net operating revenues	\$ 130,645	\$ 161		
Adjustments to reconcile net operating revenues to cash provided by operating activities:				
Cash received in excess of costs	24,120	(330)		
Depreciation and amortization	127,647	346		
Decommissioning	6,773			
Other	(509)			
Change in operating assets and liabilities:				
Accounts receivable	(673)	(229)		
Materials and supplies	(1,069)			
Prepaid and other assets	(69)			
Due from/to other projects, funds and participants	8,949	947		
Accounts payable	(6,082)	93		
Non-operating revenue receipts			\$ 181,128	\$ 168,893
Cash payments for preservation and termination expenses			(877)	(13,989)
Cash payments for other expenses				217
Net cash provided by operating and other activities	289,732	988	180,251	155,121
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payment for bond issuance and financing costs	(548)		(855)	(190)
Hanford Generating Project funds transferred to NP-1			9,612	
Capital and nuclear fuel acquisitions	(25,279)			
Cash payments for deferred programs	(121)			
Interest paid on revenue bonds	(132,375)	(241)	(127,491)	(86,227)
Principal paid on revenue bond maturities	(131,965)	(383)	(59,490)	(34,036)
Net cash used by capital and related financing activities	(290,288)	(624)	(178,224)	(120,453)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investment securities	(1,147,762)	(5,976)	(802,926)	(618,413)
Sales of investment securities	1,133,298	5,553	785,494	576,267
Interest on investments	16,482	60	13,507	9,766
Receipts from sales of plant assets			193	654
Net cash provided(used) by investing activities	2,018	(363)	(3,732)	(31,726)
NET INCREASE(DECREASE) IN CASH	1,462	1	(1,705)	2,942
CASH AT JUNE 30, 1998	1,834	15	5,535	593
CASH AT JUNE 30, 1999 (NOTE B)	\$ 3,296	\$ 16	\$ 3,830	\$ 3,535

* Energy Northwest's ownership share (Note A)

Project recorded on a liquidation basis

See notes to financial statements

OUTSTANDING LONG-TERM DEBT

As of June 30, 1999 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REFUNDING REVENUE BONDS			
1990A	7.25%	7-1-2006	\$ 35,790
1990C	7.00-7.50	7-1-2000/2002	122,260
	(A)	7-1-2004/2005	18,054
			<u>140,314</u>
1991A	6.25-6.60	7-1-2000/2004	90,415
	(A)	7-1-2006/2007	13,431
			<u>103,846</u>
1992A	5.45-6.30	7-1-2000/2009	129,785
	6.25	7-1-2012	14,525
	6.30	7-1-2012	50,000
	(A)	7-1-2010	1,359
			<u>195,669</u>
1993A	5.10-6.00	7-1-2000/2010	165,810
	5.75	7-1-2012	42,105
			<u>207,915</u>
1993B	5.00-5.65	7-1-2000/2008	86,295
	5.55	7-1-2010	51,000
	5.625	7-1-2012	43,455
			<u>180,750</u>
1994A	4.30-6.00	7-1-2000/2011	524,835
	5.40	7-1-2012	100,200
	(A)	7-1-2009	4,776
			<u>629,811</u>
1996A	5.00-6.00	7-1-2000/2012	<u>205,630</u>
1997A	5.00-6.00	7-1-2000/2012	<u>204,095</u>
1997B	5.00-5.50	7-1-2000/2011	<u>74,925</u>
1998A	4.50-5.75	7-1-2000/2012	<u>229,115</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 1999 which were paid as of June 30, 1999

(C) Includes amounts due July 1, 1999

(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, 1999 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REFUNDING REVENUE BONDS (Continued)			
1997-2A-1,2	Variable	7-1-2000/2012	\$ 120,865
<i>Compound interest bonds accretion</i>			68,780
<i>Revenue bonds payable</i>			\$ 2,397,505 (B)
<i>Estimated fair value at June 30, 1999</i>			\$ 2,545,418 (D)
PACKWOOD LAKE PROJECT REVENUE BONDS			
1962	3.625%	3-1-2012	\$ 4,791
1965	3.75	3-1-2012	1,535
<i>Revenue bonds payable</i>			\$ 6,326
<i>Estimated fair value at June 30, 1999</i>			\$ 5,968 (D)
NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS			
1989A	7.10-7.30	7-1-1999/2001	\$ 10,380
1989B	7.00-7.15	7-1-1999/2001	14,855
	7.125	7-1-2016	41,070
			55,925
1990A	7.25-7.50	7-1-1999/2002	27,690
1990B	7.00-7.20	7-1-1999/2003	24,495
	7.25	7-1-2009	72,770
			97,265
1990C	7.25-7.75	7-1-1999/2003	95,765
1991A	6.20-6.60	7-1-1999/2004	22,080
1992A	5.30-6.25	7-1-1999/2007	13,140
	6.25	7-1-2017	68,015
			81,155

(A) Compound interest bonds

(B) Excludes amounts due July 1, 1999 which were paid as of June 30, 1999

(C) Includes amounts due July 1, 1999

(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, 1999 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS (Continued)			
1993A	4.75-7.00%	7-1-1999/2008	\$ 162,710
	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>492,565</u>
1993B	4.75-7.00	7-1-1999/2010	74,030
	5.60	7-1-2015	94,885
			<u>168,915</u>
1993C	4.25-5.30	7-1-1999/2010	19,505
	5.40	7-1-2012	66,400
	5.375	7-1-2015	75,650
			<u>161,555</u>
1993-1A-1,2,3	Variable	7-1-1999/2017	<u>134,505</u>
1996A	5.00-6.00	7-1-1999/2012	<u>351,890</u>
1996B	5.00-6.00	7-1-1999/2005	<u>29,970</u>
1996C	5.00-6.00	7-1-1999/2015	90,460
	5.50	7-1-2017	24,860
			<u>115,320</u>
1997A	4.75-6.00	7-1-1999/2008	<u>20,905</u>
1997B	5.00-5.125	7-1-1999/2017	<u>255,990</u>
1998A	4.50-5.75	7-1-1999/2017	<u>94,555</u>
<i>Revenue bonds payable</i>			<u>\$ 2,216,430</u> (C)
<i>Estimated fair value at June 30, 1999</i>			<u>\$ 2,285,305</u> (D)

(A) Compound interest bonds

(B) Excludes amounts due July 1, 1999 which were paid as of June 30, 1999

(C) Includes amounts due July 1, 1999

(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, 1999 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS			
1989A	7.10-7.30%	7-1-1999/2001	\$ 10,070
	(A)	7-1-2003/2014	18,668
			<u>28,738</u>
1989B	7.00-7.15	7-1-1999/2001	56,125
	(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>331,315</u>
1990B	7.20-7.25	7-1-1999/2000	48,200
	(A)	7-1-2001/2010	38,685
	7.375	7-1-2004	55,920
			<u>142,805</u>
1991A	6.20-6.60	7-1-1999/2004	<u>24,775</u>
1993B	4.75-7.00	7-1-1999/2010	114,755
	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>250,545</u>
1993C	4.25-7.50	7-1-1999/2010	155,265
	5.40	7-1-2012	105,000
	(A)	7-1-2013/2018	25,248
	5.375	7-1-2015	188,335
	5.50	7-1-2018	20,805
			<u>494,653</u>
1993-3A-3	Variable	7-1-1999/2018	<u>25,420</u>
1996A	5.00-6.00	7-1-1999/2009	<u>32,110</u>
1997A	4.75-6.00	7-1-1999/2018	<u>111,480</u>
1997B	5.00	7-1-2002	<u>4,075</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 1999 which were paid as of June 30, 1999

(C) Includes amounts due July 1, 1999

(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, 1999 (Dollars in Thousands)

<u>SERIES</u>	<u>COUPON RATE</u>	<u>SERIAL OR TERM MATURITIES</u>	<u>AMOUNT</u>
NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS (Continued)			
1998A	4.50-5.125%	7-1-1999/2018	<u>\$ 152,620</u>
1998-3A	Variable	7-1-1999/2018	<u>159,500</u>
<i>Compound interest bonds accretion</i>			<u>401,599</u>
<i>Revenue bonds payable</i>			<u>\$ 2,159,635 (C)</u>
<i>Estimated fair value at June 30, 1999</i>			<u>\$ 2,120,028 (D)</u>

(A) Compound interest bonds

(B) Excludes amounts due July 1, 1999 which were paid as of June 30, 1999

(C) Includes amounts due July 1, 1999

(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

DEBT SERVICE REQUIREMENTS

As of June 30, 1999 (Dollars in Thousands)

FISCAL YEAR	NUCLEAR PROJECT NO. 2			PACKWOOD LAKE PROJECT		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/99						
Balance:*	\$ -	\$ 378	\$ 378	\$ 155	\$ 77	\$ 232
2000	142,630	127,427	270,057	473	226	699
2001	178,580	119,206	297,786	498	208	706
2002	96,750	108,480	205,230	524	190	714
2003	155,225	102,989	258,214	548	171	719
2004	163,609	106,211	269,820	573	151	724
Balance Through						
2012	1,591,931	502,027	2,093,958	3,555	447	4,002
Adjustment **	68,780	(68,780)	0			
	<u>\$ 2,397,505</u>	<u>\$ 997,938</u>	<u>\$ 3,395,443</u>	<u>\$ 6,326</u>	<u>\$ 1,470</u>	<u>\$ 7,796</u>

FISCAL YEAR	NUCLEAR PROJECT NO. 1			NUCLEAR PROJECT NO. 3		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/99						
Balance:*	\$ 70,355	\$ 61,134	\$ 131,489	\$ 66,275	\$ 42,594	\$ 108,869
2000	83,395	123,009	206,404	76,940	85,787	162,727
2001	84,255	118,083	202,338	74,950	86,787	161,737
2002	79,635	112,668	192,303	78,457	82,994	161,451
2003	70,280	107,709	177,989	80,057	81,837	161,894
2004	81,710	103,760	185,470	63,311	94,095	157,406
Balance Through						
2017	1,746,800	788,417	2,535,217			
2018				1,318,046	944,761	2,262,807
Adjustment **				401,599	(401,599)	0
	<u>\$ 2,216,430</u>	<u>\$ 1,414,780</u>	<u>\$ 3,631,210</u>	<u>\$ 2,159,635</u>	<u>\$ 1,017,256</u>	<u>\$ 3,176,891</u>

* 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, 1999, 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 Projects

Energy Northwest operates Nuclear Project No. 2, a 1,153 MWe (Design Electric Rating, net) generating plant completed in 1984, and the Packwood Lake Hydroelectric Project (Packwood), a 27.5 MWe generating plant completed in 1964. Energy Northwest has obtained all permits and licenses required to operate Nuclear Project No. 2 including a Nuclear Regulatory Commission (NRC) operating license which expires in December 2023. 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 in-

terests was transferred to Energy Northwest. The financial affect of the termination of the ownership agreement was a write-off for Nuclear Project No. 3 of a \$3.7 million receivable from the joint owners.

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

All electrical energy produced by Energy Northwest projects 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 projects, for ultimate distribution to consumers. Participants in Energy Northwest projects consist of 104 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 projects. 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, 2 and 3, for discussion of BPA's obligations with respect to Nuclear Projects Nos. 1, 2 and 3.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Energy Northwest has adopted accounting policies and practices that are in accordance with generally accepted accounting principles. 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 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.

SFAS No. 130, "Reporting Comprehensive Income," defines comprehensive income during the applicable period as a change in equity of a business enterprise from transactions and other events and circumstances from nonowner sources. SFAS No. 130 requires that an enterprise report all components of comprehensive income in the period in which the enterprise recognizes these components.

Components of comprehensive income are net income and other comprehensive income. Net income includes income from continuing operations, discontinued operations, extraordinary items and cumulative effects of changes in accounting principles. Other comprehensive income includes foreign currency translations, adjustments of minimum pension liability and unrealized gains or losses on certain investments in debt and equity securities.

For the year ended June 30, 1999 Energy Northwest's only item of other comprehensive income was unrealized gains and losses on investments as detailed in Note C – Cash and Investments.

The preparation of Energy Northwest financial statements in conformity with generally accepted accounting principles 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 projects based on specific allocation methods and management considers the allocation methods to be reasonable.

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 Cost in Excess of Billings. 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. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 1 and 3 have been charged to operations.

Internal Service Fund assets are shared by all projects and they are allocated to each project's balance sheet based on direct labor cost incurred.

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 \$90 million as of June 30, 1999 for Nuclear Project No. 2. Current period operating expense for Nuclear Project No. 2 includes a charge for future spent nuclear fuel storage and disposal to be provided by the Department Of Energy (DOE) in accordance with the Nuclear Waste Policy Act of 1982. Current operations only includes a small charge for escalation of the clean-up of DOE enrichment facilities. The Enrichment Clean-up Assessment was costed years ago and a payable is charged when annual assessments are paid. Energy Northwest is currently planning to utilize dry cask storage until the national repository is available. No provisions have been made in fiscal year 1999 for additional storage and disposal costs which may be incurred in the future by

Energy Northwest prior to the transfer of spent fuel to DOE.

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 240,966 pounds of UF₆ and 113,503 SWU of Nuclear Project No. 2 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, \$19 million, is included in the carrying amount of Nuclear Project No. 2 Nuclear Fuel.

Until June 30, 2002 Nuclear Project No. 2 has an option to purchase the remaining fuel at Nuclear Project No. 1 for \$9.3 million plus 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 Nuclear Project No. 2 as the result of a litigation settlement and subsequent revisions.

Decommissioning

Energy Northwest established a decommissioning fund for Nuclear Project No. 2 and moneys 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 addition, 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 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 Project 2 decommissioning costs is approximately \$340 million (in 1998 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 Project 2. The estimate continues to be based on the NRC report (NUREG-1307) revised and published annually which provides regional adjustment factors which are applied to a formula for estimating decommissioning costs that are acceptable to the NRC.

The funding plan requires annual deposits through fiscal year 2024, the estimated end of commercial operation of Nuclear Project No. 2. The plan for annual deposits calls for incremental increases of 4% per year. The plan assumes that such deposits will grow at a 2% real rate of return and that the Project will be placed in a 60 year safe storage until 2085, at which time decontamination and dismantlement will be initiated. Over the life of the fund, deposits and the earnings related to the reinvestment thereof, are expected to provide sufficient funds to cover the cash flow requirements to decommission Nuclear Project No. 2. This plan will be reexamined every year and modified to assure that the projected fund balance complies with the then current estimates and NRC requirements. Payments to the decommissioning fund have been made since January 1985, and the balance of cash and investment securities in the fund as of June 30, 1999 totaled approximately \$62.6 million. Since July 1990 these amounts have been held and managed by BPA in an external decommissioning trust fund in accordance with NRC requirements. Because it is held by BPA, the balance sheet reflects a receivable from BPA for \$62.6 million.

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 payroll and benefits related accruals for Nuclear Project No. 2 of \$16.6 million. Nuclear Project No. 2 includes a Personal Time Bank accrual of \$10.6 million. Packwood includes an accrual for FERC Administrative charges of \$21,600. Nuclear Project No. 2 includes an accrual for \$2.6 million for Arbitrage Rebate and \$19.2 million for operating and capital expenses.

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 and due to and from

participants, other projects and other funds. 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 project over the life of that project. 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 recognized as revenues, or expenses, 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 projects 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, 2, and 3 and Security - Packwood Lake Hydroelectric Project. The long-term receivable is with a large and stable company which Energy Northwest considers to be financially strong. 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 financially strong. As a consequence, Energy Northwest considers the exposure of the projects 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 projects by safekeeping agents, custodians, or trustees.

Investments are classified as available-for-sale and are stated at fair value with unrealized gains and losses excluded from earnings and reported on the balance sheet as unrealized investment gains/(losses). Available-for-sale investments at June 30, 1999 are categorized below to give an indication of the types and amounts of investments held by each project at year end. (See table below)

AVAILABLE-FOR-SALE INVESTMENTS
(Dollars in Thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Nuclear Project No. 2				
U.S. Government Securities	\$64,556	\$ 318	\$ <392>	\$ 64,482
U.S. Government Agencies	144,638	197	<710>	144,125
Total	\$209,194	\$ 515	\$ <1,102>	\$208,607
Packwood Lake Project				
U.S. Government Securities	\$ 1,556	\$ 0	\$ 0	\$ 1,556
U.S. Government Agencies	0	0	0	0
Total	\$ 1,556	\$ 0	\$ 0	\$ 1,556
Nuclear Project No. 1				
U.S. Government Securities	\$ 37,147	\$ 204	\$ <335>	\$ 37,016
U.S. Government Agencies	268,994	86	<1,161>	267,919
Total	\$306,141	\$ 290	\$ <1,496>	\$304,935
Nuclear Project No. 3				
U.S. Government Securities	\$ 24,348	\$ 103	\$ <137>	\$ 24,314
U.S. Government Agencies	193,578	159	<483>	193,254
Total	\$217,926	\$ 262	\$ <620>	\$217,568

	< 1 Year	1-5 Years	6-10 Years	> 10 Years	TOTAL
Nuclear Project No. 2					
U.S. Government Securities	\$ 9,062	\$ 26,031	\$ 14,634	\$ 14,755	\$ 64,482
U.S. Government Agencies	\$ 92,218	\$ 26,769	\$ 8,864	\$ 16,274	\$ 144,125
Maturities at Fair Value	\$ 101,280	\$ 52,800	\$ 23,498	\$ 31,029	\$ 208,607
Packwood Lake Project					
U.S. Government Securities	\$ 1,556				\$ 1,556
Maturities at Fair Value	\$ 1,556				\$ 1,556
Nuclear Project No. 1					
U.S. Government Securities	\$ 10,374	\$ 24,447	\$ 0	\$ 2,195	\$ 37,016
U.S. Government Agencies	\$ 217,328	\$ 38,658	\$ 11,487	\$ 446	\$ 267,919
Maturities at Fair Value	\$ 227,702	\$ 63,105	\$ 11,487	\$ 2,641	\$ 304,935
Nuclear Project No. 3					
U.S. Government Securities	\$ 4,929	\$ 15,430	\$ 3,955	\$ 0	\$ 24,314
U.S. Government Agencies	\$ 150,280	\$ 30,866	\$ 9,912	\$ 2,196	\$ 193,254
Maturities at Fair Value	\$ 155,209	\$ 46,296	\$ 13,867	\$ 2,196	\$ 217,568

NOTE D - RETIREMENT BENEFITS

Substantially all 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 defined benefit public employee 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. 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 needed to fully amortize the total costs of the plan. 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 rates 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 June 30, 1999 were:

	PERS Plan 1	PERS Plan 2
Employer	7.32%*	7.32%*
Employee	6.00%	4.65%

*The employer rates do not include the employer administrative expense fee currently set at 0.18%.

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

	PERS Plan 1	PERS Plan 2
1999	\$718,527	\$4,697,392
1998	\$754,672	\$4,513,332
1997	\$776,582	\$4,486,119

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 I and Plan II. One hundred thirty-six

retirees have elected to participate in this insurance. Energy Northwest's Board of Directors 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 the 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, 1999 was \$2 million for these benefits.

During fiscal year 1999, pension costs for Energy Northwest employees and post-employment life insurance benefit costs for retirees were calculated and allocated to each project based on direct labor dollars. Approximately 95 percent of all such costs were allocated to Nuclear Project No. 2 during fiscal year 1999.

NOTE E - LONG-TERM DEBT

Each Energy Northwest project is financed separately. The resolutions of Energy Northwest authorizing issuance of revenue bonds for each project provide that such bonds are payable solely from the revenues of that project. All bonds issued under Resolution Nos. 769, 640 and 775 for Nuclear Projects Nos. 1, 2 and 3, respectively, have the same priority of payment within the projects. The variable rate debt issued for Nuclear Projects Nos. 1, 2 and 3 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 \$1,313.3 million, \$1,214.9 million and \$739.2 million of defeased

bonds were not called or had not matured at June 30, 1999 for Nuclear Projects Nos. 1, 2 and 3, respectively.

Outstanding revenue bonds of the various projects as of June 30, 1999, are presented on pages 5 through 9, and debt service requirements for these bonds are presented on pages 20 through 25.

Energy Northwest expects to continue the refunding of higher interest rate bonds when economically feasible.

Security - Nuclear Projects Nos. 1, 2 and 3

Project participants have purchased all of the project capability of Nuclear Projects Nos. 1 and 2 and 3. BPA has in turn acquired the entire project capability from the project participants under contracts referred to as net-billing agreements. Under the net-billing agreements for each of the projects, project 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 project, 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 project 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 The Washington Water Power Company 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

On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution terminating Nuclear Project No. 1. Since that date, 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

On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution requesting that the Nuclear

Project No. 3 Owners Committee declare the termination of the Project. The Owners Committee voted unanimously to terminate the Project in June 1994. Since that date, Energy Northwest has been planning for the demolition of the Project and restoration of the site under its obligations to the State of Washington if no bona fide purchase offers are received. 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. In February 1999, Energy Northwest entered into a transfer agreement with the Satsop Redevelopment Project 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 Project 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 Washington Energy Facility Site Evaluation Council (EFSEC), and additionally for Nuclear Projects Nos. 1 and 4, by a lease agreement with 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 \$59.8 million for Nuclear Project No. 1 and \$10.5 million for Nuclear Project No. 3. Funding for these liabilities 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 Satsop Redevelopment Project (SRP). The Satsop Redevelopment Project 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 government entities. This legislation also provides for the local government entities to assume regulatory responsibilities for site restoration requirements and control of water rights.

In February 1999, Energy Northwest entered into a transfer agreement with the Satsop Redevelopment Project 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 \$15 million to the SRP and the SRP agreed to assume regulatory responsibility for site restoration. Energy Northwest has agreed to accept a demolition and restora-

tion obligation to bring the site into suitable condition for transfer. This obligation is estimated to cost \$10.5 million in addition to the \$15 million transferred to the SRP and a formal Request for Proposal is being prepared to complete the specified work. Each estimate has been recorded as Accounts Payable and accrued expenses. 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 \$9.51 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 108) may be assessed up to \$88.095 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 insur-

ance purchased is currently \$1.06 billion. The deductible for this coverage is \$10 million per occurrence.

Required Supplemental Information

“Year 2000” {Unaudited}

Energy Northwest was ready for the year 2000 by July 1 - six months before the millennial deadline. This effort consumed the efforts of at least 16 men and women for a year and a half - as well as costing Energy Northwest \$17.6 million.

Energy Northwest first addressed year 2000 issues in 1996, when replacement and upgrading major business computer and software programs began. In January of last year the Year 2000 Project was formally launched - an examination of all computer systems and software programs used in and around Plant 2. More than 2,200 embedded systems were identified. Some were not time or calendar sensitive, and hence left alone. Some were easily fixed. Many were replaced. No computer or software problems have been found that would have presented nuclear safety issues - problems that would have incapacitated emergency systems or prevented continued operation of the plant.

In May 1998, the Nuclear Regulatory Commission issued a letter to all commercial nuclear plants, ordering that they establish year 2000 programs and report in writing by July 1 of this year. Energy Northwest reported by the deadline that Plant 2 was ready for the year 2000.

Contingency plans were prepared. External risks have been identified and a multi-discipline team formed to address them. Examples of contingency plans include stockpiling consumables - such as diesel fuel for emergency generators - in case there are potential supplier disruptions. There will also be extra staffing during sensitive time periods.

As for the actual move into the year 2000, suggestions from the Western Systems Coordinating Council, which recommends standards for an electrical grid covering 14 western states and two provinces, have been followed. Plant 2 will be at 80 percent power as the clock ticks toward midnight. This posture has been communicated to Bonneville for integration into the Western Systems Coordinating Council's contingency plan. At 80 percent, Plant 2 will be in a position to rapidly increase power in case there is a problem with other generating stations or

with the grid.

The cost or consequences of a material incomplete or untimely resolution of the Year 2000 problem could adversely affect future operations, however, any costs related to such results would remain obligations of the project participants and BPA as discussed in Note E, Security - Nuclear Projects Nos. 1, 2, and 3.

CURRENT DEBT RATINGS (Unaudited)

ENERGY NORTHWEST (Long-Term)	<u>RATING</u>	<u>OUTLOOK</u>
Fitch IBCA, Inc.	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 & P</u>	<u>MOODY'S</u>
Letter of Credit Banks		
Bank of America		
Long-Term	AA-	Aa2
Short-Term	A-1+	P-1
Morgan Guaranty Trust Company		
Long-Term	AA+	Aa1
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

