

**NEW ISSUE — BOOK-ENTRY ONLY**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series 2001-A Bonds is excluded from gross income for federal income tax purposes under Title XIII of the Tax Reform Act of 1986, as amended (the "1986 Act"), and Section 103 of the Internal Revenue Code of 1954, as amended.*

*In the further opinion of Special Tax Counsel, interest on the Series 2001-A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Tax Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2001-A Bonds. See "TAX MATTERS" herein.*

**\$500,125,000**

## **Energy Northwest**

**\$104,770,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A**

**\$186,600,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A**

**\$208,755,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A**

**Dated: Date of delivery**

**Due: July 1, as shown on the inside cover**

The Series 2001-A Bonds are being issued for the purpose of refunding Prior Lien Bonds heretofore issued by Energy Northwest in connection with Project 1, the Columbia Generating Station and Project 3, as more fully described herein. The Series 2001-A Bonds are special revenue obligations of Energy Northwest secured and payable as provided herein on a subordinated basis to the Prior Lien Bonds. See "SECURITY FOR THE NET BILLED BONDS."

The Series 2001-A Bonds will be issued in fully registered form, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2001-A Bonds. Individual purchases will be made in book-entry form, in denominations of \$5,000 and integral multiples thereof. So long as Cede & Co. is the registered owner of the Series 2001-A Bonds and the nominee of DTC, references herein to holders or registered owners shall mean Cede & Co. and shall not mean the beneficial owners of the Series 2001-A Bonds. See "DESCRIPTION OF THE SERIES 2001-A BONDS — Book-Entry Only System; Transferability and Registration" and Appendix H hereto. Principal of the Series 2001-A Bonds is payable at the principal corporate trust office of BNY Western Trust Company, as Trustee of the Series 2001-A Bonds. Interest on the Series 2001-A Bonds is payable semiannually on January 1 and July 1 of each year, commencing July 1, 2001, by check or draft of the Trustee, as set forth herein or, under the circumstances described herein, by wire transfer to the registered owner. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Series 2001-A Bonds will be made to such registered owner and disbursement of such payments will be the responsibility of DTC and DTC participants as described herein.

The Series 2001-A Bonds are subject to redemption prior to maturity as set forth herein.

The Series 2001-A Bonds are secured on a subordinated basis to the Prior Lien Bonds from amounts derived pursuant to Net Billing Agreements with the United States of America, Department of Energy, acting by and through the Administrator of the

## **Bonneville Power Administration**

from net billing credits and from cash payments from the Bonneville Fund, as described herein. Bonneville's obligations under the Net Billing Agreements are not general obligations of the United States of America and are not secured by the full faith and credit of the United States of America. The Series 2001-A Bonds do not constitute an obligation of the State of Washington or of any political subdivision thereof, other than Energy Northwest. Energy Northwest has no taxing power.

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### **MATURITY SCHEDULE — See Inside Cover**

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The Series 2001-A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Willkie Farr & Gallagher, New York, New York, Bond Counsel to Energy Northwest, and to certain other conditions. Certain tax matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel.

Certain legal matters will be passed upon for Energy Northwest by its General Counsel and for Bonneville by its Acting General Counsel and by its Special Counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York.

Certain legal matters will be passed upon for the Underwriters by O'Melveny & Myers LLP, New York, New York, Counsel to the Underwriters. It is expected that the Series 2001-A Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about March 22, 2001.

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**Goldman, Sachs & Co.**

**Bear, Stearns & Co. Inc.**

**UBS PaineWebber**

**Salomon Smith Barney Inc.**

March 9, 2001

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES**

**\$104,770,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A**

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2001*	\$ 1,485,000	4.000%	3.300%	2010*	\$ 3,550,000	5.000%	4.430%
2002*	14,120,000	5.250	3.380	2011*	25,000	4.500	4.510
2003	6,405,000	5.500	3.820	2012*	35,465,000	5.500	4.620
2004*	5,600,000	5.500	3.800	2013*	37,520,000	5.375	4.720 †
2007*	600,000	4.125	4.150				

**\$186,600,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A**

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2013*	\$33,605,000	5.000%	4.740%†	2016*	\$39,185,000	5.500%	4.950%†
2014*	35,285,000	5.375	4.810 †	2017*	41,340,000	5.500	5.020 †
2015*	37,185,000	5.375	4.880 †				

**\$208,755,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A**

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2001*	\$ 2,865,000	4.000%	3.300%	2010*	\$12,105,000	5.500%	4.430%
2002*	20,270,000	5.250	3.380	2011*	12,825,000	5.500	4.510
2003*	15,610,000	5.000	3.720	2017*	61,580,000	5.500	5.020 †
2004*	18,630,000	5.000	3.800	2018*	64,870,000	5.500	5.080 †

\* Insured by Financial Security Assurance Inc.

† Priced to par call on July 1, 2012.

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No dealer, broker, salesman or other person has been authorized by Energy Northwest or by the Underwriters to give any information or to make any representations, other than as contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by Energy Northwest or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2001-A Bonds, by any person in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

The information set forth herein has been furnished by Energy Northwest and Bonneville and includes information obtained from other sources which are believed to be reliable, the information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Energy Northwest or Bonneville since the date hereof.

Except as specifically described herein, none of the information herein was provided by the Participants, the Pacific Northwest Electric Power and Conservation Planning Council, or the Trustee and none of such entities participated in the preparation of this Official Statement. This Official Statement has not been submitted to such entities for review, comment or approval.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under "SECURITY FOR THE NET BILLED BONDS — Bond Insurance" and Appendix J — "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting Energy Northwest's or Bonneville's business and financial results could cause actual results to differ materially from those stated in the forward-looking statements.

The Underwriters have provided the following sentence for inclusion in the Official Statement: "The Underwriters have reviewed the information in the Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information."

The prospective financial information included in this offering document, including any forward-looking or prospective financial information, has been prepared by, and is the responsibility of the management of Energy Northwest and Bonneville. PricewaterhouseCoopers has neither examined nor compiled such prospective financial information and, accordingly, PricewaterhouseCoopers does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers reports included in this offering document relate to the historical financial information of the Energy Northwest projects and Bonneville. They do not extend to the prospective financial information and should not be read to do so.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2001-A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.



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# OFFICIAL STATEMENT

## ENERGY NORTHWEST

**\$104,770,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A**

**\$186,600,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A**

**\$208,755,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A**

Energy Northwest, a municipal corporation and a joint operating agency of the State of Washington (formerly known as the Washington Public Power Supply System), proposes to issue \$104,770,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A (the "Project 1 2001-A Bonds"), \$186,600,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A (the "Columbia 2001-A Bonds"), and \$208,755,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A (the "Project 3 2001-A Bonds" and together with the Project 1 2001-A Bonds and the Columbia 2001-A Bonds, the "Series 2001-A Bonds"). The Series 2001-A Bonds are being issued pursuant to Chapter 43.52 of the Revised Code of Washington, as amended (the "Act") and the resolutions of Energy Northwest hereinafter referred to for the purpose of refunding the Prior Lien Bonds (as hereinafter defined) heretofore issued by Energy Northwest in connection with Projects 1 and 3 and the Columbia Generating Station project (hereinafter described). The Series 2001-A Bonds are secured on a subordinated basis to the Prior Lien Bonds from amounts derived pursuant to Net Billing Agreements with the United States of America, Department of Energy, acting by and through the Administrator of the Bonneville Power Administration from net billing credits and from cash payments from the Bonneville Fund, as described herein. The receipts, income and revenues derived from a Project secure only the related Series 2001-A Bonds. Accordingly, the owners of the Series 2001-A Bonds issued for a particular Project will have no claim on the receipts, income and revenues securing any other Energy Northwest Project. For further information, see "SECURITY FOR THE NET BILLED BONDS" in this Official Statement.

Energy Northwest furnishes this Official Statement, which includes the cover page and inside cover page hereof and the appendices hereto, in connection with the sale of the Series 2001-A Bonds.

## INTRODUCTION

This Introduction is not intended to provide all information material to a prospective purchaser of the Series 2001-A Bonds and is qualified in all respects by the more detailed information set forth elsewhere in this Official Statement. Unless otherwise specifically defined, certain capitalized terms used in this Introduction have the meanings given to such terms elsewhere in this Official Statement.

## ENERGY NORTHWEST

Energy Northwest was organized in 1957 as the Washington Public Power Supply System. By resolution of its Executive Board adopted on June 2, 1999, the Washington Public Power Supply System officially changed its name to Energy Northwest. It currently has 13 members, consisting of 10 public utility districts and the cities of Richland, Seattle and Tacoma, all located in the State of Washington. Energy Northwest has the authority, among other things, to acquire, construct and operate plants, works and facilities for the generation and transmission of electric power and energy and to issue bonds and other evidences of indebtedness to finance the same.

Energy Northwest owns and operates a nuclear electric generating station, the Columbia Generating Station (sometimes hereinafter referred to as "Columbia Generating Station" or "Columbia"), formerly known as Nuclear Project No. 2, with a net design electrical rating of 1,153 megawatts. Energy Northwest also owns an operating hydroelectric facility, the Packwood Lake Hydroelectric Project ("Packwood"), with a name-plate rating of 27.5 megawatts. Energy Northwest also owns and/or has financial responsibility for four other nuclear electric generating projects which have been terminated: Energy Northwest Nuclear Project No. 1 ("Project 1"), Energy Northwest Nuclear Project No. 3 ("Project 3") and Energy Northwest Nuclear Projects Nos. 4 and 5 ("Projects 4 and 5"). Energy Northwest also owns the Hanford Generating Project ("HGP"), which ceased operation in 1987, and site restoration activities coordinated with the United States Department of Energy ("DOE") are continuing. For discussions concerning the termination of Projects Nos. 1, 3, 4 and 5, see "ENERGY NORTHWEST — Project 1," "— Project 3," "— Projects 4 and 5" and "— Site Restoration of Projects 1, 3, 4 and 5" in this Official Statement. Projects 1, 3 and Columbia are collectively referred to herein as the "Net Billed Projects." Each of the foregoing projects (collectively, the "Projects" and individually, a "Project") is financed and accounted for as a separate utility system, except for Projects 4 and 5, which were financed and accounted for as a single utility system separate and apart from all other Energy Northwest Projects. All of Energy Northwest's Projects are located in the State of Washington.

The United States of America, Department of Energy, acting by and through the Administrator of the Bonneville Power Administration ("Bonneville"), has acquired the capability of Projects 1, 3 and Columbia. As more fully discussed under "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements," Bonneville pays Energy Northwest for such capability pursuant to Net Billing Agreements, with payments being made through a combination of credits against customer bills and cash payments from the Bonneville Fund (as hereinafter defined). Bonneville's obligations to make such payments under the Net Billing Agreements continue notwithstanding suspension or termination of any of Projects 1, 3 or Columbia.

### **The Columbia Generating Station**

Columbia is an operating nuclear electric generating station located about 160 miles southeast of Seattle, Washington, near Richland, Washington on the DOE Hanford Reservation. Columbia commenced commercial operation in 1984 and has a net design electrical rating of 1,153 megawatts. Columbia consists of a General Electric Company-designed boiling water reactor and nuclear steam supply system, a turbine-generator and the necessary transformer, switching and transmission facilities to deliver the output to the transmission facilities of the Federal System located in the vicinity of Columbia. The entire Project capability of Columbia has been acquired by Bonneville under the Columbia Net Billing Agreements. Since commencing commercial operation, Columbia has operated at a cumulative capacity factor of 63.7% and has generated 98,863,390 megawatt-hours (net of station use) of electric power through January 2001. For further information relating to Columbia, see "ENERGY NORTHWEST — The Columbia Generating Station" in this Official Statement.

Energy Northwest has obtained all permits and licenses required to operate Columbia, including a site certification agreement with the State of Washington and an operating license for Columbia issued by the United States Nuclear Regulatory Commission (the "NRC"). The operating license expires in 2023. For a discussion of recent NRC reports, see "ENERGY NORTHWEST — The Columbia Generating Station — Nuclear Regulatory Commission Actions or Reports" in this Official Statement.

#### **Project 1**

Project 1 is a terminated, partially constructed, nuclear electric generating project located about 160 miles southeast of Seattle, Washington, near Richland, Washington on DOE's Hanford Reservation. In May 1994, Energy Northwest's Board of Directors adopted a resolution terminating Project 1. For further information relating to Project 1, see "ENERGY NORTHWEST — Project 1" and "— Site Restoration of Projects 1, 3, 4 and 5" in this Official Statement. See "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements" in this Official Statement for further discussion of the above-mentioned termination and related issues.

#### **Project 3**

Project 3 is a terminated, partially constructed, nuclear electric generating project located in Grays Harbor County, Washington, about 70 miles southwest of Seattle, Washington. In May 1994, Energy Northwest's Board of Directors adopted a resolution requesting the termination of Project 3. Project 3 was terminated in June 1994. For further information relating to Project 3, see "ENERGY NORTHWEST — Project 3" and "— Site Restoration of Projects 1, 3, 4 and 5" in this Official Statement. See "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements" in this Official Statement for further discussion of the above-mentioned termination and related issues.

#### **Projects 4 and 5**

Projects 4 and 5 were terminated in January 1982. The bonds issued by Energy Northwest in connection with Projects 4 and 5 (the "Project 4/5 Bonds") went into default on July 22, 1983 and approximately \$2.25 billion principal amount of Project 4/5 Bonds, together with accrued interest thereon, remain unpaid except for two distributions to bondholders in 1993 and 1995. All trusts created under the resolution authorizing the Project 4/5 Bonds were terminated and Energy Northwest and the trustee under said resolution were released from all of their obligations thereunder. Bonneville is not a party to any agreements that secured payment of the costs of Projects 4 and 5.

### **THE BONNEVILLE POWER ADMINISTRATION**

The information under this heading has been derived from information provided to Energy Northwest by Bonneville. For detailed information with respect to Bonneville, see "THE BONNEVILLE POWER ADMINISTRATION" in this Official Statement.

Bonneville was created by Federal law in 1937 to market electric power from the Bonneville Dam and to construct facilities necessary to transmit such power. Today, Bonneville markets electric power from 29 federally-owned hydroelectric projects, most of which are located in the Columbia River Basin and all of which were constructed and are operated by the United States Army Corps of Engineers (the "Corps") or the United States Bureau of Reclamation (the "Bureau"), and from several non-federally-owned projects, including the Columbia Generating Station. Bonneville sells and/or exchanges power under contracts with over 100 utilities in the Pacific Northwest and Pacific Southwest and with several industrial customers. It also owns and operates a high voltage transmission system comprising approximately 75% of the bulk transmission capacity in the Pacific Northwest.

Bonneville's primary customer service area is the Pacific Northwest region, an area comprised of Oregon, Washington, Idaho, western Montana and small portions of California, Nevada, Utah and Wyoming (sometimes referred to herein as the "Pacific Northwest," the "Northwest," the "Region," or "Regional"). Bonneville estimates that this 300,000 square mile service area has a population of approximately ten million people. Electric power sold by Bonneville accounts for about 45% of the electric power consumed within the Region. Bonneville also exports power that is surplus to the needs of the Region to the Pacific Southwest, primarily to California.

Bonneville is one of four regional Federal power marketing agencies within the DOE. Bonneville is required by law to meet certain energy requirements in the Region and is authorized to acquire power resources, to implement conservation measures and to take other actions to enable it to carry out its purposes. Bonneville is also required by law to operate and maintain its

transmission system and to provide transmission service to eligible customers and to undertake certain other programs, such as fish and wildlife protection, mitigation and enhancement.

## **SERIES 2001-A BONDS**

### **Purpose of Issuance**

The Project 1 2001-A Bonds are being issued pursuant to Resolution No. 835, adopted on November 23, 1993 (as amended and supplemented, the "Project 1 Electric Revenue Bond Resolution"), and a supplemental resolution adopted on March 9, 2001 (the "Project 1 Electric Revenue Bond Supplemental Resolution"). Energy Northwest is issuing the Project 1 2001-A Bonds for the purpose of refunding \$104,465,000 aggregate principal amount of the \$1,932,480,000 of Project 1 Prior Lien Bonds (as hereinafter defined) currently outstanding under Resolution No. 769, adopted September 18, 1975 (as amended and supplemented the "Project 1 Prior Lien Resolution"). Bonds issued pursuant to the Project 1 Prior Lien Resolution are hereinafter referred to as the "Project 1 Prior Lien Bonds."

The Columbia 2001-A Bonds are being issued pursuant to Resolution No. 1042, adopted on October 23, 1997 (as amended and supplemented, the "Columbia Electric Revenue Bond Resolution") and a supplemental resolution adopted on March 9, 2001 (the "Columbia Electric Revenue Bond Supplemental Resolution"). Energy Northwest is issuing the Columbia 2001-A Bonds for the purpose of refunding \$185,200,000 aggregate principal amount of the \$2,106,203,000 of Columbia Prior Lien Bonds (as hereinafter defined) currently outstanding under Resolution No. 640, adopted on June 26, 1973 (as amended and supplemented the "Columbia Prior Lien Resolution"). Bonds issued pursuant to the Columbia Prior Lien Resolution are hereinafter referred to as the "Columbia Prior Lien Bonds."

The Project 3 2001-A Bonds are being issued pursuant to Resolution No. 838, adopted on November 23, 1993 (as amended and supplemented the "Project 3 Electric Revenue Bond Resolution"), and a supplemental resolution adopted on March 9, 2001 (the "Project 3 Electric Revenue Bond Supplemental Resolution" and together with the Project 1 Electric Revenue Bond Supplemental Resolution and the Columbia Electric Revenue Bond Supplemental Resolution, the "Supplemental Resolutions"). Energy Northwest is issuing the Project 3 2001-A Bonds for the purpose of refunding \$209,835,000 aggregate principal amount of the \$1,597,262,000 of Project 3 Prior Lien Bonds (as amended and supplemented the "Project 3 Prior Lien Bonds") currently outstanding under Resolution No. 775, adopted on December 3, 1975 (as amended and supplemented the "Project 3 Prior Lien Resolution"). Bonds issued pursuant to the Project 3 Prior Lien Resolution are hereinafter referred to as the "Project 3 Prior Lien Bonds."

The Project 1 Prior Lien Resolution, the Columbia Prior Lien Resolution and the Project 3 Prior Lien Resolution are collectively referred to herein as the "Prior Lien Resolutions." The Prior Lien Resolutions, the Electric Revenue Bond Resolutions (as hereinafter defined) and the Separate Subordinated Resolutions (as hereinafter defined) are collectively referred to herein as the "Net Billed Resolutions." The Project 1 Prior Lien Bonds, the Columbia Prior Lien Bonds and the Project 3 Prior Lien Bonds are collectively referred to herein as the "Prior Lien Bonds." The Prior Lien Bonds, the Electric Revenue Bonds (as hereinafter defined), including the Series 2001-A Bonds and any bonds or notes which may be issued pursuant to the Separate Subordinated Resolutions (as hereinafter defined) are collectively referred to herein as the "Net Billed Bonds." Under the Supplemental Resolutions, Energy Northwest has covenanted with the owners from time to time of the Electric Revenue Bonds not to issue any more Prior Lien Bonds or any other obligations having a lien on a parity with the Prior Lien Bonds. For a discussion of additional Net Billed Bonds which may be issued by Energy Northwest for refunding and other purposes, see "SECURITY FOR THE NET BILLED BONDS — Additional Bonds" in this Official Statement.

## **NET BILLING AGREEMENTS**

Under the Net Billing Agreements, the Participants in each Net Billed Project have contracted to purchase the capability of that Net Billed Project and have agreed to provide Energy Northwest with funds necessary to meet costs of that Net Billed Project. These costs include the amounts that Energy Northwest is obligated to pay in each contract year into the various funds provided for in the related Net Billed Resolutions for debt service and for all other purposes of the Net Billed Project. The Net Billing Agreements also effected a simultaneous assignment of the project capability from the Participants to Bonneville and created an obligation of Bonneville to pay the Participants (from net billing credits provided by Bonneville and from cash payments from the Bonneville Fund, as described herein) for their respective shares of the costs of the Net Billed Projects. Thus, Bonneville is ultimately obligated to meet such costs.

Under the Net Billing Agreements, payments to Energy Northwest are not made directly by Bonneville, but rather by the Participants. Such payments by the Participants are to be made in accordance with each Participant's participation in the purchase of the capability of the Net Billed Project. Bonneville pays for the capability of the Net Billed Project assigned by the Participants to it by crediting (or net billing) Bonneville's bills to Participants for power and other services purchased from Bonneville by the amount of the payment required to be made by the Participants to Energy Northwest. To the extent that the total amount of Bonneville's bills to each Participant (and consequently the amount of such credit available) over a contract year (July 1 to June 30) is less than the payment required to be made by the Participant to Energy Northwest, Bonneville is obligated to pay the deficiency in cash to the Participant from the Bonneville Fund. In the opinion of Bonneville's Acting General Counsel, under Federal statutes Bonneville may only make payments to the United States Treasury from net proceeds; all cash payment obligations of Bonneville, including cash deficiency payments relating to Net Billed Bonds and other operating and maintenance expenses have priority over payments by Bonneville to the United States Treasury. Net proceeds are gross cash receipts remaining in the Bonneville Fund after deducting all

of the costs paid by Bonneville to operate and maintain the Federal System other than those used to make payments to the United States Treasury for: (i) the repayment of the Federal investment in certain transmission facilities and the power generating facilities at federally-owned hydroelectric projects in the Pacific Northwest; (ii) debt service on bonds issued by Bonneville and sold to the United States Treasury; (iii) repayments of appropriated amounts to the Corps and the Bureau for certain costs allocated to power generation at federally-owned hydroelectric projects in the Pacific Northwest; and (iv) costs allocated to irrigation projects as are required by law to be recovered from power sales.

Cash payments and the provision of credits by Bonneville and payments by Participants under the Net Billing Agreements are required whether or not the related Net Billed Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of Net Billed Project output or termination of the related Net Billed Project and such payments or credits are not subject to any reduction, whether by offset or otherwise, and are not conditioned upon the performance or nonperformance by Energy Northwest, Bonneville or any Participant under the Net Billing Agreements or any other agreement or instrument.

*Bonneville's obligations under the Net Billing Agreements are not general obligations of the United States of America and are not secured by the full faith and credit of the United States of America.*

For further information as to the Net Billing Agreements, see "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements" in this Official Statement.

## **DESCRIPTION OF THE SERIES 2001-A BONDS**

### **GENERAL**

The Project 1 Electric Revenue Bond Resolution authorizes the issuance of Project 1 2001-A Bonds for the purpose of refunding Project 1 Prior Lien Bonds previously issued. The Columbia Electric Revenue Bond Resolution authorizes the issuance of Columbia 2001-A Bonds for the purpose of refunding Columbia Prior Lien Bonds previously issued. The Project 3 Electric Revenue Bond Resolution authorizes the issuance of Project 3 2001-A Bonds for the purpose of refunding Project 3 Prior Lien Bonds previously issued.

The Series 2001-A Bonds will be dated and will mature on July 1 in the years and bear interest, payable on January 1 and July 1 of each year, commencing July 1, 2001, at the rates shown on the inside cover of this Official Statement. Interest on the Series 2001-A Bonds is payable by check or draft mailed to the registered owners thereof by BNY Western Trust Company, as Trustee for the Project 1 2001-A Bonds, Columbia 2001-A Bonds and Project 3 2001-A Bonds. Principal of the Series 2001-A Bonds is payable at the principal corporate trust office of the Trustee, in New York, New York. Notwithstanding the foregoing, upon the written request of a registered owner of at least \$1,000,000 in aggregate principal amount of Project 1 2001-A Bonds, Columbia 2001-A Bonds or Project 3 2001-A Bonds outstanding delivered to the Trustee at least ten days prior to any date on which interest or both principal and interest are payable on such Bonds, the principal of and premium, if any, and interest on such Bonds will be paid by wire transfer of immediately available funds on such date to an account specified by such registered owner in its request.

### **BOOK-ENTRY ONLY SYSTEM; TRANSFERABILITY AND REGISTRATION**

The Series 2001-A Bonds will be available to the ultimate purchasers in book-entry form only, in denominations of \$5,000 and integral multiples thereof. Purchasers of the Series 2001-A Bonds will not receive certificates representing their interests in such Series 2001-A Bonds purchased, except as described in Appendix H hereto, "BOOK-ENTRY ONLY SYSTEM." The Depository Trust Company ("DTC"), New York, New York will act as securities depository ("Securities Depository") for the Series 2001-A Bonds.

As discussed in Appendix H hereto, transfers of ownership interests in the Series 2001-A Bonds will be accomplished by book entries made by DTC and, in turn, by DTC Participants acting on behalf of Beneficial Owners of the Series 2001-A Bonds. The Supplemental Resolutions provide that Energy Northwest shall not be required to issue, transfer or exchange the related Series 2001-A Bonds for a period of ten days next preceding any interest payment date therefor, to issue, transfer or exchange any Series 2001-A Bond for a period of ten days next preceding any selection of Series 2001-A Bonds to be redeemed or for a period of ten days thereafter or to transfer or exchange any such Series 2001-A Bonds which have been designated for redemption within a period of 60 days next preceding the date fixed for redemption.

Energy Northwest, the Trustee, the Paying Agent and any other person may treat the registered owner of any Series 2001-A Bond as the absolute owner of such Bond for the purpose of making payment thereof and for all other purposes and Energy Northwest, the Trustee and the Paying Agent shall not be bound by any notice or knowledge to the contrary, whether such Series 2001-A Bond shall be overdue or not. All payments of or on account of interest or principal to any registered owner of any such Series 2001-A Bond shall be valid and effectual and shall be a discharge of Energy Northwest, the Trustee and Paying Agent in respect of the liability upon such Series 2001-A Bond, to the extent of the sum or sums paid.

**REDEMPTION**

**Optional Redemption**

The Series 2001-A Bonds maturing on and after July 1, 2012 will be subject to redemption prior to maturity at the option of Energy Northwest on and after July 1, 2011, in whole or in part at any time, in such order of maturity as is selected by Energy Northwest and by lot within a maturity, at the respective redemption prices (expressed as percentages of the principal amount) set forth below, together with accrued interest to the redemption date.

<u>Period During Which Redeemed (Both Dates Inclusive)</u>	<u>Redemption Prices</u>
July 1, 2011 to June 30, 2012.....	101%
July 1, 2012 and thereafter .....	100

**Notice of Redemption**

Each Supplemental Resolution requires that notice of redemption of the Series 2001-A Bonds is to be given by first-class mail or in such other manner as is required by the Supplemental Resolution not less than 30 days nor more than 60 days before the redemption date to the registered owners of the Series 2001-A Bonds which are to be redeemed. Such notice shall be deemed conclusively to be received by the registered owners of the Series 2001-A Bonds which are to be redeemed, whether or not such notice is actually received. Mailing of such notice of redemption shall not be a condition precedent to such redemption and failure to mail any such notice or any defect therein shall not affect the validity of the redemption proceedings for the Series 2001-A Bonds being redeemed. Each Supplemental Resolution further provides that, notice of redemption having been given as described above, the Series 2001-A Bonds called for redemption shall become due and payable on the redemption date specified in such notice and that interest thereon shall cease to accrue from and after the redemption date, if moneys sufficient for the redemption of the Series 2001-A Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Paying Agent for such Series 2001-A Bonds on the redemption date.

**PLAN OF REFUNDING**

**GENERAL**

The Project 1 2001-A Bonds are being issued for the purposes of providing funds to refund \$104,465,000 aggregate principal amount of Project 1 Prior Lien Bonds (the "Project 1 Refunded Bonds") and providing for the payment of certain expenses relating to the issuance of the Project 1 2001-A Bonds. The Project 1 Refunded Bonds were issued pursuant to the Project 1 Prior Lien Resolution for the purpose of refinancing the costs of planning, construction and acquisition of Project 1. The Columbia 2001-A Bonds are being issued for the purposes of providing funds to refund \$185,200,000 aggregate principal amount of Columbia Prior Lien Bonds (the "Columbia Refunded Bonds") and providing for the payment of certain expenses relating to the issuance of the Columbia 2001-A Bonds. The Columbia Refunded Bonds were issued pursuant to the Columbia Prior Lien Resolution for the purpose of refinancing the costs of planning, construction and acquisition of Columbia. The Project 3 2001-A Bonds are being issued for the purposes of providing funds to refund \$209,835,000 aggregate principal amount of Project 3 Prior Lien Bonds (the "Project 3 Refunded Bonds" and, together with the Project 1 Refunded Bonds and the Columbia Refunded Bonds, collectively, the "Refunded Bonds"), and providing for the payment of certain expenses relating to the issuance of the Project 3 2001-A Bonds. The Project 3 Refunded Bonds were issued pursuant to the Project 3 Prior Lien Resolution for the purpose of refinancing the costs of planning, construction and acquisition of Project 3.

A major portion of the proceeds of the Series 2001-A Bonds and other available amounts will be used to purchase investment securities permitted by the Prior Lien Resolutions (the "Investment Securities"), maturing in such amounts and at such times as shall be sufficient, together with the interest to accrue thereon, to pay the principal or redemption price of all of the Refunded Bonds on the dates and in the amounts set forth in the following table entitled "Refunded Bonds" and to pay interest on all Refunded Bonds to the date of their retirement. Concurrently with such purchase of Investment Securities, Energy Northwest shall deposit such Investment Securities in separate trust funds established with the Bond Fund Trustee for each of the Series of Refunded Bonds pursuant to the Supplemental Resolutions adopted by the Executive Board and escrow agreements between Energy Northwest and the Bond Fund Trustee for each of the Series of Refunded Bonds. At the time of such deposit, Energy Northwest shall direct the Bond Fund Trustee for each of the Series of Refunded Bonds to make an irrevocable provision for the giving of notice of redemption of such Refunded Bonds to be redeemed.

**2000 REFUNDING PLAN**

In the Spring of 2000, Bonneville presented its Debt Optimization Proposal ("Bonneville Proposal") to Energy Northwest. The Bonneville Proposal involved the extension of the final maturity of outstanding Columbia Refunding Revenue Bonds from 2012 to 2018 through a series of refunding bond issues (the "Columbia Debt Extension Program"). Bonneville manages its overall debt portfolio to meet the objectives of: 1) minimizing the cost of debt to Bonneville's rate payers; 2) maximizing Bonneville's access to its lowest cost capital sources to meet future capital needs at the lowest cost to rate payers; and 3) maintaining sufficient financial flexibility to handle Bonneville's financial requirements. The Columbia Debt Extension Program will provide Bonneville with cash

flow flexibility in funding planned capital expenditures, allow Bonneville to advance the amortization of Bonneville's high interest Federal debt and reduce Bonneville's overall fixed costs.

Energy Northwest, in response to the Bonneville Proposal, developed its 2000 Refunding Plan. In addition to the Columbia Debt Extension Program, the 2000 Refunding Plan reaffirms the historical debt service savings goals for any future refinancing of Projects 1 and 3 Net Billed Bonds. The Executive Board of Energy Northwest formally adopted the 2000 Refunding Plan in October 2000.

Information relating to the Project 1 Prior Lien Bonds, the Columbia Prior Lien Bonds and the Project 3 Prior Lien Bonds to be refunded with the proceeds of the Series 2001-A Bonds is set forth below.

#### Refunded Bonds

Project	Series	Amount	Maturity (July 1)	Interest Rate	Redemption Date	Redemption Price
1	1990A	\$6,940,000	2002	7.500%	6/21/01	102
1	1990B	1,935,000	2002	7.100	6/21/01	102
1	1990B	1,010,000	2003	7.200	6/21/01	102
1	1991A	5,030,000	2002	6.500	7/1/01	102
1	1991A	5,420,000	2003	6.500	7/1/01	102
1	1991A	5,700,000	2004	6.600	7/1/01	102
1	1992A	765,000	2007	6.250	7/1/02	102
1	1993A	35,705,000	2012	6.050	7/1/03	102
1	1993A	37,970,000	2013	5.750	7/1/03	102
1	1993B	250,000*	2011	5.600	7/1/03	102
1	1993B	3,740,000*	2010	5.700	7/1/03	102
2	1992A	13,795,000	2002	5.700	NC	NC
2	1992A	14,485,000	2003	5.800	NC	NC
2	1993A	9,495,000*	2002	5.300	NC	NC
2	1993A	9,980,000*	2003	5.250	NC	NC
2	1993A	15,290,000*	2011	5.750	7/1/03	102
2	1993A	16,125,000*	2012	5.750	7/1/03	102
2	1993A	13,675,000*	2009	6.000	7/1/03	102
2	1993A	14,460,000*	2010	6.000	7/1/03	102
2	1993B	6,295,000	2002	5.150	NC	NC
2	1993B	6,595,000	2003	5.250	NC	NC
2	1993B	21,145,000	2011	5.625	7/1/03	102
2	1993B	22,310,000	2012	5.625	7/1/03	102
2	1997A	21,550,000	2002	5.500	NC	NC
3	1989B	62,560,000	2017	5.500	6/21/01	100
3	1989B	65,905,000	2018	5.500	6/21/01	100
3	1990B	15,740,000	2002	7.375	6/21/01	102
3	1990B	11,190,000	2003	7.375	6/21/01	102
3	1990B	14,290,000	2004	7.375	6/21/01	102
3	1991A	4,230,000	2002	6.500	7/1/01	102
3	1991A	4,490,000	2003	6.500	7/1/01	102
3	1991A	4,745,000	2004	6.600	7/1/01	102
3	1993B	13,740,000*	2011	5.625	7/1/03	102
3	1993B	12,945,000	2010	5.700	7/1/03	102

\* Partial  
Redemption

#### ESTIMATED SOURCES AND USES OF FUNDS

##### Sources of Funds

Principal of Project 1 2001-A Bonds.....	\$104,770,000.00
Principal of Columbia 2001-A Bonds .....	186,600,000.00
Principal of Project 3 2001-A Bonds.....	208,755,000.00
Original Issue Premium.....	<u>21,846,609.45</u>
Total Sources of Funds.....	\$521,971,609.45

##### Uses of Funds

Deposit in the Project 1 2001-A Escrow Account .....	\$109,684,227.25
Deposit in the Columbia 2001-A Escrow Account.....	192,342,087.28
Deposit in the Project 3 2001-A Escrow Account .....	215,149,581.45
Costs of Issuance including Underwriters' Discount.....	<u>4,795,713.47</u>
Total Uses of Funds.....	\$521,971,609.45



## SECURITY FOR THE NET BILLED BONDS

### SOURCES OF PAYMENT AND SECURITY

The Project 1 2001-A Bonds are special revenue obligations of Energy Northwest issued under and pursuant to the Project 1 Electric Revenue Bond Resolution and are secured on a subordinated basis to the Project 1 Prior Lien Bonds by a pledge of all receipts, income and revenues derived by Energy Northwest from the ownership of Project 1. The Project 1 2001-A Bonds will be secured on a parity with any additional bonds or notes that may be issued by Energy Northwest in the future or other obligations of Energy Northwest that may be secured pursuant to the Project 1 Electric Revenue Bond Resolution or any Project 1 Separate Subordinated Resolution (as hereinafter defined).

The Columbia 2001-A Bonds are special revenue obligations of Energy Northwest issued under and pursuant to the Columbia Electric Revenue Bond Resolution and are secured on a subordinated basis to the Columbia Prior Lien Bonds by a pledge of all receipts, income and revenues derived by Energy Northwest from the ownership and operation of Columbia. The Columbia 2001-A Bonds will be secured on a parity with any additional bonds or notes that may be issued by Energy Northwest in the future or other obligations of Energy Northwest that may be secured pursuant to the Columbia Electric Revenue Bond Resolution or any Columbia Separate Subordinated Resolution (as hereinafter defined).

The Project 3 2001-A Bonds are special revenue obligations of Energy Northwest issued under and pursuant to the Project 3 Electric Revenue Bond Resolution and are secured on a subordinated basis to the Project 3 Prior Lien Bonds by a pledge of all receipts, income and revenues derived by Energy Northwest from the ownership of Project 3. The Project 3 2001-A Bonds will be secured on a parity with any additional bonds or notes that may be issued by Energy Northwest in the future or other obligations of Energy Northwest that may be secured pursuant to the Project 3 Electric Revenue Bond Resolution or any Project 3 Separate Subordinated Resolution (as hereinafter defined).

Each Supplemental Resolution amends the related Electric Revenue Bond Resolution to add a covenant between Energy Northwest and the owners from time to time of its Electric Revenue Bonds issued thereunder, to the effect that from and after the issuance and delivery of the Series 2001-A Bonds to the initial purchasers thereof, Energy Northwest will not issue any more Prior Lien Bonds or any other bonds, warrants or other obligations which will rank on a parity with the pledge of and lien on the revenues created by a related Prior Lien Resolution.

In the Electric Revenue Bond Resolutions, Energy Northwest has reserved the right to issue from time to time, upon satisfaction of certain conditions set forth therein, additional bonds or notes or incur from time to time, upon satisfaction of certain conditions set forth therein, additional bonds or notes or incur additional obligations under each such Electric Revenue Bond Resolution and under Separate Subordinate Resolutions of the Executive Board creating a pledge of and lien on the receipts, income and revenues derived from the related Project of equal rank with the pledge and lien created by the related Electric Revenue Bond Resolution in favor of the Electric Revenue Bonds issued thereunder.

A source of payment for the Project 1 2001-A Bonds, subject to the payments required in connection with the Project 1 Prior Lien Bonds described below, are amounts paid to Energy Northwest pursuant to the Project 1 Net Billing Agreements entered into among Energy Northwest, Bonneville and the Participants, which amounts are ultimately derived from net billing credits provided by Bonneville and from cash payments from the Bonneville Fund. So long as any of the Project 1 Prior Lien Bonds remain outstanding, after making the monthly payments and deposits required by the Project 1 Prior Lien Resolution, Energy Northwest is obligated to pay to the Trustee for the Project 1 Electric Revenue Bonds into the related Debt Service Fund, out of amounts paid to Energy Northwest pursuant to the Project 1 Net Billing Agreements, amounts sufficient to pay the principal of and premium, if any, and interest on the Project 1 Electric Revenue Bonds, including the Project 1 2001-A Bonds.

A source of payment for the Columbia 2001-A Bonds, subject to the payments required in connection with the Columbia Prior Lien Bonds described below, are amounts paid to Energy Northwest pursuant to the Columbia Net Billing Agreements entered into among Energy Northwest, Bonneville and the Participants, which amounts are ultimately derived from net billing credits provided by Bonneville and from cash payments from the Bonneville Fund. So long as any of the Columbia Prior Lien Bonds remain outstanding, after making the monthly payments and deposits required by the Columbia Prior Lien Resolution, Energy Northwest is obligated to pay to the Trustee for the Columbia Electric Revenue Bonds into the related Debt Service Fund, out of amounts paid to Energy Northwest pursuant to the Columbia Net Billing Agreements, amounts sufficient to pay the principal of and premium, if any, and interest on the Columbia Electric Revenue Bonds, including the Columbia 2001-A Bonds.

A source of payment for the Project 3 2001-A Bonds, subject to the payments required in connection with the Project 3 Prior Lien Bonds described below, are amounts paid to Energy Northwest pursuant to the Project 3 Net Billing Agreements entered into among Energy Northwest, Bonneville and the Participants, which amounts are ultimately derived from net billing credits provided by Bonneville and from cash payments from the Bonneville Fund. So long as any of the Project 3 Prior Lien Bonds remain outstanding, after making the monthly payments and deposits required by the Project 3 Prior Lien Resolution, Energy Northwest is obligated to pay to the Trustee for the Project 3 Electric Revenue Bonds into the related Debt Service Fund, out of amounts paid to Energy Northwest pursuant to the Project 3 Net Billing Agreements, amounts sufficient to pay the principal of and premium, if any, and interest on the Project 3 Electric Revenue Bonds, including the Project 3 2001-A Bonds.

The Project 1 2001-A Bonds, the Columbia 2001-A Bonds and the Project 3 2001-A Bonds are separately secured and are not general obligations of Energy Northwest. The owners of the Project 1 2001-A Bonds will have no claim on the assets, revenues or funds of any other Project of Energy Northwest, including those securing the Columbia 2001-A Bonds or the Project 3 2001-A Bonds. The owners of the Columbia 2001-A Bonds will have no claim on the assets, revenues or funds of any other Project of Energy Northwest, including those securing the Project 1 2001-A Bonds or the Project 3 2001-A Bonds. The owners of the Project 3 2001-A Bonds will have no claim on the assets, revenues or funds of any other Project of Energy Northwest, including those securing the Project 1 2001-A Bonds or the Columbia 2001-A Bonds.

*The Series 2001-A Bonds do not constitute an obligation of the State of Washington or of any political subdivision thereof, other than Energy Northwest. Energy Northwest has no taxing power.*

Bonneville may make only such expenditures from the Bonneville Fund as shall have been included in budgets submitted annually to Congress. Bonneville includes in its annual budget submittal to Congress an amount sufficient to cover its obligations under the Net Billing Agreements, including the payment of debt service on the Net Billed Bonds. Bonneville may make such expenditures without further appropriation and without fiscal year limitation, but subject to such specific directives or limitations on use of the Bonneville Fund as may be included by Congress in appropriation acts. The Bonneville Fund is a continuing appropriation available exclusively to Bonneville for the purpose of making cash payments to cover Bonneville's expenses. All receipts, collections and recoveries of Bonneville in cash from all sources are deposited in the Bonneville Fund. For a more complete discussion of the Bonneville Fund, see "BONNEVILLE FINANCIAL OPERATIONS — The Bonneville Fund" in this Official Statement.

Under each Prior Lien Resolution, the happening of one or more of the following events constitutes an Event of Default: (i) default in the performance of any obligation with respect to payments into the respective Revenue Fund; (ii) default in the payment of the principal of and premium, if any, or default for 30 days in the payment of interest on any of the respective Prior Lien Bonds or any sinking fund installment on any Project 1 or Project 3 Prior Lien Bonds; (iii) default for 90 days in the observance and performance of any other of the covenants, conditions and agreements of Energy Northwest in the respective Prior Lien Resolution; (iv) the sale or conveyance of any properties of the respective Net Billed Project except as permitted by the respective Prior Lien Resolution or the voluntary forfeiture of any license, franchise, permit or other privilege necessary or desirable in the operation of such Project; and (v) certain acts related to the insolvency or bankruptcy of Energy Northwest. Both the applicable Prior Lien Bond Fund Trustee and the holders of not less than 20% in aggregate principal amount of the respective Prior Lien Bonds then outstanding under the respective Prior Lien Resolution have the right to accelerate the maturity of such Prior Lien Bonds after an Event of Default occurs under such Resolution. See Appendix G-2, "SUMMARY OF CERTAIN PROVISIONS OF RESOLUTIONS NOS. 769, 640 AND 775 — Events of Default; Remedies."

Under each Prior Lien Resolution, the covenants referred to in clause (iii) of the preceding paragraph include the following, among others: (a) completing construction of the respective Net Billed Project at the earliest practicable time, operating such Project and the business in connection therewith in an efficient manner and at reasonable cost, maintaining such Project in good condition and making all necessary and proper repairs, renewals and replacements and (b) maintaining and collecting rates and charges for capability, power and energy and other services, facilities and commodities sold, furnished or supplied through the Project which will be adequate, whether or not the generation or transmission of power by such Project is suspended, interrupted or reduced for any reason whatsoever, to provide revenues sufficient, among other things, to pay the expenses of operating and maintaining such Project and the debt service on the related Prior Lien Bonds. See Appendix G-2, "SUMMARY OF CERTAIN PROVISIONS OF RESOLUTIONS NOS. 769, 640 AND 775 — Certain Covenants."

Payments and the provision of credits by Bonneville and payments by Participants under the Net Billing Agreements relating to Project 1, the Columbia Generating Station or Project 3, respectively, that are required to be made to Energy Northwest to pay the principal of and interest on the outstanding Net Billed Bonds issued for the related Net Billed Project are required to be made notwithstanding the occurrence of an Event of Default. In the case of each Net Billed Project, if an Event of Default occurs under the related Prior Lien Resolution, whether or not such Event of Default gives rise to an acceleration of the maturity of the Prior Lien Bonds outstanding under such Resolution, Energy Northwest is required under such Resolution to pay all revenues of such Project thereafter received by it upon demand to the applicable Prior Lien Bond Fund Trustee until all such Prior Lien Bonds have been paid in full or such Event of Default has been cured, whichever occurs first. In such event, moneys intended to be applied to the payment of related Electric Revenue Bonds would be paid instead to the applicable Prior Lien Bond Fund Trustee and such Electric Revenue Bonds would not be paid until such Prior Lien Bonds have been paid in full or such Event of Default has been cured, whichever occurs first.

If the maturity of Prior Lien Bonds issued for a Net Billed Project were accelerated by the applicable Prior Lien Bond Fund Trustee or the holders of the requisite principal amount of such Prior Lien Bonds after an Event of Default under the respective Prior Lien Resolution, no assurance can be given that the principal amount of the accelerated Prior Lien Bonds would be payable currently as a cost under the terms of the Net Billing Agreements related to such Net Billed Project. See "Net Billing Agreements — Payment Procedures — Terminated Projects."

If Bonneville and the Participants were obligated only to provide funds to meet the scheduled amounts due on the respective Prior Lien Bonds and not the amounts due upon acceleration, moneys intended to be applied to the payment of the respective Electric Revenue Bonds would be applied by the applicable Prior Lien Bond Fund Trustee to payment of such Prior Lien

Bonds and the Electric Revenue Bonds would not be paid until such Prior Lien Bonds ceased to be outstanding or the Event of Default giving rise to such acceleration were cured.

See Appendix G-2 herein, "SUMMARY OF CERTAIN PROVISIONS OF RESOLUTIONS NOS. 769, 640 AND 775" for further information.

## **NET BILLING AGREEMENTS**

### **General**

Energy Northwest sold the entire capability of Project 1 to 104 publicly-owned utilities and rural electric cooperatives (the "Project 1 Participants") under net billing agreements (as amended, the "Project 1 Net Billing Agreements"). Energy Northwest sold the entire capability of the Columbia Generating Station to 94 publicly-owned utilities and rural electric cooperatives (the "Columbia Generating Station Participants") under net billing agreements (the "Columbia Generating Station Net Billing Agreements"). Energy Northwest sold the entire capability of Project 3 to 103 publicly-owned utilities and rural electric cooperatives (the "Project 3 Participants," and collectively with the Project 1 Participants and the Columbia Generating Station Participants, the "Participants") under net billing agreements (the "Project 3 Net Billing Agreements" which, together with the Project 1 Net Billing Agreements and the Columbia Generating Station Net Billing Agreements, are collectively referred to as the "Net Billing Agreements"). Each of the Participants is a customer of Bonneville. Many of the Participants are Participants in more than one Net Billed Project. See Appendix E hereto for a list of Participants and their shares of the respective Project Fiscal Year 2001 Budget.

Each Project 1, Columbia and Project 3 Participant assigned its share of Project capability to Bonneville under a Project 1 Net Billing Agreement, Columbia Net Billing Agreement and Project 3 Net Billing Agreement, respectively.

The authority of all of the Participants to enter into the Net Billing Agreements was affirmed by the United States Court of Appeals for the Ninth Circuit in *City of Springfield v. Washington Public Power Supply System (now Energy Northwest), et al.* The United States Supreme Court denied a petition for a *writ of certiorari*. For further information, see "— Assignment Agreements" in this Official Statement.

For a summary of certain provisions of the Net Billing Agreements, see Appendix F hereto, "SUMMARY OF CERTAIN PROVISIONS OF RELATED CONTRACTS."

### **Payment Obligations**

Under the Net Billing Agreements, in payment for the share of the capability of each Net Billed Project purchased by each Participant, such Participant is obligated to pay Energy Northwest an amount equal to its share of Energy Northwest's costs for such Net Billed Project, less amounts payable from sources other than the related Net Billing Agreements, all as shown on the Participant's Billing Statement or accounting statement. Bonneville is obligated to pay this amount to the Participant by providing net billing credits against the amounts such Participant owes Bonneville under the Participant's power sales and other contracts with Bonneville and by making the cash payments described below (subject to the limitations described herein under "BONNEVILLE FINANCIAL OPERATIONS — The Bonneville Fund"). Each Participant is obligated to pay Energy Northwest an amount equal to the amount of such credits and cash payments as payment on account of its obligations to pay for its share of the Net Billed Project capability.

Cash payments and the provision of credits by Bonneville and payments by Participants under the Net Billing Agreements are required whether or not the related Net Billed Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Net Billed Project output or termination of the related Net Billed Project and such payments or credits are not subject to any reduction, whether by offset or otherwise, and are not conditioned upon the performance or nonperformance by Energy Northwest, Bonneville or any Participant under the Net Billing Agreements or any other agreement or instrument.

In 1979 and 1980, Bonneville and Energy Northwest entered into agreements with 93 of the 104 Participants (representing 75.575% of the capability of Project 1, 79.563% of the capability of Columbia and 76.499% of the capability of Project 3) relating to payments to Energy Northwest under the Net Billing Agreements, which provide that Bonneville, prior to making a reassignment of a Participant's share, may (but is not required to) pay directly to Energy Northwest, for the account of the Participant, the amount by which the Participant's obligation to Energy Northwest exceeds the billing credits allowed or estimated to be allowed to the Participant during the contract year. See "BONNEVILLE FINANCIAL OPERATIONS — Order in Which Bonneville's Costs Are Met" for more information. Because of these payments, no reassignments of Participants' shares or deficiency payments by Bonneville to Participants have been necessary. These payments have also assisted in managing the cash flow requirements of Energy Northwest.

By letter dated August 1, 1989 (the "1989 Letter Agreement"), Bonneville agreed with Energy Northwest that, in the event any Participant shall be unable for any reason, or shall fail or refuse, to pay to Energy Northwest any amount due from such Participant under its Net Billing Agreement for which a net billing credit or cash payment to such Participant has been provided by Bonneville, Bonneville will be obligated to pay the unpaid amount in cash directly to Energy Northwest, unless payment of such unpaid amount is made in a timely manner pursuant to the Net Billing Agreements. All payments required to be made under the 1989 Letter Agreement are to be made from the Bonneville Fund or other funds legally available therefor.

*Bonneville's obligations under the Net Billing Agreements are not general obligations of the United States of America and are not secured by the full faith and credit of the United States of America.*

#### **Payment Procedures — the Columbia Generating Station**

The Columbia Net Billing Agreements provide for the adoption by Energy Northwest of an Annual Budget therefor, which, as amended from time to time, shall make provision for all Project costs, including but not limited to, the amounts which Energy Northwest is required to pay in each contract year (July 1 to June 30) into the various funds provided for in the Columbia Net Billed Resolutions for debt service and all other purposes. The Annual Budget also includes the source of funds proposed to be used. The Annual Budget is submitted to Bonneville and to the Participants' Review Board established under the Columbia Net Billing Agreements and becomes effective 30 days after submitted unless it is disapproved by Bonneville or unless a recommendation or modification proposed by the Participants' Review Board is not accepted by Energy Northwest. In the event of a dispute, the matter is referred to a Project Consultant as described in Appendix F hereto, "SUMMARY OF CERTAIN PROVISIONS OF RELATED CONTRACTS — The Project Agreements." Energy Northwest prepares a Billing Statement for that contract year for each Columbia Participant. The Billing Statement shows such Participant's share of the Annual Budget for Columbia less amounts payable from sources other than the Columbia Net Billing Agreements. The Annual Budget and Billing Statements may be amended during a contract year, if necessary. As described below, each Participant makes monthly payments to Energy Northwest in satisfaction of the amounts due under its Billing Statement.

In the month preceding the beginning of each contract year and in each month thereafter, Bonneville renders a bill to each Participant for power and other services under the Participant's power sales and other contracts with Bonneville. In the first month of the contract year, that bill shows an offsetting credit equal to the full amount of such bill to the extent of the Participant's share of the costs of Columbia. Within 30 days of receiving the monthly bill from Bonneville reflecting such credit, the Participant must pay Energy Northwest an amount equal to the credit for Columbia received from Bonneville. In each month thereafter during the contract year, such crediting by Bonneville and such payments to Energy Northwest by such Participant, continue until the credits received by such Participant equal the total amount shown on the Participant's Billing Statements. The effect of this payment procedure is that amounts due Bonneville from the Participants (up to the Participants' obligations to Energy Northwest as shown on their Billing Statements), are required to be paid by the Participants to Energy Northwest rather than to Bonneville.

If Bonneville determines that a Participant's payment obligations to Bonneville under its power sales and other contracts will not equal or exceed the Participant's payment obligations during a contract year under its Columbia Net Billing Agreements and, in the opinion of Bonneville and the Participant, such deficiency is expected to continue for a significant period, Bonneville is required under the Columbia Net Billing Agreements to use its best efforts to assign such Participant's share of capability in Columbia (and the associated benefits and obligations) to other Participants in Columbia or to other Bonneville customers to the extent necessary to eliminate such Participant's net billing deficiency. The Columbia capability so assigned would then be included by Bonneville under net billing arrangements with such other Participant or customer.

If Bonneville were unable to arrange for such assignments, the Participant would be required to make such assignment to other Participants pro rata. The other Participants would be obligated to accept such assignments to the extent required to eliminate such deficiency. Such mandatory assignments to any Participant may not exceed 25% of that Participant's original share of Columbia capability without the consent of that Participant. In addition, no such mandatory assignment may be made if it would cause the estimate of that Participant's obligation to Energy Northwest to exceed the estimate of the credits available to it from Bonneville, as estimated by Bonneville.

The Columbia Net Billing Agreements provide that if reassignments cannot be made in amounts sufficient to bring into balance the respective dollar obligations of Bonneville and a Participant and an accumulated balance in favor of such Participant from a previous contract year is expected by Bonneville to be carried for an additional contract year, Bonneville is obligated to pay the balance. Any subsequent monthly net balances that exceed the amount of Bonneville's bill for that month will be paid to such Participant by Bonneville as cash deficiency payments, subject to the limitations described herein under "BONNEVILLE FINANCIAL OPERATIONS — The Bonneville Fund." The Participants are obligated to pay to Energy Northwest the amounts received from Bonneville within 30 days.

#### **Payment Procedures — Terminated Projects**

Upon the termination of a Net Billed Project, the related Net Billing Agreement terminates except that those provisions are continued which provide for the billing and payment of the costs of such Net Billed Project, including all amounts which Energy Northwest is required under the related Net Billed Resolution to pay each year into the various funds for debt service and all other purposes and the crediting of the proceeds of the disposition of the assets of such terminated Net Billed Project in reduction of such costs.

In the event of a termination of the Columbia Generating Station, Energy Northwest is required under the Columbia Net Billing Agreements to provide monthly accounting statements to Bonneville and to each Columbia Participant of all costs associated with such termination. The monthly accounting statements are required to credit against such costs all amounts received by Energy Northwest from the disposition of the assets of the Columbia Generating Station. The Columbia Net Billing Agreements provide that such monthly accounting statements shall continue until all Columbia Net Billed Bonds are paid or funds are set aside for the payment or retirement thereof or the final disposition of the applicable Project, whichever is later. If the monthly accounting

statements show that such costs exceed such credits, each Columbia Participant is required to pay its portion of such excess costs to Energy Northwest. The payments are required to be made at times and in amounts sufficient to discharge on a current basis such Participant's share of the amount which Energy Northwest is required to pay into the various funds provided in the Columbia Prior Lien Resolution for debt service and all other purposes.

Since Projects 1 and 3 have been terminated, Energy Northwest is required under each of the Projects 1 and 3 Net Billing Agreements to provide monthly accounting statements to Bonneville and to each Project 1 Participant or Project 3 Participant of all costs associated with such termination. The monthly accounting statements are required to credit against such costs all amounts received by Energy Northwest from the assets of Project 1 and from the disposition of Project 3 assets. The Project 1 Net Billing Agreements provide that such monthly accounting statements shall continue until all Project 1 Net Billed Bonds have been paid or funds are set aside for their payment or the final disposition of Project 1, whichever is later. The Project 3 Net Billing Agreements provide that such monthly accounting statements shall continue until all Project 3 Net Billed Bonds have been paid or funds are set aside for their payment or the final disposition of Project 3, whichever is later. If the monthly accounting statements show that such costs exceed such credits, each Project 1 Participant or Project 3 Participant, as the case may be, is required to pay its portion of such excess costs to Energy Northwest. The payments are to be made at times and in amounts sufficient to discharge on a current basis the Project 1 Participant's share or Project 3 Participant's share, as the case may be, of the amount which Energy Northwest is required to pay into the various funds provided in the related Net Billed Resolution for debt service and all other purposes.

The costs for each Net Billed Project after termination include all of Energy Northwest's accrued costs and liabilities resulting from Energy Northwest's ownership, construction, operation (including cost of fuel) and maintenance of and renewals and replacements to the terminated Project and all other Energy Northwest costs resulting from its ownership of such Project and the salvage, discontinuance, decommissioning and disposition or sale thereof and all amounts which Energy Northwest is required under the related Net Billed Resolutions to pay in each year into the various funds for debt service and all other purposes.

Under the terms of the Net Billing Agreements, Bonneville is obligated to pay each Participant in a Net Billed Project the amounts paid by such Participant to Energy Northwest following termination of such Project, by the provision of credits and by deficiency payments to Participants made in the same manner as required prior to termination. In the case of Projects 1 and 3, net billing credits are provided and cash payments are made by Bonneville to Participants or Energy Northwest in the same manner as provided for the Columbia Generating Station. See "— Payment Procedures — the Columbia Generating Station." Payments by the Participants and Bonneville and the provision of credits by Bonneville following termination of a Net Billed Project are required notwithstanding the termination of the Project and are not subject to any reduction, whether by offset or otherwise, and are not conditioned upon the performance or nonperformance by Energy Northwest, Bonneville or any Participant under the Net Billing Agreements or any other agreement or instrument.

Bonneville and Energy Northwest have entered into Post Termination Agreements with respect to Projects 1 and 3, each dated June 14, 1994, respectively (the "Post Termination Agreements") which, among other things, facilitate the administration, budgeting and billing procedures with respect to such Projects. Nothing in the Post Termination Agreements impairs or prevents Energy Northwest from including in the monthly accounting statements with respect to each such Project all costs and obligations of Energy Northwest as discussed above.

#### **Projects 1 and 3 Post Termination Agreements**

The Project Agreements and the Net Billing Agreements for Projects 1 and 3 had provided that upon termination of Projects 1 and 3, Energy Northwest should cause Projects 1 and 3 to be salvaged, discontinued, decommissioned and disposed of or sold in whole or in part to the highest bidder(s), or disposed of in such other manner as the parties may agree. The termination of Projects 1 and 3 terminated the related Project Agreements and the Net Billing Agreements, except for certain provisions of the Net Billing Agreements and except as to accrued liabilities and obligations under the Net Billing Agreements.

Pursuant to the Post Termination Agreements, Energy Northwest has prepared and submitted to Bonneville for each of Projects 1 and 3 a proposed Project Disposition Plan (the "Project Disposition Plan"). Energy Northwest has begun implementation of the Project Disposition Plans.

Under the Post Termination Agreements, Energy Northwest may sell bonds to finance such Project costs as contained in an approved Annual Budget or amended Annual Budget to the extent permitted by the Electric Revenue Bond Resolutions (as hereinafter defined) or Separate Subordinated Resolutions (as hereinafter defined).

The Post Termination Agreements terminate when all Project 1 Net Billed Bonds and Project 3 Net Billed Bonds, respectively, have been paid or funds set aside for the payment or retirement thereof in accordance with the Project 1 Net Billed Resolutions or Project 3 Net Billed Resolutions, respectively, or the final disposition of the assets of Projects 1 and 3, respectively, whichever is later.

#### **Certain Participant Obligations**

The Columbia Net Billing Agreements, as well as the remaining provisions of the Net Billing Agreements for Projects 1 and 3, require each Participant to pay Energy Northwest the amount set forth in its Billing Statement or accounting statement. Each Participant is required to make payments to Energy Northwest only from revenues derived by the Participant from the ownership and operation of its electric utility properties and from payments made by Bonneville under the Net Billing Agreements. Each Participant

has covenanted that it will establish, maintain and collect rates or charges for power and energy and other services furnished through its electric utility properties which shall be adequate to provide revenues sufficient to make required payments to Energy Northwest under the Net Billing Agreements and to pay all other charges and obligations payable from or constituting a charge and lien upon such revenues.

If and to the extent that a Participant is unable or fails or refuses to perform its obligations under its Columbia Net Billing Agreement and such Participant's share of Columbia capability is not voluntarily reassigned, each other Participant's share of Columbia capability is automatically increased for the remaining term of the Columbia Net Billing Agreement pro rata with that of other nondefaulting Participants. The Columbia Net Billing Agreements provide that such increase shall not, without the consent of the Participant, exceed an accumulated maximum of 25% of the Participant's original share of Columbia capability. The Columbia Net Billing Agreements also provide that such increase shall not cause the estimate of the payments to be made by each nondefaulting Participant to Energy Northwest to exceed the estimate of the credits available to it from Bonneville's billings to such Participant for power and other services. The fact that other Participants have assumed the obligation of a Participant which has failed or refused to pay any amounts due to Energy Northwest under its Columbia Net Billing Agreement would not relieve such defaulting Participant of its liability for such payments.

#### **Other Net Billing Obligations**

In addition to the net billing obligations in connection with the Net Billed Projects, Bonneville has net billing obligations to certain Participants in connection with that portion of the project capability associated with the share of the Trojan Nuclear Project owned by the City of Eugene Water and Electric Board ("EWEB"). The credits and payments received by each Participant from Bonneville in each month under all of that Participant's agreements providing for net billing are required by the Net Billing Agreements to be allocated pro rata among all of the Participants' net billing obligations.

Bonneville is authorized to enter into additional contracts providing for net billing or similar credits. The Net Billing Agreements provide that Bonneville and each Participant shall not enter into any agreement providing for net billing if Bonneville estimates that, as a result of such agreement, the aggregate of its billings to such Participant will be less than 115% of Bonneville's net billing obligations to such Participant under all agreements between Bonneville and such Participant providing for net billing. Bonneville has no present plans to enter into new agreements requiring net billing with Participants.

#### **THE BONNEVILLE FUND**

The Bonneville Fund is a continuing appropriation available exclusively to Bonneville for the purpose of making cash payments to cover Bonneville's expenses, including its cash payments to provide for that amount, if any, due under the Net Billing Agreements which is not paid from net billing credits. All receipts, collections and recoveries of Bonneville in cash from all sources are deposited in the Bonneville Fund. For a more complete discussion of the Bonneville Fund, see "BONNEVILLE FINANCIAL OPERATIONS — The Bonneville Fund."

Bonneville may make expenditures from the Bonneville Fund, which shall have been included in Bonneville's annual budget submitted to Congress without further appropriation and without fiscal year limitation but subject to such specific directives or limitations as may be included in appropriations acts, for any purpose necessary or appropriate to carry out the duties imposed upon Bonneville pursuant to law, including making any cash payments required under the Net Billing Agreements.

Net billing credits reduce Bonneville's cash receipts by the amount of the credits. Thus, costs of the Net Billed Projects, to the extent covered by net billing credits, can be met without regard to amounts in the Bonneville Fund.

Bonneville is required to make certain annual payments to the United States Treasury. These payments are subject to the availability of net proceeds, which are gross cash receipts remaining in the Bonneville Fund after deducting all of the costs paid by Bonneville to operate and maintain the Federal System, other than those used to make payments to the United States Treasury for: (i) the repayment of the Federal investment in certain transmission facilities and the power generating facilities at federally-owned hydroelectric projects in the Pacific Northwest; (ii) debt service on bonds issued by Bonneville and sold to the United States Treasury; (iii) repayments of appropriated amounts to the Corps and the Bureau for certain costs allocated to power generation at federally-owned hydroelectric projects in the Pacific Northwest; and (iv) costs allocated to irrigation projects as are required by law to be recovered from power sales. In fiscal year 2000, Bonneville's cash payments to the United States Treasury totaled approximately \$732 million.

For various reasons, Bonneville's revenues from the sale of electric power and other services may vary significantly from year to year. In order to accommodate such fluctuations in revenues and to assure that Bonneville has sufficient revenues to pay the costs necessary to maintain and operate the Federal System, all cash payment obligations of Bonneville, including cash deficiency payments relating to Net Billed Bonds and other operating and maintenance expenses have priority over payments by Bonneville to the United States Treasury. In the opinion of Bonneville's Acting General Counsel, under Federal statutes, Bonneville may only make payments to the United States Treasury from net proceeds; all cash payments of Bonneville, including cash deficiency payments relating to Net Billed Bonds and other operating and maintenance expenses have priority over payments by Bonneville to the United States Treasury for the costs described in (i) to (iv) in the preceding paragraph.

The requirement to pay the United States Treasury exclusively from net proceeds would result in a deferral of United States Treasury payments if net proceeds were not sufficient for Bonneville to make its payments in full to the United States Treasury.

Such deferrals could occur in the event that Bonneville were to receive less revenue or if Bonneville's costs were higher than expected. Such deferred amounts, plus interest, must be paid by Bonneville in future years. Bonneville has not deferred such payments since 1983.

Because Bonneville's payments to the United States Treasury may be made only from net proceeds, payments of other Bonneville costs out of the Bonneville Fund have a priority over its payments to the United States Treasury. Thus, the order in which Bonneville's costs are met is as follows: (1) Net Billed Project costs to the extent covered by net billing credits, (2) cash payments out of the Bonneville Fund to cover all required payments incurred by Bonneville pursuant to law, including net billing cash payments, but excluding payments to the United States Treasury and (3) payments to the United States Treasury.

For further information, see "BONNEVILLE FINANCIAL OPERATIONS — Order in Which Bonneville's Costs Are Met." For a discussion of certain proposed and current direct payments by Bonneville for Federal System operations and maintenance, which payments would reduce the amount of deferrable appropriations obligations Bonneville would otherwise be responsible to repay, see "BONNEVILLE FINANCIAL OPERATIONS — Direct Funding of Corps and Bureau Federal System Operations and Maintenance Expense."

Bonneville's obligation under the Project 1 Net Billing Agreements is to pay an amount equal to the costs of Project 1 less any other funds which shall be specified in the Annual Budget as payable from sources other than the payments to be made under the Net Billing Agreements. Similar language is found in the Net Billing Agreements for Columbia and Project 3. In the opinion of Bonneville's Acting General Counsel, this provision would permit Bonneville to make payments on account of debt service on all Net Billed Bonds for a Net Billed Project directly to the applicable Bond Fund Trustee or Trustee. Such payment would be made only pursuant to an agreement with the applicable Bond Fund Trustee or Trustee requiring Bonneville to make such payment directly to the applicable Bond Fund Trustee or Trustee on or before the date such amounts would be required to be paid by Energy Northwest to the applicable Bond Fund Trustee or Trustee under the applicable Net Billed Resolution. Bonneville has no present intention of undertaking such actions. The effect of such an agreement would be to reduce the amount of costs included in the Annual Budget for the Net Billed Project to be paid under the Net Billing Agreements by the amount of the debt service payable directly by Bonneville to the applicable Bond Fund Trustee or Trustee.

For further information see "BONNEVILLE FINANCIAL OPERATIONS."

#### **ASSIGNMENT AGREEMENTS**

Prior to the decision in *City of Springfield v. Washington Public Power Supply System (now Energy Northwest), et al.* (holding that the Participants had authority to enter into the Net Billing Agreements), Energy Northwest and Bonneville entered into Assignment Agreements for each of Project 1, Columbia Generating Station and Project 3 (the "Assignment Agreements"). Pursuant to the Assignment Agreements, Energy Northwest assigned to Bonneville any rights to the capability of any of the Net Billed Projects that Energy Northwest may obtain as a result of a reversion of a Participant's share of such capability to Energy Northwest or otherwise. In the event that it is judicially determined that any Participant is not obligated pursuant to the Net Billing Agreements to pay for any interest in Project capability which Bonneville obtains pursuant to the Assignment Agreements, Bonneville agreed to pay directly to Energy Northwest the amounts that would have been payable by the Participant under the Net Billing Agreements for such Project capability.

#### **ADDITIONAL BONDS**

##### **General**

The Electric Revenue Bonds are subordinate to the Prior Lien Bonds. In each Supplemental Amendment in the Electric Revenue Bond Resolution, Energy Northwest has reserved the right to issue from time to time, upon satisfaction of certain conditions set forth therein, additional bonds or notes under the Electric Revenue Bond Resolutions and under one or more separate resolutions ("Separate Subordinated Resolutions") of the Executive Board creating a pledge of and lien on the receipts, income and revenues derived from the related Project of equal rank with the pledge and lien created by such Electric Revenue Bond Resolution in favor of the Electric Revenue Bonds issued thereunder. Such pledge and lien are subordinate to the pledge and lien created by the Prior Lien Resolution in favor of the Prior Lien Bonds issued thereunder.

Conditions to the issuance of additional bonds are described in Appendix G-1 hereto, "SUMMARY OF CERTAIN PROVISIONS OF ELECTRIC REVENUE BOND RESOLUTIONS AND SUPPLEMENTAL ELECTRIC REVENUE BOND RESOLUTIONS" and in Appendix G-2, "SUMMARY OF CERTAIN PROVISIONS OF PRIOR LIEN RESOLUTIONS NOS. 769, 640 AND 775 — Subsequent Series of Bonds."

Each of the Electric Revenue Bond Resolutions permits the use of certain credit facilities of the type referred to in such Electric Revenue Bond Resolution to secure the payment of the related Electric Revenue Bonds and the incurrence by Energy Northwest of reimbursement obligations of the type referred to in such Electric Revenue Bond Resolution to reimburse the issuer of a credit facility. Each of the Electric Revenue Bond Resolutions also permits the use of interest rate exchange agreements or similar agreements. Such reimbursement obligations or obligations of Energy Northwest under such interest rate exchange agreements may be secured on a parity with the lien created by the Electric Revenue Bond Resolutions in favor of the related Electric Revenue Bonds. See Appendix G-1 hereto, "SUMMARY OF CERTAIN PROVISIONS OF ELECTRIC REVENUE BOND RESOLUTIONS AND SUPPLEMENTAL ELECTRIC REVENUE BOND RESOLUTIONS."

### **Planned Additional Bonds**

Energy Northwest expects to issue an additional series of Electric Revenue Bonds in the second quarter of 2001, in the principal amount of approximately \$240 million pursuant to the Columbia Debt Extension Program.

### **Certain Provisions of the Prior Lien Resolutions**

For additional information relating to the security for the Prior Lien Bonds and to the amendments to the Prior Lien Resolutions which have become effective with respect to the Project 1, Columbia and Project 3 Prior Lien Resolutions, see Appendix G-2 hereto, "SUMMARY OF CERTAIN PROVISIONS OF PRIOR LIEN RESOLUTIONS NOS. 769, 640 AND 775."

### **Related Contracts**

Energy Northwest has executed Project Agreements with Bonneville relating to Project 1, the Columbia Generating Station and Project 3, which provide for approval of budgets, contracts and other matters pertaining to each Project. As a result of the termination of Projects 1 and 3, the Project Agreements relating to Project 1 and Project 3 have terminated.

A summary of certain provisions of each of these contracts is set forth in Appendix F hereto, "SUMMARY OF CERTAIN PROVISIONS OF RELATED CONTRACTS."

## **BOND INSURANCE**

### **Bond Insurance Policies**

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policies (the "Policies") for all of the Bonds except the Project 1 2001-A Bonds maturing on July 1, 2003. The Bonds so insured are herein referred to as the "Insured Bonds". The Policies guarantee the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix J to this Official Statement.

The Policies are not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

Financial Security is a New York-domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S. A., a publicly-held Belgian corporation. Dexia, S. A., through its subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2000, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,372,337,000 and its total unearned premium reserve was approximately \$693,512,000 in accordance with statutory accounting principles. At September 30, 2000, Financial Security's total shareholders' equity was approximately \$1,383,058,000 and its total net unearned premium reserve was approximately \$571,460,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022. Attention: Communications Department (telephone (212) 826-0100).

The Policies do not protect investors against changes in the market value of the Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the issuer the information presented under this caption for inclusion in the Official Statement.

## **ENERGY NORTHWEST**

### **GENERAL**

Energy Northwest, a municipal corporation and a joint operating agency of the State of Washington, was organized in January 1957 pursuant to the Act. Energy Northwest was formerly known as Washington Public Power Supply System. The name was officially changed to Energy Northwest on June 2, 1999. Energy Northwest has authority, among other things, to acquire, construct and operate plants, works and facilities for the generation of and transmission of electric power and energy and to issue bonds and other evidences of indebtedness for such purposes. Energy Northwest has the power of eminent domain but is specifically precluded from the condemnation of any plants, works or facilities owned and operated by any city, public utility district or investor-owned utility. Energy Northwest has no taxing power.

Energy Northwest owns and operates Columbia and Packwood which are currently in operation, with net design electrical ratings of 1.153 megawatts and 27.5 megawatts, respectively. Energy Northwest also owns and/or has financial responsibility for



four nuclear electric generating projects which have been terminated: Projects 1, 3, 4 and 5. Energy Northwest also owns HGP, which ceased operation in 1987, and site restoration activities coordinated with DOE are continuing. For discussions concerning the termination of Projects 1, 3, 4 and 5, see “— Project 1,” “— Project 3” and “— Projects 4 and 5.”

Energy Northwest has the authority to acquire, construct and operate additional projects. For a discussion of possible future projects, see “— POSSIBLE FUTURE ENERGY NORTHWEST PROJECTS” in this Official Statement.

Each of Energy Northwest’s Projects is treated and accounted for by Energy Northwest as a separate utility system, with the exception of Projects 4 and 5, which comprised a single utility system. Under Washington law, a joint operating agency may create separate special funds for each of its utility systems and Energy Northwest has done so. The resolutions of Energy Northwest pursuant to which its various series of bonds are issued provide that the income, receipts and revenues of each utility system are pledged solely to the payment of obligations incurred in connection with that utility system. See Appendix B hereto for the audited financial statements of each of Energy Northwest’s Projects, including the report of the independent accountants, PricewaterhouseCoopers LLP, for the fiscal year ended June 30, 2000.

**ENERGY NORTHWEST BONDS**

The following table sets forth the principal amounts of revenue bonds and refunding revenue bonds issued by Energy Northwest and outstanding as of January 1, 2001.

**Energy Northwest Revenue Bonds  
Outstanding as of January 1, 2001**

<b>Bonds</b>	<b>Principal Amount (Dollars in Thousands)</b>
Project 1 Prior Lien Refunding Revenue Bonds .....	\$ 1,932,480
Columbia Prior Lien Refunding Revenue Bonds.....	2,106,203*
Project 3 Prior Lien Refunding Revenue Bonds .....	1,597,262*
Project 1 Refunding Electric Revenue Bonds.....	130,200
Columbia Refunding Electric Revenue Bonds.....	120,865
Project 3 Refunding Electric Revenue Bonds.....	184,220
Packwood Revenue Bonds.....	5,848

\* Includes \$65,053,082 accreted value of Compound Interest Bonds for Columbia and \$314,607,141 accreted value of Compound Interest Bonds for Project 3.

**ORGANIZATIONAL STRUCTURE**

Energy Northwest currently has a membership of 13, consisting of 10 public utility districts and the cities of Richland, Seattle, and Tacoma, all located in the State of Washington. Any public utility district and any municipal entity within the State of Washington authorized to engage in the business of generating or distributing electricity may join Energy Northwest.

Energy Northwest has its principal office in Richland, Washington. The Board of Directors of Energy Northwest is comprised of 13 members, one from each of the member utilities. Pursuant to the Act, the powers and duties of the Board of Directors are limited to (i) final authority on any decision to acquire, construct, terminate or decommission any power plants, works and facilities, except that once such a final decision is made with respect to a nuclear power plant, the Executive Board has authority to make all subsequent decisions regarding such plant; (ii) the election and removal of, and establishment of salaries for, the five members of the Executive Board selected from among the members of the Board of Directors; and (iii) the selection of three of the six members of the Executive Board who are outside directors. All other powers and duties of Energy Northwest, including but not limited to the authority to sell any power plant, works and facilities are vested in the Executive Board.

The Act provides that five of the members of the Executive Board of Energy Northwest are elected by the Board of Directors from among its members and six are outside directors representative of policy makers in business, finance or science, or having expertise in the construction or management of facilities such as those owned by Energy Northwest. Three of these six outside directors are selected by the Board of Directors and three by the Governor of the State of Washington subject to confirmation by the Washington Senate.

The five members of the Executive Board who are elected from among the Board of Directors serve for four-year terms and may be removed by a majority vote of the Board of Directors. The other members of the Executive Board serve for four-year terms and may be removed by the Governor of the State of Washington for incompetence, misconduct or malfeasance in office; provided, however, the three members appointed by the Governor may be removed without cause prior to their confirmation with the consent of the Washington Senate. The Chief Executive Officer and other staff of Energy Northwest serve at the will of the Executive Board.

## EXECUTIVE BOARD

Present Executive Board members are listed below.

Name	Occupation	Term Expires
Rudolph Bertschi, Chairman	Educator	June 2001
Louis H. Winnard, Vice Chairman	Retired Utility Executive	June 2001
Edward E. Coates, Secretary	Retired Utility Executive	June 2002
Vera Claussen, Assistant Secretary	Public Utility District Commissioner	June 2002
Margaret Allen	Attorney	June 2004
Darrel Bunch	Public Utility District Commissioner	June 2002
John F. Cockburn	Retired Bank Executive	June 2002
Robert Graves	Public Utility District Commissioner	June 2002
Dan G. Gunkel	Public Utility District Commissioner	June 2002
Larry Kenney	Retired Organized Labor Executive	June 2002
Roger C. Sparks	Public Utility District Commissioner	June 2002

## MANAGEMENT

The following is a list of certain key senior staff of Energy Northwest.

Name	Position	Nuclear Industry Experience
Joseph V. Parrish	Chief Executive Officer	30 years
Gregory O. Smith	Vice President, Generation	20 years
Rodney L. Webring	Vice President, Operations Support/ Public Information Officer	27 years
Gerald J. Kucera	Vice President, Administration/ Chief Financial Officer	25 years
John W. Baker	Vice President, Resource Development	30 years
Albert E. Mouncer	Vice President, General Counsel	20 years

## EMPLOYEES

Energy Northwest currently employs approximately 1,038 employees. Of these employees, 325 are members of the International Brotherhood of Electrical Workers ("IBEW"), 68 are members of the Paper, Allied Industrial, Chemical & Energy Workers ("PACE") and 6 are members of the Hanford Atomic Metal Trades Council ("HAMTC") unions. The IBEW union members comprise the Administrative, Nuclear and Plant bargaining groups, the PACE union members constitute the Security Force bargaining group and the HAMTC union members comprise part of the Standards Lab Instrument Techs. The Administrative, Nuclear and Plant collective bargaining agreements expire on October 1, 2001. The Security Force collective bargaining agreement expires on October 31, 2002. Negotiations are under way for new agreements for the IBEW bargaining unit. The Standards Lab Instrument Techs' collective bargaining agreement expires on February 28, 2002. Washington State law provides for binding interest arbitration for the Security Force collective bargaining unit. A no-strike clause is included in each of the agreements.

## INVESTMENT POLICY

Energy Northwest invests in accordance with the authority provided by the Net Billed Resolutions and its investment policy covers all funds and investment activities under the direct authority of Energy Northwest. This investment policy is approved by the Energy Northwest Executive Board.

Investment securities purchased consist generally of obligations of, or obligations the principal and interest on which is unconditionally guaranteed by, the United States of America or other investment securities permitted by the related Net Billed Resolutions. Current investment policy does not permit the purchase of leveraged or derivative-based investments.

For further information on the types of investments in which Energy Northwest is permitted to invest its funds, see Appendix G-1 hereto, "SUMMARY OF CERTAIN PROVISIONS OF ELECTRIC REVENUE BOND RESOLUTIONS AND SUPPLEMENTAL ELECTRIC REVENUE BOND RESOLUTIONS — Other Funds Established by the Prior Lien Resolutions; Flow of Revenues" and Appendix G-2, "SUMMARY OF CERTAIN PROVISIONS OF PRIOR LIEN RESOLUTIONS NOS. 769, 640 AND 775."

## THE COLUMBIA GENERATING STATION

### Description

The Columbia Generating Station is an operating nuclear electric generating station located about 160 miles southeast of Seattle, Washington, near Richland, Washington on the DOE's Hanford Reservation. Its former name, Nuclear Project No. 2, was officially changed to the Columbia Generating Station on April 27, 2000. The site has been leased from DOE for a term of 50 years commencing July 1, 1972, with options to extend the lease for two consecutive ten-year periods.

Columbia commenced commercial operation in 1984 and has a net design electrical rating of 1,153 megawatts. Columbia consists of a General Electric Company-designed boiling water reactor and nuclear steam supply system, a Westinghouse turbine-generator and the necessary transformer, switching and transmission facilities to deliver the output to the transmission facilities of the Federal System located in the vicinity of Columbia. The entire capability of Columbia has been acquired by Bonneville under the Columbia Net Billing Agreements.

Columbia consists of the following structures: the reactor building, the radioactive waste building, the turbine-generator building, the diesel generator building, the service building, six mechanical-draft evaporative cooling towers, the circulating water pumphouse and the river makeup water pumphouse. Makeup water to replace evaporative losses is obtained from the Columbia River by means of three makeup water pumps. Emergency power is supplied to Columbia by diesel generators sized to sustain all essential plant loads without the need for outside power sources.

Columbia also includes the plant engineering center and other office and support facilities located adjacent to the main plant, the plant support facility located one mile southwest of the main plant and various administrative service buildings located in Richland, Washington, approximately ten miles from the site.

Low-level radioactive waste generated at Columbia is disposed of at a commercial facility located on the Hanford Reservation.

### Management Discussion of Operations

All the power generated from Columbia is sold at cost to Bonneville through the Columbia Net Billing Agreements. No additional revenues are received by Energy Northwest resulting from the current high market prices in the Pacific Northwest. Energy Northwest has a maintenance and operating budget for Columbia of \$199.5 million during the 2001 fiscal year.

The cost of production, using industry standard methodology (such cost calculation methodology includes capital but excludes debt service, depreciation and decommissioning costs) of Columbia electricity is projected at \$25 per megawatt-hour during the 2001 fiscal year, higher than the \$21.30 per megawatt-hour for the 2000 fiscal year. These costs are about average for the nuclear industry. By comparison, it should be noted that the cost per megawatt-hour generated by Columbia in fiscal year 1994 was \$34.50. Energy Northwest will continue to place a high priority on cost-containment. Anticipated cost of production of Columbia power in fiscal year 2002 calculated on the same basis is less than \$20 per megawatt-hour.

Energy Northwest will rely heavily upon an improving capability factor to further reduce the cost of power. The capability factor is the percentage of time the plant is capable of generating electricity. The more time during which Columbia produces power in a year, the lower the cost of each megawatt-hour. A significant step in that regard, and the explanation for the higher-than-normal cost of power for the 2001 fiscal year, is a shift to a 24-month refueling cycle. The plant had been on a 12-month schedule, shutting down each spring for refueling to coincide with high water flows in hydroelectric projects. Recognizing the looming shortage of power five years ago, Energy Northwest managers began plans for a shift to a 24-month cycle. The outage scheduled for late in fiscal year 2001 will be the first to load sufficient fuel for a two-year generation campaign, hence the higher-than-normal operations and maintenance costs. However, there is no refueling outage scheduled for the following two years, which will boost the plant's capability factor. In addition, refueling outages are now scheduled to last about 30 days, in contrast to past outages that normally extended beyond 60 days. Coincidentally, this new 24-month fuel cycle will mean only two outages are scheduled during Bonneville's next five-year rate period. Under the previous cycle, with the previous method of handling outages, the plant would have been down for at least 10 months during any five-year period. For the five-year rate period beginning October 1, 2001, the plant is expected by Energy Northwest to be off-line for refueling for only two months. For fiscal year 2002, Energy Northwest plans for a 97.5 percent capability factor. By comparison, the average capability factor for the five-year period through fiscal year 1998 was 73.7 percent.

While Energy Northwest intends to operate Columbia a greater percentage of the time, Energy Northwest also plans to increase the gross capacity of the plant. Engineers are in the process of finalizing a proposal that would increase the plant's name plate capacity to about 1,350 megawatts — a 12.5 percent increase in power. Techniques used to create this additional electrical output have been well tested in the nuclear power industry, both domestically and abroad. In essence, the change would allow the reactor to create a greater amount of thermal energy and for that thermal energy to be converted into additional electrical energy. The conversion would require a new high-pressure turbine, work on the low pressure turbines, a new generator, new transformers and other work. The current estimated cost is in the range of \$125-\$150 million, or about \$800 for installed capacity for each kilowatt of generation. Financing options for Energy Northwest and Bonneville for funding this conversion would include (1) revenues received annually under the Columbia Net Billing Agreements or (2) monies received by the issuance of additional Columbia debt. The Northwest Power Planning Council has said the cost of each installed kilowatt from a new combined-cycle, natural gas-fired

combustion turbine would be about \$600. However, the additional cost of actually generating the extra power at Columbia would be slight, while the cost of operating a new combustion turbine — both fuel and labor — would be significant. Work on the power upgrade, if approved by Energy Northwest's Executive Board, would be performed during three refueling outages and completed in 2007.

To gain further use of the plant's capacity, engineers now are working on a proposal to extend Columbia's 40-year operating license by 20 years, from 2023 to 2043. The NRC has established a protocol to handle such requests, and granted several during 2000. The Executive Board will determine whether to apply for an extension.

Energy Northwest also has pursued several ventures beyond the operation of Columbia - all of which are designed to relieve, in part, fixed-cost pressures on the plant. Contracts to provide engineering and testing services for other agencies have allowed Energy Northwest to better use its resources originally established for the nuclear plant.

To further this campaign, Bonneville and Energy Northwest entered into an agreement in 1999 that would provide monetary incentives if the cost of operating Columbia is kept at or below certain benchmarks. Incentives could range up to \$7 million, paid by Bonneville to Energy Northwest, but to be used to nurture endeavors that will further reduce the cost of power. In November of 2000, Energy Northwest received its first incentive payment under this agreement in the amount of \$1.7 million.

### Operating Performance

Columbia received a full operating license in March 1984, commenced commercial operation in December 1984 and has been in operation since that time. Since commencing commercial operation, Columbia has operated at a cumulative capacity factor of 63.7% and has generated 98,863,390 megawatt hours (net of station use) of electric power through January 2001.

Successful implementation of performance enhancement initiatives for Columbia has produced significant positive results in plant performance since 1995. Calendar year 2000 was by far the best generating calendar year for Columbia since commencing commercial operation. Columbia produced 8,605,232 megawatt hours of electric power while attaining a capacity factor of 88.5% and a capability factor of 93.8%. In addition, January 2000 was the best January generation month on record.

The next scheduled outage for Columbia is scheduled to start on May 19, 2001 and is scheduled to be the shortest outage ever for Columbia (30 days). Scheduled restart is June 17, 2001. Activities scheduled during this outage include those which will complete the shift of the plant to the 24-month operating cycle.

### Annual Costs

Annual costs for Columbia based on the audited financial statement presentation format for fiscal years ended June 30, 1999 and 2000 are shown below. The data are on a cost basis with depreciation calculated on the straight line method by major components based on expected useful life.

#### Statement of Operations<sup>(1)</sup> (Dollars in Thousands)

Cost Category	FY 2000	FY 1999
Operations, Maintenance and Overhead.....	\$ 131,613	\$ 122,791
Nuclear Fuel Burnup .....	30,744	23,978
Spent Fuel Storage Expense .....	23,545	-
Spent Fuel Disposal Fee.....	7,313	6,613
Generation Taxes.....	2,723	2,442
Decommissioning.....	14,927	10,299
Depreciation and Amortization .....	100,824	105,212
Investment Income.....	(14,717)	(16,077)
Loss/(Gain) on Bond Redemption.....	333	924
Interest Expense and Discount Amortization .....	137,215	144,525
Other Expense/(Revenue) .....	(2,154)	1,273
<b>Total Costs.....</b>	<b>\$ 432,366</b>	<b>\$ 401,980</b>

Net Generation (Million kWhs)	7,707 <sup>(2)</sup>	6,975
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(1) Amounts derived from audited Energy Northwest financial statements.

(2) Excludes credit for "Economic Dispatch" of 553 million kWhs for fiscal year 2000. Total energy not generated due to reductions requested by Bonneville is referred to by Bonneville as "Economic Dispatch."

### **Capital Improvements**

Since entering commercial operation, Energy Northwest has been making capital improvements to Columbia. In fiscal year 2000, the cash spent on capital improvements was \$6.2 million (compared to \$14.4 million in fiscal year 1999). Expenditures for capital improvements for FY 2001 are planned to be approximately \$20.1 million. Annual expenditures averaging approximately \$9.0 million are planned for the fiscal years 2002 through 2005. These estimated capital expenditures include those that have been and will be made for on-site spent fuel storage. For additional information concerning spent fuel storage, see “— Nuclear Fuel” below.

### **Nuclear Regulatory Commission Actions or Reports**

The NRC is a Federal agency that regulates the design, construction, licensing and operation of nuclear power plants. Once a plant is licensed, one of the major activities of the NRC is the inspection of plant management and operation. The NRC develops policies and administers programs for inspecting licensees to ascertain whether they are complying with NRC regulations, rules, orders and license provisions. The NRC has the authority to suspend, revoke or modify the operating license of commercial nuclear plants to correct deficiencies.

Energy Northwest’s activities related to operation and support of Columbia, like those of other licensed nuclear plant operators, are periodically inspected by the NRC. In addition, the NRC maintains two on-site resident inspectors who monitor plant activities on a day-to-day basis.

In addition to the day-to-day resident inspector activities, the NRC assesses the performance of nuclear plant operators, including Columbia, by a process known as the Reactor Oversight Process (the “ROP”). The ROP is built upon a framework directly linked to the NRC’s mission to protect public health and safety. The framework includes seven cornerstones of safety. Within each cornerstone, a broad sample of information on which to assess plant operator performance in risk-significant areas is gathered. The information is collected from performance indicator data submitted by the plant operator and from NRC risk-informed baseline inspections.

The ROP calls for focusing inspections on activities where the potential risks are greater, applying greater regulatory attention to facilities with performance problems and reducing regulatory attention of facilities that perform well, using objective measurements of the performance of nuclear power plants whenever possible, giving the nuclear industry and the public timely and understandable assessments of plant performance, avoiding unnecessary regulatory burdens of nuclear facilities and responding to violations of regulations in a predictable and consistent manner that reflects the safety impact of the violations.

In addition, the NRC issues a notice of violation when appropriate. Effective March 11, 1999, the NRC revised its enforcement policy and changed its treatment of Severity Level IV violations for situations which meet specific criteria. Severity Level IV is the least severe of violations that can be issued by the NRC. The new policy allows the NRC to issue a non-cited violation rather than a Severity Level IV violation with the following exceptions: (1) the licensee fails to restore compliance within a reasonable time after the violation is identified; (2) the licensee does not place the violation into a corrective action program to address recurrence; (3) the violation is repetitive as a result of inadequate corrective action and was identified by the NRC; and (4) the violation was willful and is not subject to discretion pursuant to Section VII.B.1 of the Enforcement Policy.

Energy Northwest has received no Severity Level violations since the revision to the NRC Enforcement Policy.

### **Institute of Nuclear Power Operations**

The nuclear electric industry created the Institute of Nuclear Power Operations (“INPO”) in 1979. INPO’s mission is to promote the highest levels of safety and reliability in the operation of nuclear electric generating plants. All United States utilities that operate commercial nuclear power plants are INPO members. INPO has conducted plant evaluations of Columbia approximately every 12 to 18 months since the initial date of commercial operation.

The most recent INPO evaluation of plant performance occurred in September 2000. At the completion of the evaluation, INPO assigned Columbia a rating of “excellent.” This is based on a one-to-five rating system where “excellent” indicates the best performance and is defined by INPO as a plant whose overall performance is excellent, where industry standards of excellence are met in most areas and where no significant weaknesses are noted.

The next formal evaluation of Columbia has not been scheduled but is normally conducted within two years based on continued positive plant performance.

### **Permits and Licenses**

Energy Northwest has obtained all permits and licenses required to operate Columbia, including an NRC operating license which expires in 2023. See “— Nuclear Regulatory Commission Actions or Reports” above for a discussion of NRC activities related to Columbia.

A site certification agreement for Columbia was executed with the State of Washington in May 1972. The site certification requires Energy Northwest to, among other things, monitor the environmental effects of plant construction and plant operation, comply with standards set for the consumption and discharge of water and for discharges to the air, and develop an effective emergency plan. The state has also issued a National Pollutant Discharge Elimination System ("NPDES") permit and the necessary Certificate of Water Right. The Certificate of Water Right expires when use ceases. A timely and complete application for renewal of the NPDES permit was submitted in April 2000. The current permit remains in effect. Energy Northwest anticipates that the permit will be reissued for another five-year term. The Washington State Department of Natural Resources has entered into a lease with Energy Northwest, which expires in March 2005, for that portion of the bed of the Columbia River which encompasses the plant intake and discharge facilities. Energy Northwest anticipates renewal of this lease in accordance with the right-of-renewal provisions contained therein. The Corps has issued a permit for construction and maintenance of the now completed river facilities. Energy Northwest has an interim status permit for storage of mixed radioactive and hazardous wastes. The processing of a final Resource Conservation and Recovery Act ("RCRA") permit has been suspended by the State of Washington pending a national review of mixed waste disposal capacity. Energy Northwest continues to manage its mixed wastes in accordance with the conditions of an interim status permit.

### **Nuclear Fuel**

The supply of nuclear fuel assemblies requires four basic activities prior to insertion of the fuel assemblies into a nuclear reactor. These activities are acquisition of uranium concentrates, conversion of the uranium concentrates to uranium hexafluoride, enrichment of the uranium hexafluoride and fabrication of the enriched uranium in the form of uranium oxide pellets into finished fuel assemblies.

The initial core of fuel assemblies was fabricated by General Electric and loaded into the reactor in December 1983. A portion of the fuel was then replaced during refueling outages so that by mid-1992 all of the initial core fuel had been replaced with reload fuel assemblies.

For the period from 1986 through 1995, these reload fuel assemblies were provided under the provisions of a contract with Siemens Power Corporation. That contract provided for the supply of the uranium concentrates as well as the fuel design engineering and fabrication services. A new contract for reload fuel design and fabrication services for five firm and five optional fuel cycles was awarded to CE Nuclear Power LLC, a subsidiary of the Westinghouse Electric Company, on November 18, 1993 and executed on January 13, 1994. In February 1998, the contract was amended to accept the five optional reload fuel cycles.

Columbia has historically operated on a twelve-month fuel cycle but in 1998 a decision was made to transition to a twenty-four month fuel cycle. A twenty-four month fuel cycle will eliminate refueling outages every other year and will result in increased average generation. Two transition cycles totaling approximately thirty-six months in length will be followed by the first twenty-four month cycle beginning in 2001.

To meet the enriched uranium requirements for the reload fuel assemblies, Energy Northwest purchases uranium in various forms and holds them in inventory until needed for fuel fabrication. However, some or all of this inventory is being or might be loaned. Currently, Energy Northwest's inventory of natural and enriched uranium hexafluoride is sufficient for plant requirements until 2005.

Energy Northwest has a contract with DOE that requires the DOE to accept title and dispose of spent nuclear fuel. For this future service, Energy Northwest pays a quarterly fee based on one mill per kilowatt-hour of net electricity generated and sold from Columbia (\$7.3 million for the twelve months ended June 30, 2000). To permanently store the spent fuel from the nation's nuclear plants, DOE is evaluating a proposed site in Nevada for an underground geological repository. Although courts have ruled that DOE has an obligation to begin taking title to the spent fuel no later than January 31, 1998, the repository is not expected to be in operation before 2010. Once DOE begins to accept spent fuel, it will accept the oldest spent fuel first, on a national basis. Because Columbia is a relatively young plant, DOE has not planned to accept any spent fuel from Columbia during the first ten years of repository operation.

Columbia has sufficient capacity in the plant to accommodate all its spent fuel discharges through the year 2003. To accommodate spent fuel discharges after 2003, Energy Northwest has initiated a project to store spent fuel in commercially available dry storage casks on concrete pads at the plant site. Energy Northwest has a contract for a dry storage cask system, which will be available for spent fuel loading in 2002. The initial concrete pads are to be completed by late 2001 and they will have enough capacity to handle spent fuel discharges through 2010. It is anticipated that the facility will be able to be expanded in increments as needed in the future. Initial project capital costs are estimated at over \$32.7 million with costs for dry storage casks projected at approximately \$5 million every other year starting in 2004.

### **Decommissioning**

The NRC has defined decommissioning as actions taken which result in the release of the property for unrestricted use and termination of the nuclear power plant operating license. Currently, the nuclear industry recognizes three alternative methods (decontamination, safe storage and entombment) to decommission a nuclear power plant. Energy Northwest's decommissioning plan is based on the safe storage method of decommissioning. Safe storage entails placing and maintaining the nuclear facility in a condition that allows it to be safely stored and subsequently decontaminated to levels that permit release for unrestricted use. The NRC requires that this deferred decontamination period be no longer than 60 years.

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 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.

In addition, the State of Washington has adopted regulations which require Energy Northwest to submit a plan which provides for site restoration after the plant's operating life. Energy Northwest has provided, as required, an initial plan for site restoration for Columbia. Such plan has been approved by the State of Washington. Energy Northwest is required to review this site restoration plan in light of relevant new conditions, technologies and knowledge and report to the State of Washington the results of its review at least every five years or upon any change in project status. Energy Northwest submitted an update of its Columbia site restoration plan to the State of Washington in August 1998, which represented its second five-year review.

Energy Northwest has selected the external sinking fund method to provide the NRC the required financial assurance for funding Columbia decommissioning costs. Energy Northwest established a decommissioning fund for Columbia and funds are being deposited each year in accordance with an established funding plan. This funding plan was developed jointly by Energy Northwest and Bonneville. The plan continues to be based on the safe storage method of decommissioning. The NRC requires nuclear power reactor operators to adjust annually the estimated decommissioning costs of their nuclear facilities in order to ensure adequate funds are available for payment of decommissioning costs.

Energy Northwest's current estimate of Columbia decommissioning costs is approximately \$345 million (in 1999 dollars). This 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. Additionally, 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 EFSEC on June 12, 1995. Energy Northwest's current estimate of Columbia's site restoration costs is approximately \$54 million (in 1999 dollars).

The current funding plan requires annual deposits through fiscal year 2024, the estimated end of commercial operation of Columbia. Approximately \$4.3 million was deposited during the fiscal year ended June 30, 2000. The plan for subsequent 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 Columbia will be placed in an approximately 60-year safe storage until 2085, at which time decontamination and dismantlement will be completed. 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 Columbia. This plan will be re-examined every year and modified to assure that the projected fund balance complies with the then current estimates and NRC requirements. Payments to the decommissioning trust fund have been made since 1985 and the balance of cash and investment securities in the fund as of December 31, 2000 totaled approximately \$66.5 million. Since July 1990, these amounts have been held in an external decommissioning trust fund in accordance with NRC requirements.

On September 30, 1996, all the cash and investment securities held in the external decommissioning trust fund were transferred into a new external decommissioning trust fund to be administered by Bonneville. This transfer, approved by the Energy Northwest Executive Board and Bonneville, was accomplished to broaden the investment authority for the fund to include purchase of equity investments in addition to previously authorized fixed income investments.

### **Insurance**

Energy Northwest maintains a risk management and insurance program which incorporates a combination of self-insurance, commercial insurance and nuclear property and liability insurance. Energy Northwest's basic risk management philosophy is to pay normal and expected losses from revenues and to purchase insurance to cover catastrophic losses. Energy Northwest, as a licensee of the NRC, is subject to retrospective premiums for nuclear liability and property insurance. Claims relating to Columbia or Project 1 that are not covered by insurance are paid from revenues under the related Project Net Billing Agreements.

Commercial liability insurance is purchased to cover all Energy Northwest premises and operations. This insurance provides coverage for injury or damage arising from non-nuclear accidents or occurrences. Energy Northwest maintains nuclear insurance in accordance with regulatory and Energy Northwest risk management policies.

Nuclear liability insurance covers third party injury or damage arising out of a nuclear incident and is required under the Price Anderson Act, enacted in 1957 as an amendment to the Atomic Energy Act (as amended, "Price Anderson"). Price Anderson provides financial protection for the public in the event of bodily injury or property damage caused by a commercial nuclear incident. The law has been extended three times and the current requirements are in effect until 2002.

In accordance with Price Anderson, the nuclear liability exposures of Columbia are covered through the purchase of commercial nuclear liability insurance. This policy carries a limit of \$200 million with no deductible and forms the primary layer of protection. The excess layer of protection above this amount is provided through a mandatory industry self-insurance program featuring an assessment provision to all licensed nuclear power reactors. This excess layer amount is just over \$9.33 billion, based on

106 licensed reactors, multiplied by a current maximum retrospective assessment of \$88.095 million per reactor, per any one nuclear incident. Therefore, the total public liability coverage available per incident is approximately \$9.54 billion. It is important to note that in the event there is an incident triggering an assessment, the maximum annual deferred premium assessment would be \$10 million per incident. This assessment is payable under the Columbia Net Billing Agreements.

Bonneville purchases nuclear property insurance for Columbia with limits of \$500 million and a deductible of \$5 million. Bonneville also purchases excess insurance of \$2.25 billion, giving Energy Northwest and Bonneville total nuclear property limits of \$2.75 billion. Additionally, Bonneville purchases business interruption coverage which pays \$3.5 million per week, following a 12 week deductible period for the first year and then for the next 110 weeks, pays 80% of this amount for a maximum indemnification of \$490 million. The limits of liability and policy coverage for Columbia meet all legal requirements for a nuclear power production facility and are consistent with that purchased by other nuclear utilities relative to similar circumstances and exposures.

### **PACKWOOD LAKE HYDROELECTRIC PROJECT**

Energy Northwest owns and operates Packwood, a hydroelectric generating facility with a nameplate rating of 27.5 megawatts. Packwood is located near the town of Packwood in Lewis County, Washington, approximately 75 miles south-southeast of Seattle, Washington. Packwood commenced operation in June 1964 and has generated an average of 92 million net kilowatt-hours annually since that time. The electric power produced by Packwood is sold to 12 utilities, which pay the costs of Packwood, including debt service on the Packwood Lake Hydroelectric Project Revenue Bonds (the "Packwood Bonds"). The power produced by Packwood is delivered to Bonneville in exchange for electric power, transmission and other services made available to the utilities. Packwood's Federal Energy Regulatory Commission ("FERC") operating license expires on February 28, 2010 and Energy Northwest expects to initiate the relicensing process in the year 2005. A new agreement for the sale of Packwood's electrical generation to Bonneville through fiscal year 2001 was executed in April 1997. Negotiations to extend the agreement beyond the end of Fiscal Year 2001 are currently being conducted.

In 1998, Packwood became one of three regional generating projects chosen by Bonneville for the Environmental Foundation, made up of the Renewable Northwest Project, the Northwest Energy Coalition and the National Resource Defense Council. The environmental groups have teamed with Bonneville to market "green power" from Packwood and the other two projects. The power sales agreement with Bonneville for Packwood generation was amended in September 1998 to acknowledge Packwood as a "green power project" and reflect the premium Bonneville will pay for energy delivered and sold by Bonneville as a "green," renewable resource.

### **PROJECT 1**

Project 1 is a terminated, partially completed nuclear electric generating project located about 160 miles southeast of Seattle, Washington, on DOE's Hanford Reservation, approximately one and one-half miles east of Columbia. In May 1994, Energy Northwest's Board of Directors adopted a resolution terminating Project 1. The Project 1 Project Agreement and the Project 1 Net Billing Agreements ended upon termination of Project 1, except for certain provisions relating to billing and payment processes. See "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements — Payment Procedures — Terminated Projects" in this Official Statement. The Project 1 Post Termination Agreement also facilitates the administration, budgeting and payment processes post termination.

After termination, Energy Northwest proceeded to offer for sale assets in the form of uninstalled operating equipment and construction materials in light of the fact that there was no market for the sale of Project 1 in its entirety. Certain of these assets have been sold. Energy Northwest has reduced the assets to their estimated net realizable value and has accrued for the estimated cost of removal and site restoration. Energy Northwest has been planning for the demolition of Project 1 and restoration of the site. In addition to funding for the payment of debt service on Project 1 Net Billed Bonds, funding has continued for administrative efforts associated with asset sales and planning for the demolition and site restoration activities for Project 1. Sources of funding are derived through the Project 1 Net Billing Agreements and monies held in the Project 1 Construction Fund.

### **PROJECT 3**

Project 3 is a terminated, partially complete nuclear electric generating project located in southeastern Grays Harbor County, Washington, approximately 70 miles southwest of Seattle, Washington. In May 1994, Energy Northwest's Board of Directors adopted a resolution requesting the termination of Project 3. Project 3 was terminated in June 1994. The Project 3 Project Agreement and the Project 3 Net Billing Agreements ended upon termination of Project 3, except for certain provisions relating to billing and payment processes. See "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements — Payment Procedures — Terminated Projects" in this Official Statement. The Project 3 Post Termination Agreement also facilitates the administration, budgeting and payment processes post termination.

After termination, Energy Northwest proceeded to offer for sale assets in the form of uninstalled operating equipment and construction materials in light of the fact that there was no market for the sale of Project 3 in its entirety. During 1995, a group from Grays Harbor County, Washington, interested in local economic development, formed the Satsop Redevelopment Project. The Satsop Redevelopment Project is a coalition of governments established by inter-local agreement between Grays Harbor County, the Port of Grays Harbor and Public Utility District No. 1 of Grays Harbor County. Legislation introduced by the Satsop Redevelopment Project and adopted into law by the State of Washington on March 7, 1996, authorized the transfer of the site properties and facilities to the local public agencies for purposes of economic development.



Energy Northwest determined that the transfer of ownership would result in significant cost savings to Energy Northwest and Bonneville. The degree of Energy Northwest site restoration responsibilities would also be significantly reduced with the transfer of regulatory authority to another entity. On October 22, 1998, Energy Northwest's Board of Directors authorized the execution of the Ownership Transfer Agreement entered into among Energy Northwest and the investor-owned utility owners of Projects 3 and 5, which transferred substantially all of the assets of the Satsop site. Consequently, Energy Northwest had full authority to transfer all of the assets of the Satsop Site.

An agreement for the transfer of the Project 3 site and infrastructure was negotiated with the Satsop Redevelopment Project and signed on February 26, 1999. This transfer agreement included payment of \$26 million by Energy Northwest to the Satsop Redevelopment Project. Energy Northwest's estimate of total costs for the transfer were significantly less than the then current estimates for site restoration of Projects 3 and 5 of \$36 million and \$14 million, respectively. Funding for Project 3 continues for payment of debt service on Project 3 Net Billed Bonds from revenues derived through the Project 3 Net Billing Agreements.

#### **PROJECTS 4 AND 5**

Projects 4 and 5 were terminated in January 1982. The Project 4/5 Bonds went into default on July 22, 1983. Subsequent to extended litigation and ultimate settlement, all trusts created under the resolution authorizing the Project 4/5 Bonds were terminated and Energy Northwest and the trustee under said resolution were released from all of their obligations thereunder.

#### **SITE RESTORATION OF PROJECTS 1, 3, 4 AND 5**

Site restoration requirements for Projects 1, 3, 4 and 5 are governed by site certification agreements between Energy Northwest and the State of Washington and regulations adopted by EFSEC and additionally for Projects 1 and 4, a lease agreement with DOE. Energy Northwest submitted a site restoration plan 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 conditionally approved the site restoration plan on June 12, 1995. Such approval recognized that there was uncertainty associated with Energy Northwest's proposed plan. Accordingly, EFSEC's approval provided for additional reviews once the details of the plan are finalized.

##### **Restoration of Projects 1 and 4 Site**

In May 1998, Energy Northwest and EFSEC started focused discussion of restoration of the Projects 1 and 4 site when it became apparent that there would be a successful transfer of ownership of the Satsop Site. EFSEC proposed that Energy Northwest amend the site certification agreement for Projects 1 and 4 to update its site restoration plan that was conditionally approved by EFSEC in 1995. Energy Northwest updated and submitted a revised site restoration plan in June 1999.

In February 1999, a group from the local area expressed interest in the potential redevelopment of the Projects 1 and 4 site. An inter-local agreement between the Port of Benton, Benton County, Public Utility District No. 1 of Benton County, the City of Richland, Washington and Energy Northwest established the Benton Redevelopment Initiative. Legislation introduced by the Benton Redevelopment Initiative and adopted into law by the State of Washington in March 2000 authorized the transfer of the Projects 1 and 4 site to the Benton Redevelopment Initiative. In June 2000, the City of Richland was dropped from the Benton Redevelopment Initiative inter-local agreement. Energy Northwest continues to provide administrative and management support.

A feasibility study for future industrial park viability is continuing. Energy Northwest, Bonneville, DOE and EFSEC are working to define with DOE site restoration requirements for the eventual return of the site back to DOE.

Physical restoration activities are currently underway. A landfill located on the site has been prepared to accept cooling tower asbestos transite material. Special authorization was received from DOE and EFSEC to store the material in an onsite landfill. This transite removal process has commenced and is expected to be completed in June 2001.

Energy Northwest has recorded accrued liabilities of \$64 million for Project 1 site restoration based on previous estimates. Energy Northwest believes that although Project 1 has no legal obligation to fund Project 4, it is possible that claims may be asserted against Project 1 to pay the costs of site restoration of Project 4. Under terms of prior settlements among all parties with interests in Projects 1 and 4, consolidation of Projects 1 and 4 may occur should Bonneville and Energy Northwest elect to do so. Should this occur, costs for site restoration for both Projects 1 and 4 will be borne by Project 1. Energy Northwest estimates that the cost of site restoration for Project 4 will be approximately \$39 million.

##### **Restoration of Projects 3 and 5 Site**

For a discussion of recent events concerning the Projects 3 and 5 site see "ENERGY NORTHWEST — Project 3" and "— Possible Future Energy Northwest Projects."

#### **HANFORD GENERATING PROJECT**

Energy Northwest owns HGP, which is located on DOE's Hanford Reservation, approximately 140 miles southeast of Seattle, Washington. HGP was an 860 megawatt plant that operated from April 1966 through January 1987 and generated 65.9 billion kilowatt-hours of electricity.

Preservation of HGP physical assets was discontinued in September 1993. In 1997, Energy Northwest attempted to meet its restoration obligation and negotiate a transfer of the HGP facilities to DOE. These negotiations were unsuccessful and Energy Northwest initiated activities to remove and dispose of the facilities and equipment. Activities completed include the removal and disposal of all exterior asbestos, the removal and disposal of all uncontaminated asbestos insulation from interior piping and equipment, and the removal and disposal of transformers and transmission towers. Activities to remove and dispose of all external piping and equipment are continuing. Energy Northwest and DOE have reached agreement in principle concerning DOE's liability for radioactive contamination and its related impacts on HGP site restoration and the payment of costs for such restoration. All basic administrative costs incurred from September 1993 through June 1999 were paid from monies held in the HGP Revenue Fund and all such costs subsequently incurred and to be incurred in the future have been and will be paid from monies held in the Project 1 Revenue Fund.

### **POSSIBLE FUTURE ENERGY NORTHWEST PROJECTS**

Any future Energy Northwest projects must be formally approved by the Board of Directors. Any such projects would be separate and distinct from all other Energy Northwest Projects and separately financed.

#### **Satsop CT**

In 1990, the Board of Directors of Energy Northwest voted to study the siting of a combustion turbine power plant at the Projects 3 and 5 site. Beginning in 1992, Energy Northwest submitted a series of proposals to Bonneville in response to Bonneville's solicitations for new generating resources. In June 1993, Bonneville notified Energy Northwest that Energy Northwest's combustion turbine, known as the Satsop CT, was selected as one of three combustion turbine power plants to be designed and permitted and held as an "option" under Bonneville's Resource Contingency Program. All required environmental studies and permit applications for two combustion turbine power plant units and all state and federal permits and environmental impact statements had been approved or obtained.

During 2000, because of a shortage of power on the West Coast, several energy companies approached Energy Northwest about purchasing the Satsop CT site. In response to Energy Northwest's solicitation of proposals, Duke Energy Grays Harbor LLC, an unregulated subsidiary of Duke Energy, submitted a satisfactory proposal. On January 3, 2001, Energy Northwest's Executive Board approved the sale of the Satsop CT site to Duke Energy Grays Harbor LLC. Energy Northwest will receive \$5 million for the sale and expects to get a contract to operate the planned 630 megawatt natural gas-fired power plant that, along with various options. Energy Northwest also may obtain an option to purchase up to 100 megawatts of electricity generated from the plant for five years at the cost of production. Energy Northwest also expects to obtain the option to participate in a second combustion turbine power plant that Duke Energy Grays Harbor LLC may construct at the site.

#### **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 electricity. The wind turbine farm will be located on leased land, near Kennewick, Washington, and may include up to 50 wind turbines. Each turbine will have a power generating capacity 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. The Energy Northwest Board of Directors formally approved the project in January 2001, subject to the satisfaction of certain conditions. It is expected that construction will start in late summer or early fall 2001, with commercial operation beginning in 2002. Energy Northwest intends to finance the costs of constructing the project through the issuance of debt that will be secured by power sales agreements expected to be executed in the near future.

### **THE BONNEVILLE POWER ADMINISTRATION**

The information in this section has been furnished to Energy Northwest by Bonneville for use in this Official Statement. Such information is not to be construed as a representation by or on behalf of Energy Northwest or the Underwriters. While Energy Northwest believes that the information in this section is reliable, Energy Northwest has not independently verified such information and does not guarantee the accuracy or completeness of such information. Energy Northwest, however, has no reason to believe that such information is not accurate or complete. At or prior to the time of delivery of the Series 2001-A Bonds, Bonneville will certify to Energy Northwest that the information in this section, as well as information pertaining to Bonneville contained elsewhere in this Official Statement, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements in this section and elsewhere in this Official Statement pertaining to Bonneville, in light of the circumstances under which they were made, not misleading.

#### **GENERAL**

Bonneville was created by an act of Congress in 1937 to market electric power from the Bonneville Dam located on the Columbia River and to construct facilities necessary to transmit such power. Congress has since designated Bonneville to be the marketing agent for power from all of the federally-owned hydroelectric projects in the Pacific Northwest. Bonneville, whose headquarters are located in Portland, Oregon, is one of four regional federal power marketing agencies within the DOE. Many of Bonneville's statutory authorities are vested in the Secretary of Energy, who appoints, and acts by and through, the Bonneville Power Administrator. Some other authorities are vested directly in the Bonneville Power Administrator.

Bonneville's primary enabling legislation includes the following federal statutes: the Bonneville Project Act of 1937 (the "Project Act"); the Flood Control Act of 1944 (the "Flood Control Act"); Public Law 88-552 (the "Regional Preference Act"); the Federal Columbia River Transmission System Act of 1974 (the "Transmission System Act"); and the Northwest Electric Power Planning and Conservation Act of 1980 (the "Northwest Power Act"). Bonneville now markets electric power from 29 federally-owned hydroelectric projects, most of which are located in the Columbia River Basin, and from several non-federally owned and operated projects including the Columbia Generating Station. Bonneville sells and exchanges firm power, non-firm energy, peaking capacity and related power services. Bonneville also constructed and operates and maintains a high voltage transmission system comprising approximately 75% of the bulk transmission capacity in the Pacific Northwest. Bonneville uses this transmission capacity to deliver power to its customers and makes transmission capacity available to other utilities and power marketers.

Bonneville's primary customer service area is the Pacific Northwest. Bonneville estimates that the population of the 300,000 square-mile service area is approximately ten million people. Electric power sold by Bonneville accounts for about 45% of the electric power consumed within the Region. Bonneville markets the majority of this power to over 100 publicly-owned and cooperatively-owned utilities ("Preference Customers") for resale to consumers in the Region. Bonneville also has contracts to sell significant amounts of power for direct consumption to about eight companies to serve 14 separate industrial facilities ("Direct Service Industries" or "DSIs") located in the Region.

The Transmission System Act placed Bonneville on a self-financing basis, meaning that Bonneville pays its costs from revenues it receives from the sale of power and the provision of transmission and other services, which Bonneville provides at rates that seek to produce revenues that recover Bonneville's costs, including certain payments to the United States Treasury. Bonneville's rates for the foregoing services are subject to approval by the Federal Energy Regulatory Commission ("FERC") on the basis that, among other things, they recover Bonneville's costs. See "MATTERS RELATING TO THE POWER AND TRANSMISSION BUSINESS LINES — Bonneville Ratemaking and Rates." Bonneville may also issue and sell bonds to the United States Treasury and use the proceeds thereof to fund certain activities established under Federal law.

In 1996, after certain national regulatory initiatives to promote competition in wholesale power markets were announced, Bonneville separated its power marketing function from its transmission system operation and electric system reliability functions. Bonneville remains a single legal entity, but it now conducts its business as separate business lines: the "Power Business Line" and the "Transmission Business Line." See "TRANSMISSION BUSINESS LINE — Non-discriminatory Transmission Access and Separation of the Business Lines."

Bonneville's cash receipts from all sources, including from both its transmission and power-marketing business lines, must be deposited in the Bonneville Fund, which is a separate fund within the United States Treasury and which is available to pay Bonneville's costs. In accordance with the Transmission System Act, Bonneville must make expenditures from the Bonneville Fund as "shall have been included in annual budgets submitted to Congress, without further appropriation and without fiscal year limitation, but within such specific directives or limitations as may be included in appropriation acts, for any purpose necessary or appropriate to carry out the duties imposed upon [Bonneville] pursuant to law."

Bonneville is required to make certain annual payments to the United States Treasury. These payments are subject to the availability of net proceeds, which are gross cash receipts remaining in the Bonneville Fund after deducting all of the costs paid by Bonneville to operate and maintain the Federal Columbia River Power System (the "Federal System") other than those used to make payments to the United States Treasury for: (i) the repayment of the federal investment in certain transmission facilities and the power generating facilities at federally-owned hydroelectric projects in the Pacific Northwest; (ii) debt service on bonds issued by Bonneville and sold to the United States Treasury; (iii) repayments of appropriated amounts to the Corps and the Bureau for certain costs allocated to power generation at federally-owned hydroelectric projects in the Pacific Northwest; and (iv) costs allocated to irrigation projects as are required by law to be recovered from power sales. In fiscal year 2000, Bonneville's cash payments to the United States Treasury totaled approximately \$732 million. For more information, see "BONNEVILLE FINANCIAL OPERATIONS — Order in Which Bonneville's Costs Are Met."

For various reasons, Bonneville's revenues from the sale of electric power and other services may vary significantly from year to year. In order to accommodate such fluctuations in revenues and to assure that Bonneville has sufficient revenues to pay the costs necessary to maintain and operate the Federal System, all cash payment obligations of Bonneville, including cash deficiency payments relating to Net Billed Bonds and other operating and maintenance expenses, have priority over payments by Bonneville to the United States Treasury. In the opinion of Bonneville's Acting General Counsel, under federal statutes Bonneville may make payments to the United States Treasury only from net proceeds; all cash payments of Bonneville, including cash deficiency payments relating to Net Billed Bonds and other operating and maintenance expenses, have priority over payments by Bonneville to the United States Treasury for the costs described in (i) to (iv) above.

## **RECENT DEVELOPMENTS IN THE ELECTRIC UTILITY INDUSTRY AND BONNEVILLE'S COMPETITIVE POSITION**

### **Power Market Developments**

For much of its history, Bonneville has had a high degree of certainty that its revenues from power and transmission services would be sufficient to recover all of its costs without concern for substantial price competition from other suppliers. In the mid-1990's, competition increased in the wholesale electricity industry. Bonneville was particularly affected because its business,

both power marketing and the provision of bulk transmission, is primarily wholesale. This increase in competition was due to a number of factors, including: electric power deregulation advanced under the National Energy Policy Act of 1992 ("EPA-1992") and under FERC regulations to promote competition in the wholesale power business; prolonged low natural gas prices caused in part by an increase in West Coast supply; increased efficiency in and lower capital costs of technologically advanced natural gas-fired combustion turbine generators, and new competition in the market from power marketers, aggregators and brokers.

The emerging competitive wholesale electric power market and the availability of lower cost alternative supplies prompted some Bonneville customers at that time to adopt supply diversification strategies to meet greater portions of their loads from sources other than Bonneville. The erosion of Bonneville's competitive cost advantage was compounded by increasing costs for fish and wildlife protection under the Endangered Species Act ("ESA") and the high cost of a number of long-term resource acquisition contracts entered into by Bonneville to meet anticipated load requirements. These factors combined in such a manner that in fiscal year 1996 the wholesale market price for electric power became equal to or slightly below Bonneville's industrial firm power rate for DSIs ("IP rate") and priority firm power rate for Preference Customers ("PF rate"). Those rates were established on an expected basis to be approximately 21.9 and 26.3 mills per kilowatt hour (without transmission), respectively, in fiscal year 2001.

More recently, West Coast electric power prices in general and Pacific Southwest electric power prices in particular have increased significantly. This increase corresponds to greater demand for electric power, limited supplies of electric power and substantially increased prices for natural gas, which fuels substantial amounts of electric generation in the West. Pacific Southwest natural gas prices have increased with natural gas prices nationally. The expansion of pipeline capacity capable of transporting natural gas east out of western producing areas has effectively decreased regional natural gas supplies for California. As a result, California loads compete nationally for natural gas supplies more than in the past. This increase in competition for natural gas supplies in California may further intensify.

In developing its power rate proposal for the five-year rate period beginning October 1, 2001, Bonneville projected in May 2000 that electric power market prices in fiscal years 2002-2006 would be in the low-30 mills per kilowatt hour range. However, unprecedented volatility in the West Coast power market sustained since the spring of 2000 has caused Bonneville to re-evaluate those market projections. Current market prices for electric power are at unprecedented highs. California Power Exchange day ahead unconstrained marginal clearing prices increased on average 84 mills per kilowatt hour from 1999 to 2000. The average prices were 29 and 113 mills per kilowatt hour for 1999 and 2000, respectively. This represents a 290% increase in the price of power. In December 2000, the average on-peak price in the Pacific Northwest was 525 mills per kilowatt hour, with a low of 167 mills per kilowatt hour and a high of 3,322 mills per kilowatt hour. Bonneville estimates that Pacific Northwest power market prices for energy over the twelve-month period January 1 to December 31, 2000, averaged about 119 mills per kilowatt hour, without transmission. These high prices affect Bonneville because it is purchasing and will continue to purchase electric power to meet current loads and to meet expected loads for the five years beginning October 1, 2001.

In view of these developments, Bonneville now anticipates an electric power market with near-term (fiscal years 2001-03) prices in the 200 mills per kilowatt hour range and longer-term (fiscal year 2004-06) prices in the 50 mills per kilowatt hour range, in each case without transmission. Bonneville is developing a final power rate proposal for the period beginning fiscal year 2002, under which Bonneville will substantially increase rate levels for the rate period in order to recover much higher than anticipated costs of purchasing power to meet current year contracted loads and to meet loads in the five years beginning October 1, 2001. See "POWER BUSINESS LINE — Power Marketing Plan For The Period After Fiscal Year 2001."

#### **Effect On Bonneville Of Developments In California Power Markets**

California power markets have been in turmoil for several months. In particular, such markets have seen historically high power prices and volatility, and threats of insolvency from two Californian investor-owned utilities (the "Cal-IOUs"). The Cal-IOUs have been faced with having a cap on the rates that they may charge their customers and being required to purchase virtually all of their power requirements at prices that are multiples of the rates they may charge.

The weakened financial position of the Cal-IOUs has also raised questions with regard to the future solvency and financial condition of two entities with central roles in the deregulation of California's electric power industry. One such entity is the California Independent System Operator ("Cal-ISO"), a nonprofit entity that operates, but does not own, most transmission in the state and is responsible for assuring reliable transmission to the Cal-IOUs and others. By far the largest users of the Cal-ISO's services and hence the largest revenue sources for the Cal-ISO are the Cal-IOUs. The second such entity is the nonprofit California Power Exchange ("Cal-PX"), which suspended operations on January 31, 2001 but was theretofore responsible for operating a day ahead power exchange through which the Cal-IOUs were obligated to purchase virtually all of their power requirements. As a consequence of the operation of the exchange, the Cal-PX is reported to have substantial outstanding payment obligations either due or to come due from the Cal-IOUs.

Bonneville has conducted power transactions with the foregoing entities and to a limited degree continues to do so. Bonneville has a long-term seasonal power exchange agreement with Southern California Edison, one of the two Cal-IOUs. In addition, Bonneville entered into certain power sales through the Cal-PX since October 1, 2000 for which Bonneville is due payment but has not yet been paid. Bonneville ceased selling into the Cal-PX in December 2000. Further, through January 10, 2001, Bonneville sold power and related service to the Cal-ISO to help it maintain transmission reliability in California. The Cal-ISO has outstanding payment obligations to Bonneville for such purchases. Bonneville ceased selling power to the Cal-ISO but entered into a series of daily power exchanges under which Bonneville provided power to the Cal-ISO at peak load hours. The Cal-ISO has

outstanding power-return obligations owing Bonneville under these agreements. Bonneville also has a number of smaller transactions with certain other California utilities. Bonneville estimates that its total exposure for such sales and exchanges arising since October 1, 2000 is currently between \$100 million and \$130 million. Bonneville is uncertain whether it will receive full satisfaction under such transactions. Bonneville continues to closely monitor developments in the California energy markets and evaluate any potential impact those developments may have on Bonneville. Based on its current evaluation, Bonneville has not recorded a reserve in the quarter ended December 31, 2000 based on its analysis of credit exposure related to the California situation.

Credit risk may be concentrated to the extent that one or more groups of counterparties in power transactions with Bonneville have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to the circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. Bonneville seeks to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties occur from time to time. To date, no such default has had a material adverse effect on Bonneville. Bonneville continues to actively monitor the creditworthiness of counterparties with whom it executes wholesale energy transactions and uses a variety of risk mitigation techniques to limit its exposure where it believes appropriate.

The high market prices for power in California may also have an upward effect on the prices Bonneville may expect to pay for power to meet its own loads. The monthly average price of wholesale power in the Pacific Northwest closely tracked prices in the Southwest through early December 2000. The close price correlation began to diverge during December 2000 due to weather and power supply conditions in the Pacific Northwest, regulatory initiatives imposed on the California market but not on other Western markets, and the financial uncertainty of some California utilities. These and other variables affect the extent to and manner in which California power market activities impact prices in the Northwest.

#### **Bonneville's Fiscal Year 2001 Financial Condition**

Several developments are combining to affect Bonneville's financial condition in fiscal year 2001. Fall and winter precipitation and snowpack conditions in the Columbia River Basin, which to a great degree determine the amount of hydroelectric power the Federal System can produce, are very low this fiscal year. Based on historical precipitation records, Bonneville believes that it is unlikely that runoff in the current water year (August 1, 2000 - July 31, 2001) will achieve average levels. Current forecasts indicate that runoff could be among the lowest several water years on record.

Reduced hydroelectric power generation resulting from these low water conditions has increased the amount of electric power that Bonneville has purchased this fiscal year to meet its power sales obligations. These conditions are also expected to increase the amount of electric power that Bonneville will need to purchase from other suppliers in the market in order to meet its power sales obligations through the rest of the fiscal year. In addition to making market purchases of power, Bonneville is addressing the low water conditions by negotiating load reduction agreements under which Bonneville agrees to pay certain customers to reduce the amount of power Bonneville is contractually obligated to sell them during the fiscal year and by seeking voluntary electric power conservation from Regional power consumers. The aggregate expense to Bonneville in this fiscal year of the expected purchases of power and load reduction agreements could be substantial given the historically high power prices prevailing in the West Coast region. In addition, the dry weather conditions, should they persist, could reduce the amount of non-firm energy Bonneville has to market. Moreover, most of Bonneville's current power sales are made under power rates that are fixed through the remainder of this fiscal year; thus, Bonneville is constrained in its ability in the immediate future to increase rates to address this situation. For the longer term, Bonneville is proposing a power rate amendment that is expected to have the effect of increasing power rate levels substantially beginning October 1, 2001. See "POWER BUSINESS LINE — Power Marketing Plan For the Period After Fiscal Year 2001." For the immediate future, Bonneville, in conjunction with other Federal agencies, is taking actions as described below to alter river operations to increase hydroelectric power generation above levels that may otherwise pertain and to help assure Bonneville's financial liquidity through the end of fiscal year 2001.

Bonneville's unaudited first quarter financial report for fiscal year 2001 (covering the period October 1, 2000 through December 31, 2000) reflects certain of the impacts of the foregoing circumstances on Bonneville's financial condition. The report shows approximately a \$642 million net revenue loss in such quarter. Of such loss, however, about \$181 million is from actual operating losses. These operating losses resulted from higher than expected power purchase expense due to low water conditions and high prices, and lower than expected power sales revenues due to low water conditions. The remainder of the net revenue loss, or \$461 million, is attributable to the accounting treatment of certain transactions under Financial Accounting Standards Board Statement of Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") which became effective on October 1, 2000. Such losses are accounting treatment losses only reflecting mark-to-market positions Bonneville has with regard to certain power sales transactions and do not affect Bonneville's cash flows or financial reserves. In Bonneville's opinion, accounting losses under FAS 133 do not have a material impact on Bonneville's financial position. See "Appendix A-2, Federal System, Unaudited Quarterly Report for the Three Months Ended December 31, 2000" and notes thereto.

Given the foregoing uncertain conditions of high power prices and low water conditions, and other factors such as the volatility in West Coast power markets, possible variability in weather, rainfall and load conditions, and hydroelectric project operations under the ESA, as hereinafter described, Bonneville is unable to predict its net revenues or year-end reserve levels for fiscal year 2001. Depending on the degree to which Bonneville's power purchase and related expenses in fiscal year 2001 increase as a consequence of the outcome of the foregoing factors, including in particular the extent to which the Federal System hydroelectric

projects are operated to meet parameters established to aid protected fish under the ESA, it is possible that Bonneville may not meet its 2001 fiscal year-end U.S. Treasury payment responsibility in full. It is also possible, given the foregoing factors, that Bonneville could deplete its financial reserves within fiscal year 2001.

In view of the low Columbia River Basin water conditions and power supply uncertainty in the West Coast region, the federal agencies responsible for operating and guiding the operation of the Federal System hydroelectric projects under the ESA have had continuing discussions regarding Federal System hydroelectric dam operations to meet power needs and to satisfy river operations parameters to aid protected fish species under the ESA. See "POWER BUSINESS LINE — Certain Statutory and Other Matters Affecting Bonneville's Power Business Line — Fish and Wildlife." The 2000 Biological Opinion, as hereinafter described, includes provisions allowing, in the event of a power system emergency, deviations from otherwise applicable operating constraints designed to avoid jeopardy to protected fish species. Such deviations, if implemented, could lead to increased hydroelectric generation and reduced power purchases in the remainder of this fiscal year. During limited periods in January and February 2001, the Federal System hydroelectric projects were operated under the power system emergency provisions in order to maintain power system reliability in light of low flow conditions and economic conditions of high power prices reflecting power shortages. These operations increased generation over what otherwise may have been the case during such period. Discussions among the responsible Federal agencies in this regard are expected to continue throughout the remainder of this fiscal year. Bonneville will work with the other Federal agencies to obtain this additional generation if needed; however, the degree to which hydroelectric dam operations will continue in a manner that deviates from operations expected under the 2000 Biological Opinion is uncertain.

Bonneville is also clarifying certain of its legal authorities to assure that it will remain current on all of its obligations, given the wide range of possible revenues and expense results in fiscal year 2001. For example, Bonneville is changing the timing of certain Treasury repayment credits associated with operational costs incurred for fish protection in order to enhance its cash position. Bonneville is also pursuing other administrative actions which could further improve Bonneville's liquidity.

#### **Subscription Strategy And Power Rates After Fiscal Year 2001**

All of Bonneville's in-Region sales contracts with Preference Customers, long-term power sales contracts with DSIs and settlements under the Residential Exchange Program, each as described herein, will expire at or slightly before the end of fiscal year 2001. In December 1998, Bonneville issued a Subscription Strategy outlining Bonneville's approach to power marketing after fiscal year 2001. In accordance with the Subscription Strategy and after indications by Bonneville of the rates at which it expected to sell Subscription power, Bonneville entered into five- or ten-year power sales contracts under which power sales are due to commence October 1, 2001, with 135 Regional Preference Customers, eight DSI companies (for power sales to 14 separate industrial facilities) and all six of the Regional investor-owned utilities ("Regional IOUs") to whom Bonneville is required by law to provide Residential Exchange Program benefits.

The aggregate power sales commitments undertaken by Bonneville under these agreements is roughly 9100 average megawatts, with about 6600 average megawatts to Regional Preference Customers, 1500 average megawatts to DSIs, and 1000 average megawatts to Regional IOUs for use to meet their residential and small farm loads in the Region. In order to meet the load requirements under the Subscription contracts and approximately 2200 average megawatts of certain pre-existing surplus firm power sales and related obligations, about half of which expire during the next rate period, Bonneville will rely primarily on existing Federal System resources. However, Bonneville also expects that it will have to augment Federal System output with additional purchases of electric power from other systems or resources. Bonneville has entered into a number of such power purchase agreements but believes that it may need to make further purchases to increase the firm power capability of the Federal System by up to approximately an additional 2000 average megawatts during the five-year rate period.

In view of the prospect of declining financial reserves in fiscal year 2001, the possible multi-year effects of current low water conditions and reservoir drawdowns on future hydroelectric generation, and anticipated higher costs to meet Subscription loads, Bonneville is proposing an amendment to the rate proposal it filed with FERC in July 2000. On February 15, 2001, Bonneville formally released for comment by rate case parties a proposed rate amendment (the "February 2001 Proposed Amendment") that would periodically adjust power rates during the five-year rate period beginning October 1, 2001, in general, depending on Bonneville's financial condition and the cost of augmenting Federal System resources with power purchases to meet Subscription loads. Bonneville expects that the February 2001 Proposed Amendment would have the effect of significantly increasing initial rate levels applicable to most Subscription power sales and would allow Bonneville to further increase such rate levels during the five-year rate period. Bonneville expects that under the February 2001 Proposed Amendment power rate levels in the first years of the rate period may be significantly higher than power rates in later years of the rate period.

All parties to the rate case, including Bonneville, will have an opportunity to file comments on Bonneville's proposal and responses thereto. Bonneville expects to complete its final studies supporting the proposed amendment and a record of decision in June 2001, and file the final proposed amendment with FERC no later than August 1, 2001. Bonneville expects FERC to grant interim approval of the rate proposal, together with the rate amendment, by September 30, 2001. For a more detailed description of Bonneville's proposal for power rates applicable to Subscription power sales, see "POWER BUSINESS LINE — Power Marketing Plan for the Period After Fiscal Year 2001 — Subscription Power Rate Proposal."

While Bonneville and its customers have entered into the foregoing Subscription contracts, the ultimate amount of load Bonneville will become obligated to meet remains uncertain because the Subscription contracts have provisions allowing customers to terminate such contracts within 30 days of the release by FERC of an interim order initially approving Bonneville's power rates

applicable to such Subscription sales for the five years beginning October 1, 2001. In addition, if FERC or the United States Court of Appeals for the Ninth Circuit, which reviews FERC actions on Bonneville's rates, subsequently remands Bonneville's proposed power rates because they under-recover Bonneville's costs and Bonneville publishes a record of decision that adopts higher rate levels for such period, then the Subscription customers have another opportunity to terminate their Subscription contracts.

### **Fish And Wildlife Developments — 2000 Biological Opinion**

The operation of the Federal System hydroelectric projects affects certain species of wildlife, especially fish, that inhabit the watershed drained by the Columbia River and its tributaries. Beginning in the mid-1990s, a number of fish species inhabiting the river systems having Federal System dams were listed as threatened or endangered under the ESA. These listings have led to the promulgation, beginning in 1995, of a number of biological opinions and amendments thereto issued in furtherance of the ESA by the National Marine Fisheries Service ("NMFS") with respect to certain sea-going fish species (salmon and steelhead) inhabiting the Federal System watershed. Among other things, the biological opinions guide the Corps and the Bureau as dam operators, and Bonneville, as marketer of power from the dams, in ensuring that Federal System dam operations do not result in jeopardy to the listed species under the ESA.

On December 21, 2000, NMFS issued a new biological opinion (the "2000 Biological Opinion") that supersedes all previous biological opinions issued by NMFS affecting the Federal System hydroelectric projects. The 2000 Biological Opinion includes a number of measures to improve passage survival of salmon and steelhead through the hydrosystem and calls for increased spill, additional flow requirements, Columbia River Basin-wide habitat protections and enhancement efforts, and hatchery reforms. Bonneville estimates, on a preliminary basis, that complying with the 2000 Biological Opinion will cost about \$352 million per year on average over the five years beginning October 1, 2001, exclusive of lost power revenues and power purchase costs. Bonneville's total fish and wildlife cost in fiscal year 2000 was approximately \$226 million, also exclusive of lost power revenues and power purchase costs. Bonneville's preliminary estimate of the 2000 Biological Opinion is that compliance with it will reduce Federal System generating capability by about 60 average megawatts under average water conditions, in addition to prior reductions under previous biological opinions. The evaluation of the economic cost of such decrement is difficult to assess because power market price volatility and estimates of the timing of 2000 Biological Opinion generation restrictions are highly uncertain and both would affect the economic value of resulting foregone sales and additional purchases.

In connection with the development of the 2000 Biological Opinion, questions have been raised whether breaching four Federal System Lower Snake River dams should be proposed to aid fish survival. The loss of the generation from the dams would substantially affect the power generation capability of the Federal System. The 2000 Biological Opinion does not recommend implementation of dam breaching. However, NMFS implies that if measurable improvements in survival of listed fish are not seen relatively soon, it may reinitiate formal consultations under the ESA with Bonneville, the Corps and the Bureau and require that they pursue authority to breach the four dams. In the opinion of the Acting General Counsel to Bonneville, Congress would be required to enact legislation authorizing breaching of the dams. See "POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting the Power Business Line — Fish and Wildlife."

### **Formation Of A Regional Transmission Organization**

Bonneville is currently in negotiations with a number of transmission owners and others in the Region to form an independent regional transmission organization ("RTO") that would operate certain transmission assets of all such transmission owners, including Bonneville. See "TRANSMISSION BUSINESS LINE — Bonneville's Participation in a Regional Transmission Organization."

## **POWER BUSINESS LINE**

### **Description of the Generation Resources of the Federal System**

#### *Generation*

Bonneville has statutory obligations to meet certain electric power loads placed on it by certain Regional customers. See "— Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Bonneville's Obligation to Meet Certain Firm Power Requirements in the Region." To meet these loads Bonneville relies on an array of power resources and power purchases, which, together with the Bonneville-owned transmission system and certain other features, constitute the Federal System. The Federal System includes those portions of the federal investment in the Regional hydroelectric projects that have been allocated to power generation. Such projects were constructed and are operated by the Corps or the Bureau. The Federal System also includes power from non-federally-owned generating resources, including but not limited to the Columbia Generating Station and contract purchases from other power suppliers.

#### *Federal Hydro Generation*

Hydropower from federally-owned hydroelectric projects currently supplies approximately 80% of Bonneville's firm power supply. Bonneville also acquires power from three small non-federally-owned hydroelectric projects. Bonneville's large resource base of hydropower results in operating and planning characteristics that differ from those of major utilities that lack a substantial hydropower base. See the table entitled "Operating Federal System Projects for Operating Year 2001."



The amount of electric power produced by a hydropower-based system such as the Federal System varies with annual precipitation and weather conditions. This variability has led Bonneville to classify power it has available into two types, firm power and non-firm energy, based on certainty of occurrence.

Bonneville defines "firm power" as electric power that is (i) continuously available from the Federal System even during the most adverse water conditions, and (ii) useful for meeting Federal System firm loads. The amount of firm power that can be produced by the Federal System and marketed by Bonneville is based on "critical water" assumptions, *i.e.*, the worst low-water period on record for the Columbia River Basin. Firm power can be relied on to be available when needed. Firm power has two components: peaking capacity and firm energy. Peaking capacity refers to the generating capability to serve particular loads, at the time such power is demanded. This is distinguishable from firm energy, which refers to an amount of electric energy that is reliably generated over a period of time. Bonneville estimates that in Operating Year 2001, the Federal System, including firm energy purchases, is capable of producing about 8,500 average megawatts of firm energy.

The Federal System is primarily a hydropower system in which the peaking capacity exceeds Federal System peaking loads and power reserve requirements. Bonneville estimates that in most months its peaking capacity, for long-term planning purposes, will exceed its requirements for the next ten years. Bonneville expects this excess of peaking capacity to persist, because most of the resources added to meet firm energy needs will also contribute more peaking capacity. As a result, Bonneville's resource planning focuses on the need to develop sufficient firm energy resources to meet firm energy loads. In contrast, most utilities with coal-, gas-, oil- and nuclear-based generating systems must focus their resource planning on having enough peaking capacity to meet peak loads.

"Non-firm energy" is energy the Federal System can produce in excess of firm energy. It is less reliably available from year to year than firm energy. Non-firm energy varies from month to month and year to year and usually cannot be stored. The amount of non-firm energy generated by the Federal System depends primarily on precipitation and reservoir storage levels, thermal plant performance (the Columbia Generating Station), and other factors. In an average water year, the Federal System would generate non-firm energy in some months to market about 1,700 annual average megawatts, while in wet years the amount of non-firm energy available may average as much as 4,100 annual average megawatts. In dry years, Bonneville may have little non-firm energy available to market from the Federal System.

The Corps and the Bureau operate the federally-owned hydroelectric projects in the Region to serve multiple statutory purposes. These purposes may include flood control, irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection and power generation. Non-power purposes have placed requirements on operation of the reservoirs and have thereby limited hydropower production. Bonneville takes into account the non-power requirements and other factors in assessing the amount of power it has available to market from these projects.

These requirements change the shape, availability and timeliness of Federal hydropower to meet load. The information in the following table reflects the biological opinions (and supplements thereto) issued with respect to the Federal System beginning in 1995 but does not reflect the 2000 Biological Opinion and a biological opinion issued by FWS, both of which were issued in December 2000. As new biological opinions and similar constraints are introduced to the hydropower system, those changes will be reflected in the availability of Federal hydropower under all water conditions. Bonneville's preliminary estimate of the 2000 Biological Opinion is that it will further decrease Federal System generating capability by about 60 average megawatts under average water conditions. See "*— Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Fish and Wildlife.*"

#### *Other Generating Resources*

The balance of the Federal System includes, among other resources, nuclear power from the Columbia Generating Station. The Columbia Generating Station has the largest capacity for energy production of the non-federal resources. As part of a 1996 review of its resource acquisition plans, Bonneville prepared an assessment of the economic viability of the Columbia Generating Station. The analyses indicated no economic advantage to terminating generation at the project. Bonneville has not updated its 1996 viability study of the Columbia Generating Station; however, in view of the current operating costs of the Columbia Generating Station and the value of its electric power in today's markets, it is unlikely that Bonneville would conclude that there would be economic advantage to terminating generation absent a significant change in circumstances.

#### *Operating Federal System Projects For Operating Year 2001*

In all years, the energy generating capability of the Federal System's hydroelectric projects depends upon the amount of water flowing through such facilities, the physical capacity of the facilities and stream flow requirements pursuant to biological opinions, and other operating limitations. Bonneville utilizes a fifty-year record of river flows based on the period from 1929-1978 for planning purposes. During this historical period, low water conditions ("Low Flows") occurred in 1936-37, median water conditions ("Median Flows") occurred in 1957-58 and high water conditions ("High Flows") occurred in 1973-74. Bonneville estimates the energy generating capability of Federal System hydroelectric projects in an Operating Year (August 1 to July 30) by assuming that these historical water conditions were to occur in that Operating Year and making adjustments in the expected generating capability to reflect the current physical capacity operating limitations and current stream flow requirements. Energy generation estimates are further refined to reflect factors unique to the subject Operating Year such as initial storage reservoir conditions.

The following table shows, for Operating Year 2001, the Federal System January capacity ("Peak Megawatts" or "Peak MW") and energy capability using Low Flows, Median Flows and High Flows. The same forecasting procedures are also used for



non-federally-owned hydroelectric projects. Thermal projects, the output of which does not vary with river flow conditions, are estimated using current generating capacity and assumed plant capacity factors.

**Operating Federal System Projects For Operating Year 2001<sup>(1)</sup>**

Project	Initial Year in Service	No. of Generating Units	January Capacity (Peak MW) <sup>(2)</sup>	Maximum Energy (aMW) <sup>(3)</sup>	Median Energy (aMW) <sup>(4)</sup>	Firm Energy (aMW) <sup>(5)</sup>
<b>United States Bureau of Reclamation Hydro Projects</b>						
Grand Coulee	1941	33	5,705	3,025	2,294	1,778
Hungry Horse	1952	4	333	142	100	77
Other Bureau Projects <sup>(6)</sup>		<u>15</u>	<u>194</u>	<u>142</u>	<u>134</u>	<u>113</u>
<b>Total Bureau of Reclamation Projects</b>		52	6,232	3,309	2,528	1,968
<b>United States Army Corps of Engineers Hydro Projects</b>						
Chief Joseph	1955	27	2,053	1,613	1,331	1,043
John Day	1968	16	2,211	1,561	1,147	801
The Dalles including Fishway	1957	24	2,074	1,032	725	515
Bonneville including Fishway	1938	20	860	606	580	429
McNary	1953	14	992	748	696	548
Lower Granite	1975	6	811	457	327	212
Lower Monumental	1969	6	768	464	339	214
Little Goose	1970	6	771	447	324	209
Ice Harbor	1961	6	589	336	203	97
Libby	1975	5	544	280	216	161
Dworshak	1974	3	417	225	179	118
Other Corps Projects <sup>(7)</sup>		<u>20</u>	<u>398</u>	<u>232</u>	<u>267</u>	<u>228</u>
<b>Total Corps of Engineers Projects</b>		<u>153</u>	<u>12,468</u>	<u>8,001</u>	<u>6,334</u>	<u>4,572</u>
<b>Total Bureau of Reclamation and Corps of Engineers Projects</b>		205	18,720	11,310	8,862	6,540
<b>Non-Federally-Owned Projects</b>						
The Columbia Generating Station <sup>(8)</sup>	1984	1	1,162	875	875	875
Packwood <sup>(9)</sup>	1964	1	30	14	10	10
Other Non-Fed Projects <sup>(10)</sup>		<u>8</u>	<u>64</u>	<u>89</u>	<u>76</u>	<u>73</u>
<b>Total Non-Federally-Owned Projects</b>		10	1,256	978	961	968
<b>Total Bonneville Contract Purchases<sup>(11)</sup></b>		N/A	<u>656</u>	<u>974</u>	<u>974</u>	<u>974</u>
<b>Total Federal System Resources</b>		<u>215</u>	<u>20,632</u>	<u>13,262</u>	<u>10,797</u>	<u>8,482</u>

Source: 1999 Pacific Northwest Loads and Resources Study, Bonneville, December 1999.

- (1) Operating Year 2001 is August 1, 2000 through July 31, 2001. Does not reflect changes arising from the 2000 Biological Opinion.
- (2) January capacity is the maximum generation to be produced under Low Flows in megawatts of capacity. January is a benchmark month for the system peaking capability because of the potential for high peak loads during January due to winter weather.
- (3) Maximum energy capability is the estimated amount of hydro energy to be produced using High Flows in average megawatts of energy.
- (4) Median energy capability is the estimated amount of hydro energy to be produced using Median Flows in average megawatts of energy.

- (5) Firm energy capability is the estimated amount of hydro energy to be produced using Low Flows in average megawatts of energy.
- (6) Other Bureau Projects include: Palisades (1957), Anderson Ranch (1950), Chandler (1956), Minidoka (1909), Black Canyon (1925) and Roza (1958).
- (7) Other Corps Projects include: Albeni Falls (1955), Big Cliff (1954), Cougar (1964), Detroit (1953), Dexter (1955), Foster (1968), Green Peter (1967), Hills Creek (1962), Lookout Point (1954) and Lost Creek (1975).
- (8) The Columbia Generating Station is a nuclear project owned by Energy Northwest. Planned efficiency improvements are expected to increase the Columbia Generating Station energy capability to 878 average megawatts when completed in Operating Year 2001.
- (9) Packwood is a hydro project owned by Energy Northwest.
- (10) Other Non-Federal Projects include the following hydroelectric and other projects: Mission Valley's Big Creek (1981), Lewis County PUD's Cowlitz Falls (1994), the City of Idaho Falls' Idaho Falls Project (1982) and the Western Generation Agency's Wauna Cogeneration Project (1996).
- (11) Bonneville Contract Purchases include: Pacific Northwest purchase contracts by Bonneville, imports to Bonneville from outside the Pacific Northwest and a small amount of non-utility generation purchased by Bonneville.

#### **Customers of Bonneville's Power Business Line**

Bonneville has power sales and related contracts with four main classes of customers: Preference Customers, DSIs, Regional IOUs and extra-Regional customers. Bonneville also sells relatively small amounts of power to several federal agencies within the Region. The revenues derived from these customers provide Bonneville with a large portion of the funds needed to pay its costs. For information regarding the relative amounts of customer revenue and other information, see the table entitled "Federal System Statement of Revenues and Expenses" under "BONNEVILLE FINANCIAL OPERATIONS — Historical Federal System Financial Data." Bonneville also earns revenues from the provision of transmission service to the foregoing and other customers. See "TRANSMISSION BUSINESS LINE — Bonneville's Transmission System."

##### *Preference Customers*

Preference Customers, which consist of qualifying publicly-owned utilities and consumer-owned electric cooperatives within the Region, are entitled to a statutory preference and priority (the "Public Preference") in the purchase of available Federal System power. These customers are eligible to purchase power at Bonneville's PF rate for most of their loads, and as a class are Bonneville's principal customer base. The Public Preference requires that Bonneville meet a Preference Customer's request for available Federal System power in preference to a competing request from a non-preference entity for the same power. In the opinion of Bonneville's Acting General Counsel, the Public Preference does not compel Bonneville to lower the offered price of uncommitted surplus Bonneville power to Preference Customers before meeting a competing request at a higher price for such uncommitted power from a non-preference entity.

In 1996, at a time when market prices for power were estimated to be near the cost of Federal System power, certain Preference Customers requested, and Bonneville agreed to enter into, new contracts or contract amendments to accommodate their desire to diversify their power supplies away from Bonneville. Under this contract re-negotiation, Bonneville agreed to somewhat reduced purchase commitments from Preference Customers through fiscal year 2001.

Under contracts that Bonneville recently executed with Preference Customers under the Subscription Strategy, Bonneville expects to increase the amount of power it currently sells to Preference Customers. See "— Power Marketing Plan for the Period After Fiscal Year 2001."

Some Regional public bodies served by Regional IOUs are now seeking to form public body utilities to qualify as Preference Customers and obtain priority access to electric power from Bonneville. These public bodies include municipalities and port districts. Under the Subscription process Bonneville received conforming requests from and signed contingent contracts with, four such entities that are in the process of organizing as new public body utilities. Under Subscription, about 75 average megawatts of firm power at the priority firm rates were reserved for such new entities.

##### *Direct Service Industrial Customers*

Bonneville contracts with DSIs within the Region for the purchase of power for their direct consumption. Bonneville currently has contracts to sell firm power to eleven separate aluminum smelting and rolling facilities that are individually owned by five companies. These aluminum DSIs consume over 95% of the power Bonneville sells to DSIs. Bonneville also has contracts to sell power to three other DSIs that produce paper or chemicals.

As directed in the Northwest Power Act, Bonneville signed power sales contracts with a number of DSIs in 1981 effective through fiscal year 2001 (the "1981 Contracts"). In 1995, several DSIs elected to curtail all or substantially all of their purchases from Bonneville (about 800 average megawatts), as permitted under their 1981 Contracts. These DSIs turned to suppliers other than Bonneville to meet their power requirements. The remaining DSIs, however, elected in 1996 to enter into new contracts ("DSI Block Sales Contracts") that committed the participating DSIs to purchase fixed amounts of power from Bonneville until September 30, 2001.

For several years prior to 1995, Bonneville's annual DSI firm loads averaged approximately 2,800 average megawatts. By contrast, Bonneville's current aggregate sales obligation to DSIs in fiscal year 2001 is about 2,000 average megawatts. Through the implementation of the Subscription Strategy, Bonneville has signed DSI contracts with eight companies to serve about 1500 average megawatts of DSI loads effective for the five years beginning October 1, 2001. See "— Power Marketing Plan for the Period After Fiscal Year 2001."

#### *Regional Investor-Owned Utilities*

All six of the Regional IOUs have signed long-term firm power sales contracts, effective through fiscal year 2001, that obligate Bonneville, upon compliance with certain notice requirements, to sell power in amounts requested by the IOUs to meet a portion of their loads in the Region. These utilities have not placed substantial loads on Bonneville under these agreements, primarily because the rate for such service would be based on the cost to Bonneville of new resources to meet such loads, rather than the imbedded cost of the low-cost Federal System generating resources. Bonneville provides firm power to Regional IOUs under contracts other than long-term firm requirements power sales contracts. Bonneville sells non-firm energy to various Regional IOUs under various agreements. Bonneville also sells substantial amounts of peaking capacity to Regional IOUs.

As part of Bonneville's Subscription Strategy, in October 2000, Bonneville entered into certain agreements with the Regional IOUs in settlement of Bonneville's statutory obligation to provide benefits under the Residential Exchange Program for specified periods beginning October 1, 2001. See "— Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Residential Exchange Program," "— Power Marketing Plan for the Period After Fiscal Year 2001" and "BONNEVILLE FINANCIAL OPERATIONS — Historical Federal System Financial Data."

#### *Exports of Surplus Power to the Pacific Southwest*

Bonneville sells and exchanges power via the Pacific Northwest-Pacific Southwest Intertie (the "Southern Intertie") transmission lines to Pacific Southwest utilities, power marketers and other entities, which use most of such power to serve California loads. These sales and exchanges are composed of firm power and non-firm energy surplus to Bonneville's Regional requirements. Exports of Bonneville power for use outside the Pacific Northwest are subject to a statutory requirement that Bonneville offer such power for sale to Regional utilities to meet Regional loads before offering such power to a customer outside the Region. However, in the opinion of Bonneville's Acting General Counsel, Bonneville is not required to reduce the rate of proposed export sales to meet a Northwest customer's request if the proposed export sale is at a higher FERC-approved rate than the Northwest customer is willing to pay. See "BONNEVILLE LITIGATION — Vanalco, Inc. v. Bonneville Power Administration ("Vanalco I")."

In addition, Bonneville's contracts for firm energy and peaking capacity sales outside the Region include, as required by the Regional Preference Act, recall provisions that enable Bonneville to terminate such sales, upon advance notice, if needed to meet Bonneville customers' power requirements in the Region. With certain limited exceptions, Bonneville's sales of Federal System power out of the Region are subject to termination on 60 days' notice in the case of energy and on 60 months' notice in the case of peaking capacity. These rights help Bonneville assure that the power needs of its Regional customers are met. Power exchange contracts are not required to contain the Regional recall provisions.

In 1995, in view of the Regional load diversification away from Bonneville that was then occurring, Congress enacted a law that authorized Bonneville to sell for export out of the Region a limited amount of power free to a degree from the Regional Preference recall rights. Bonneville entered into a number of such excess federal power contracts that have remaining terms requiring Bonneville to export power into the next rate period. Bonneville does not expect to have substantial new amounts of such excess federal power to sell during the five-year rate period beginning October 1, 2001. See "BONNEVILLE LITIGATION — M-S-R Public Power Agency, *et al.*, v. Bonneville Power Administration."

Pacific Southwest utilities typically account for the greatest share of purchases of non-firm energy from Bonneville and sales of non-firm energy account for the greatest share of revenues from Bonneville's exports. The amount of non-firm energy that Bonneville has available to export depends on precipitation and other power supply factors in the Northwest, the available transmission capacity of the Southern Intertie, the attributes of restructured power markets in the Pacific Southwest and other factors that may constrain exports notwithstanding the availability of power.

While Bonneville designs its power rates, including its rates for out-of-Region power sales, to recover its costs, it does so with flexible price levels that enable Bonneville to make additional sales in a competitive marketplace. Revenues that Bonneville obtains from exporting firm power and non-firm energy out of the Region depend on market conditions and the resulting prices. These revenues are affected by the weather and other factors that affect demand in the Pacific Southwest and the cost and availability of alternatives to Bonneville's power. The cost of alternative power is frequently dependent on other electric energy suppliers' resource costs such as the cost of hydro, coal, oil and natural gas-fired generation. Bonneville believes that if its power sales in the Region were to decline, any resulting surpluses of power could be sold to the Pacific Southwest. Such sales may be limited, however, by Southern Intertie capacity and other factors.

With the load diversification of Bonneville's Regional customers in 1995 and 1996, Bonneville had substantially greater amounts of surplus firm electric power to market outside the Pacific Northwest. Bonneville entered into a number of longer term surplus firm power exports. As power prices in California and the Northwest subsequently rose, Bonneville's surplus power sales revenues experienced a sharp increase that was sustained and enhanced by continued good water conditions in the Columbia River Basin and resulting increased non-firm energy sales. However, Bonneville now expects that its firm surplus power sales, and

revenues derived therefrom, will diminish in the period after October 1, 2001 because Subscription purchase commitments will leave Bonneville with little if any surplus firm power available to market. Bonneville, however, will meet obligations to export surplus firm power under agreements that Bonneville entered into prior to the Subscription process.

### **Certain Statutes and Other Matters Affecting Bonneville's Power Business Line**

#### *Bonneville's Obligation to Meet Certain Firm Power Requirements in the Region*

The Northwest Power Act requires Bonneville to meet certain firm loads in the Region placed on Bonneville by contract by various Preference Customers and Regional IOUs. Bonneville does not have a statutory obligation to meet all firm loads within the Region or to enter into contracts to sell any power directly to a DSI after current contracts expire at the end of fiscal year 2001.

Under the Northwest Power Act, when requested, Bonneville must offer to sell to each eligible utility, which includes Preference Customers and Regional IOUs, sufficient power to meet that portion of the utility's Regional firm power loads that it requests Bonneville to meet. The extent of Bonneville's obligation to meet the firm loads of a requesting utility is determined by the amount by which the utility's firm power loads exceed (1) the capability of the utility's firm peaking capacity and energy resources used in operating year 1979 to serve its own loads; and (2) such other resources as the utility determines, pursuant to its power sales contract with Bonneville, will be used to serve the utility's firm loads in the Region. If Bonneville has or expects to have inadequate power to meet all of its contractual obligations to its customers, certain statutory and contractual provisions allow for the allocation of available power.

As required by law, Bonneville's power sales contracts with Regional utilities contain provisions that require prior notice by the utility before it may use, or discontinue using, a generating resource to serve such utility's own firm loads in the Region. The amount of notice required depends on whether Bonneville has a firm power surplus and whether the Regional utility's generating resource is being added to serve or withdrawn from serving the utility's own firm load. These provisions are designed to give Bonneville advance notice of the need to obtain additional resources or take other steps to meet such load.

Some of Bonneville's Preference Customers and all of its Regional IOU customers have generating resources, which they may use to meet their firm loads in the Region. Under requirements power sales contracts effective through fiscal year 2001, each of these customers must identify annually the amount of its loads it will meet with its own resources, thereby providing Bonneville with advance notice of the need to add resources or take other steps to meet these loads. These provisions are also included in all Subscription Agreements under which Bonneville has a load following obligation. In connection with Subscription, Bonneville tendered proposed requirements power sales contracts to each of the Regional IOUs for specified periods following the expiration of the IOUs' current requirements contracts at the end of fiscal year 2001. All of the Regional IOUs elected not to execute such agreements.

As required by law, Bonneville's power sales contracts with Regional utilities also include provisions that enable Bonneville, after giving notice, to allocate Federal System power, in accordance with statutory provisions, among its customers if Bonneville determines that it will have insufficient power, on a planning basis, to meet its firm load obligation. Bonneville does not anticipate experiencing a shortage of firm power that would require an allocation pursuant to these provisions. Bonneville's Subscription Strategy defines Bonneville's power-marketing program for the next five to ten years and seeks to extend the benefits of low-cost Federal System power widely throughout the Region. Among other things, the Subscription Strategy is intended to assure that Bonneville meets its statutory load obligations in the Region and avoids a resource planning insufficiency that would lead Bonneville to propose an allocation of Federal System power among its Regional customers. See "— Power Marketing Plan for the Period After Fiscal Year 2001."

Although Bonneville has contracts to sell firm power to extra-Regional customers, Bonneville is not required by law to offer contracts to meet these customers' firm loads. Similarly, Bonneville provides firm power to certain federal agencies within the Region; however, Bonneville is not required by law to offer to meet these agencies' firm loads.

Federal System Load/Resource Balance. In order to determine whether Bonneville will have to obtain additional electric power resources on a planning basis, and to determine the amount of firm power that Bonneville may have to market apart from committed loads, Bonneville periodically estimates the amount of load that it will be required to meet under its contracts.

Bonneville's loads and resources are subject to a number of uncertainties over the coming years. Among these uncertainties are: (i) the level of loads and types of loads placed on Bonneville in the Subscription contract and current power rate development process; (ii) the amount of augmentation purchases that Bonneville will have to make to meet the ultimate Subscription loads; (iii) future non-power operating requirements from future biological opinions or amendments to biological opinions; (iv) the availability of new generation resources or contract purchases available in the Pacific Northwest to meet future Regional loads; (v) changes in the regulation of power markets at the wholesale and retail level; and (vi) the overall load growth from population changes and economic activity within the Region.

Bonneville currently estimates that its loads for the five years beginning October 1, 2001 (pre-existing obligations during such period plus anticipated Subscription loads) could exceed Federal System generation resources. Bonneville has made power purchases in the market to address a portion of this potential shortfall, but expects that it may have to purchase additional power sufficient to meet up to about 2,000 average megawatts of load, depending on how much Subscription load is ultimately placed on Bonneville. The exact amount of load Bonneville will be required to serve beginning October 1, 2001 will not be fully known until

at least 30 days after FERC releases an interim order initially approving Bonneville's power rates applicable to such Subscription sales for the five years beginning October 2001. Such order is anticipated to be released in September 2001. In addition, the Subscription customers have another opportunity to terminate their Subscription contracts if FERC or the United States Court of Appeals for the Ninth Circuit, which reviews FERC actions on Bonneville's rates, subsequently remands Bonneville's proposed power rates because they under-recover Bonneville's costs and Bonneville publishes a record of decision that adopts higher rates for such period. Although Bonneville faces uncertainty with regard to the exact ultimate load it will be required to serve, Bonneville believes that its Subscription power rates will be below projected average market prices and will induce Regional utility customers representing approximately 7,600 average megawatts not to exercise their right to terminate their Subscription contracts upon reviewing Bonneville's final proposed rate levels. See "— Power Marketing Plan for the Period After Fiscal Year 2001."

Bonneville's Authority to Add Resources. In order to meet the foregoing power sales obligations, Bonneville may have to obtain electric power from sources other than the Federal System hydroelectric projects, existing contract purchases and projects, such as the Columbia Generating Station, the capability of which Bonneville has previously acquired. By law, Bonneville may not own or construct generating facilities. However, the Northwest Power Act authorizes Bonneville to acquire resources to serve firm loads pursuant to certain procedures and standards set forth in the Northwest Power Act. "Resources" are defined in the Northwest Power Act to mean: (1) electric power, including the actual or planned electric power capability of generating facilities; or (2) the actual or planned load reduction resulting from direct application of a renewable resource by a consumer, or from conservation measures. "Conservation" is defined in the Northwest Power Act to mean measures to reduce electric power consumption as a result of increased efficiency of energy use, production or distribution.

Bonneville's statutory responsibility to meet its firm power contractual obligations may lead Bonneville to acquire additional power and conservation resources. The extent to which Bonneville does so will depend on the effects of the competitive wholesale electric power market, load growth and other factors.

The acquisition of resources under the standards and procedures of the Northwest Power Act, however, is not the sole method by which Bonneville may meet its power requirements. Other methods are available. These include, but are not limited to: (1) exchange of surplus Bonneville peaking capacity for firm energy; (2) receipt of additional power from improvements at federally and non-federally owned generating facilities; and (3) purchase of power under the Transmission System Act for periods of less than five years.

Bonneville's resource acquisitions under the Northwest Power Act are guided by a Regional conservation and electric power plan (the "Power Plan") prepared by the Pacific Northwest Electric Power and Conservation Planning Council (the "Council"). The governors of the states of Washington, Oregon, Montana and Idaho each appoint two members to the Council. The Power Plan sets forth guidance for Bonneville regarding implementing conservation measures and developing generating resources to meet Bonneville's Regional load obligations.

Bonneville's Resource Strategies. Increased competition, deregulation in the electric power market and loss of hydropower flexibility due to ESA constraints have major implications for Bonneville's resource acquisition strategy. Given long-term load placement uncertainty, any resource investment that involves irrevocable, high fixed costs over a period longer than Bonneville's contracted load obligation is much riskier than it would have been in the past. Bonneville believes that in general new resources should have fixed costs that can be recovered over a shorter period, should provide power in the times of the year when power is required, should be capable of being displaced when hydroelectric power is available and should have costs that can be offset when hydroelectric power is available. Therefore, Bonneville's current resource strategy in general is to acquire resources that can accommodate yearly fluctuations in Bonneville loads and that add flexibility to the system.

Short-term (less than five year) purchases are the only type of resource that meets this resource acquisition strategy. Short-term purchases almost always will fit these conditions better than other resources, including long-term combustion turbine resources, because purchases generally do not involve incurring high, long-term fixed costs.

One risk associated with a short-term purchase strategy is the potential for high spot market prices. In general, spot market prices are high when energy demand is strong and coal and natural gas prices are high, although such prices can also rise in dry years when there is comparatively little hydroelectric power available. Since Bonneville's resources are predominantly hydro-based while most other West Coast producers are natural gas-based, Bonneville in general is at a competitive advantage when coal and gas prices are high.

A short-term purchase strategy can lead to fluctuating revenue requirements. In dry years, Bonneville's revenue requirement would increase as it would be forced to spend a significant amount of money for short-term purchases to meet loads. In wet years, purchase requirements can be significantly reduced as Bonneville will meet more of its load with non-firm hydroelectric power. Dependence on short-term purchases also may make access to transmission a more important issue than reliability of generation.

Short-term purchase resource strategy is complemented by two other opportunities. First, Bonneville is adding environmentally preferred, so-called "green power" resources. The bulk of these additional purchases is likely to be from wind projects because of their relatively low cost and the expectation that the new wind projects can become operational within 24-30 months of a decision to proceed. While it is possible that Bonneville could acquire up to about 1000 megawatts of wind resources, the amount of wind energy resources that Bonneville ultimately purchases is uncertain and will depend on the outcome of studies in

progress that will assess, among other things, the impact of such an intermittent resource on power system operations. If there is a significant adverse impact, then wind purchases may be limited to a far lesser amount. With regard to green power resources, Bonneville has agreed to acquire a total of approximately 34 megawatts from three wind energy projects in Wyoming and 15 kilowatts from a solar photovoltaic project in southern Oregon. These facilities are in operation. Bonneville has contracted to purchase 49.9 megawatts from a geothermal project under construction in northern California and is considering additional purchases from renewable energy resources. Second, Bonneville will encourage electric power conservation measures by providing a .5 mills per kilowatt hour rate discount to its Preference Customers that implement conservation measures. The discounts should result in about \$40 million per year (during the 2002-2006 rate period) being spent on conservation and renewable resource initiatives by Preference Customers. In addition, Bonneville will purchase at least 100 average megawatts of conservation savings as part of its augmentation strategy. Any such resource development should lessen Bonneville's reliance on spot market power purchases.

Bonneville believes that this resource strategy over the long-term is stable and is the most cost-effective strategy today given resource lead times, product demand uncertainty, and hydro system variability. In addition, the duration of Bonneville's recently executed Subscription power sales agreements, which have terms of five and ten years, means that Bonneville is not necessarily assured that it will have long-term committed loads to support higher incremental cost, long-term capital investments in resources having expected useful lives of 15 to 20 years or more. Relying on short-term purchases for the time being does not necessarily preclude other resource acquisitions, if needed, sometime in the future.

Under the Subscription Strategy, Bonneville expects to assume a substantial load obligation that will require Bonneville to augment the Federal System with additional power purchases, depending on the exact outcome of the Subscription process. Consistent with the foregoing resource strategy, Bonneville expects to rely primarily on short-term (five years or less) purchase agreements to meld with firm power and nonfirm energy from the Federal System to meet these additional firm loads. See "— Power Marketing Plan for the Period After Fiscal Year 2001." In executing its resource augmentation strategy to meet Subscription loads, Bonneville has entered into short-term system power purchases, and is negotiating a number of additional short-term purchases and reductions of certain power sale obligations. Bonneville's activities in this regard are currently being undertaken with some caution given that Bonneville will not know the extent of its resource augmentation needs for several months. It is possible that Bonneville may need to purchase substantially less power than was expected several months ago. In addition, power prices are at such high levels that purchasing an abundance of power at such prices could prove imprudent in the future if prices weaken.

#### *Residential Exchange Program*

The Northwest Power Act created the Residential Exchange Program to extend the benefits of low-cost federal power to all residential and small farm power users in the Region. In effect, the program has resulted in cash payments by Bonneville to exchanging utilities, who are required to pass the benefit of the cash payments through in their entirety to eligible residential and small farm customers.

Under the Residential Exchange Program, Bonneville "purchases power" offered by an exchanging utility at its "average system cost," which is determined by Bonneville through the application of a methodology limiting the costs that may be included in an exchanging utility's average system cost to the production and transmission costs that an exchanging utility incurs for power. Bonneville then offers an identical amount of power for "sale" to the utility for the purpose of resale to the exchanging utility's residential users. In reality, no power changes hands — Bonneville makes cash payments to the exchanging utility in an amount determined by multiplying the exchanging utility's eligible residential load times the difference between the exchanging utility's average system cost and Bonneville's applicable PF rate, if such PF rate is lower. See "MATTERS RELATING TO THE POWER AND TRANSMISSION BUSINESS LINES — Bonneville Ratemaking and Rates." The net costs of the Residential Exchange Program are shown in the Federal System Statement of Revenues and Expenses set forth under "BONNEVILLE FINANCIAL OPERATIONS — Historical Federal System Financial Data."

In 1996, Bonneville and the exchanging utilities entered into settlement agreements ending on June 30, 2001 under which net exchange program expenses declined to \$64 million in both fiscal years 1999 and 2000. Under the Subscription process, beginning in fiscal year 2001, Bonneville's Residential Exchange Program obligations will be satisfied under individual settlement agreements with each of the exchanging IOUs. See "— Power Marketing Plan For The Period After Fiscal Year 2001."

#### *Fish and Wildlife*

The Northwest Power Act directs Bonneville to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. Bonneville makes expenditures and incurs other costs for fish and wildlife consistent with the Northwest Power Act and the Council's Columbia River Basin Fish and Wildlife Program (the "Council Program"). In addition, in the wake of certain listings of fish species under the ESA as threatened or endangered, Bonneville is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions prepared by the NMFS and the United States Fish and Wildlife Service ("FWS") in furtherance of the ESA.

Bonneville typically funds fish and wildlife mitigation through several mechanisms. Since the creation of the Federal System, Bonneville has repaid the United States Treasury the share of the costs of mitigation by the Corps and the Bureau that is allocated by law or pursuant to policies promulgated by FERC's predecessor to the projects' power purpose (as opposed to other

project purposes such as irrigation, navigation and flood control). These measures mitigate for the impact of construction and operation of hydroelectric dams of the Federal System.

Bonneville also implements and funds measures proposed in the Council Program, which the Council periodically amends. The Council Program calls for a variety of mitigation measures from habitat protection to mainstem Columbia River and Snake River flow targets. When such measures affect the operation of the Federal System and force Bonneville to purchase power to fulfill contractual demands or to spill water and thereby forgo generation of electricity, for instance, those financial losses are counted as measures funded by Bonneville. While many of the measures in the Council's Program overlap or otherwise relate to measures undertaken in connection with the ESA, the Council's Program measures, especially those designed to benefit species not listed under the ESA, are in addition to ESA-directed measures.

As noted above, Bonneville, the Corps and the Bureau are also subject to the ESA. To a great extent, compliance with the ESA determines how the Federal System is operated for fish and dominates most fish and wildlife planning and activities, notwithstanding the Council's Program. The listings have resulted in major changes in the operation of the Federal System hydroelectric projects and a substantial loss of flexibility to operate the Federal System for power generation. Apart from changes in Federal System operations that adversely affect power generation, compliance with ESA has also resulted in additional Federal System costs in the form of non-operational measures funded from Bonneville revenues.

The Endangered Species Act. Among other things, the ESA requires that federal agencies such as Bonneville, the Corps and the Bureau, take no action that would jeopardize the continued existence of listed species or result in the destruction or adverse modification of their critical habitat. Since 1991, NMFS has listed as threatened or endangered under the ESA 12 species of anadromous fish (salmon and steelhead) that are affected by operation of the Federal System. It is possible that other species may be listed or proposed for listing in the future. In general, the effect of the listing of the fish species under the ESA, and certain other operating requirements resulting from Bonneville's fish and wildlife obligations under the Northwest Power Act, is that, except in emergencies, the Federal System is now operated for power production after meeting needs for flood control and the protection of ESA-listed fish.

In connection with the listing of these species, NMFS has prepared certain biological opinions addressing the listed species. The biological opinions provide information that Bonneville, the Corps and the Bureau can use to ensure that their actions with respect to the operation of the Federal System satisfy the ESA. By acting consistently with the biological opinions, Bonneville, the Corps and the Bureau generally demonstrate that jeopardy to listed species is being avoided. Specifically, Bonneville, the Corps and the Bureau have chosen to implement certain specified measures recommended in the biological opinions as being necessary to avoid jeopardy. The adequacy of the biological opinions and their implementation are subject to, and have been subjected to, judicial review.

1995 Biological Opinion. In 1995, NMFS issued the 1995 Biological Opinion with respect to several listed species of salmon, as supplemented in 1998 and early 2000 to address later-listed species of salmon and steelhead. Operation of the Federal System consistent with the 1995 Biological Opinion and its supplements has resulted in two principal changes in power generation. First, depending on water conditions, water that would otherwise be run through turbines to generate electricity may be spilled to aid in downstream fish migration without producing electric energy. Second, less water may be stored in the upstream reservoirs for fall and winter electric generation because more water is committed to use in the spring and summer to increase flows to aid downstream fish migration.

Consequently, there is relatively less water available for hydroelectric generation in the fall and winter and more water available in the spring and summer. Because of these changes, under certain water conditions, Bonneville has had to, and may have to, purchase additional energy for the fall and winter to meet load commitments than would otherwise have been met with the hydroelectric system. In addition, the flow changes have meant that Bonneville has had comparatively more surplus energy to market in the spring and summer. Bonneville estimates that the impact of operating the Federal System in conformance with the biological opinions and the Council Program, as in effect as of the beginning of fiscal year 2000, has decreased Federal System generation capability by about 700 average megawatts, assuming average water conditions, from levels immediately preceding the issuance of the first biological opinion in 1995.

While in the last two years the seasonal variance in market prices of electric power has become substantially less pronounced, historically, power prices in the Northwest have been much higher in the winter because of higher regional heating requirements and lower in the spring and summer as those requirements abated. Thus, flows in aid of fish have resulted in a reduction in the amount of power generally, and reduced the amount of power in high winter load portions of the year when power has typically had greater economic value.

2000 Biological Opinion. On December 21, 2000, NMFS promulgated a new biological opinion ("2000 Biological Opinion") that supersedes all previous opinions including the 1995 Biological Opinion and its 1998 and 2000 supplements, issued by NMFS concerning the Federal System hydroelectric dams. The 2000 Biological Opinion has been coordinated with a FWS December 20, 2000 biological opinion relating to certain other species and they are intended to be mutually consistent. The 2000 Biological Opinion includes a number of measures that will affect Federal System operations and dam configurations in order to improve anadromous fish passage survival through the hydro system. In addition, the 2000 Biological Opinion calls for other measures from increased spill and additional flow requirements to extensive Columbia River Basin-wide habitat protections and enhancement efforts and fish hatchery reforms.



The costs of complying with the 2000 Biological Opinion come in two forms; direct fish and wildlife expenses and increased power purchase costs and lost power sales as a result of foregone power generation. Bonneville's preliminary estimate of complying with the 2000 Biological Opinion is that it will increase Bonneville's total direct fish and wildlife costs to about \$352 million per year on average during fiscal years 2002-2006, exclusive of the impacts of lost power revenues and increased power purchases. Bonneville estimates that the 2000 Biological Opinion will also further decrease the generation capability of the Federal System by about 60 average megawatts (assuming average water conditions), in addition to prior reductions from previous biological opinions.

In developing its proposed rate amendment, Bonneville has assumed that the cost of implementing the 2000 Biological Opinion will fall between \$428 million and \$780 million per year by fiscal year 2006, inclusive of both direct and indirect costs. The actual cost to Bonneville could be substantially higher. This range also excludes any costs associated with potential dam breaching.

Of 13 biological opinion scenarios around which Bonneville developed its July 2000 Rate Filing was one that would have called for breaching four Federal System Snake River dams and implementing an aggressive habitat program to improve production and survival of anadromous fish in the Columbia River Basin. The direct cost of breaching the dam would be very high. In addition, the loss of the generation from the dams would substantially affect the power generation capability of the Federal System, reducing current expected output by approximately 1200 average megawatts under average water assumptions. The 2000 Biological Opinion does not recommend implementation of dam breaching. However, NMFS implies that if measurable improvements in survival of listed fish are not seen relatively soon, it may reinitiate formal consultations under the ESA with Bonneville, the Corps and the Bureau and require that they pursue authority to breach the four dams. In the opinion of the Acting General Counsel to Bonneville, Congress would be required to enact legislation authorizing breaching of the dams.

The 2000 Biological Opinion sets forth a series of checkpoints to test the efficacy of programs identified therein to aid listed fish species. The 2000 Biological Opinion anticipates full implementation by 2010. In calendar years 2003, 2005 and 2008, NMFS will issue reports documenting whether the reasonable and prudent alternative measures identified in or to be developed under the 2000 Biological Opinion are on track or meet expectations. The report in 2003 will evaluate overall implementation of the reasonable and prudent alternative measures. The reports in year 2005 and year 2008 will evaluate whether the measures are (a) failing, (b) acceptable, or (c) between failing and acceptable, with respect to (i) whether rolling one- and five-year plans for program implementation are on track, (ii) whether hydro performance (measures to improve fish passage past dams) and offsite mitigation (improvement of hatcheries, habitat and fish harvest) measures are on track, and (iii) whether the population status of listed species is on track. Under the 2000 Biological Opinion, NMFS indicates that the 2008 checkpoint in particular will focus on performance more than under the earlier checkpoints.

The 2000 Biological Opinion provides that if NMFS concludes that there is a failure in these respects it will recommend whether to continue with the reasonable and prudent alternatives described in the 2000 Biological Opinion, revise them and/or recommend that the dam operators seek new legal authority from Congress. The new authority to be sought could include authority to breach dams, among other authorities. If such authority were not forthcoming, NMFS indicates that it would then seek to reinitiate consultation pursuant to the ESA with the Corps and the Bureau and Bonneville over their hydroelectric project operations and recommend new reasonable and prudent alternative measures. Under consultation pursuant to the ESA, NMFS would make specific individual determinations whether significant actions or proposed actions relating to operation of the Federal System hydroprojects result in jeopardy to listed species.

The 2000 Biological Opinion and the 2000 FWS biological opinion supersede prior biological opinions. Litigation with respect to the prior biological opinions has ended. It is possible that the new biological opinions will prompt additional litigation and that litigation could result in changes to the new biological opinions and lead to amendments to the measures included therein.

Interagency Memorandum of Agreement Regarding Fish Costs. Prior to the ESA listings, Bonneville's annual fish and wildlife total expenditures grew from \$20 million in 1981 to \$150 million in 1991. After the issuance of the first of the biological opinions affecting Federal System operations, Bonneville's fish and wildlife costs rose to \$399 million in 1995. In late fiscal year 1995, compliance with the then newly issued 1995 Biological Opinion and other biological opinions then in effect was estimated to increase Bonneville's total fish and wildlife costs to between \$605 million and \$640 million annually through 2006. In October 1995, the Clinton Administration and members of the Northwest Congressional delegation agreed upon the basic framework for fiscal years 1996-2001 to provide adequate funds to implement the biological opinions, to meet Bonneville's other fish and wildlife obligations, to provide a stable budget for Bonneville to implement its fish and wildlife obligations and to provide rate certainty to Bonneville ratepayers.

In September 1996, several federal agencies executed an Interagency Memorandum of Agreement ("Interagency MOA") to implement the general agreement among the northwest Congressional delegation and the Clinton Administration. The Interagency MOA is effective through the end of fiscal year 2001. It includes a six-year funding plan for Bonneville of \$252 million annually for fish and wildlife measures, plus a range of financial impact (\$90 million to \$280 million annually, with an expected average of \$180 million annually) for lost revenues and increased power purchases to Bonneville resulting from operations of the Federal System for fish. The fish and wildlife funding obligation encompasses virtually all of Bonneville's anticipated fish and wildlife costs during the term of the Interagency MOA. The total of fish and wildlife program costs and financial impacts from operations was projected to be approximately \$435 million per year on average during the term of the Interagency MOA. Bonneville estimates that its total fish and wildlife program costs were \$407 million and \$393 million in fiscal years 1999 and 2000, respectively.

Additional Agreements in Connection with the Interagency MOA. Additional agreements reached in October 1995 among the U.S. Treasury, the Office of Management and Budget, DOE and others provide for certain credits that will offset Bonneville's fish and wildlife cost referred to in the preceding paragraph. Under these documents, the Clinton Administration agreed that Bonneville would implement a previously unused provision of the Northwest Power Act, section 4(h)(10)(C). This provision allows Bonneville to exercise its Northwest Power Act authorities to implement fish and wildlife mitigation on behalf of all of a project's Congressionally authorized purposes, such as irrigation, navigation, power and flood control, then recoup (*i.e.*, take a credit for) the portion in excess of that allocated to power purposes. The agreement directs Bonneville to recoup these expenses by reducing its payments to the United States Treasury in an amount equal to the non-power share of the mitigation. The agreement also directs Bonneville to recoup replacement power costs and direct program costs. The amount of such recoupments in fiscal year 2000 was \$60 million. These credits reduce costs that Bonneville would otherwise have to recover from revenues, although such recoupments are taken against Bonneville's lowest priority financial obligation, its payments to the U.S. Treasury.

The Clinton Administration also agreed to establish a "Contingency Fund" to offset extraordinary revenue impacts from operations were there to occur certain adverse court rulings relating to biological opinions, specified poor water conditions and costs resulting from natural disasters or fishery emergencies. The source of the Contingency Fund is amounts Bonneville had theretofore expended but had not recouped under section 4(h)(10)(C) against its payments to the U.S. Treasury. Bonneville estimates there are approximately \$325 million in costs for past mitigation that have not been recouped against its payments to the U.S. Treasury. Bonneville has not had to request access to the Contingency Fund.

1998 Guidance Regarding Fish Costs. In September 1998, the Clinton Administration announced a fish funding proposal ("1998 Guidance") that would continue through fiscal year 2006 certain features of the Interagency MOA. First, the 1998 Guidance permits Bonneville to continue to receive recoupments against its U.S. Treasury repayment obligations in the amount of certain fish and wildlife costs it incurred. Second, the 1998 Guidance accepts that Bonneville will set rates for the five-year rate period beginning fiscal year 2002 to achieve no lower than an 80% probability of meeting its federal repayment responsibilities in full over such period. This goal is similar to the repayment probability guidance in the Interagency MOA. See "—Power Marketing Plan for the Period After Fiscal Year 2001."

Council's Fish and Wildlife Program. The Council is preparing to adopt an amendment to the current Council Program, which was issued in 1995. One of the Council's stated goals is to increase total adult salmon and steelhead runs above Bonneville Dam by 2025 to an average of five million annually. This goal is intended to support harvest by Indian tribes who have treaty fishing rights in the Columbia River basin, and non-tribal harvest. The draft Program amendment focuses on an approach to rebuilding fish and wildlife populations in the Columbia River Basin, in a manner similar to that included in the 2000 Biological Opinion. The estimated costs to Bonneville of the expected Council Program were included in Bonneville's power rate case assumptions for the period fiscal years 2002-2006.

Bonneville can provide no assurance as to the scope or cost of future measures to protect fish and wildlife affected by the Federal System, including measures resulting from current and future listings under the ESA, current and future biological opinions or amendments thereto, future Council Fish and Wildlife Programs or amendments thereto, or litigation relating to the foregoing.

#### *Power Marketing Plan for the Period After Fiscal Year 2001*

General. All of Bonneville's 1996 settlements of its Residential Exchange Program obligations and all of Bonneville's contracts (including amended and replacement contracts) under which it currently sells power to Preference Customers and DSIs expire at the end of or shortly before the end of fiscal year 2001.

Under the Subscription Strategy, Bonneville has entered into Subscription contracts through which it has contracted to sell its available firm power to Regional customers. While Bonneville and its customers have entered into the foregoing Subscription contracts, the ultimate amount of load Bonneville will become obligated to meet remains uncertain because the Subscription contracts have provisions allowing customers to terminate such contracts within 30 days of the release by FERC of an interim order initially approving Bonneville's power rates applicable to such Subscription sales for the five years beginning October 1, 2001. Bonneville expects that FERC will grant such an interim order by September 30, 2001. In addition, the Subscription customers have another opportunity to terminate their Subscription contracts if FERC or the United States Court of Appeals for the Ninth Circuit, which reviews FERC actions on Bonneville's rates, subsequently remands Bonneville's proposed power rates because they under-recover Bonneville's costs and Bonneville publishes a record of decision that adopts higher rates for such period. The customers who do not opt out after review of the final rate proposals would be committed to purchase as provided in their Subscription contracts.

Preference Customer Loads. Bonneville proposes to make approximately 6,600 average megawatts of power available to Preference Customers. This amount is notably more than the approximately 4,300 average megawatts Bonneville is currently providing to meet such loads. This increase reflects intervening load growth, decrements in generation resources used by such customers to meet their own loads, and decisions by the customers to reverse the load diversification away from Bonneville that such customers obtained in 1996.

Under the Subscription Strategy, Bonneville has entered into contracts with 135 Preference Customers under which such customers have committed, subject to certain conditions, to purchase defined types of power products: Core Subscription Products and Customized Subscription Products, including Slice of the System Products. With the exception of about eight contracts, which have terms of five years, the foregoing agreements have terms of ten years.

Core Subscription Products include traditional full requirements service, partial requirements service and fixed block sales. Full requirements customers accept constraints on their ability to shape their purchases from Bonneville for any reason other than following variations in consumer load. Partial requirements service is made available to Preference Customers who requested firm power load requirements service but who also wanted some flexibility to shape their purchases from Bonneville to optimize their own resource operations. Bonneville has contracted with about 105 Preference Customers to meet about 3000 average megawatts of their loads through agreements that have load-following features.

Bonneville has also entered into certain contracts with about 30 Preference Customers to provide a firm power service known as Slice of the System. Slice of the System is a power sale that by formula has approximately the same generation shape over an operating period as the Federal System. In general, the customer will receive an amount of power equal to a fixed percentage of Federal System output in return for payments to Bonneville equal to that percentage multiplied by the periodically determined revenue requirements of Bonneville's Power Business Line, less certain excluded costs. Under Bonneville's February 2001 Proposed Amendment, Bonneville expects such customers to pay a portion of the cost of some additional short-term power purchases that Bonneville commits to in order to meet its Subscription sales obligations. Bonneville would not have any specific load-following obligation under the Slice of the System product.

Bonneville has entered into Slice of the System agreements having a total sales obligation of the equivalent of 2000 average megawatts for the ten years commencing October 1, 2001. These contracts contain provisions that allow participating customers to cancel their purchases of the Slice of the System product and purchase specific Core Subscription Products within thirty (30) days of the release by Bonneville of a record of decision describing its final proposed rate levels. Bonneville expects to publish the record of decision in June 2001.

Bonneville has also contracted to provide certain Preference Customers with about 1600 average megawatts of fixed blocks of firm power ("Block Sales") from the Federal System. Under these Block Sales, Bonneville agrees to provide power without regard to the actual generating characteristics of the Federal System at the time Bonneville must tender the power. Block Sales would be provided for a fixed amount of power and the customer would be obligated to pay for such power if tendered by Bonneville.

Residential Exchange Program Obligations. As part of Subscription, Bonneville and the six Regional IOUs participating in the Residential Exchange Program have entered into one five-year contract and five ten-year contracts that settle Bonneville's statutory Residential Exchange Program obligations during such periods. For the five years beginning October 1, 2001, Bonneville expects to satisfy this obligation in part through direct sales of 1000 average megawatts of firm power to the IOUs for the benefit of their residential and small farm loads in the Region. The rate for such service is proposed to be similar to Bonneville's lowest available requirements service rate, the PF Rate. All of Bonneville's power provided in settlement of the Residential Exchange Program will be "flat," meaning without shaping for seasonal or daily peak requirements. Bonneville will also provide cash payments to the IOUs for the benefit of about 900 average megawatts of their residential and small farm load in the Region, based on the difference between a market price of power set in Bonneville's rate case and Bonneville's lowest available requirements service rate. Bonneville expects that these payments will amount to about \$148 million per year on average over the five years beginning October 1, 2001. See "— Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Residential Exchange Program."

For the five-year period after fiscal year 2006, Bonneville expects to meet its Residential Exchange settlement obligations in full through actual provision of about 2200 average megawatts of electric power. Bonneville believes it will have additional power available to meet this increased obligation from the expiration of other power sales obligations. Nonetheless, Bonneville negotiated default provisions for the payment of monetary benefits to the extent that Bonneville becomes unable to provide the full 2200 average megawatts of power in such period.

DSI Loads. Under the Subscription Strategy, Bonneville has contracted with eight DSI companies to sell an aggregate amount of approximately 1500 average megawatts to serve 14 separate industrial facilities through the five years beginning October 1, 2001. Over 95% of these sales will be to aluminum smelting or rolling facilities. This obligation will be "flat," meaning without shaping for seasonal or daily peak requirements.

The new DSI power sales contracts have terms that limit the participating DSIs' ability to curtail purchases and require that the DSIs pay for the power if it is tendered by Bonneville. Under these new agreements, if a DSI were unable or unwilling to take such power to operate its facilities, Bonneville will re-market the power and apply the proceeds to offset the related DSI's payment obligation to Bonneville. In the event that re-marketing proceeds are less than the amounts owing Bonneville under the DSI contract, the DSI will remain obligated to pay Bonneville the differential. In the event that re-marketing proceeds exceed the amounts due to Bonneville by the DSI, Bonneville would retain the excess proceeds as well.

Subscription Risk Management. Bonneville believes that its ability to recover power costs is and will be a function of several key risks: (i) the level and volatility of market prices for electric power in western North America, which define the cost of power Bonneville purchases to meet commitments that exceed Federal System resources; (ii) water conditions in the Columbia River drainage, which determine the amount of power Bonneville has to sell and its economic value and the amount of power it has to purchase in order to meet its commitments; (iii) changes in fish protection requirements, which could be the source of substantial additional expense to Bonneville and could further affect the amount and value of hydroelectric energy produced by the Federal System; and (iv) operating costs, generally.

The ability to manage risk is measured by the U.S. Treasury payment probability. Statutes defining priority of payments dictate that Bonneville's Treasury payments be made after other payment obligations are satisfied. Therefore, the probability that Bonneville can pay Treasury is a key indicator of Bonneville's overall cost recovery potential. Under repayment probability criteria from the Clinton Administration, beginning fiscal year 2002, Bonneville is to set rates to obtain no less than an 80% probability of full and timely U.S. Treasury repayments over the five-year rate period. Bonneville believes that by using a combination of the following tools, among other things, its proposed rates (including the February 2001 Proposed Amendment) for fiscal years 2002-2006 would meet an 83% to 86% probability of full and timely U.S. Treasury repayments over the five-year rate period. See "— Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Fish and Wildlife."

To meet its risk targets, Bonneville will employ several tools. It will continue to implement cost reductions and manage its costs. It will continue to employ certain credits allowed by the Northwest Power Act against Bonneville's U.S. Treasury payments. The credits are an offset to U.S. Treasury payments for certain fish and wildlife expenditures Bonneville makes each year that are not related to the hydropower system. It will continue to rely on availability of the Contingency Fund (currently \$325 million). See "— Certain Statutes and Other Matters Affecting Bonneville's Power Business Line—Fish and Wildlife." Bonneville is proposing an array of intra-rate period cost recovery adjustments that will permit Bonneville to increase rate levels within the rate period. Bonneville believes that these adjustments will be adequate to maintain the desired U.S. Treasury payment probability and meet the identified range of purchase power cost, fish costs and other exposures.

Subscription Power Rate Proposal. In July 2000, Bonneville filed proposed power rates with FERC for fiscal years 2002-2006 ("July 2000 Rate Filing"). In preparing the July 2000 Rate Filing, Bonneville forecasted that its loads during the five-year rate period commencing on October 1, 2001 (pre-existing sales during the rate period plus then-anticipated Subscription loads during the rate period) would significantly exceed expected firm power generation from Federal System resources. The July 2000 Rate Filing anticipated that Bonneville would augment Federal System resources with additional power purchases or take other actions (collectively, "Subscription Augmentation") to assure that Bonneville is in load/resource balance during the five-year rate period. Bonneville based its July 2000 Rate Filing on an expectation that the cost of making sufficient Subscription Augmentation to meet its aggregate loads would be about \$34 per megawatt hour. In view of its then-expected needs, Bonneville negotiated power purchases prior to August 1, 2000 in amounts sufficient to serve about 800 average megawatts of the then-expected Subscription Augmentation needs during the rate period.

Subsequently, Bonneville re-opened the July 2000 Rate Filing and is developing an amendment thereto to address certain conditions arising since Bonneville developed the July 2000 Rate Filing. First, Bonneville has increased its estimate of the amount of Subscription loads it may have to meet in light of greater demand for Subscription power than Bonneville assumed in developing the July 2000 Rate Filing. Ultimately, by early fall 2000, Bonneville had entered into Subscription-related contracts with Regional customers to meet up to about 9100 average megawatts of firm power loads, which is about 1,500 average megawatts more than assumed in developing the July 2000 Rate Filing. Taking into account these increased load expectations and Subscription Augmentation made to date, Bonneville now expects that it may have to obtain additional Subscription Augmentation sufficient to meet up to about 2000 average megawatts of loads, depending on how much Subscription load is ultimately placed on Bonneville.

Second, Bonneville believes its power price forecast of \$34 per megawatt hour used in the July 2000 Rate Filing is now out of date given historically high West Coast power market prices and continuing volatility. Bonneville's medium case price forecast now indicates that the cost of Subscription Augmentation, other than Subscription Augmentation power purchases made prior to August 1, 2000, will be approximately \$200-\$240 per megawatt hour in fiscal year 2002, declining to about \$40-\$60 per megawatt hour in fiscal year 2006.

Third, Bonneville may have lower fiscal year 2002 beginning financial reserves than was anticipated in developing the July 2000 Rate Filing. In light of current financial developments, it has become more likely that Bonneville will have negative net revenues for fiscal year 2001 because of very low water conditions in the Columbia River Basin and the high power prices prevailing in the West Coast at which Bonneville has made, and may have to make, power purchases in fiscal year 2001. See "RECENT DEVELOPMENTS IN THE ELECTRIC UTILITY INDUSTRY AND BONNEVILLE'S COMPETITIVE POSITION — Power Market Developments."

On February 15, 2001, Bonneville formally released for comment by rate case parties the February 2001 Proposed Amendment to enhance certain July 2000 Rate Filing provisions that would adjust rate levels within the five-year rate period. The February 2001 Proposed Amendment is a product of discussions among Bonneville and its customers. Under the July 2000 Rate Filing, Bonneville's Subscription core power rates, depending on the type of service and customer class, would be between \$19.30 per megawatt hour and \$23.0 per megawatt hour on average over the five-year rate period, without transmission. These proposed core rates are within about 10 percent of rates currently in effect for similar service to Regional customers. In general, the proposed rate adjustments in the February 2001 Proposed Amendment would be applied to such core rates to increase applicable rate levels during the rate period depending on Bonneville's financial condition and the cost of Subscription Augmentation. Bonneville expects that the February 2001 Proposed Amendment would have the effect of significantly increasing initial rate levels for rates that are applicable to Subscription power and would allow Bonneville to further increase or decrease such rate levels during the five-year rate period.

More particularly, the February 2001 Proposed Amendment includes a three-part Cost Recovery Adjustment Clause ("CRAC"), consisting of a Load-Based ("LB") CRAC, a Financial-Based ("FB") CRAC and a Safety-Net ("SN") CRAC. The proposed LB CRAC is designed to recover the cost of power purchased to serve the difference between 1) a baseline estimate of Federal System firm power assumed to be about 7,100 average megawatts and about 800 average megawatts of Subscription

Augmentation entered into prior to August 1, 2000 and 2) the combination of Bonneville's aggregate Subscription load obligations and Bonneville's pre-existing power sales obligations during the five-year rate period. The LB CRAC is not designed to recover the cost of replacing reductions in the firm power generating capability included in the baseline estimate of Federal System firm power if any such reductions were to occur.

The LB CRAC for the period beginning October 1, 2001 would be based on a forecast of Bonneville's Subscription Augmentation costs for the first six months of the rate period, and would be revised each six-month period thereafter during the rate period to reflect updated forecasts of Subscription Augmentation costs in the next six months. Another adjustment to the amounts recovered under LB CRAC would reflect actual costs of Subscription Augmentation in the prior six-month period to the extent that the forecast for such augmentation costs were to differ from actual costs in such period. The LB CRAC would be based on the cost of Subscription Augmentation only and would not be subject to any other provision limiting the amount of revenues to be derived by Bonneville thereunder. The level of the LB CRAC would be highly correlated to the amount of Subscription loads ultimately placed on Bonneville. While not subject to the LB CRAC *per se*, power purchases under Slice of the System contracts would be subject to rate level adjustments ("Slice Adjustment") every six months based on Subscription Augmentation costs, in a manner and to a degree similar to the adjustment under the LB CRAC.

Given the current and expected high power prices and expected load obligations, Bonneville believes that a rate level increase under the LB CRAC and Slice Adjustment will be implemented beginning October 1, 2001. Bonneville estimates that such rate level adjustments could in some scenarios double or triple rate levels over the core rates, depending on the amount of Subscription loads that are placed on Bonneville and the price at which Bonneville obtains Subscription Augmentation to meet such loads. Rate level increases under the LB CRAC and Slice Adjustment have a wide range of potential outcomes. For example, if Bonneville were to obtain Subscription Augmentation to meet 2000 average megawatts of additional Subscription loads, and the price of such augmentation were \$225 per megawatt hour, the LB CRAC and Slice Adjustment would increase rate levels for contracts covered thereby by an estimated 226 percent over applicable core rates. Similarly, if Bonneville were to obtain Subscription Augmentation to meet 1000 average megawatts of additional Subscription loads, and the price of such augmentation were \$225 per megawatt hour, the LB CRAC and Slice Adjustment would increase rate levels for contracts covered thereby by an estimated 127 percent over applicable core rates. By contrast, if power prices were to drop to the \$50 per megawatt hour range, the rate level increase over core rates would be about 28 percent if Bonneville were to obtain Subscription Augmentation to meet 2000 average megawatts of additional Subscription loads, and 14 percent if Bonneville were to obtain Subscription Augmentation to meet 1000 average megawatts of additional Subscription loads.

The proposed FB CRAC is designed to restore, on a forecasted basis, Bonneville's financial reserves to fiscal year-end reserve levels ("Reserve Targets") of \$300 million in fiscal years 2002 and 2003 and \$500 million in each of fiscal years 2004 - 2006. A rate level increase under the FB CRAC would be implemented for an entire fiscal year and would occur during a subject fiscal year only if Bonneville's financial forecast made in the third quarter of the prior fiscal year were to indicate that the accumulated net revenues for the beginning of the subject fiscal year would be below the accumulated net revenue equivalent of the applicable Reserve Target. A rate increase under the FB CRAC would commence in the first month of the applicable fiscal year and continue through the end of the fiscal year.

In fiscal years 2003-2006, the revenues to be derived under an FB CRAC increase would be capped at a maximum of between \$135 million and \$175 million per fiscal year, depending on the year. In fiscal year 2002, however, the amount of revenues derived under the FB CRAC would not be capped other than by the fiscal year 2002 Reserve Target of \$300 million. Given the wide range of possible revenues and expenses in fiscal year 2001, Bonneville believes that it is possible that a rate increase under the FB CRAC will be implemented in fiscal year 2002.

The proposed SN CRAC would be implemented to recover costs on a temporary basis if, at any time during the rate period, Bonneville were to (i) forecast a 50 per cent probability or greater of missing a payment to the U.S. Treasury or other creditor or (ii) miss a payment to the U.S. Treasury or other creditor. A rate level increase under the SN CRAC would occur independently of any LB CRAC or Slice Adjustment increase then in effect. The SN CRAC could alter certain parameters of the FB CRAC, including the amount of revenue that can be collected, the duration of rate level adjustments, and the timing of collection of revenues, in each case under the FB CRAC. Under the February 2000 Proposed Amendment, Bonneville would determine the level of the SN CRAC in a record of decision after public notice and a formal hearing on the record. Bonneville would also seek separate FERC approval of a rate increase developed under the SN CRAC.

The loads to be served under Slice of the System contracts (expected to be about 2000 average megawatts) will not be subject to the SN CRAC or the FB CRAC. These customers agreed to pay for a fixed portion of Federal System costs under their contracts and their rates are subject to annual adjustment to recover those costs. About 800 average megawatts of loads of certain small Preference Customers under requirements contracts would not be subject to the LB CRAC, or any other rate level adjustment mechanism. These Preference Customers entered into Subscription-related power sales contracts early and received certain contractual rate protections from Bonneville for making early commitments.

The February 2001 Proposed Amendment also includes a provision in which Bonneville would rebate funds to Subscription customers in certain circumstances to the extent that Bonneville has financial reserves above certain fiscal year-end threshold amounts. Those amounts range between approximately \$1.7 billion at the end of fiscal year 2002, to \$1.2 billion at the end of fiscal year 2005.

Bonneville believes that the prospect of substantial power rate level increases could affect the amount of Subscription loads that Bonneville will serve in the rate period. Higher rate levels could lead some customers to reduce their purchase commitments under the relevant provisions in their Subscription contracts as described above. To the extent that such loads decline, Bonneville's Subscription Augmentation costs — a central factor driving Bonneville's expected rate level increase — will diminish. In particular, DSI loads as a class may decrease below Bonneville's Subscription sales commitment of about 1500 average megawatts. Bonneville estimates that current aluminum prices are not sufficiently high to induce the aluminum DSIs with whom Bonneville has entered into Subscription contracts to use all of such power if Bonneville's rate levels were to increase substantially. Bonneville believes that the February 2001 Proposed Amendment, even if it were to increase rate levels to the upper range of probable initial rate levels, will not induce Preference Customers and Regional IOUs to reduce their Subscription commitments.

All parties to the rate case, including Bonneville, will have an opportunity to file comments on Bonneville's proposal and responses thereto. Bonneville expects to complete its final studies supporting the proposed amendment and a record of decision in June 2001, and file the final proposed amendment with FERC no later than August 1, 2001. Bonneville expects FERC to grant interim approval of the rate proposal, together with the rate amendment, by September 30, 2001.

On February 15, 2001, Bonneville agreed to a Partial Stipulation and Settlement Agreement with regard to the February 2001 Proposed Amendment. All parties to the rate proceedings, except the DSIs, one Regional IOU, one small Preference Customer and an association of industrial power users in the Region, have agreed to the Partial Stipulation and Settlement Agreement. While under the Partial Stipulation and Settlement Agreement the agreeing parties consented in general to the February 2001 Proposed Amendment, such agreement does not address all issues and is subject to a number of reservations and conditions.

Rate Proposal for Surplus Power. With regard to rate for surplus firm power and non-firm energy rate, Bonneville will employ flexible rates that recover Bonneville's cost of providing such power, but at rates that enable Bonneville to participate in power markets. Bonneville does not expect to have substantial firm power to market during the next five years because of Subscription sales. The amount of non-firm energy that Bonneville will market at such rates will depend on generation and load conditions that vary with weather, streamflows, market conditions and numerous other factors.

#### *Recovery of Stranded Power Function Costs*

As a consequence of regulatory and economic changes in electric power markets, many utilities see potential for certain of their costs, in particular power system costs, to become unrecoverable, *i.e.*, "stranded." Stranded costs may arise where power customers are able, pursuant to new open transmission access rules, to reach new sources of supply, leaving behind unamortized power system costs incurred on their behalf. Bonneville could also face this concern. While Bonneville has separate statutory authority requiring it to assure that its revenues are sufficient to recover all of its costs, additional authority may be required to assure that Bonneville's payments to the United States Treasury are made on time and in full. Depending on the exact nature of wholesale and retail transmission access, it is possible that Bonneville's power function may not be able to recover all of its costs in the event that Bonneville's cost of power exceeds market prices. See "— Power Marketing Plan for the Period After Fiscal Year 2001." Nonetheless, Bonneville cannot predict with certainty its cost of power or market prices.

FERC's 1996 order, "Order 888," to promote competition in wholesale power markets established standards that a public utility under the Federal Power Act must satisfy to recover stranded wholesale power costs. The standards contain limitations and restrictions, which, if applied to Bonneville, could affect Bonneville's ability to recover stranded costs in certain circumstances. However, Bonneville's Acting General Counsel interprets FERC Order 888 as not addressing stranded cost recovery by Bonneville under either the Northwest Power Act or section 211/212 of the Federal Power Act. For a discussion of Order 888 and sections 211/212 of the Federal Power Act, as amended by EPA-1992, see "TRANSMISSION BUSINESS LINE — Nondiscriminatory Transmission Access and Separation of Business Lines."

Bonneville's rates for any FERC-ordered transmission service pursuant to section 211/212 of the Federal Power Act are governed only by Bonneville's applicable law, except that no such rate shall be unjust, unreasonable or unduly discriminatory or preferential, as determined by FERC. In the opinion of Bonneville's Acting General Counsel, provisions of the Northwest Power Act directing Bonneville to recover its total cost would be applicable to any stranded cost to be recovered by Bonneville were Bonneville ordered by FERC to provide transmission under section 211/212.

Shortly after the issuance of Order 888, Bonneville requested clarification of the application of FERC's stranded cost rule to Bonneville in the context of a section 211/212 order for transmission service. In FERC Order 888-A, modifying original FERC Order 888, FERC addressed Bonneville's request by stating: "We clarify that our review of stranded cost recovery by [Bonneville] would take into account the statutory requirements of the Northwest Power Act and the other authorities under which we regulate [Bonneville] . . . and/or section 212(i), as appropriate." Therefore, it remains unclear how FERC would balance Bonneville's Northwest Power Act cost recovery standards with the stranded cost rule as enunciated in FERC Order 888 in the context of FERC-ordered transmission service pursuant to section 211/212. Several of Bonneville's transmission customers, however, have taken the position that transmission rates may not be set to recover stranded power costs as Bonneville envisions under the Northwest Power Act.

#### *Changes in the Regulation of Regional Retail Power Markets*

Since the 1990's, many states and the Federal government have examined possible regulatory changes in retail electric power markets. In general, these proposals would allow end-use electricity consumers to choose their energy suppliers and to

purchase power at market prices. This approach contrasts with the formerly predominant regulatory approach, where electric utilities have legal or de facto exclusive retail service territories. In general, the utilities are under an obligation to provide service to consumers located in the utilities' respective service areas. The utilities receive regulated rates of return in the case of profit-making utilities, or are required to sell their power at rates that are cost-based in the case of public agency or cooperatively owned utilities. As under wholesale competitive power markets, the core issue in establishing retail choice is assuring that facilities for transmitting electric power, at the distribution level, be available to all market participants in a manner that does not discriminate in favor of power sales by the owner of such facilities.

Bonneville is limited in its legal authority to sell power directly to end-use consumers, other than to state and Federal agencies and specified DSIs. Accordingly, Bonneville expects to continue to sell the majority of its electric power on a wholesale basis to electric utilities who resell to retail loads. The advent of competition in retail power markets could affect the manner in which Bonneville markets power and the ability of its wholesale customers, in particular its Preference Customers, to maintain the electric power loads they now rely on Bonneville to meet. In such a scenario, Bonneville may be forced to market more of its power to non-utility marketers or load aggregators for resale to end-users. Depending on the terms of any retail access legislation, the reliability of revenues Preference Customers now have from electric power consumers could be diminished. Under some retail access approaches, utilities would have a reduced ability to recover power costs in reliance on their exclusive ownership of distribution facilities for retail service to their end users.

It is possible that state law proposals for competitive retail markets may include features that would affect the ability of utilities to perform contractual commitments, such as the Net Billing Agreements, that were entered into prior to the effective date of the legislation. Under the Net Billing Agreements, the Participants have an unconditional obligation to pay amounts to Energy Northwest for which they obtain net billing credits and cash from Bonneville in amounts equal to the Participants' respective payments to Energy Northwest. Any legislation that precludes Participants from continuing to satisfy their Net Billing Agreement payment obligations could cause a disruption in the cash flow to Energy Northwest in the unlikely situation where both (i) the Participants make insufficient purchases from Bonneville to offset in total their Net Billed Project costs and (ii) the Bonneville Fund is restricted or cash in the Bonneville Fund is unavailable to meet Bonneville's payment obligation to the Participants.

In 1997, the State of Montana, in which a small number of cooperatively owned Net Billing Participants conduct business, enacted legislation providing for competitive retail markets. The legislation enables such cooperatives voluntarily to permit retail choice in their service territories. Under the legislation, if a Montana Net Billing Participant were to provide access over its distribution facilities to competitors, it would nonetheless be entitled to collect "transition costs" on a non-avoidable basis, subject to the obligation to mitigate transition costs. Transition costs are defined to include "existing commitments or obligations incurred before [the effective date of the legislation] . . ." Under the Montana legislation, the ability of a Participant to collect transition charges is not limited in duration. Also, the Montana Net Billing Participants retain discretion to determine the extent and nature of their transition costs. As of December 2000, only one Montana electric power cooperative has chosen to permit full retail choice for all customers in its service territory. This cooperative has not experienced load loss, apparently due to the favorable rates it is able to offer its customers.

In 1999, the State of Oregon enacted a retail competition law. The Oregon law specifically preserves the ability of Net Billing Participants located in Oregon to charge rates for use of distribution facilities to recover their obligations under their Net Billing Agreements.

Most of the Net Billing Participants serve retail loads in Washington. In 1997, the state legislature considered but did not enact proposals to implement competitive retail power markets. No similar bills have since been introduced in the legislature. While Bonneville believes that retail competition legislation in Washington, if enacted, would preserve the Participants' obligations under the Net Billing Agreements, Bonneville cannot predict whether the state will enact retail competition or the terms thereof should such legislation be enacted.

Several Participants serve loads in Idaho. The Idaho State legislature has not introduced legislation that would provide retail competition.

## **TRANSMISSION BUSINESS LINE**

### **Bonneville's Transmission System**

The Federal System includes the transmission system that is owned, operated and maintained by Bonneville as well as the Federal hydroelectric projects and related power resources. The Federal transmission system is composed of approximately 15,000 circuit miles of high voltage transmission lines, and over 300 substations and other related facilities that are located in Washington, Oregon, Idaho, and portions of Montana, Wyoming and northern California. The Federal transmission system includes an integrated network for service within the Pacific Northwest ("Network"), and approximately 80% of the northern portion (north of California and Nevada) of the combined Southern Intertie. The Southern Intertie consists of three high voltage Alternating Current (AC) transmission lines and one Direct Current (DC) transmission line and associated facilities that interconnect the electric systems of the Pacific Northwest and Pacific Southwest and provide the primary bulk transmission link between the two regions. The rated transfer capability of the Southern Intertie AC in the north to south direction is 4800 megawatts of capacity ("MW"), and in the south to north direction is 3675 MW. The rated transfer capability of the DC line in both directions is 3100 MW. The operating transfer capability of these facilities varies by generation patterns, weather conditions, load conditions and system outages.



Bonneville constructed the Federal transmission system and is responsible for its operation and maintenance, and makes investments necessary to maintain the electrical stability and reliability of the system. As a matter of policy, Bonneville's transmission planning and operation decisions are guided by regional reliability practices. From time to time, Bonneville undertakes investments or reinforcements to or changes in the planning and operation of its transmission facilities to comply with the transmission system reliability criteria.

Bonneville continually monitors its transmission system and evaluates cost-effective responses needed for system stability and reliability on a long-term planning basis. For example, operating conditions such as weather, system outages and changes in generation and load patterns, may reduce the electric transfer capability of the transmission system and limit the capacity of the system in some locations to meet the needs of users of the transmission system, including Bonneville's Power Business Line. A number of possible future conditions, actions and events have been identified the occurrence of which could affect the electric transfer capability of Bonneville's transmission system and diminish reliability to a level that could require remedial measures. Bonneville expects to make transmission system investments of about \$208 million a year over the next four fiscal years.

The Federal System transmission facilities are used to deliver power between resources and loads within the Pacific Northwest, and to transmit power between and among the Region, western Canada and the Pacific Southwest. Bonneville's Transmission Business Line provides transmission services and transmission reliability (ancillary) services to many customers. These customers include the Bonneville Power Business Line for its out-of-Region sales; entities that buy and sell non-Federal System power in the Region, such as Regional IOUs, Preference Customers, extra-Regional IOUs, independent power producers, aggregators and marketers; in-Region purchasers of Federal System power such as Preference Customers and DSIs; and generators, power marketers and utilities that seek to transmit power into, out of, or through the Region.

#### **Non-discriminatory Transmission Access and Separation of the Business Lines**

In general, the thrust of regulatory changes in the 1990s, both by Congress and FERC, has been to encourage transmission owners to provide open transmission access to their transmission on terms that do not discriminate in favor of the transmission owner's own power-marketing functions. EPA-1992 amended section 211/212 of the Federal Power Act to authorize FERC to order a "transmitting utility" to provide access to its transmission system at rates, and upon terms and conditions, that are just and reasonable, and not unduly discriminatory with respect to the transmitting utility's own use of its transmission system.

While Bonneville is not generally subject to the Federal Power Act, Bonneville is a "transmitting utility" under the EPA-1992 amendments to sections 211/212 of the Federal Power Act. Therefore FERC may order Bonneville to provide others with transmission access over the Federal System transmission facilities. FERC's authority also includes the ability to set the terms and conditions for such FERC-ordered transmission service. However, the transmission rates for FERC-ordered transmission under EPA-1992 are governed only by Bonneville's other applicable laws, except that no such rate shall be unjust, unreasonable or unduly discriminatory or preferential, as determined by FERC. Based on the legislative history relating to the provisions of EPA-1992 applicable to Bonneville, Bonneville's Acting General Counsel is of the opinion that Bonneville's rates for FERC-ordered transmission services under sections 211/212 are to be established by Bonneville, rather than by FERC, and reviewed by FERC through the same process and using the same statutory requirements of the Northwest Power Act as are otherwise applicable to Bonneville's transmission rates.

In April 1996, FERC issued an order, "Order 888," to promote competition in wholesale power markets. Among other things, Order 888 established a *pro forma* tariff providing the terms and conditions for non-discriminatory open access transmission service, and required all jurisdictional utilities to adopt the tariff. Order 888 also included a "reciprocity" provision that allows non-jurisdictional utilities to obtain non-discriminatory open access from transmitting utilities if the non-jurisdictional utility submits to FERC for its approval (i) an open access transmission tariff that substantially conforms to the *pro forma* tariff and (ii) transmission rates that are comparable to the rates the non-jurisdictional utility applies to itself.

Bonneville is a non-jurisdictional utility. Notwithstanding the limited applicability of FERC Order 888 to Bonneville, however, in 1996, Bonneville voluntarily adopted terms and conditions for a non-discriminatory open access transmission tariff and filed an open access transmission tariff with FERC seeking a reciprocity order. Bonneville's tariff offers transmission service to Bonneville's Power Business Line and other transmission users on the same terms and conditions, and at the same rates. In March 1999, FERC found the tariff to be an acceptable reciprocity tariff. Bonneville has since revised and filed with FERC a new, two-year open access tariff that conforms more closely to FERC's current *pro forma* open access tariff. Bonneville is seeking a finding by FERC that the new tariff is an acceptable reciprocity tariff. The revised open access transmission tariff will become effective beginning October 1, 2001.

In April 1996, FERC also issued an order ("Order 889") that sets forth "standards of conduct" for jurisdictional utilities that are transmission providers and have a power-marketing affiliate or function. In general, these standards of conduct are intended to assure that wholesale power marketers that are affiliated with a transmission owner do not obtain unfair market advantage by having preferential access to information regarding the transmission owner's transmission operations. While not subject to Order 889, Bonneville nonetheless separated its transmission and power functions into separate business lines in compliance with that order and has developed and submitted standards of conduct for FERC's review. FERC found Bonneville's standards of conduct to be acceptable in February 1999.



### **Bonneville's Transmission and Ancillary Services Rates**

Under the Northwest Power Act, Bonneville sets transmission rates, in accordance with sound business principles, that recover the cost associated with the transmission of electric power over the Federal System transmission facilities, including amortization of the federal investment in the Federal transmission system over a reasonable number of years, and other costs and expenses during the rate period. FERC confirms Bonneville's transmission rates after a finding that such rates recover Bonneville's costs and expenses during the rate period, and are sufficient to make full and timely payments to the U.S. Treasury.

Bonneville's transmission rates must also equitably allocate the cost of the Federal transmission system between Federal System power and non-Federal System power using the transmission system. Since 1996, the Power Business Line and customers purchasing Federal System power are charged the same transmission rates as are charged customers transmitting non-Federal System power. In compliance with the statutory requirements for its rates, Bonneville separately accounts for transmission and power functions and sets separate rates for such functions based on their respective costs.

Bonneville's current transmission rates have been approved by FERC under the standards of the Northwest Power Act and such rates are effective through September 30, 2001.

Bonneville has prepared, and in December 2000 filed with FERC, a transmission rate proposal for the two years beginning October 1, 2001. FERC Bonneville seeks FERC approval of such rate under the applicable Northwest Power Act standards and a FERC reciprocity order under Order 888. Bonneville's proposed transmission and ancillary services rates represent about a 25% increase over current rates. The revenue requirements to be recovered under the proposed rates anticipate about \$674 million in average annual transmission operating expenses. The proposed rates are intended to result in approximately \$5 million per year in net transmission revenue. Bonneville's transmission revenues and expenses are relatively stable in comparison to those of the power function.

Annual Federal System transmission operating expenses for the fiscal year 2002-2003 transmission rate period are projected to be somewhat higher than in the current rate period because of (i) the expense of separating the Transmission and Power functions and the establishment of separate Transmission Business Line operations, administrative systems and business headquarters, (ii) reclassification of certain costs previously characterized as power costs to transmission costs, (iii) corrections to allocations of shared corporate costs in the 1996-2001 rate period and (iv) the Transmission Business Line's increased funding of the employee retirement system.

Bonneville believes that its final proposed transmission and ancillary services rates will be approved by FERC and will become effective at the beginning of fiscal year 2002 because the rate proposal was established as part of a settlement to which no party has objected.

### **Bonneville's Participation in a Regional Transmission Organization**

Following the issuance in May 1999 of a notice of proposed rulemaking on RTOs, in January 2000 FERC issued a final rule on RTOs that establishes minimum characteristics and functions for an RTO and requires that each qualifying utility make certain filings regarding the formation of and participation in an RTO. The order, "Order 2000," encouraged each jurisdictional utility (Bonneville is not a jurisdictional utility) to file a proposal for an RTO that would be operational by December 15, 2001.

In March 2000, Bonneville, six Pacific Northwest IOUs and two Nevada utilities (collectively, the "Filing Utilities") agreed to a set of RTO Principles and a general description of an RTO Form and Structure, and proposed to work to submit an RTO proposal to FERC. The RTO Principles provide, among other things, that "[w]ith respect to the Bonneville Power Administration, the RTO shall be designed so as (a) not to increase the risk to the United States Treasury or to third party bondholders and (b) to avoid financial restructuring of low-cost Bonneville debt."

In April 2000, the filing utilities began work to form an RTO to operate transmission assets in geographical area that encompasses, with some exceptions, all of Bonneville's service territory, Utah, Nevada, eastern Montana and western Wyoming. In October 2000, the Filing Utilities filed with FERC a response to Order 2000 proposing the formation of a nonprofit RTO (to be named RTO West) for the foregoing region. The application includes several draft documents, including a draft Transmission Operating Agreement (the "TOA") for each Filing Utility under which it would transfer the operation of certain transmission assets to RTO West. Further documents, including a proposal for an RTO West tariff, are expected to be completed and filed with FERC by July 2001. There are many complex issues that will have to be resolved prior to initiation of operations by RTO West. Bonneville's current expectations are that RTO West will begin operating transmission assets in calendar year 2003.

Under the evolving RTO West proposal, Bonneville would retain ownership of all of the Federal System transmission assets, but would transfer operational control over all or most of such facilities to RTO West. The draft TOA also provides that Bonneville would retain the responsibility for maintaining the Federal System transmission assets, including making necessary investments therein. Such costs would be recovered through Bonneville's transmission rates and through transfer payments, which are contractual payments from other transmission owners for use of Bonneville's transmission facilities. The draft TOA also provides that Bonneville will continue to set transmission rates to recover its costs. In the opinion of the Acting General Counsel to Bonneville, assuming the entry by Bonneville into the draft TOA, the draft TOA would be consistent with Bonneville's rate obligation to set rates to recover its costs. Under the draft TOA, no directive of RTO West may require Bonneville to violate its

obligations under applicable statutes or regulations. Moreover, RTO West would have no authority to require Bonneville to expend federal funds.

A number of parties have intervened in and protested the RTO West filing at FERC. They assert that the proposal does not include all transmission facilities serving wholesale power customers in RTO West. They also challenge the proposed RTO West governing board structure, a cost-benefit analysis supporting the RTO West proposal generally, and the proposed pricing structure for transmission and related services. Protests related more directly to Bonneville's involvement in the RTO West proposal include assertions that the proposal unfairly shifts transmission prices in a manner that harms certain of Bonneville's existing transmission customers, and that the proposal has insufficient standards for Bonneville's oversight of RTO West's decisions affecting the federal transmission facilities. With regard to this latter assertion, prior to May 1999, General Counsel to DOE issued an opinion that Bonneville's participation in or affiliation with a regional transmission entity would not require federal legislation, provided the terms of such participation do not interfere with Bonneville's ability to perform its statutory duties.

## **MATTERS RELATING TO THE POWER AND TRANSMISSION BUSINESS LINES**

### **Bonneville Ratemaking and Rates**

#### *Bonneville Ratemaking Standards*

Bonneville is required to periodically review and, as needed, to revise rates for power sold and transmission services provided in order to produce revenues that recover Bonneville's costs, including its payments to the United States Treasury. The Northwest Power Act incorporates the provisions of other Bonneville organic statutes, including the Transmission System Act and the Flood Control Act. The Transmission System Act requires, among other things, that Bonneville establish its rates "with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles," while having regard to recovery of costs and repayment to the United States Treasury. Substantially the same requirements are set forth in the Flood Control Act.

#### *Bonneville Ratemaking Procedures*

The Northwest Power Act contains specific ratemaking procedures used to develop a full and complete record supporting a proposal for revised rates. The procedures include publication of the proposed rate(s), together with a statement of justification and reasons in support of such rate(s), in the Federal Register and a hearing before a hearing officer. The hearing provides an opportunity to refute or rebut material submitted by Bonneville or other parties and also provides a reasonable opportunity for cross-examination, as permitted by the hearing officer. Upon the conclusion of the hearing, the hearing officer certifies a formal hearing record (including hearing transcripts, exhibits and such other materials and information as have been submitted during the hearing) to the Bonneville Administrator. This record provides the basis for the Administrator's final decision, which must include a full and complete reasoning in support of the proposed rate(s).

#### *Federal Energy Regulatory Commission Review of Rates Established by Bonneville*

Rates established by Bonneville under the Northwest Power Act may become effective only upon confirmation and approval by FERC, although FERC may grant interim approval of Bonneville's proposed rates pending FERC's final confirmation and approval.

FERC's review of Bonneville's firm power rates, Regional non-firm energy rates and transmission rates involves three standards set out in the Northwest Power Act. These standards require FERC to confirm and approve these Bonneville rates based on findings that such rates: (1) are sufficient to assure repayment of the federal investment in the Federal System over a reasonable number of years after first meeting Bonneville's other costs; (2) are based on Bonneville's total system costs; and (3) insofar as transmission rates are concerned, equitably allocate the costs of the federal transmission system between federal and non-federal power utilizing such system. FERC does not, however, review Bonneville's rate design or the cost allocation for rates for firm power and Regional non-firm energy. For a discussion of FERC regulations related to transmission access and rates, see "TRANSMISSION BUSINESS LINE — Non-discriminatory Transmission Access and Separation of the Business Lines."

In confirming and approving Bonneville's rates for non-firm energy sold for use outside the Region, FERC reviews whether such rates were designed: (1) having regard to the recovery of cost of generation and transmission of such electric energy; (2) so as to encourage the most widespread use of Bonneville power; (3) to provide the lowest possible rates to consumers consistent with sound business principles; and (4) in a manner which protects the interests of the United States in amortizing its investments in the Federal System within a reasonable period. The Northwest Power Act provides for the possibility of an additional rate hearing before FERC on non-regional non-firm energy rates, based on the record developed at Bonneville.

Upon reviewing Bonneville's rates, FERC may either confirm or reject a rate proposed by Bonneville. FERC lacks the authority to establish a rate in lieu of a proposed rate that FERC finds does not meet the applicable standards. In the opinion of Bonneville's Acting General Counsel, if FERC were to reject a proposed Bonneville rate, FERC would be limited to remanding the proposed rate to Bonneville for further proceedings as Bonneville deems appropriate. On remand, Bonneville would have to reformulate the proposed rate to comply with the statutory ratemaking standards. If FERC were to have given Bonneville interim approval, Bonneville may be required to refund the difference between the interim rate charged and any such final, FERC-approved rate. However, Bonneville is required by law to set rates to meet all its costs; thus, it is the opinion of Bonneville's Acting General Counsel that Bonneville may be required to increase its rates to seek to recover the amount of any such refunds, if needed.

### *Judicial Review of Federal Energy Regulatory Commission Final Decision*

FERC's final approval of a proposed Bonneville rate is a final action subject to direct, exclusive review by the United States Court of Appeals for the Ninth Circuit. Suits challenging final actions must be filed within 90 days of the time such action is deemed final. The record upon review by the court is limited to the administrative record compiled in accordance with the Northwest Power Act.

Unlike FERC, the court reviews all of Bonneville's ratemaking for conformance with all Northwest Power Act standards, including those ratemaking standards incorporated by reference in the Northwest Power Act. In the opinion of Bonneville's Acting General Counsel, the court lacks the authority to establish a Bonneville rate. Upon review, the court may either affirm or remand a rate to FERC or Bonneville, as appropriate. On remand, Bonneville would have to reformulate the remanded rate. Bonneville's flexibility in establishing rates could be restricted by the rejection of a Bonneville rate, depending on the grounds for the rejection. Bonneville may be subject to refund obligations if the reformulated rate were lower than the remanded rate. However, Bonneville is required by law to set rates to meet all its costs; thus, it is the opinion of Bonneville's Acting General Counsel that Bonneville may be required to increase its rates to seek to recover the amount of any such refunds, if needed.

#### *Power Customer Classes*

The Northwest Power Act, as well as other Bonneville organic statutes, provides for the sale of power: (1) to public and certain federal agency customers; (2) to direct service industrial customers; and (3) for those portions of their load which qualify as "residential," to investor-owned and public utilities participating in the Residential Exchange Program. See "POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting Bonneville's Power Business Line and — Residential Exchange Program." The rates for power sold to these respective customers classes are based on allocation of the costs of the various resources available to Bonneville, consistent with the various statutory directives contained in Bonneville's organic statutes.

#### *Other Firm Power Rates*

Bonneville's rates for other firm power sales within the Region are based on the cost of such resources as Bonneville may decide are applicable to such sales. Bonneville also sells similarly priced surplus firm power outside the Northwest, primarily to California, under short-term power sales that allow for flexible prices, or under long-term contract rates.

#### *Non-firm Energy*

Non-firm energy is priced in accordance with the statutory standards (contained in the Northwest Power Act) applicable to such sales, as discussed above. Non-firm energy is available within and without the Pacific Northwest, with most sales being made to California utilities that use non-firm energy to displace the operation of more expensive thermal resources.

#### **Limitations on Suits Against Bonneville**

Suits challenging Bonneville's actions or inaction may only be brought pursuant to certain federal statutes that waive sovereign immunity. These statutes limit the types of actions, remedies available, procedures to be followed and the proper forum. In the opinion of Bonneville's Acting General Counsel, the exclusive remedy available for a breach of contract by Bonneville is a judgment for money damages. See "Bonneville Litigation" for information regarding pending litigation seeking to compel or restrain action by Bonneville.

#### **Laws Relating to Environmental Protection**

Bonneville must comply with the National Environmental Policy Act ("NEPA"), which requires that federal agencies conduct an environmental review of a proposed federal action and prepare an environmental impact statement if the action proposed may significantly affect the quality of the human environment. NEPA may require that Bonneville follow statutory procedures prior to deciding whether to implement an action. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the Resource Conservation and Recovery Act ("RCRA"), the Toxic Substance Control Act ("TSCA") and applicable state statutes and regulations, as well as amendments thereto, may result in Bonneville incurring unplanned costs to investigate and clean up sites where hazardous substances have been released or disposed of. There are currently three such sites. One of these sites is a Bonneville-operated facility awaiting determination by the EPA, but two are non-Bonneville sites wherein Bonneville has been identified as potentially a responsible party. Normally environmental protection costs are budgeted and do not exceed \$150,000 per site. While Bonneville anticipates that additional potential costs will be between \$1 million and \$2 million total over several years, Bonneville cannot assure the ultimate level of costs that may be incurred under these statutes.

#### **Other Applicable Laws**

Many statutes, regulations and policies are or may become applicable to Bonneville, several of which could affect Bonneville's operations and finances. Bonneville cannot predict with certainty the ultimate effect such statutes, regulations or policies could have on its finances.

#### **Columbia River Treaty**

Bonneville and the Corps have been designated by executive order to act as the "United States Entity" which, in conjunction with the "Canadian Entity," formulates and carries out operating arrangements necessary to implement the 1964

Columbia River Treaty (the "Treaty"). The United States and Canada entered into the Treaty to increase reservoir capacity in the Canadian reaches of the Columbia River Basin for the purposes of power generation and flood control.

Regulation of stream flows by the Canadian reservoirs enables six federal and five non-federal dams downstream in the United States to generate more usable, firm electric power. This increase in firm power is referred to as the "downstream power benefits." The Treaty specifies that the downstream power benefits be shared equally between the two countries. Canada's portion of the downstream power benefits is known as the "Canadian Entitlement."

The Treaty specifies that the Canadian Entitlement be delivered to Canada at a point on the border near Oliver, British Columbia, unless the United States Entity and the Canadian Entity agree to other arrangements. The United States Entity and Canadian Entity signed the "Columbia River Treaty Entity Agreement on Aspects of the Delivery of the Canadian Entitlement for April 1, 1998, through September 15, 2024" (the "Entity Agreement") on November 20, 1996, which was subsequently revised on March 29, 1999. As a result, the United States Entity does not have to build the proposed transmission line to a point near Oliver, British Columbia, in order to return the Canadian Entitlement.

The United States Entity and Canadian Entities have consulted on terms for possible disposal of portions of the Canadian Entitlement in the United States. Direct disposal of the Canadian Entitlement in the United States was authorized by the executive branches of the United States and Canadian governments through an exchange of diplomatic notes, which occurred on March 29, 1999. The United States Entity's obligation to return the Canadian Entitlement to the border under the Entity Agreement is not dependent upon the authority to directly dispose of the Canadian Entitlement in the United States.

### **Proposals For Federal Legislation And Administrative Action Relating To Bonneville**

Congress from time to time considers legislative changes that could affect electric power markets generally and Bonneville specifically. For example, several bills have proposed, among other things, granting buyers and sellers of power access to Bonneville's transmission under regulation comparable to regulation applicable to privately-owned transmission. Under this type of regulation, in general, a transmission owner may not use its transmission system to recover costs of its power function. This type of regulation would be at odds with Bonneville's Acting General Counsel's legal opinion of its current transmission rate authority under which Bonneville, would, if necessary, be required to use transmission rates to recover its power function costs. Other proposals advanced in Congress have included privatizing the federal power marketing agencies, including Bonneville, privatizing new and replacement capital facilities at federal hydroelectric projects, and requiring that Bonneville sell its power at auctioned market prices rather than under cost-based rates. None of these bills or proposals were enacted into law.

Bonneville cannot predict whether these or any other proposals relating to it will be enacted. Nor can Bonneville predict the terms any such future proposals or laws may include. It is possible that such proposals, if enacted, could affect Bonneville's obligation with respect to the Net Billed Bonds. However, Bonneville believes that any major electric industry restructuring affecting its obligations with respect to the Net Billed Bonds would require federal legislation. It is also possible that parties may propose terms that could, if implemented, have an adverse impact on the tax-exempt status of the Net Billed Bonds. Bonneville would oppose any proposal that would have an adverse impact on the tax-exempt status or the credit structure of the Net Billed Bonds.

Bonneville is a federal agency. It is subject to direction or guidance in a number of respects from the U.S. Office of Management and Budget, DOE, FERC, the U.S. Treasury and other federal agencies. Bonneville is frequently the subject of, or would be otherwise affected by, various executive and administrative proposals. Bonneville is unable to predict the content of future proposals; however, it is possible that such proposals could materially affect Bonneville's operations and financial condition.

## **BONNEVILLE FINANCIAL OPERATIONS**

### **The Bonneville Fund**

Prior to 1974, Congress annually appropriated funds for the payment of Bonneville's obligations, including working capital expenditures. Under the Transmission System Act, Congress created the Bonneville Fund, a continuing appropriation available to meet all of Bonneville's cash obligations.

All receipts, collections and recoveries of Bonneville in cash from all sources are now deposited in the Bonneville Fund. These include revenues from the sale of power and other services, trust funds, proceeds from the sale of bonds by Bonneville to the United States Treasury (see "Bonneville Borrowing Authority"), any appropriations by Congress for the Bonneville Fund and any other Bonneville cash receipts.

Bonneville is authorized to make expenditures from the Bonneville Fund without further appropriation and without fiscal year limitation if such expenditures have been included in Bonneville's annual budget to Congress. However, Bonneville's expenditures from the Bonneville Fund are subject to such directives or limitations as may be included in an appropriations act. Bonneville's annual budgets are reviewed and may be changed by the DOE and subsequently by the federal Office of Management and Budget. The Office of Management and Budget, after providing opportunity for Bonneville to respond to proposed changes, includes Bonneville's budget in the President's budget submitted to Congress.

The existence of the Bonneville Fund also enables Bonneville to enter into contractual obligations requiring cash payments that exceed, at the time the obligation is created, the sum of the amount of cash in the Bonneville Fund and available borrowing

authority. Pursuant to the Project Act, Bonneville has broad authority to enter into contracts and make expenditures to accomplish its objectives.

No prior budget submittal, appropriation, or any prior Congressional action is required to create such obligations except in certain specified instances. These include construction of transmission facilities outside the Northwest, construction of major transmission facilities within the Northwest, construction of certain fish and wildlife facilities, condemnation of operating transmission facilities and acquisition of a major resource that is not consistent with the Power Plan.

#### **The Federal System Investment**

The total cost of the multipurpose Corps and Bureau projects is allocated among the purposes served by the projects, which may include flood control, navigation, irrigation, municipal and industrial water supply, recreation, the protection, mitigation and enhancement of fish and wildlife, and the generation of power. The costs allocated to power generation from the Corps and Bureau projects as well as the cost of the transmission system prior to 1974 have been funded through appropriations. The capital costs of the transmission system since 1974, in addition to certain capital conservation and fish and wildlife costs since 1980, have been funded through the use of Bonneville's borrowing authority.

Bonneville is required by statute to repay the federal investment in the power facilities of the Federal System within a reasonable period of years. The statutes, however, are not specific with regard to directives for the repayment of the Federal System investment, including what constitutes a reasonable period of years. Consequently, the details of the repayment policy have been established through administrative interpretation of the basic statutory requirements. The current administrative interpretation is embodied in the United States Secretary of Energy's directive RA 6120.2. The directive provides that Bonneville must repay the federal investments within the average expected service life of the facility or 50 years, whichever is less. Bonneville develops a repayment schedule both to comply with investment due dates and to minimize costs over the repayment period. Costs are minimized in accordance with the United States Secretary of Energy's directive RA 6120.2 by repaying the highest interest-bearing investments first, to the extent possible. This method of determining the repayment schedule would result in some investments being repaid before their due dates, while assuring that all investments will be repaid by their due dates. As of September 30, 2000, Bonneville had repaid \$4.1 billion of principal of the Federal System investment and has \$4.6 billion principal amount outstanding.

#### **Bonneville Borrowing Authority**

Bonneville is authorized to have outstanding up to \$3.75 billion principal amount of bonds that it may issue to the United States Treasury. Of this amount, \$2.51 billion was outstanding as of September 30, 2000. Under current law, none of this borrowing authority may be used to acquire electric power from a generating facility having a planned capability of more than 50 average megawatts.

The interest on Bonneville's outstanding bonds is set at rates comparable to rates on debt issued by other comparable federal government institutions at the time of issuance. As of September 30, 2000, the interest rates on the outstanding bonds ranged from 5.30% to 8.65% with a weighted average interest rate of approximately 6.61%. The original terms of the outstanding bonds vary from 3 to 40 years. The term of the bonds is limited by the average expected service life of the associated investment, 45 years for transmission facilities and Corps and Bureau capital investments, 20 years for conservation investments and 15 years for fish and wildlife projects. All bonds with maturities greater than 15 years may be called early, except for three bonds totaling \$258.8 million.

#### **Order in Which Bonneville's Costs Are Met**

Bonneville's operating revenues include net billing credits provided by Bonneville, under the Net Billing Agreements, to the Participants in return for payments by such customers to Energy Northwest to meet certain costs of the Columbia Generating Station, Project 1 and Project 3, and to the City of Eugene, Oregon, Water and Electric Board ("EWEB") to meet certain costs of the Trojan Nuclear Project, a terminated nuclear project owned in part by EWEB. Net billing credits reduce Bonneville's cash receipts by the amount of the credits. Thus, costs of the Trojan Nuclear Project, Project 1, the Columbia Generating Station and Project 3, to the extent covered by net billing credits, are paid without regard to amounts in the Bonneville Fund. These credits reduce the amount of revenues Bonneville has available to pay other obligations, including obligations due and provided by Bonneville under the Net Billing Agreements.

Bonneville is required to make certain annual payments to the United States Treasury. These payments are subject to the availability of net proceeds, which are gross cash receipts remaining in the Bonneville Fund after deducting all of the costs paid by Bonneville to operate and maintain the Federal System other than those used to make payments to the United States Treasury for: (i) the repayment of the federal investment in certain transmission facilities and the power generating facilities at federally-owned hydroelectric projects in the Pacific Northwest; (ii) debt service on bonds issued by Bonneville and sold to the United States Treasury; (iii) repayment of appropriated amounts to the Corps and the Bureau for costs that are allocated to power generation at federally-owned hydroelectric projects in the Pacific Northwest; and (iv) costs allocated to irrigation projects as are required by law to be recovered from power sales. In fiscal year 2000, Bonneville's cash payments to the United States Treasury totaled approximately \$732 million.

For various reasons, Bonneville's revenues from the sale of electric power and other services may vary significantly from year to year. In order to accommodate such fluctuations in revenues and to assure that Bonneville has sufficient revenues to pay the costs necessary to maintain and operate the Federal System, all cash payment obligations of Bonneville, including cash deficiency

payments relating to Net Billed Bonds and other operating and maintenance expenses, have priority over payments by Bonneville to the United States Treasury. In the opinion of Bonneville's Acting General Counsel, under Federal statutes, Bonneville may make payments to the United States Treasury only from net proceeds; all cash payments of Bonneville, including cash deficiency payments relating to Net Billed Bonds and other operating and maintenance expenses have priority over payments by Bonneville to the United States Treasury for the costs described in items (i) to (iv) in the preceding paragraph.

Bonneville is authorized to enter into new agreements to provide for additional net billing of its customers' bills. Nevertheless, because Bonneville is now able to enter into contractual obligations requiring cash payments that exceed, at the time the obligation is created, the sum of the amount in the Bonneville Fund and available borrowing authority, the primary reason for using net billing no longer exists. Bonneville has no present plans to enter into new agreements requiring net billing to fund resource acquisitions or other capital program investments.

The requirement to pay the United States Treasury exclusively from net proceeds would result in a deferral of payments to the United States Treasury in the event that net proceeds were not sufficient for Bonneville to make its annual payment in full to the United States Treasury. This could occur if Bonneville were to receive substantially less revenue or incur substantially greater costs than expected.

Under the repayment methodology as specified in the United States Secretary of Energy's directive RA 6120.2, amortization of the Federal System investment is paid after all other cash obligations have been met. If, in any year, Bonneville has insufficient cash to make a scheduled amortization payment, Bonneville must reschedule amortization payments not made in that year over the remaining repayment period. If a cash under-recovery were larger than the amount of planned amortization payments, Bonneville would first reschedule planned amortization payments and then defer current interest payments to the United States Treasury. When Bonneville defers an interest payment, the deferred amount is assigned a market interest rate determined by the Secretary of the United States Treasury and must be repaid before Bonneville can make any other repayment of principal to the United States Treasury. See the table under the caption "Statement of Non-Federal Project Debt Service Coverage and United States Treasury Payments" for historical United States Treasury payments.

#### **Direct Funding of Corps and Bureau Federal System Operations and Maintenance Expense**

In 1992, Congress enacted legislation authorizing but not requiring the Corps to enter into direct funding agreements with Bonneville for operations and maintenance activities for the benefit of the Federal System. Under direct funding, periodically during the course of each fiscal year, Bonneville would pay amounts directly to the Corps or Bureau for operations and maintenance of their respective Federal System hydroelectric facilities as the Corps or the Bureau and Bonneville may agree.

In November 1996, Bonneville and the Bureau agreed to a five-year direct funding agreement, beginning in fiscal year 1998, for roughly \$40 million in annual operations and maintenance expense at the Bureau's Federal System facilities. In December 1997, Bonneville and the Corps entered into a ten-year agreement for direct funding that is expected to result in roughly \$100 million per year in direct payments by Bonneville, beginning in fiscal year 1999. The actual expenses for direct funding in fiscal year 2000 were \$46 million for the Bureau and \$104 million for the Corps.

Direct funding differs from historical practice under which (i) the Corps and Bureau obtained specific appropriations from Congress for Federal System operations and maintenance, with relatively little influence from Bonneville as to the nature or amount of any such expense and (ii) Bonneville repaid the appropriations, with interest, at the end of the fiscal year for which the appropriations were made, which repayments were otherwise subject to deferral if Bonneville had inadequate amounts in the Bonneville Fund. Under Bonneville's statutory priority of payments, Bonneville's repayments of amounts appropriated to the Corps and Bureau for Federal System operations and maintenance expense are made annually after the payment of Bonneville's non-federal payment obligations in the related fiscal year. As with Bonneville's other repayments to the Treasury, repayments of appropriated operations and maintenance expense would be subject to deferral if Bonneville were to have insufficient amounts in the Bonneville Fund to meet its non-federal payments.

Bonneville believes that, in contrast to historical practice, the direct payment approach increases Bonneville's influence on the Corps' and Bureau's Federal System operations and maintenance activities, expenses and budgets because, in general, Bonneville's assent becomes necessary for the Corps and Bureau to assure funding. Under the direct funding agreements, direct payments from Bonneville for operations and maintenance are subject to the prior application of amounts in the Bonneville Fund to the payment of Bonneville's non-federal obligations, including Bonneville's payments, if any, with respect to the Net Billed Projects. Notwithstanding the foregoing, as a practical matter, since direct payments would be made by cash disbursement from the Bonneville Fund during the course of the year rather than as a repayment of a loan at the end of the year, it is possible that direct payments could be made to the exclusion of non-federal payments that would otherwise have been paid under historical practice. A result of any direct payment obligation by Bonneville is that there would be a reduction in the amount of Federal System operations and maintenance appropriations that Bonneville would otherwise have to repay, thereby reducing the amount of Bonneville's repayments to the United States Treasury that would otherwise be subject to deferral. Nonetheless, during the proposed ten-year term of the direct payment agreement with the Corps, Bonneville expects to have roughly \$500 to \$800 million in scheduled annual payments to the United States Treasury, exclusive of the Corps' and Bureau's operation and maintenance expenses.

### **Hedging and Derivative Instrument Activities and Policies**

Bonneville's competitive success depends on its ability to manage business and financial risks associated with its commercial operations in a changing competitive environment. Effective management of electricity, aluminum and natural gas price risk can assist in efforts to manage Bonneville's revenues and expenses.

Bonneville is increasingly affected by price risk associated with commodities and streamflow uncertainty that in turn affect the predictability and stability of its revenues. These commodities include electricity, aluminum and natural gas. Bonneville desires to manage price and revenue risks resulting from electricity and natural gas volatility, hydro supply uncertainty and aluminum commodity price risk assumed by Bonneville in DSI power sales contracts.

Bonneville is concerned that its decisions to manage and economically hedge various revenue and price risks be conducted in an intelligent, business-like manner. To this end, Bonneville adopted its Hedging Policy to describe the guidelines, controls and management structure when there is a decision to hedge price and revenue risk. Bonneville's Hedging Policy allows the use of financial instruments such as commodity futures, options and swaps used to hedge price and revenue risk associated with electricity sales and purchases and to hedge risks associated with new product development. Bonneville uses financial instruments in the form of Over-the-Counter electricity swap agreements and options and Exchange traded futures contracts to hedge anticipated production and marketing of hydroelectric energy. The Policy does not authorize the use of financial instruments for non-hedging purposes, unless such use is expressly authorized under Section 6(d) of the Policy.

### **Historical Federal System Financial Data**

Federal System historical financial data for fiscal years 1998 through 2000 are hereinafter set forth in the Federal System Statement of Revenues and Expenses. This information was extracted from audited financial statements or accounting records supporting the audited financial statements. Federal System financial statements are prepared in conformity with generally accepted accounting principles. The audited Financial Statements of the Federal System (which include accounts of Bonneville as well as those of the generating facilities of the Corps and the Bureau, for which Bonneville is the power marketing agency) for the fiscal year ended September 30, 2000 are included as Appendix A-1 hereto.

**Federal System Statement of Revenues and Expenses**  
(Actual Dollars in Thousands)

Fiscal year ending September 30.	1998	1999	2000
Operating Revenues:			
Sales of electric power —			
Sales within the Northwest Region —			
Publicly-owned utilities <sup>(1)</sup>	\$ 748,507	\$ 898,744	934,270
Aluminum industry <sup>(2)</sup>	276,126	322,517	363,454
Investor-owned utilities <sup>(3)</sup>	450,555	407,317	649,449
Other power sales <sup>(4)</sup>	55,585	48,871	38,578
Sales outside the Northwest <sup>(5)</sup>	<u>438,894</u>	<u>586,139</u>	<u>652,221</u>
Total Sales of Electric Power	1,969,667	2,263,588	2,637,972
Transmission and other revenues <sup>(6)</sup>	<u>343,586</u>	<u>355,291</u>	<u>402,197</u>
Total Operating Revenues	2,313,253	2,618,879	3,040,169
Operating Expenses:			
Bonneville O&M <sup>(7)</sup>	598,555	463,688	506,878
Purchased Power <sup>(8)</sup>	140,732	265,304	624,882
Corps and Bureau O&M <sup>(9)</sup>	144,887	160,037	162,621
Non-Federal entities O&M — net billed <sup>(10)</sup>	168,555	185,353	193,085
Non-Federal entities O&M — non-net billed <sup>(11)</sup>	<u>36,099</u>	<u>41,663</u>	<u>32,942</u>
Total Operation and Maintenance	1,088,828	1,116,045	1,520,408
Net billed debt service <sup>(12)</sup>	520,452	625,404	535,460
Non-net billed debt service	<u>24,914</u>	<u>25,689</u>	<u>25,139</u>
Non-Federal Projects Debt Service <sup>(13)</sup>	545,366	651,093	560,599
Federal Projects Depreciation	287,692	309,183	319,942
Residential Exchange <sup>(14)</sup>	<u>63,869</u>	<u>63,619</u>	<u>63,593</u>
Total Operating Expenses	<u>1,985,755</u>	<u>2,139,940</u>	<u>2,464,542</u>
Net Operating Revenues	<u>327,498</u>	<u>478,939</u>	<u>575,627</u>
Interest Expense:			
Appropriated Funds	317,403	314,042	315,826
Long-term debt	148,242	130,916	115,052
Capitalization Adjustment <sup>(15)</sup>	(64,886)	(64,886)	(67,474)
Allowance for funds used during construction	<u>(24,807)</u>	<u>(24,419)</u>	<u>(28,754)</u>
Net Interest Expense	375,952	355,653	334,650
Net Revenues/(Expenses) <sup>(16)</sup>	\$ (48,454)	\$ 123,286	\$ 240,977
Total Sales — average megawatts (Net of Residential Exchange Program)	10,165	11,394	11,361

- (1) This customer group includes municipalities, public utility districts and rural electric cooperatives. Power revenues increased by \$150 million, or 20%, in fiscal year 1999 due primarily to increased power sales to meet such customers' load growth, most of which was placed on Bonneville.
- (2) Revenues from the aluminum industry increased by \$46 million, or 17%, in fiscal year 1999 and \$41 million, or 13%, in fiscal year 2000 due to increasing firm power sales under provisions certain aluminum companies have in their contracts with Bonneville.
- (3) Revenues from power sales to Investor-owned utilities decreased by \$43 million, or 10%, in fiscal year 1999 due to fewer short-term power sales to such utilities. The \$242 million, or 59%, increase in fiscal year 2000, was due to greater short-term power sales to such utilities in a market with increasingly higher prices.
- (4) Other power sales revenues decreased by \$7 million, or 12%, in fiscal year 1999, and by \$10 million, or 21% in fiscal year 2000 due to terminated Federal agency contracts in California and decreased power sales to non-aluminum industrial customers in the Region.



- (5) In general, revenues from sales outside the Northwest are highly dependent upon stream flows in the Columbia River Basin, which affect the amount of non-firm energy available for sale, and upon the costs of generating power with alternative fuels, which affect the price Bonneville can obtain for its exported non-firm energy and surplus firm power. Market prices generally increased for wholesale power in fiscal years 1999 and 2000. Revenues from sales outside the Northwest increased by \$147 million, or 34%, in fiscal year 1999. Bonneville had additional power to sell because an above-average water year resulted in the generation of more power than the previous year and allowed Bonneville to sell more short-term power in the winter. Bonneville also was able to increase its long-term firm sales to customers outside the Pacific Northwest. In fiscal year 2000, sales outside the Region increased by \$66 million, or 11%, primarily due to higher prices.
- (6) Bonneville obtains revenues from the provision of transmission and other related services. Bonneville also receives certain revenues from sources apart from power sales and the provision of transmission services. The \$47 million, or 13%, increase in fiscal year 2000 was primarily due to estimated Section 4(h)(10)(C) credits under the Northwest Power Act. Such credits were \$26.3 million and \$60.0 million for fiscal years 1999 and 2000, respectively. See "POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Fish and Wildlife."
- (7) Bonneville operations and maintenance expenses include the costs of Bonneville's transmission system development, operation and maintenance program, energy resources, power marketing, and fish and wildlife programs. Fiscal year 1998 includes \$151 million in final settlement of a dispute over the cancellation of the Tenaska gas-fired combustion turbine generating plant. Excluding the one-time Tenaska settlement, Bonneville operations and maintenance expenses increased by \$16 million, or 4%, in fiscal year 1999. In fiscal year 2000, such expenses increased by \$43 million, or 9%, due to increased power marketing expenses and conservation services.
- (8) Purchased power expenses increased by \$125 million, or 89%, in fiscal year 1999, and by \$360 million, or 136%, in fiscal year 2000 due to significant increases in the cost of power in the Western power market. See "RECENT DEVELOPMENTS IN THE ELECTRIC UTILITY INDUSTRY AND BONNEVILLE'S COMPETITIVE POSITION — Power Market Developments."
- (9) Corps and Bureau operations and maintenance expenses include the costs for the Corps and Bureau generating facilities included in the Federal System. Such expenses increased by \$15 million, or 10%, in fiscal year 1999. This increase is mostly attributable to the carryover into fiscal year 1999 of unexpended appropriations and obligation authority the Corps had in fiscal year 1998.
- (10) The Non-Federal entities O&M – net billed expense includes the operation and maintenance costs for generating facilities, the generating capability or output of which Bonneville has agreed to purchase under certain capitalized contracts which are net-billed. Such expenses increased by \$17 million, or 10%, from fiscal year 1998 to 1999 primarily because fiscal year 1998 actual expense was affected by certain one-time events relating to the financial operation of the Trojan Project. In particular, fiscal year 1998 actual expenses at Trojan were affected by delays in decommissioning activities in fiscal year 1997, which resulted in cash being carried forward into fiscal year 1998, and from funding received from contract settlements in fiscal year 1998.
- (11) The Non-Federal entities O&M – non-net-billed expense includes the operation and maintenance costs for generating facilities, the generating capability or output of which Bonneville has agreed to purchase under certain capitalized contracts which are not net-billed. The \$9 million, or 21%, decrease in fiscal year 2000 is largely due to decreased purchase commitments under alternative energy programs.
- (12) Net billed debt service increased \$105 million, or 20%, in fiscal year 1999 because the previously set, non-level amortization schedule for Energy Northwest outstanding debt required higher payments in fiscal year 1999 compared to fiscal year 1998. The \$90 million, or 14%, decrease in fiscal year 2000 is due primarily to the release of excess cash from certain debt service reserve accounts, thereby lowering annual debt service.
- (13) These amounts include payment by Bonneville for all or a part of the generating capability of, and debt service on, four nuclear power generating projects (three of which are terminated). They are Energy Northwest's Project 1, Project 3, and the Columbia Generating Station, and the City of Eugene Water and Electric Board's 30% ownership share of the Trojan Nuclear Project. These amounts also include payment by Bonneville with respect to several small generating and conservation projects.
- (14) See "POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting Bonneville's Power Business Line" and " — Residential Exchange Program."
- (15) The capitalization adjustment represents the annual recognition of the reduction in principal realized from refinancing federal appropriations under legislation enacted in 1996.

- (16) Net revenues increased by \$172 million in fiscal year 1999. Total operating revenues increased by \$306 million primarily due to an increase in short-term power sales. An above-average water year resulted in the generation of more power than the previous year and allowed Bonneville to sell more short-term power in the winter. While streamflows in fiscal year 1999 were substantially above average, Bonneville nonetheless had an increase in total operating expense of about \$154 million over fiscal year 1998, primarily because weather conditions led to comparatively low water in spring and fall causing Bonneville to purchase power at such times to meet contractual obligations. Also, non-federal debt service expenses increased compared to fiscal year 1998 because the previously set, non-level amortization schedule for Energy Northwest's outstanding debt required higher payments in fiscal year 1999 compared to 1998. Net revenues increased by \$118 million in fiscal year 2000. Operating revenues increased by \$421 million. Despite a slightly below-average water year, revenues were up because market prices for discretionary power sales doubled from the previous year. Purchased power expense contributed to an increase of \$325 million in total operating expenses. Net billed debt service decreased by \$90 million, due primarily to the release of excess cash from certain debt service reserve accounts.

#### **Statement of Non-Federal Project Debt Service Coverage**

The Statement of Non-Federal Project Debt Service Coverage and United States Treasury Payments uses the Federal System Statement of Revenue and Expenses to develop a non-federal Project debt service coverage ratio ("Non-Federal Project Debt Service Coverage Ratio") which demonstrates how many times total non-federal Project debt service is covered by net funds available for non-federal Project debt service. Net funds available for non-federal Project debt service is defined as total operating revenues less operating expenses (see footnote 7 to the Statement of Non-Federal Project Debt Service Coverage below). Net funds available for non-federal Project debt service less total non-federal Project debt service yields the amount available for payment to the United States Treasury. This Non-Federal Project Debt Service Coverage Ratio does not reflect the actual priority of payments or distinctions between cash payments and credits under Bonneville's net billing obligations. For a discussion of certain direct payments by Bonneville for Federal System operations and maintenance, which payments reduce the amount of deferrable appropriations obligations Bonneville would otherwise be responsible to repay. See "— Direct Funding of Corps and Bureau Federal System Operations and Maintenance Expense."

**Statement of Non-Federal Project Debt Service Coverage and United States Treasury  
Payments  
(Actual Dollars in Thousands)**

Fiscal Years ending September 30,	1998	1999	2000
Total Operating Revenues	\$2,313,253	\$2,618,879	\$3,040,169
Less: Operating Expense <sup>(1)</sup>	<u>1,007,810</u>	<u>1,019,628</u>	<u>1,421,380</u>
Net Funds Available for Non-Federal Project Debt Service	1,305,443	1,599,251	1,618,789
Less: Total Non-Federal Project Debt Service <sup>(2)</sup>	<u>545,366</u>	<u>651,093</u>	<u>560,599</u>
Revenue Available for Treasury	760,077	948,158	1,058,190
Amount Paid to Treasury:			
Corps and Bureau O&M <sup>(3)</sup>	144,887	160,037	162,621
Net Interest Expense <sup>(4)</sup>	375,952	355,653	334,650
Capitalization Adjustment <sup>(5)</sup>	64,886	64,886	67,474
Allowance for Funds Used During Construction <sup>(4) (6)</sup>	8,024	8,441	8,578
Amortization of Principal	<u>246,955</u>	<u>190,984</u>	<u>289,925</u>
Total Amount Allocated for Payment to Treasury <sup>(7)</sup>	840,704	780,001	863,248
Revenues Available for Other Purposes <sup>(8)</sup>	(80,627)	168,157	\$194,942
Non-Federal Project Debt Service Coverage Ratio <sup>(9)</sup>	2.4	2.5	2.9
Non-Federal Project Debt Service Plus Operating Expense Coverage Ratio <sup>(10)</sup>	1.5	1.6	1.5

- (1) Operating Expenses include the following items from the Federal System Statement of Revenues and Expenses: Bonneville operation and maintenance, purchased power, other entities operation and maintenance, including net billed project costs, and the Residential Exchange Program. Operating Expenses do not include payments to the Corps and Bureau. Treatment of the Corps and Bureau operating expense is described in “— Direct Funding of Corps and Bureau Federal System Operations and Maintenance Expense.”
- (2) Includes net billed and non-net billed debt service. Non-net billed debt service amounted to \$24.9 million, \$25.7 million and \$25.1 million for fiscal years 1998, 1999 and 2000, respectively.
- (3) Amounts shown are calculated on an accrual basis and include direct operations and maintenance payments to the Corps for fiscal years 1999 and 2000, and to the Bureau for fiscal years 1998, 1999 and 2000. See “— Direct Funding of Corps and Bureau Federal System Operations and Maintenance Expense.”
- (4) Amounts shown are calculated on an accrual basis.
- (5) The capitalization adjustment is included in net interest expense but is not part of Bonneville’s payment to the United States Treasury.
- (6) The Allowance for Funds Used During Construction that Bonneville pays to the United States Treasury is Bonneville’s portion of the interest component on the Federal investment during the construction period.
- (7) Bonneville’s payments to United States Treasury in fiscal years 1998, 1999 and 2000 were \$852 million, \$627 million and \$732 million, respectively. The Total Amount Allocated for Payment to Treasury in fiscal year 1998 also included direct payments to the Bureau for operations and maintenance totaling \$41 million and reflects certain differences between cash

and accruals. In fiscal years 1999 and 2000, respectively, direct payments to both the Bureau and Corps for operations and maintenance were included in the amount of \$41 million and \$46 million for the Bureau, and \$106 million and \$104 million for the Corps. See “— Direct Funding of Corps and Bureau Federal System Operations and Maintenance Expense.”

- (8) Revenues Available For Other Purposes approximates the change in reserves from year to year. Reserves were \$430 million at the end of fiscal year 1997 and \$811 million at the end of fiscal year 2000.
- (9) The “Non-Federal Debt Service Coverage Ratio” is defined as follows:

$$\frac{\text{Total Operating Revenues-Operating Expense (Footnote 1)}}{\text{Non-Federal Project Debt Service}}$$

- (10) The “Non-Federal Debt Service plus Operating Expense Coverage Ratio” is defined as follows:

$$\frac{\text{Total Operating Revenues}}{\text{Operating Expense (Footnote 1) + Non-Federal Project Debt Service}}$$

**Statement of Net Billing Obligations and Expenditures <sup>(1)</sup>**  
**(Actual Dollars in Thousands)**

Fiscal years ending September 30,	1998	1999	2000
Operating Revenues from Publicly-Owned Utilities <sup>(2)</sup>	\$748,507	\$898,744	\$934,270
Net Billing Obligations:			
Net Billing Credits	\$588,538	\$673,053	\$642,541
Payments in Lieu of Net Billing <sup>(3)</sup>	<u>79,821</u>	<u>138,809</u>	<u>66,992</u>
Net Billing Obligations Cash	668,359	811,862	709,533
Net Billing Expenditures:			
Net Billed Debt Service	520,452	625,404	535,460
Other Entities O&M — Net Billed	168,555	185,353	193,085
Increase/(Decrease) in Prepaid Expense <sup>(4)</sup>	<u>(20,648)</u>	<u>1,105</u>	<u>(19,012)</u>
Net Billing Expenditures Accrual	<u>\$668,359</u>	<u>\$811,862</u>	<u>\$709,533</u>

- (1) Bonneville funds its obligation for net billed project costs on a cash basis and it expenses the net billed project budgets on an accrual basis. This reconciliation ties the cash net billing obligation to the accrual net billing obligation through the changes in Bonneville’s prepaid expense.
- (2) Bonneville’s actual revenues from Publicly Owned Utilities exceeded net billing obligations. Most but not all of Bonneville’s Publicly Owned Utilities are Participants in the Net Billed Projects.
- (3) Includes voluntary direct cash payments made to Energy Northwest by Bonneville when the Participants’ obligations to Energy Northwest exceed the allowed net billing credits. See “SECURITY FOR THE NET BILLED BONDS — Payment Procedures — The Columbia Generating Station” and “— Payment Procedures — Terminated Projects,” herein, for a discussion of voluntary cash payments Bonneville makes to Energy Northwest in lieu of reassigning net billing shares among Participants.
- (4) Excludes \$22.2 million of prepaid expenses not associated with the Net Billed Projects.

## **BONNEVILLE LITIGATION**

### **Puget Sound Energy Inc. v. United States**

On July 1999, Puget Sound Energy Inc., (“Puget”), a Regional IOU, filed a breach of contract claim against the United States in the U.S. Court of Federal Claims (“Claims Court”), alleging that Bonneville overcharged Puget for certain construction costs relating to a segment of the Southern Intertie referred to as the “AC Line.” Under an agreement that Bonneville and Puget entered into in 1994, Puget received transmission capacity rights in the AC Line in return for a promise to reimburse Bonneville for certain costs Bonneville incurred in constructing the project. Puget seeks \$9.4 million in damages.

Upon a motion filed by Bonneville, the Claims Court transferred the case to the U.S. Court of Appeals for the Ninth Circuit (“Ninth Circuit Court”). The Claims Court ruled in general that the dispute is a transmission rates matter and that exclusive jurisdiction for such challenges is vested in the Ninth Circuit Court. In January 2001, Bonneville filed a motion with the Ninth Circuit Court to dismiss the transferred case on the grounds that the original complaint was filed after the time permitted for challenging Bonneville actions in the Ninth Circuit and is therefore time-barred. Briefing on the motion is expected to be complete by the end of March 2001.

### **City of Burbank, California v. United States**

In 1998, the City of Burbank, California (“Burbank”) filed a breach of contract claim against the United States in the Claims Court. Burbank alleges that Bonneville breached a Power Sales and Exchange Agreement with Burbank by (i) converting the power delivery obligation under the agreement from a power sales mode to a power exchange mode and (ii) improperly calculating the power rate that Burbank is responsible to pay under the agreement. Burbank seeks between \$3 million and \$4 million in damages.

Without motion of any party to the litigation, in July 2000, the Claims Court dismissed Burbank’s action on the grounds that the matter is a dispute over a Bonneville rate and actions taken by Bonneville under its governing statutes and therefore exclusive jurisdiction lies with the Ninth Circuit Court. In addition, on Bonneville’s motion, the court found that Burbank failed to follow certain procedures required under the Contract Disputes Act. Burbank appealed the dismissal to the U.S. Court of Appeals for the Federal Circuit. Briefing on the appeal is complete but the oral argument schedule has not been set.

### **Residential Exchange Program Litigation**

In connection with the Subscription, Bonneville prepared certain *pro forma* Residential Purchase and Sales Agreements (RPSAs) and tendered the form of such agreements to the Regional IOUs for their consideration and possible execution. The *pro forma* RPSAs proposed to define Bonneville’s statutory obligations under the Residential Exchange Program provisions of the Northwest Power Act for the ten-year period beginning October 1, 2001. See “POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting Bonneville’s Power Business Line,” “— Residential Exchange Program” and “— Power Marketing Plan for the Period After Fiscal Year 2001.”

During the same time-frame, Bonneville negotiated certain agreements (the “Exchange Settlements”) with Regional IOUs to settle Bonneville’s statutory Residential Exchange Program obligation under such agreements in lieu of the RPSAs for the five- and/or ten-year period beginning October 1, 2001. In October 2000, all six Regional IOUs entered into the Exchange Settlements in lieu of the RPSAs.

A number of Bonneville’s customers and customer groups filed petitions with the Ninth Circuit Court seeking review of the RPSAs and the Exchange Settlements. A number of interventions have also been filed in the foregoing challenges. Among those participating in the litigation are a group of DSIs, all six Regional IOUs and a number of Preference Customers and Preference Customer groups.

The petitions for review do not specify the precise nature of the challenges to Bonneville’s final actions with regard to the RPSAs and the Exchange Settlements, but allege generally that the RPSAs and Exchange Settlements violate the Bonneville Project Act, the Pacific Northwest Consumer Power Preference Act, the Transmission System Act, the Northwest Power Act, NEPA, and/or the Administrative Procedure Act. Bonneville expects the likely remedies sought would be that the Exchange Settlements, and/or RPSAs, be remanded to Bonneville for redevelopment or that Regional IOUs be allowed only to participate in the Residential Exchange Program under the RPSAs.

The court has vacated the briefing and oral argument schedule and referred the case to the court’s mediation program.

### **Challenge to Standards for Service**

On March 27, 2000, Montana Electricity Buying Cooperative (“MEBC”) filed an action in the Ninth Circuit Court challenging Bonneville’s policy on standards for service with which an entity must comply in order to qualify as a “utility” customer. Specifically, MEBC challenges Bonneville’s standard requiring that a utility customer must own the distribution system used to serve the customer’s retail consumers. MEBC, which does not own a distribution system to serve the retail customer loads at issue in the proceeding, seeks to purchase power from Bonneville for ultimate service to residential ratepayers of Montana Power Company. Portland General Electric Company and the State of Oregon have intervened as petitioners. Public Power Council (an association of Preference Customers) and Avista Corporation (a Regional IOU) have intervened as respondents. Non-aligned intervenors include certain DSIs and Pacific Northwest Generating Cooperative (a cooperative of certain Preference Customers). Briefing is complete but

no date has been set for oral argument. Bonneville believes it will prevail in this litigation. If MEBC were to prevail, the likely remedy would be for the court to remand the standards of service to Bonneville for reconsideration, with the possibility that Bonneville will amend the standards to permit certain entities to qualify to purchase power from Bonneville as Preference Customers.

#### **5(b)/9(c) Policy Challenge**

In July 2000, a number of Bonneville customers filed individual petitions in the Ninth Circuit Court seeking review of Bonneville's policy on determining customer net requirements under sections 5(b) and 9(c) of the Northwest Power Act (the "5(b)/9(c) Policy"). The court subsequently consolidated the petitions into a single proceeding. Among those challenging the policy are individual Preference Customers, two Regional IOUs and a DSI. Intervenors include another Regional IOU, two associations of Preference Customers, an association of industrial electricity customers in the Region and the State of Oregon.

The 5(b)/9(c) Policy is an important component of Bonneville's execution and implementation of the Subscription power sales contracts. Under section 5(b) of the Northwest Power Act, Bonneville in general is obligated to offer a contract to each requesting Preference Customer and Regional IOU to meet its respective firm loads within the Region, net of the resources used by the utility to serve such loads. In making this determination, Bonneville has a corresponding duty to apply the provisions of section 9(c) of the Northwest Power Act and section 3(d) of the Regional Preference Act. These sections require that Bonneville reduce the amount of Federal System power Bonneville would otherwise be obligated to supply by the amount of power a requesting customer is exporting from its own resources outside the Pacific Northwest which could have been conserved or otherwise retained by the customer for use in the Pacific Northwest.

Under the 5(b)/9(c) Policy Bonneville defines the conditions under which a Regional customer may export power out of the Region from its own resources without decreasing the amount of requirements service it may receive from Bonneville.

The Parties have filed briefs with the court. Oral argument has not been scheduled. This matter has been included in the mediation program for the Ninth Circuit Court.

#### **M-S-R Public Power Agency, et al., v. Bonneville Power Administration**

In 1999, Bonneville was sued by numerous DSIs, as well as the M-S-R Public Power Agency ("M-S-R"), a power agency established pursuant to the laws of California, in the U.S. Court of Appeals for the Ninth Circuit. The DSIs and M-S-R seek review of Bonneville's August 30, 1999 "Excess Federal Power Policy" determination. In that determination, Bonneville provided its customers notice of the amount of surplus power Bonneville is authorized to market as excess federal power. Excess federal power is surplus power that Bonneville may sell for up to seven years without the recall constraints that would otherwise apply by reason of the Regional Preference Act. The amount of such power varies based on periodic determinations by Bonneville under its Excess Federal Power Policy. See "POWER BUSINESS LINE — Customers of Bonneville's Power Business Line — Exports of Surplus Power to the Pacific Southwest." These parties are asking the court to determine whether Bonneville's determination of the amount of excess federal power for the period August 1999 through July 2009 was in compliance with its statutory authority.

In addition, M-S-R filed a petition for review of Bonneville's September 28, 2000 preliminary annual excess federal power determination, as well as Bonneville's September 29, 2000 notification to M-S-R that firm power will likely not be available for sale to M-S-R for the Contract Year that begins on October 1, 2004. On December 19, 2000, Bonneville issued its final Excess Federal Power determination for the year 2000.

Bonneville believes it is unlikely that M-S-R or the DSIs will prevail. In the event they were to prevail, Bonneville believes its excess federal power determinations for the years 1999 and 2000 would likely be remanded back to Bonneville for further consideration.

#### **Valenco, Inc. v. Bonneville Power Administration ("Valenco 1")**

Three of Bonneville's DSI customers sued Bonneville in the U.S. Court of Appeals for the Ninth Circuit challenging Bonneville's decisions to offer to sell them surplus firm power under Bonneville's "FPS-96" rate schedule, rather than under Bonneville's lower cost "IP-96" rate schedule. These DSIs — Valenco, Inc., Kaiser Aluminum & Chemical Corporation ("Kaiser"), and the Aluminum Company of America, Inc. ("ALCOA") — allege that Bonneville violated provisions of the Northwest Power Act and the Regional Preference Act. They allege that Bonneville is impermissibly marketing surplus power outside the Pacific Northwest while refusing to sell them power in the Pacific Northwest. They further allege Bonneville is violating Bonneville's rate schedules. In addition, Kaiser alleges Bonneville is in breach of its power sales contract by such marketing and that Bonneville's refusal to arbitrate this case is a further breach of its power sales contract.

These consolidated cases have been fully briefed, and Bonneville believes it will prevail in this litigation. However, in the event of an adverse ruling, Bonneville believes the case would likely be remanded back to Bonneville. It is possible, but in the opinion of the Acting General Counsel to Bonneville unlikely, that, in the event of an adverse ruling, the court could instruct Bonneville to offer to sell the DSIs surplus firm power at the IP-96 rate rather than the FPS-96 rate.

#### **Valenco, Inc. v. Bonneville Power Administration ("Valenco 2")**

In April, 2000, Bonneville issued a document entitled "Power Subscription Strategy — Administrator's Supplemental Record of Decision" ("Supplemental Subscription Strategy ROD"). The Supplemental Subscription Strategy ROD was issued to

address issues and developments that had occurred since Bonneville issued its original Subscription Strategy Record of Decision in December 1998. The Subscription Strategy Record of Decision, and the Supplemental Subscription Strategy ROD set the course for Bonneville to establish rates and offer power sales contracts upon expiration of previously existing contracts on September 30, 2001.

Shortly after issuance of the Supplemental Subscription Strategy ROD, Bonneville was sued in the U.S. Court of Appeals for the Ninth Circuit by Vanalco, Inc. (a DSI), Puget Sound Energy (a Regional IOU), and the Pacific Northwest Generating Cooperative ("PNGC") and its members. The PNGC is a consortium of generating cooperative Preference Customers in the Pacific Northwest. Petitioner Vanalco has voluntarily withdrawn from the litigation, and, in an order dated January 23, 2001, the existing briefing schedule was vacated and the PNGC and Puget cases were selected for inclusion in the Ninth Circuit Court's mediation program. The case has been stayed until the court convenes a status conference.

In the event that the litigation were to proceed, it is possible that the challenged decisions would be remanded to Bonneville to redetermine the amount of power allocated to various customer classes under Subscription and the terms under which such power would be provided. Bonneville expects to prevail.

#### **National Wildlife Federation v. U.S. Army Corps of Engineers**

In a lawsuit filed in March 1999 in the United States District Court for the District of Oregon, the National Wildlife Federation ("NWF"), an advocate for environmental causes, has asked the court (1) to find that the Corps has violated state water quality standards for dissolved gas and temperature at four Federal System dams in the lower Snake River and (2) to order the Corps to present to the court a plan for meeting the standards. Plaintiffs seek a court order that would require the Corps to take immediate actions to meet state water quality standards.

Among the measures that plaintiffs assert would reduce dissolved gas are a number of capital improvements such as installation of stilling basins and dividers between spillways. Example of measures to control water temperatures include boring additional channels in a dam so that a dam could pass water from varying depths in the dam's reservoir and draining reservoirs behind the dams so that the river, although smaller in volume, flows more quickly.

On February 16, 2001, the court issued an opinion and order granting summary judgment in favor of NWF. The court found that the Corps did not adequately address compliance with its legal obligations under the Clean Water Act in the Corps' 1998 record of decision on dam operations under biological opinions, and supplements thereto, then in effect under the ESA. For a discussion of biological opinions affecting the Federal System hydroelectric projects, see "POWER BUSINESS LINE—Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Fish and Wildlife." The court ordered the Corps to issue a new decision by the latter part of April 2001 to replace the Corps' 1998 record of decision and to address compliance with the Clean Water Act in the new decision. It is possible that in replacing its decision the Corps may consider implementing additional actions or measures with regard to compliance with the Clean Water Act.

#### **California Oregon Intertie (COI) Transmission Dispute**

In March 2000, the Transmission Agency of Northern California ("TANC"), an instrumentality of the State of California and a participant in transmission facilities in that state, filed an action against Bonneville, the Sierra Pacific Power Co ("Sierra Pacific"), PacifiCorp, and the Portland General Electric Company in California state court. The action was removed to the U.S. District Court for the Eastern District of California. TANC's claims against Bonneville include inverse condemnation, trespass, nuisance, conversion and breach of contract. TANC seeks damages in the amount of \$23 million.

In November 2000, Bonneville moved to dismiss TANC's complaint on procedural grounds. The other named defendants have also moved to dismiss TANC's complaint on other grounds. On February 9, 2001, the U.S. District Court Judge dismissed all claims against Bonneville as the court lacked jurisdiction to review all claims against Bonneville. The court also dismissed all claims against the other defendants. TANC has filed notice of appeal of the decision.

TANC's complaint in the foregoing litigation is similar to a matter before FERC. In 1998, Sierra Pacific sought approval from FERC for the Alturas interconnection, which FERC granted. TANC and other California public and private utilities intervened, asserting that the interconnection adversely affected reliability of the COI transmission line. The hearing has occurred and FERC's decision is expected in spring 2001.

#### **Rates Litigation**

Bonneville's rates are frequently the subject of litigation. Most of the litigation involves claims that Bonneville's rates are inconsistent with statutory directives, are not supported by substantial evidence in the record or are arbitrary and capricious. Bonneville is proposing power and transmission rates to be effective October 1, 2001. See "POWER BUSINESS LINE — Power Marketing Plan for the Period After Fiscal Year 2001," "TRANSMISSION BUSINESS LINE — Bonneville's Transmission and Ancillary Services Rates" and "MATTERS RELATING TO THE POWER AND TRANSMISSION BUSINESS LINES — Bonneville Ratemaking and Rates."

It is the opinion of Bonneville's Acting General Counsel that if any rate were to be rejected, the sole remedy accorded would be a remand to Bonneville to establish a new rate. Bonneville's flexibility in establishing rates could be restricted by the rejection of a Bonneville rate, depending on the grounds for the rejection. Bonneville is unable to predict, however, what new rate it would establish if a rate were rejected. If Bonneville were to establish a rate that was lower than the rejected rate, a petitioner may be

entitled to a refund in the amount overpaid. However, Bonneville is required by law to set rates to meet all of its costs: provided, however, that in the case of a FERC ordered transmission rate no such rate shall be unjust, unreasonable or unduly discriminatory. Thus, it is the opinion of Bonneville's Acting General Counsel that Bonneville may be required to increase its rates to seek to recover the amount of any such refunds, if needed.

#### **Miscellaneous Litigation**

From time to time, Bonneville is involved in numerous other cases, including land, employment, federal procurement and tort claims, some of which could result in money judgments or increased costs to Bonneville. The combined amount of damages claimed in these unrelated actions is not expected to exceed \$50 million.

### **LEGAL MATTERS**

The approving opinions of Willkie Farr & Gallagher, Bond Counsel to Energy Northwest, as to the legality of the Series 2001-A Bonds will be in substantially the forms appended hereto in Appendices C-1, C-2 and C-3. The opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, as to the exclusion of the interest on the Series 2001-A Bonds from the gross income of the owner thereof for federal income tax purposes will be in substantially the forms appended in Appendix D.

Bond Counsel and General Counsel to Energy Northwest will also render opinions with respect to the validity and enforceability of the Net Billing Agreements and the Assignment Agreements. In rendering their opinions with respect to the Net Billing Agreements, Bond Counsel and General Counsel to Energy Northwest will assume the correctness of the opinions of counsel to each of the Participants, rendered in 1971, 1972, 1973 and 1974 as to (1) the due organization of and the due authorization of such Net Billing Agreements by such Participants, (2) except in the case of one Participant as to which there was an irregularity in the proceedings relating to the execution of the Net Billing Agreement to which it is a party, the due execution and delivery by such Participants of such Net Billing Agreements and (3) the fact that such Net Billing Agreements did not violate or conflict with applicable law. As to the due authorization, execution and delivery of the Net Billing Agreements and the Assignment Agreements by Bonneville and certain other matters, Bond Counsel and General Counsel to Energy Northwest will rely on the opinion of Bonneville's Acting General Counsel. Copies of the proposed forms of these opinions of Bond Counsel are appended hereto as Appendices C-4, C-5 and C-6.

See "SECURITY FOR THE PRIOR LIEN BONDS — Net Billing Agreements" and "— Assignment Agreements" for a discussion of Bonneville's agreement to pay directly to Energy Northwest certain amounts which are not paid by a Participant and for a discussion of certain of Bonneville's obligations under the Assignment Agreements.

Upon delivery of the Project 1 2001-A Bonds, the Columbia 2001-A Bonds and the Project 3 2001-A Bonds, respectively, and application of the proceeds thereof in accordance with the bond resolutions and escrow agreements, Bond Counsel will also render an opinion to the effect that all of the Refunded Bonds will no longer be deemed outstanding within the meaning of the related Prior Lien Resolution.

Certain legal matters, including the enforceability against Bonneville of the Net Billing Agreements and the Assignment Agreements, will be passed upon for Bonneville by its Acting General Counsel and by its Special Counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York.

Certain legal matters will be passed upon for the Underwriters by O'Melveny & Myers LLP, New York, New York, Counsel to the Underwriters.

### **TAX EXEMPTION**

In the opinion of Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series 2001-A Bonds is excluded from gross income for federal income tax purposes under Title XIII of the Tax Reform Act of 1986, as amended (the "1986 Act"), and Section 103 of the Internal Revenue Code of 1954, as amended (the "Code"). Special Tax Counsel is of the further opinion that interest on the Series 2001-A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Tax Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. In rendering its opinion, Special Tax Counsel has relied on the opinion of Bond Counsel as to the validity of the Series 2001-A Bonds and the due authorization and issuance of the Series 2001-A Bonds. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in Appendix D hereto.

The amount by which the respective issue prices of the Series 2001-A Bonds of each maturity is less than the amount to be paid at maturity of such Series 2001-A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2001-A Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2001-A Bonds, as applicable, and is excluded from gross income for federal income tax purposes. For this purpose, the issue price of each maturity of the Series 2001-A Bonds is the first price at which a substantial amount of the Series 2001-A Bonds of such maturity is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to the Series 2001-A Bonds accrues daily over the term to maturity of such Series 2001-A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is



added to the adjusted basis of such Series 2001-A Bonds to determine taxable gain or loss upon disposition (including sale, redemption or payment on maturity) of such Series 2001-A Bonds. Beneficial Owners of the Series 2001-A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the Series 2001-A Bonds, as applicable, including the treatment of purchasers who do not purchase such Series 2001-A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2001-A Bonds of the same maturity is sold to the public.

Series 2001-A Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The 1986 Act imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2001-A Bonds. Energy Northwest and Bonneville have covenanted to comply with certain restrictions designed to insure that interest on the Series 2001-A Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Series 2001-A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2001-A Bonds. The opinion of Special Tax Counsel assumes compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2001-A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2001-A Bonds. Further, no assurance can be given that pending or future legislation or amendments to the 1986 Act, if enacted into law, or any proposed legislation or amendments to the 1986 Act, will not adversely affect the value of, or the tax status of interest on, the Series 2001-A Bonds.

Certain agreements, requirements and procedures contained or referred to in the Resolutions, as applicable, the Tax Matters Certificates to be executed by Energy Northwest and by Bonneville simultaneously with the issuance of the Series 2001-A Bonds, and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Tax Counsel expresses no opinion as to any Series 2001-A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Tax Counsel is of the opinion that interest on the Series 2001-A Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2001-A Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

## **RATINGS**

Fitch, Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P") have assigned the Insured Bonds the ratings of AAA, Aaa and AAA, respectively. Fitch, Moody's and S&P have assigned the 2001-A Bonds, other than the Insured Bonds, the ratings of AA, Aa1 and AA-, respectively. Ratings were applied for by Energy Northwest and certain information was supplied by Energy Northwest and Bonneville to such rating agencies to be considered in evaluating the Series 2001-A Bonds. Such ratings reflect only the respective views of such rating agencies, and an explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. There is no assurance that any or all of such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2001-A Bonds.

## **UNDERWRITING**

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2001-A Bonds from Energy Northwest at an aggregate underwriting discount from the initial public offering prices set forth on the cover page of this Official Statement of \$2,635,708.75 and to make a bona fide public offering of the Series 2001-A Bonds at not in excess of such public offering prices. The Underwriters' obligations are subject to certain conditions precedent contained in the bond purchase contract and they will be obligated to purchase all such Series 2001-A Bonds, if any such Bonds are purchased. The Series 2001-A Bonds may be offered and sold to certain dealers, banks and others (including underwriters and other dealers depositing such Series 2001-A Bonds into investment trusts) at prices lower than such initial offering prices and such initial offering prices may be changed from time to time by the Underwriters of the Series 2001-A Bonds.

## **CONTINUING DISCLOSURE**

Pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934 ("Rule 15c2-12"), Energy Northwest and Bonneville will enter into a Continuing Disclosure Agreement, to be dated the date of delivery of the Series 2001-A Bonds for the benefit of

holders of the Series 2001-A Bonds, to provide certain financial information and operating data relating to Energy Northwest (the "Energy Northwest Annual Information"), certain financial information and operating data relating to Bonneville (the "Bonneville Annual Information" and, together with Energy Northwest Annual Information, the "Annual Information") and to provide notices of the occurrence of certain enumerated events with respect to Series 2001-A Bonds, if material. Energy Northwest Annual Information is to be provided not later than December 31 of each year, commencing December 31, 2001. The Bonneville Annual Information is to be provided not later than March 31 of each year, commencing March 31, 2001. The Annual Information will be filed with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRs") and with the State Depository for the State of Washington, if such State Depository exists (the "State Depository"). At this time, there is no State Depository. Notices of aforesaid enumerated events will be filed by Energy Northwest with the NRMSIRs or the Municipal Securities Rulemaking Board (the "MSRB") and with the State Depository. Energy Northwest and Bonneville have complied with all previous undertakings with respect to Rule 15c2-12. The nature of the information to be provided in the Annual Information and the notices of such material events is set forth in Appendix I hereto, "SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT."

### **VERIFICATION OF MATHEMATICAL ACCURACY**

The arithmetical and mathematical accuracy of the computations showing the adequacy of the maturing principal of the Investment Securities deposited in the trust funds, as described herein under "PLAN OF REFUNDING," together with the income earned thereon, to pay when due to and including the date of maturity or redemption the principal of, premium, if any, and interest on the Refunded Bonds will be verified by Bond Logistix LLC, a wholly-owned subsidiary of Orrick, Herrington & Sutcliffe LLP ("Bond Logistix"). Such verification of the accuracy of the arithmetical and mathematical computations shall be based upon information and assumptions supplied by Goldman, Sachs & Co. Such verification should not be viewed as, and shall not constitute, the expression of any opinion concerning the attainability of the assumptions supplied to Bond Logistix.

### **MISCELLANEOUS**

The references, excerpts and summaries contained herein of the Net Billed Resolutions, the Net Billing Agreements, the Columbia Project Agreement, the Assignment Agreements, the Post Termination Agreements and any other documents or agreements referred to herein do not purport to be complete statements of the provisions of such documents or agreements and reference should be made to such documents or agreements for a full and complete statement of all matters relating to the Series 2001-A Bonds, the basic agreements securing the Series 2001-A Bonds and the rights and obligations of the holders thereof. Copies of the forms of the Net Billed Resolutions, Net Billing Agreements, the Columbia Project Agreement, Assignment Agreements for the Net Billed Projects, including copies of the forms of such agreements as amended for Project 1 and copies of the Post Termination Agreements and other reports, documents, agreements and studies referred to herein and in the Appendices hereto are available upon request at the office of Energy Northwest in Richland, Washington.

The authorizations, agreements and covenants of Energy Northwest are set forth in the Net Billed Resolutions and neither this Official Statement nor any advertisement of the Series 2001-A Bonds is to be construed as a contract with the holders of the Series 2001-A Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

Bonneville has furnished the information herein relating to it.

The delivery of this Official Statement has been duly authorized by Energy Northwest.

ENERGY NORTHWEST

By: /s/ Rudolph Bertschi  
Chairman, Executive Board

By: /s/ Gerald J. Kucera  
Authorized Officer

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**Report of Independent Accountants**

To the Administrator of the  
Bonneville Power Administration,  
United States Department of Energy

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses, of cash flows and of changes in capitalization and long-term liabilities present fairly, in all material respects, the financial position of the Federal Columbia River Power System (FCRPS) at September 30, 2000 and 1999, and the results of its operations, cash flows and changes in capitalization and long-term liabilities for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of FCRPS' 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 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 our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Amount and Allocation of Plant Investment as of September 30, 2000 (Schedule A) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Price Waterhouse Coopers LLP*

Portland, Oregon  
December 20, 2000

# Financial Statements

## Balance Sheets

Federal Columbia River Power System  
As of Sept. 30 — thousands of dollars

### Assets

	2000	1999
<b>Utility Plant (Notes 1 and 3)</b>		
Completed plant	\$11,105,332	\$10,986,446
Accumulated depreciation	<u>(3,583,557)</u>	<u>(3,482,923)</u>
	7,521,775	7,503,523
Construction work in progress	<u>636,000</u>	<u>558,006</u>
Net utility plant	<u>8,157,775</u>	<u>8,061,529</u>
<b>Nonfederal Projects (Note 4)</b>		
Conservation	52,497	56,496
Hydro	235,530	240,610
Nuclear	2,231,874	2,365,135
Terminated nuclear facilities	<u>3,888,964</u>	<u>4,029,800</u>
Total nonfederal projects	<u>6,408,865</u>	<u>6,692,041</u>
<b>Trojan Decommissioning Cost (Note 6)</b>	<u>78,307</u>	<u>85,587</u>
<b>Conservation</b> , net of accumulated amortization of \$708,666 in 2000 and \$647,892 in 1999 (Notes 1 and 2)	<u>504,504</u>	<u>565,278</u>
<b>Fish and Wildlife</b> , net of accumulated amortization of \$105,138 in 2000 and \$88,643 in 1999 (Notes 1 and 2)	<u>145,586</u>	<u>148,183</u>
<b>Current Assets</b>		
Cash	848,447	685,014
Accounts receivable	238,179	195,878
Accrued unbilled revenues	118,343	5,200
Materials and supplies, at average cost	64,292	71,077
Prepaid expenses	<u>85,895</u>	<u>82,695</u>
Total current assets	<u>1,355,156</u>	<u>1,039,864</u>
<b>Other Assets</b>	<u>192,374</u>	<u>180,695</u>

The accompanying notes are an integral part of these statements.

**Capitalization and Liabilities**

	2000	1999
<b>Accumulated Net Revenues (Expenses) (Note 1)</b>	\$ 132,810	\$ (108,167)
<b>Federal Appropriations (Note 3)</b>	4,499,743	4,476,258
<b>Capitalization Adjustment (Note 3)</b>	2,328,540	2,396,014
<b>Long-Term Debt (Note 2)</b>	2,513,200	2,357,400
<b>Nonfederal Projects Debt (Note 4)</b>	6,053,027	6,379,997
<b>Trojan Decommissioning Reserve (Note 6)</b>	<u>65,707</u>	<u>62,987</u>
<b>Total capitalization and long-term liabilities</b>	<u>15,593,027</u>	<u>15,564,489</u>
<b>Commitments and Contingencies (Notes 6 and 7)</b>		
<b>Current Liabilities</b>		
Current portion of federal appropriations	66,268	22,225
Current portion of long-term debt	—	157,800
Current portion of nonfederal projects debt	355,838	312,044
Current portion of Trojan decommissioning reserve	12,600	22,600
Accounts payable and other current liabilities	<u>372,270</u>	<u>271,571</u>
<b>Total current liabilities</b>	<u>806,976</u>	<u>786,240</u>
<b>Deferred Credits (Note 1)</b>	<u>442,564</u>	<u>422,448</u>

## Statements of Revenues and Expenses

Federal Columbia River Power System  
For the years ended Sept. 30 — thousands of dollars

	2000	1999	1998
<b>Operating Revenues</b>	<u>\$3,040,169</u>	<u>\$2,618,879</u>	<u>\$2,313,253</u>
<b>Operating Expenses</b>			
Operations and maintenance	922,343	850,741	796,789
Purchased power	624,882	265,304	140,732
Tenaska (Note 7)	(26,817)	—	151,307
Nonfederal projects (Note 4)	560,599	651,093	545,366
Residential exchange (Note 5)	63,593	63,619	63,869
Federal projects depreciation	<u>319,942</u>	<u>309,183</u>	<u>287,692</u>
Total operating expenses	<u>2,464,542</u>	<u>2,139,940</u>	<u>1,985,755</u>
Net operating revenues	<u>575,627</u>	<u>478,939</u>	<u>327,498</u>
<b>Interest Expense</b>			
Interest on federal investment:			
Appropriated funds (Note 3)	248,352	249,156	252,517
Long-term debt (Note 2)	115,052	130,916	148,242
Allowance for funds used during construction	<u>(28,754)</u>	<u>(24,419)</u>	<u>(24,807)</u>
Net interest expense	<u>334,650</u>	<u>355,653</u>	<u>375,952</u>
<b>Net Revenues (Expenses)</b>	240,977	123,286	(48,454)
Accumulated net expenses, Oct. 1	(108,167)	(231,453)	(182,999)
Accumulated net revenues (expenses), Sept. 30			

The accompanying notes are an integral part of these statements.



## Statements of Changes in Capitalization and Long-term Liabilities

Federal Columbia River Power System  
Including current portions — thousands of dollars

	Accumulated Net Revenues (Expenses)	Federal Appropriations	Long-Term Debt	Nonfederal Project Debt	Other	Total
<b>Balance at Sept. 30, 1998</b>						
Increase (decrease) in federal appropriations:						
Operations & maintenance	—	160,037	—	—	—	160,037
Construction	—	93,364	—	—	—	93,364
Repayment of federal appropriations:						
Operations & maintenance	—	(160,037)	—	—	—	(160,037)
Construction	—	(40,984)	—	—	—	(40,984)
Capitalization adjustment amortization	—	—	—	—	(64,886)	(64,886)
Increase in long-term debt	—	—	192,400	—	—	192,400
Repayment of long-term debt	—	—	(150,000)	—	—	(150,000)
Refinance of long-term debt	—	—	(26,200)	—	—	(26,200)
Net decrease in nonfederal projects debt	—	—	—	(111,785)	—	(111,785)
Repayment of nonfederal projects debt	—	—	—	(145,185)	—	(145,185)
Trojan decommissioning reserve	—	—	—	—	(21,697)	(21,697)
Net revenues	123,286	—	—	—	—	123,286
<b>Balance at Sept. 30, 1999</b>						
Increase (decrease) in federal appropriations:						
Construction	—	129,953	—	—	—	129,953
Repayment of federal appropriations:						
Construction	—	(62,425)	—	—	—	(62,425)
Capitalization adjustment amortization	—	—	—	—	(67,474)	(67,474)
Increase in long-term debt	—	—	294,300	—	—	294,300
Repayment of long-term debt	—	—	(227,500)	—	—	(227,500)
Refinance of long-term debt	—	—	(68,800)	—	—	(68,800)
Net increase in nonfederal projects debt	—	—	—	40,443	—	40,443
Repayment of nonfederal projects debt	—	—	—	(323,619)	—	(323,619)
Trojan decommissioning reserve	—	—	—	—	(7,280)	(7,280)
Net revenues	240,977	—	—	—	—	240,977
<b>Balance at Sept. 30, 2000</b>						

The accompanying notes are an integral part of these statements.

## Statements of Cash Flows

Federal Columbia River Power System  
For the years ended Sept. 30 — thousands of dollars

	2000	1999	1998
<b>Cash from Operating Activities</b>			
Net revenues (expenses)	\$ 240,977	\$ 123,286	\$ (48,454)
Expenses (income) not requiring cash:			
Depreciation	242,673	233,279	213,799
Amortization of conservation and fish and wildlife	77,269	75,904	73,893
Amortization of nonfederal projects	323,619	145,185	105,227
Amortization of capitalization adjustment	(67,474)	(64,886)	(64,886)
AFUDC	(28,754)	(24,419)	(24,807)
(Increase) decrease in:			
Receivables and unbilled revenues	(155,444)	(13,367)	12,700
Materials and supplies	6,785	3,630	4,086
Prepaid expenses	(3,200)	(1,105)	20,648
Increase (decrease) in:			
Accounts payable	100,699	(43,611)	79,254
Other	8,437	(12,769)	54,007
Cash provided by operating activities	<u>745,587</u>	<u>421,127</u>	<u>425,467</u>
<b>Cash from Investment Activities</b>			
Investment in:			
Utility plant	(310,165)	(215,155)	(141,566)
Conservation	—	(12,484)	(14,154)
Fish and wildlife	(13,898)	(14,748)	(21,995)
Cash used for investment activities	<u>(324,063)</u>	<u>(242,387)</u>	<u>(177,715)</u>
<b>Cash from Borrowing and Appropriations</b>			
Increase in federal appropriations:			
Operations and maintenance	—	160,037	144,887
Construction	129,953	93,364	29,097
Repayment of federal appropriations:			
Operations and maintenance	—	(160,037)	(144,887)
Construction	(62,425)	(40,984)	(35,155)
Increase in long-term debt	294,300	192,400	867,800
Repayment of long-term debt	(227,500)	(150,000)	(211,800)
Refinance of long-term debt	(68,800)	(26,200)	(655,900)
Payment of nonfederal debt	(323,619)	(145,185)	(105,227)
Cash used for borrowing and appropriations	<u>(258,091)</u>	<u>(76,605)</u>	<u>(111,185)</u>
Increase in cash	<u>163,433</u>	<u>102,135</u>	<u>136,567</u>
Beginning cash balance	685,014	582,879	446,312
Ending cash balance	<u>848,447</u>	<u>685,014</u>	<u>582,879</u>

The accompanying notes are an integral part of these statements.

## Notes to Financial Statements

### 1. Summary of General Accounting Policies

#### Principles of Combination

The Federal Columbia River Power System (FCRPS) includes the accounts of the Bonneville Power Administration (BPA), which purchases, transmits and markets power, and the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation) for which BPA is the power marketing agency. Each entity is separately managed and financed, but the facilities are operated as an integrated power system with the financial results combined as the FCRPS. The costs of multipurpose Corps and Reclamation projects are assigned to specific purposes through a cost allocation process. Only the portion of total project costs allocated to power is included in these statements.

FCRPS accounts are maintained in accordance with generally accepted accounting principles and the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). FCRPS accounting policies also reflect specific legislation and executive directives issued by U.S. government departments. (BPA is a unit of the Department of Energy; Reclamation is part of the Department of the Interior; and the Corps is part of the Department of Defense.) FCRPS properties and income are tax-exempt. All material intercompany accounts and transactions have been eliminated from the combined financial statements.

#### Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassifications

Certain reclassifications were made to the 1999 combined financial statements from amounts previously reported to conform to the presentation used in fiscal year 2000. Such reclassifications had no effect on previously reported results of operations and cash flows.

#### Regulatory Authority

BPA's rates are established in accordance with several statutory directives. Rates proposed by BPA are subjected to an extensive formal review process, after which they are established by BPA and reviewed by FERC. FERC's review is limited to three standards set out in the Northwest Power Act and a standard set by the National Energy Policy Act. FERC reviews BPA's rates for all firm power, for nonfirm energy sold within the region, and for transmission service. Statutory standards include a requirement that these rates be sufficient to assure repayment of the federal investment in the FCRPS over a reasonable number of years after first meeting BPA's other costs.

After final FERC approval, BPA's rates may be reviewed by the United States Court of Appeals for the Ninth Circuit. Action seeking such review must be filed within 90 days of the final FERC decision. FERC and the court of appeals may either confirm or reject a rate proposed by BPA. It is the opinion of BPA's general counsel that, if a rate were rejected, it would be remanded to BPA for reformulation. By contract, BPA has agreed that rates for the sale of power pursuant to its present contracts may not be revised on less than nine months' notice and may not be increased more than once in a 12-month period. FERC has approved BPA's rates for all fiscal years through Sept. 30, 2001.

Because of the regulatory environment in which BPA establishes rates, certain costs may be deferred and expensed in future periods under Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation.

In order to defer incurred costs under SFAS 71, a regulated entity must have the statutory authority to establish rates that recover all costs and rates so established must be charged to and collected from customers. Due to increasing competitive pressures, BPA may be required to seek alternative solutions in the future to avoid raising rates to a level that is no longer competitive. If BPA's rates should become market-based, SFAS 71 would no longer be applicable, and any costs deferred under that standard would be expensed in the Statement of Revenues and Expenses.

The SFAS 71 assets of \$4.7 billion, shown in the table on page 28, reflect a decrease of \$199 million from the prior year. Amortization of these costs aggregating

\$276 million in fiscal 2000, \$242 million in 1999 and \$187 million in fiscal 1998 is reflected in the Statements of Revenues and Expenses.

### SFAS 71 Assets

As of Sept. 30 — thousands of dollars

	2000	1999
Construction projects		
Transmission	\$ 62,497	\$ 56,466
Conservation and fish and wildlife	3,858,964	4,029,800
Other	78,307	65,567
Conservation	246,358	245,278
Wildlife	145,500	148,043
Other	246,358	245,278
Conservation	246,358	245,278
Wildlife	145,500	148,043
Other	246,358	245,278
<b>Total</b>	<b>\$4,722,858</b>	<b>\$4,921,965</b>

### Revenues and Net Revenues

Operating revenues are recorded on the basis of service rendered, which includes estimated unbilled revenues. BPA operates as two segments: the Power Business Line and the Transmission Business Line. The table in Note 8 reflects the revenues and expenses attributable to each business line. Because BPA is a U.S. government power marketing agency, net revenues over time are committed to repayment of the U.S. government investment in the FCRPS and the payment of certain irrigation costs as discussed in Note 6.

### Utility Plant

Utility plant is stated at original cost. Cost includes direct labor and materials; payments to contractors; indirect charges for engineering, supervision and similar overhead items; and an allowance for funds used during construction. The costs of additions, major replacements and betterments are capitalized. Repairs and minor replacements are charged to operating expense. In accordance with FERC requirements the cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when it is removed from service.

### Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) constitute interest on the funds used for utility plant under construction. AFUDC is capitalized as part of the cost of utility plant and results in a non-cash reduction of interest expense. While cash is not realized currently from this allowance, it is realized under the ratemaking process over the service life of the related property through increased revenues resulting from higher plant in-service and higher depreciation expenses.

AFUDC is based on the monthly construction work in progress (CWIP) balance. A portion of CWIP as stated on the balance sheets represents preliminary study and investigation costs to which AFUDC is not attributed.

AFUDC capitalization rates are stipulated in the congressional acts authorizing construction for certain generating projects (2.5 percent to 6.7 percent in 2000, 2.5 percent to 6.8 percent in 1999 and 2.5 percent to 7.4 percent in 1998). Capitalization rates for other construction approximate the cost of borrowing from the U.S. Treasury (6.6 percent in 2000, 6.7 percent in 1999 and 6.6 percent in 1998).

### Depreciation and Amortization

Depreciation of original cost and estimated cost to retire utility plant is computed on the straight-line method based on estimated service lives of the various classes of property, which average 40 years for transmission plant and 75 years for generation plant. A depreciation study was performed in 1999. As a result of the study, the average service life for transmission plant was reduced from 45 to 40 years and the estimated cost to retire certain classes of plant was increased. As a result of the changes in estimated lives and cost to retire, annual depreciation expense increased \$21.5 million beginning in 1999. Amortization of capitalized conservation and fish and wildlife costs is computed on the straight-line method based on estimated service lives, which are 20 years for conservation and 15 years for fish and wildlife.

### Retirement Benefits

FCRPS employees belong to either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FCRPS and its employees contribute to the systems. Based on the statutory contribution rates, retirement benefit expense under CSRS is equivalent to 7 percent of eligible employee compensation and under FERS is variable based upon options chosen by the participant but does not exceed 24.2 percent of eligible employee compensation. Retirement benefits are payable by the U.S. Treasury and not by the FCRPS.

Beginning in fiscal 1998, and for the remainder of the rate period ending in 2001, FCRPS agreed to contribute additional amounts as a result of an underfunded status of the CSRS. These amounts have been calculated based on an estimate of FCRPS employees who participate in the plan as well as an estimate of FCRPS' share of the underfunded status. These contributions are expected to be made over a period of years as shown in the table on page 29. The payments, if made, will be directly to the U.S. Treasury.

BPA paid approximately \$6.0 million, \$4.1 million and \$2.2 million to the U.S. Treasury during fiscal 2000, 1999 and 1998, respectively. These amounts were recorded as expense when paid. BPA has accrued for \$53 million as of Sept. 30, 2000, which represents the additional deferred contribution for fiscal 1998, 1999 and 2000. This amount has been recorded as an SFAS 71 asset on the balance sheet in anticipation of recovery of the costs through rates in the next rate period beginning Oct. 1, 2001. The related liability is included in deferred credits in the accompanying Balance Sheet. At Sept. 30, 2000, BPA has scheduled additional payments totaling \$200 million as follows:

**Scheduled Additional CSRS Contributions**  
Millions of dollars

<b>Total</b>		<b>\$200.0</b>
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BPA expects to recognize these amounts as expense in the years in which they are specifically recovered through rates.

**Cash**

For purposes of reporting cash flows, cash includes cash in the BPA fund and unexpended appropriations of Reclamation and the Corps. Cash paid for interest was \$403 million in 2000, \$421 million in 1999 and \$452 million in 1998.

Non-cash transactions include changes in nonfederal projects and nonfederal projects' debt (other than amortization of nonfederal projects and payment of nonfederal projects' debt) of \$40 million in 2000, \$112 million in 1999 and \$17 million in 1998.

**Concentration of Credit Risks**

Financial instruments, which potentially subject the FCRPS to concentrations of credit risk, consist of available-for-sale investments held by Energy Northwest and BPA accounts receivable and accrued unbilled revenues. Energy Northwest invests exclusively in U.S. Government securities and agencies. BPA's accounts receivable and accrued unbilled revenues are concentrated with customers who have purchased

capacity, energy or other products and services. Generally, these customers are large and stable which BPA does not consider to be a significant credit risk. BPA performs a financial review of new customers and establishes credit limits based on the results of that review. In limited circumstances BPA uses letters of credit or similar security mechanisms for new customers or customers with a limited financial history. As a consequence of the above, FCRPS management does not consider the overall exposure due to concentration of credit risk to be material at Sept. 30, 2000.

However, beginning in fiscal 2001 credit risk is expected to increase due to the energy crisis in California. As a result of high market prices for power the financial condition and stability of some California utilities has deteriorated and their ability to pay has decreased and may continue to decrease.

**Deferred Credits**

Deferred credits consist of \$134.6 million paid to BPA from participants under the 3<sup>rd</sup> AC intertie capacity agreement, \$105.2 million in load diversification fees and other settlement payments for long-term agreements paid to BPA from various customers, \$53.0 million in deferred CSRS contributions, \$81.2 million in advances from customers for projects which BPA is constructing on their behalf, \$20.2 million for the MTM value of written options, and \$48.4 million in other miscellaneous long-term liabilities. Deferred 3<sup>rd</sup> AC intertie capacity payments are recognized as revenue over the estimated 40-year life of the related assets. Diversification fees are payments by customers to BPA in consideration for a reduction in their contractually obligated power purchases from BPA. Deferred diversification fees and other settlement payments for long-term agreements are recognized as revenue over the original contract terms (diversification fee contracts generally correspond to the rate period ending Sept. 30, 2001, while other settlement agreements extend over varying periods through 2019). Advances on projects BPA constructs for customers are either applied against expenditures during the construction of the assets if the customer retains title to the assets, or if BPA retains title, are recorded to revenue over the related useful lives of the assets. The current portion of deferred credits to be recorded as revenue in fiscal 2001 is included in accounts payable and other current liabilities in the Balance Sheet.

**Hedging and Derivative Instrument Activities**

BPA's hedging policy (the Policy) allows the use of financial instruments such as commodity futures, options and swaps to hedge the price and revenue risk associated with electricity sales and purchases and to hedge risks

associated with new product development. The Policy does not authorize the use of financial instruments for non-hedging purposes, unless such use is expressly authorized under specific provisions included in the Policy.

BPA uses financial instruments in the form of Over-the-Counter (OTC) electricity swap agreements and options and Exchange traded futures contracts to hedge anticipated production and marketing of hydroelectric energy. Under swap agreements, BPA makes or receives payments based on the differential between a specified fixed price and an index reference price of power. Under futures contracts, BPA either sells or buys Exchange traded futures contracts to hedge anticipated future electricity sales and purchases. Recognition of gains or losses on the hedging and derivative instruments prior to adoption of SFAS 133 (discussed below), is deferred until the underlying physical transaction occurs. Swap transactions have maturities less than one year. No Exchange traded futures or options were outstanding at Sept. 30, 2000.

During fiscal 2000, BPA also entered into a small market research program involving the use of both purchased and written options for aluminum, in anticipation of economically hedging new aluminum power sales contracts expected to be signed in fiscal year 2001. As the transaction does not qualify for hedge accounting treatment, the fair values of the purchased and written aluminum options have been recorded in the Balance Sheet at Sept. 30, 2000, and the mark-to-market gains and losses have been recorded in the Statement of Revenues and Expenses for the year then ended.

At Sept. 30, 2000 and 1999, outstanding notional amounts (in megawatt-hours, except for purchased and written aluminum options which are in metric tons) for each type of contract were as follows:

**Notional Amounts**  
As of Sept. 30

Contract Type	2000	1999
OTC electricity swap agreements		
Exchange traded futures contracts		
OTC aluminum options	11,200	22,900
OTC electricity options		

At and for the years ended Sept. 30, 2000, 1999 and 1998, both the deferred and the realized gains and losses resulting from these transactions were not material to the consolidated FCRPS financial statements.

**Written Options**

BPA sells put and call options for the purchase and sale of electricity at certain points in the future. BPA's intention is to fulfill all call options exercised with its estimated surplus generating capability at the future dates. The megawatt-hour quantities that BPA sells and the premiums that BPA collects for the sales of these options are priced based on a mathematical model developed by BPA. This model makes certain assumptions based on historical and other statistical data. Actual future results could vary from estimates resulting in the requirement that BPA fulfill these sales obligations with power purchases at a cost in excess of the prices stated in the contracts. As of Sept. 30, 2000, written call options totaling 30,000 megawatt-hours were outstanding with an average strike price of \$61.67 per megawatt-hour. Written put options totaling 190,000 megawatt-hours were outstanding with an average strike price of \$64.84 per megawatt-hour. These options expire at various times through Dec. 2000. BPA records written options on a mark-to-market basis and includes gains and losses in operating revenues in the Statement of Revenues and Expenses. BPA recognized an immaterial mark-to-market loss during fiscal 2000 and an immaterial mark-to-market loss during fiscal 1999 as a result of the estimated position of outstanding written options.

**Financial Instruments**

All significant financial instruments of the FCRPS were recognized in the Balance Sheet as of Sept. 30, 2000 and 1999, excluding those derivatives which are considered to be hedges. The carrying value reflected in the Balance Sheet approximates fair value for the FCRPS's financial assets and current liabilities. The fair values of long-term liabilities are discussed in the respective footnotes.

**Adoption of EITF 98-10**

In Nov. 1998, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus related to the accounting for energy trading activities. In accordance with EITF 98-10, energy trading contracts must be marked to market with the gains and losses included in earnings and separately disclosed in the financial statements. BPA adopted EITF 98-10 on Oct. 1, 1999, as required, and determined that its operations do not meet the guidelines established for trading activities. There was no resulting impact from the adoption of this statement on the FCRPS financial statements.

### **Adoption of Statement 133**

In June 1998, the FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In May 1999, the FASB delayed the required implementation date by one year, making it effective for all fiscal quarters of fiscal years beginning after June 15, 2000 (Oct. 1, 2000 for the FCRPS). In June 2000, the FASB issued SFAS 138, which amends certain sections of SFAS 133. SFAS 133, as amended, requires all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

Throughout fiscal 2000, management reviewed and evaluated the impact of SFAS 133 on BPA and FCRPS operations. One issue that developed during the evaluation involves the accounting treatment required by SFAS 138 for derivative instruments known as "bookouts" in the electric utility industry. Bookouts are common in the electric utility industry as a power scheduling convenience when two utilities happen to have offsetting transactions for the same delivery period — a sale and a purchase — at the same delivery location. SFAS 138

specifically defines bookout instruments as derivatives and does not allow hedge or accrual accounting to be applied to such instruments. The FASB staff is currently researching concerns expressed by the utility industry related to the accounting treatment of bookouts under SFAS 138. The resolution of the bookout issue and possible change in accounting treatment cannot be determined at this time.

On the date of adoption (Oct. 1, 2000), BPA recorded a \$168 million loss primarily attributable to the requirement to account for bookouts as derivatives not qualifying for hedge or accrual accounting treatment. The initial loss will be recorded and presented in fiscal 2001 as a cumulative effect of a change in accounting principle as required by Accounting Principles Board Opinion No. 20, *Accounting Changes*. Going forward from the date of adoption, BPA estimates the impact of SFAS 133 to be immaterial on a long term basis, as the effects of marking derivatives, including bookout transactions, to market will reverse and eliminate over the terms of the related contracts. However, SFAS 133 is expected to have significant effect in increasing volatility of earnings (losses) on a period to period basis.

## 2. Long-Term Debt

To finance its capital programs, BPA is authorized by the Federal Columbia River Transmission System Act to issue to the U.S. Treasury up to \$3.75 billion of interest-bearing debt with terms and conditions comparable to debt issued by U.S. government corporations. A portion (\$1.25 billion) of the \$3.75 billion is reserved for conservation and renewable resource loans and grants. At Sept. 30, 2000, \$492.8 million of this reserved amount and \$2,020.4 million of other borrowings were outstanding. The average interest rate

of BPA's borrowings from the U.S. Treasury exceeds the rate that could be obtained currently. As a result, the fair value of the BPA long-term debt, based upon discounting future cash flows using rates offered by the U.S. Treasury as of Sept. 30, 2000, for similar maturities exceeds carrying value by approximately \$188 million, or 7 percent. BPA's policy is to refinance debt that is callable when associated benefits exceed costs. This table reflects the terms and amounts of long-term debt.

### U.S. Treasury Bonds

Long-Term Debt (a) — thousands of dollars

Issue Date	Maturity Date	Interest Rate	Carrying Amount	Unamortized Premium	Estimated Total
September 1999	2002	6.25%	200,000		200,000
November 1999	2002	6.25%	200,000		200,000
September 1999	2002	6.25%	200,000		200,000
September 1999	2002	6.25%	200,000		200,000
April 2000	2003	6.25%	200,000		200,000
July 2000	2003	6.25%	200,000		200,000
August 2000	2003	6.25%	200,000		200,000
January 1996	2003	6.25%	200,000		200,000
May 1999	2004	6.25%	200,000		200,000
September 1999	2004	6.25%	200,000		200,000
July 2000	2004	6.25%	200,000		200,000
January 1997	2004	6.25%	200,000		200,000
January 2000	2004	6.25%	200,000		200,000
September 2000	2005	6.25%	200,000		200,000
May 1997	2005	6.25%	200,000		200,000
September 2000	2005	6.25%	200,000		200,000
August 2000	2006	6.25%	200,000		200,000
August 1997	2007	6.25%	200,000		200,000
April 1998	2008	6.25%	200,000		200,000
April 1998	2008	6.25%	200,000		200,000
August 1998	2008	6.25%	200,000		200,000
September 1998	2008	6.25%	200,000		200,000
February 1993	2008	6.25%	200,000	100,000	300,000
May 1998	2009	6.25%	200,000		200,000
May 1998	2009	6.25%	200,000		200,000
July 1989	2009	6.25%	200,000	40,000	240,000
August 1995	2009	6.25%	200,000		200,000
May 1998	2011	6.25%	200,000		200,000
January 1996	2011	6.25%	200,000	30,000	230,000
November 1996	2011	6.25%	200,000		200,000
September 1998	2013	6.25%	200,000	50,000	250,000
January 1998	2013	6.25%	200,000		200,000
August 1993	2015	6.25%	200,000	40,000	240,000
February 1999	2014	6.25%	200,000		200,000
January 1994	2014	6.25%	200,000	200,000	400,000
May 1995	2015	6.25%	200,000		200,000
November 1996	2015	6.25%	200,000	100,000	300,000
July 1995	2025	6.25%	200,000		200,000
August 1995	2025	6.25%	200,000		200,000
April 1998	2028	6.25%	200,000		200,000
August 1998	2028	6.25%	200,000		200,000
August 1998	2028	6.25%	200,000		200,000
May 1998	2032	6.25%	200,000		200,000
August 1993	2033	6.25%	200,000		200,000
October 1993	2033	6.25%	200,000		200,000
October 1993	2033	6.25%	200,000		200,000
January 1994	1999	7.25%	50,000		50,000
			\$ 2,020,400	\$ 492,800	\$ 2,513,200

(a) The weighted average interest rate was 6.2 percent on outstanding long-term debt as of Sept. 30, 2000. All construction, conservation, fish and wildlife, and Corps/Reclamation direct funding bonds are term bonds.  
 (b) Corps/Reclamation direct funding.



### 3. Federal Appropriations

The BPA Appropriations Refinancing Act, 16 U.S.C. 8381, required that the outstanding balance of the FCRPS federal appropriations, which Bonneville is obligated to set rates to recover, be reset and assigned prevailing market rates of interest as of Sept. 30, 1996. The resulting principal amount of appropriations was determined to be equal to the present value of the principal and interest that would have been paid to Treasury in the absence of the Act, plus \$100 million. The \$100 million was capitalized as part of the appropriations balance and was included pro rata in the new principal of the individual appropriated repayment obligations.

The amount of appropriations refinanced was \$6.6 billion. After refinancing, the appropriations outstanding were \$4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over the remaining period of repayment so that total FCRPS net interest expense is equal to what it would have been in the absence of the Act.

Amortization of the capitalization adjustment was \$67.5 million for fiscal 2000 and \$64.9 million for 1999 and 1998. The weighted-average interest rate was 7.1 in 2000, 1999 and 1998.

Construction and replacement of Corps and Reclamation generating facilities have historically been financed through annual federal appropriations. Annual appropriations were also made for their operation and maintenance costs, although these are normally repaid by BPA to the U.S. Treasury by the end of each fiscal year. As a result of the National Energy Policy Act of 1992 BPA has begun directly funding operation and maintenance

expenses and capital efficiency and reliability improvements for Corps and Reclamation generating facilities.

Federal Generation and Transmission appropriations are repaid to the U.S. Treasury within the weighted average service lives of the associated investments (maximum 50 years) from the time each facility is placed in service.

The table below shows the term repayments on the remaining federal appropriations as of Sept. 30, 2000.

If, in any given year, revenues are not sufficient to cover all cash needs, including interest, any deficiency becomes an unpaid annual expense. Interest is accrued on the unpaid annual expense until paid. This interest must be paid from subsequent years' revenues before any repayment of federal appropriations can be made.

#### Federal Appropriations

Thousands of dollars

Term repayments (a)	
Principal	\$6,250
Interest	2,373
Capitalization adjustment	1,000
Operating and maintenance	1,238
Debt service	1,238
Total	\$4,566,011

### 4. Nonfederal Projects

BPA has acquired all or part of the generating capability of five nuclear power plants. The contracts to acquire the generating capability of the projects, referred to as "net-billing agreements," require BPA to pay all or part of the annual projects' budgets, including operating expense and debt service, whether or not the projects are completed or operating. BPA has also acquired all of the output of the Idaho Falls, Cowlitz Falls and Wasco hydro projects. BPA has agreed to fund debt service on Eugene Water and Electric Board, Emerald, City of Tacoma and Conservation and Renewable Energy System bonds issued to finance conservation programs sponsored by BPA.

BPA recognizes expenses for these projects based upon total project cash funding requirements reflected in project budgets that are adopted by BPA and the projects' owners.

Operating expense of \$174 million in fiscal 2000, \$200 million in fiscal 1999 and \$180 million in fiscal 1998 for the projects is included in operations and maintenance in the accompanying Statements of Revenues and Expenses. Debt service for the projects of \$561 million, \$651 million and \$545 million for fiscal 2000, 1999 and 1998, respectively, is reflected as nonfederal projects expense in the accompanying Statements of Revenues and Expenses. Following restoration of Energy

Northwest's (formerly known as Washington Public Power Supply System) bond rating in late 1988, BPA and Energy Northwest developed a refunding plan to refinance outstanding high-interest-rate net-billed bonds. By the end of fiscal year 2000, 19 advance-refunding sales have been completed. In total, \$10.2 billion of refunding bonds have been issued to refinance \$8.6 billion of previously outstanding bonds.

The recorded value of all Energy Northwest debt exceeds fair value by \$81 million or one percent based on discounting the future cash flows using interest rates for which similar debt could be issued at Sept. 30, 2000. All other nonfederal projects' debt approximates fair value as stated.

The following table summarizes future principal payments required for nonfederal projects as of Sept. 30, 2000.

**Nonfederal Projects**  
Thousands of dollars

Debt Maturities	
2001	\$ 353,138
2002	200,310
2003	200,001
2004	520,865
2005	200,543
2006	4,054,308
<b>Total</b>	<b>\$ 6,408,865</b>

**5. Residential Exchange**

As provided for in the Pacific Northwest Electric Power Planning and Conservation Act of 1980, Section 5(c), BPA entered into residential exchange contracts with several electric utilities. These contracts result in payments to each utility, which must be passed through to its qualified residential and irrigation loads, based on the difference between each utility's average cost and BPA's priority firm power rate.

Congress passed legislation in November 1995 that required BPA to pay \$145 million in residential exchange benefits in fiscal 1997. The conference report prepared in connection with that legislation states that BPA and its customers, consistent with the Regional Review, should work together to gradually phase out the residential

exchange program by Oct. 1, 2001. Termination agreements have been signed by all actively exchanging Pacific Northwest utilities except The Montana Power Co. (which receives no benefits), whereby payments are made by BPA for settlement of the period running from fiscal 1998 through June 30, 2001. Future benefits are fixed by the termination agreements. BPA capitalizes payments made and is amortizing them to expense through the period ending June 30, 2001. Capitalized amounts are included in other assets in the accompanying Balance Sheets. Without future legislation the residential exchange program will revert to the prior methodology on July 1, 2001.

**6. Commitments and Contingencies**

**Irrigation Assistance**

As directed by legislation, BPA is required to make cash distributions to the U.S. Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation and are required to be made only if doing so does not result in an increase to power rates. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from accumulated net revenues (expenses) when paid. The cumulative irrigation assistance payments ultimately

could total approximately \$863 million and are scheduled over a maximum of 66 years. In fiscal 1997, BPA made a cash distribution of \$25 million as scheduled. BPA is required by Public Law 89-448 to demonstrate that reimbursable costs of the FCRPS will be returned to the U.S. Treasury from BPA net revenues within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects, which are beyond the ability of the 22 irrigation water users to repay. These requirements are met by conducting power repayment studies including schedules of distributions at the proposed rates to demonstrate repayment of principal within the allowable repayment period.

The table below summarizes future irrigation assistance distributions as of Sept. 30, 2000.

**Irrigation Assistance**  
Thousands of dollars

<b>Total</b>	
	<b>\$ 837,647</b>

**Net-Billing Agreements**

BPA has agreed with Energy Northwest that, in the event any participant shall be unable for any reason, or shall refuse, to pay to Energy Northwest any amount due from such participant under its net-billing agreement for which a net-billing credit or cash payment to such participant has been provided by BPA, BPA will be obligated to pay the unpaid amount in cash directly to Energy Northwest, unless payment of such unpaid amount is made in a timely manner pursuant to the net-billing agreements.

**Nuclear Insurance**

BPA is a member of the Nuclear Electric Insurance Limited (NEIL), a mutual insurance company established to provide insurance coverage for nuclear power plants. The types of insurance coverage purchased from NEIL by BPA include: 1) Primary Property and Decontamination Liability Insurance; 2) Decommissioning Liability and Excess Property Insurance; and 3) Business Interruption and/or Extra Expense Insurance.

Under each insurance policy BPA could be subject to an assessment in the event that a member-insured loss exceeds reinsurance and reserves held by NEIL. The maximum assessment for the Primary Property and Decontamination Insurance policy is \$4.3 million. For the Decontamination Liability, Decommissioning Liability and Excess Property Insurance policy, the maximum assessment is \$6.3 million. For the Business Interruption and/or Extra Expense Insurance policy, the maximum assessment is \$2.4 million.

As a separate requirement, BPA is liable under the Nuclear Regulatory Commission's indemnity for public liability coverage under the Price-Anderson Act. In the event of a nuclear accident resulting in public liability losses exceeding \$200 million, BPA could be subject to

a retrospective assessment of \$83.9 million limited to an annual maximum of \$10 million.

**Decommissioning and Restoration Costs**

In 1999 Energy Northwest successfully transferred assets and site restoration liability for WNP-3 to a consortium of local governments. In June 1999, Energy Northwest submitted a site restoration plan to the state of Washington's Energy Facility Site Evaluation Committee (EFSEC) that complied with EFSEC's requirement to restore the WNP-1 site with minimal hazard to the public. This plan updated Energy Northwest's June 1995 plan. EFSEC's approval recognized that uncertainty still exists as to the exact details of the proposed plan; accordingly, EFSEC's conditional approval provided for additional reviews once the details of the plan are finalized. As part of submitting the restoration plan to EFSEC, Energy Northwest obtained outside estimates for site restoration of WNP-1. BPA is required to fund site restoration. The cost of site restoration for WNP-1 is estimated to be \$60 million. Management believes that existing funds from the proceeds of previously issued bonds are adequate to cover some of the site restoration costs at WNP-1. The estimated obligation is reflected as part of the nonfederal projects debt balances for WNP-1 and WNP-3 as of Sept. 30, 2000.

Decommissioning costs for Columbia Generating Station (formerly known as WNP-2) are charged to operations over the operating life of the project. An external decommissioning sinking fund for costs is being funded monthly for Columbia Generating Station. The sinking fund is expected to provide for decommissioning at the end of the project's operating life in accordance with NRC requirements. Sinking fund requirements for Columbia Generating Station are based on a Nuclear Regulatory Commission decommissioning cost estimate and assume a 40-year operating life.

The estimated decommissioning sum of expenditures for Columbia Generating Station is \$340 million (1998 dollars). Payments to the sinking fund for the years ended Sept. 30, 2000, 1999 and 1998 were approximately \$4 million per year. The sinking fund balance at Sept. 30, 2000, is \$72 million.

In January 1993, the Portland General Electric board of directors formally notified BPA of its intent to terminate the operation of the Trojan plant. PGE's rate filing in December 1997 with the Oregon Public Utility Commission included an estimated total decommissioning liability of \$424 million (in 1997 dollars). The current remaining estimate of \$326 million is based on site-specific studies less actual expenditures to date. As of Sept. 30, 2000, BPA's 30-percent share of this estimated

remaining liability is \$98 million, which has been recorded net of the decommissioning trust fund balance of \$20 million in the accompanying Balance Sheet. The Trojan Decommissioning Plan calls for prompt decontamination with delayed demolition of non-radiological structures. Funding requirements will be greater in the early years of decommissioning and then will decrease significantly. These greater early funding requirements have altered the decommissioning trust fund contributions for 1998, 1999 and 2000. For the period 1995 through 2002, funding for the Trojan decommissioning trust fund is being applied directly to the decommissioning expenses. Contributions to the decommissioning trust fund are made pursuant to the net-billing agreement for the plant. Once prompt decontamination is completed, funding of the trust will resume at a lower contribution level to pay for the delayed demolition. The decision to terminate the plant is not expected to result in the acceleration of debt-service payments. BPA will continue to recover its share of Trojan's costs through rates. Decommissioning costs are included in operations and maintenance expense in the Statements of Revenues and Expenses.

#### **Environmental Cleanup**

From time to time, there are sites where BPA, the Corps or Reclamation have been or may be identified as a potential responsible party. Costs associated with cleanup of those sites are not expected to be material to the FCRPS financial statements.

#### **Endangered Species Act**

Actions related to the Endangered Species Act are included in BPA's costs and recovered through current rates.

#### **Retirement Benefits**

See Note 1 for discussion of additional civil service retirement system contributions scheduled for payment through 2007.

#### **Purchase and Sales Commitments**

BPA has commitments under billing credit agreements and other alternative energy programs whereby BPA provides a cost supplement to entities that are involved in alternative energy generation projects. BPA's aggregate cost of these commitments has approximated \$17 million, \$19 million and \$19 million for fiscal 2000, 1999 and 1998, respectively. BPA's continued cost of these commitments is expected to approximate \$17 million per year over the next five years. These commitments expire at various periods over the next 20 years.

BPA has entered into Subscription power sales for 3,000 average megawatts more power than the federal system produces on a firm-planning basis. These contracts run for as short as three and as long as 10 years from Oct. 1, 2001. BPA is in the process of setting rates to recover the additional costs of its Subscription obligations for fiscal years 2002 through 2006. BPA also enters into purchase commitments to purchase power at future dates when BPA forecasts a shortage of generating capability and prices are favorable. Further, BPA enters into sales commitments to sell expected surplus generating capabilities at future dates. BPA enters into these contracts throughout the year to maximize its revenues on estimated surplus volumes. BPA records these sales and purchases in the month the underlying power is sold or purchased.

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## **7. Litigation**

### **Involving the Tenaska Washington Partners, II L.P.**

In fiscal 1995 the Tenaska Washington Partners, II L.P. (Tenaska) and Chase Manhattan Bank (Chase) filed suit against BPA for breach of contract and lost revenues. In June 1996, BPA and Chase reached a settlement that resulted in a payment of \$115 million by BPA to Chase. In 1997, BPA paid expenses of \$38 million, which included some of the subcontractor claims. In fiscal 1998 BPA settled with Tenaska for \$158.6 million. BPA has now settled with all litigants of the Tenaska suit and no further exposure exists. In fiscal 2000, BPA sold property

acquired as a result of these settlements for a gain of \$26.8 million, which is included in operating income in the Statement of Revenues and Expenses.

The FCRPS is party to various legal claims, actions and complaints, certain of which involve material amounts. Although the FCRPS is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, management currently believes that disposition of these matters will not have a materially adverse effect on the FCRPS's financial position or results of operations.

## 8. Segments

### Adoption of Statement 131

Effective Oct. 1, 1998, the FCRPS adopted SFAS 131, Disclosures about Segments of an Enterprise and Related Information. SFAS 131 establishes standards for the way public business enterprises report information about operating segments, and also requires certain disclosures about products and services, geographic areas of business and major customers. The adoption of SFAS 131 did not affect the FCRPS's financial position or results of operations, but did change business segment information previously reported.

### Operating Segments

In 1997 BPA opted to implement FERC's open-access rulemaking and standards of conduct. FERC requires that transmission activities are functionally separate from wholesale power merchant functions and that transmission is provided in a nondiscriminatory open-access manner.

The FCRPS's major operating segments are defined by the utility functions of generation and transmission. The Power Business Line represents the operations of the generation function, while the Transmission Business Line represents the operations of the transmission function. The business lines are not separate legal entities. Where applicable, "Corporate" represents items that are necessary to reconcile to the financial statements, which generally include shared activity and

eliminations. Each FCRPS segment operates predominantly in one industry and geographic region: the generation and transmission of electric power in the Pacific Northwest.

The FCRPS centrally manages all interest expense activity. Since the Bonneville Power Administration has one fund with the United States Department of Treasury, all cash and cash transactions are also centrally managed. Unaffiliated revenues below represent sales to external customers for each segment. Intersegment revenues are eliminated.

FCRPS management evaluates the performance of the business lines based on Net Operating Margin (NOM) and does not track the separate balance sheets or net revenues on a business line level. NOM represents revenues generated from operations less operating and maintenance expenses of the segment's revenue-generating assets. On a consolidated basis, this amount represents \$1,493 million for fiscal 2000 (\$3,040 million Operating Revenues less \$922 million Operations and Maintenance and \$625 million Purchased Power Expenses) as shown in the Statement of Revenues and Expenses.

### Major Customers

During fiscal 2000, 1999 and 1998, no single customer represented 10 percent or more of the FCRPS's revenues.

### SFAS 131 Segment Reporting

For the years ended Sept. 30 — thousands of dollars

	Power	Transmission	Corporate	Total
<b>2000</b>				
Unaffiliated Revenues	\$ 2,720,941	\$ 365,815	\$ —	\$ 3,086,756
Intersegment Revenues	272,722	272,722	(259,112)	—
Operating Revenues	<b>2,720,941</b>	<b>578,340</b>	<b>(259,112)</b>	<b>3,040,169</b>
Net Operating Margin	\$ 1,367,960	\$ 300,168	\$ (123,224)	\$ 1,544,904
<b>1999</b>				
Unaffiliated Revenues	\$ 2,324,041	\$ 294,830	\$ —	\$ 2,618,871
Intersegment Revenues	42,361	257,236	(299,677)	—
Operating Revenues	<b>2,366,422</b>	<b>552,134</b>	<b>(299,677)</b>	<b>2,618,879</b>
Net Operating Margin	\$ 1,235,425	\$ 820,724	\$ (133,315)	\$ 1,922,834
<b>1998</b>				
Unaffiliated Revenues	\$ 2,016,720	\$ 296,533	\$ —	\$ 2,313,253
Intersegment Revenues	44,030	243,392	(287,422)	—
Operating Revenues	<b>2,060,750</b>	<b>539,925</b>	<b>(287,422)</b>	<b>2,313,253</b>
Net Operating Margin	\$ 1,049,482	\$ 311,123	\$ 15,127	\$ 1,375,732

## Schedule of Amount and Allocation of Plant Investment

Federal Columbia River Power System  
As of Sept. 30, 2000 — thousands of dollars

### Schedule A

	Commercial Power				Irrigation (unaudited)		
	Total Plant	Completed Plant	Construction Work in Progress	Total Commercial Power	Returnable from Commercial Power Revenues	Returnable from Other Sources	Total Irrigation
<b>Bonneville Power Administration</b>							
Transmission Facilities	\$ 5,015,832	\$ 4,869,167	\$ 146,665	\$ 5,015,832	\$ —	\$ —	\$ —
<b>Bureau of Reclamation</b>							
Boise	114,115	14,793	—	14,793	25,143	39,946	65,089
Columbia Basin	1,957,650	1,121,159	9,610	1,130,769	592,859	173,818	766,677
Hungry Horse	143,487	115,826	277	116,103	—	—	—
Minidoka-Palisades	385,370	107,529	1	107,530	16,637	61,503	78,140
Yakima	224,443	5,999	—	5,999	12,631	128,170	140,801
Total Bureau Projects							
<b>Corps of Engineers</b>							
Albeni Falls	44,782	39,871	1,126	40,997	—	—	—
Bonneville	1,324,528	867,882	52,574	920,456	—	—	—
Chief Joseph	608,167	565,260	2,991	568,251	—	163	163
Cougar	62,514	20,306	13	20,319	—	3,288	3,288
Detroit-Big Cliff	68,482	41,010	1,367	42,377	—	5,046	5,046
Dworshak	370,932	314,612	395	315,007	—	—	—
Green Peter-Foster	92,574	49,767	2,597	52,364	—	6,175	6,175
Hills Creek	49,377	17,518	250	17,768	—	4,605	4,605
Ice Harbor	206,321	147,595	227	147,822	—	—	—
John Day	630,779	471,991	11,813	483,804	—	—	—
Libby	570,138	428,827	711	429,538	—	—	—
Little Goose	248,854	206,846	601	207,447	—	—	—
Lookout Point-Dexter	107,505	51,175	7,939	59,114	—	1,496	1,496
Lost Creek	149,721	26,919	61	26,980	—	2,186	2,186
Lower Granite	402,146	330,397	171	330,568	—	—	—
Lower Monumental	267,254	224,511	93	224,604	—	—	—
McNary	358,309	279,811	4,810	284,621	—	—	—
The Dalles	376,978	298,693	29,137	327,830	—	—	—
Lower Snake	257,413	254,891	634	255,525	—	—	—
Columbia River Fish Bypass	631,245	232,977	361,937	594,914	—	—	—
Total Corps Projects							
Irrigation Assistance at 12 Projects having no power generation	201,179	—	—	—	157,144	44,035	201,179
Total Plant Investment							
Repayment Obligation Retained by Columbia Basin Project	4,639	2,836 (a)	—	2,836	1,803	—	1,803
Investment in Teton Project (b)	79,107	—	7,269	7,269	56,573	3,681	60,254

(a) Amount represents joint costs transferred to Bureau of Sports Fisheries and Wildlife. This is included in other assets in the accompanying balance sheets.  
(b) The \$7,269,000 commercial power portion of the Teton project is included in other assets in the accompanying balance sheets. Teton amounts exclude interest totaling approximately \$2.2 million subsequent to June 1976 which was charged to expense.

*Non-reimbursable (unaudited)*

	Navigation	Flood Control	Fish and Wildlife	Recreation	Other	Percent Returnable from Commercial Power Revenues
<b>Bonneville Power Administration</b>						
Transmission Facilities	\$ —	\$ —	\$ —	\$ —	\$ —	100.00%
<b>Bureau of Reclamation</b>						
Boise	—	—	—	—	34,233	35.00%
Columbia Basin	1,000	52,424	6,073	154	553	88.05%
Hungry Horse	—	27,384	—	—	—	80.92%
Minidoka-Palisades	—	64,473	2,557	10,475	122,195	32.22%
Yakima	—	1,965	49,883	238	25,557	8.30%
Total Bureau Projects						<b>71.59%</b>
<b>Corps of Engineers</b>						
Albeni Falls	176	265	—	3,344	—	91.55%
Bonneville	400,744	—	—	1,266	2,062	69.49%
Chief Joseph	—	—	4,977	5,776	29,000	93.44%
Cougar	548	38,359	—	—	—	32.50%
Detroit-Big Cliff	219	20,840	—	—	—	61.88%
Dworshak	9,625	31,504	—	14,796	—	84.92%
Green Peter-Foster	365	30,356	—	1,644	1,670	56.56%
Hills Creek	628	26,376	—	—	—	35.98%
Ice Harbor	55,184	—	—	3,315	—	71.65%
John Day	90,775	17,984	—	11,807	26,409	76.70%
Libby	—	94,983	876	14,104	30,637	75.34%
Little Goose	34,688	—	—	4,115	2,604	83.36%
Lookout Point-Dexter	748	45,641	—	506	—	54.99%
Lost Creek	—	53,020	24,506	29,399	13,630	18.02%
Lower Granite	50,797	—	—	12,939	7,842	82.20%
Lower Monumental	39,380	—	—	2,853	417	84.04%
McNary	68,837	—	—	4,851	—	79.43%
The Dalles	47,059	—	—	2,067	22	86.96%
Lower Snake	1,888	—	—	—	—	99.27%
Columbia River Fish Bypass	33,715	2,616	—	—	—	94.24%
Total Corps Projects						<b>75.35%</b>
Irrigation Assistance at 12 Projects having no power generation	—	—	—	—	—	78.11%
Total Plant Investment						<b>84.35%</b>
Repayment Obligation Retained by Columbia Basin Project	—	—	—	—	—	100.00%
Investment in Teton Project (b)	—	9,151	—	2,433	—	80.70%
						<b>85.35%</b>

**QUARTERLY REPORT FOR THE THREE MONTHS ENDING DECEMBER 31, 2000**
**Federal Columbia River Power System**
**Comparative Balance Sheets (Unaudited)**

(Thousands of Dollars)

	December 31	
	2000	1999
<b>ASSETS</b>		
<b>UTILITY PLANT:</b>		
Completed plant	<b>\$11,107,122</b>	\$11,016,114
Accumulated depreciation	<b>(3,659,731)</b>	(3,534,560)
	<b>7,447,391</b>	7,481,554
Construction work in progress	<b>670,294</b>	563,970
Net utility plant	<b>8,117,685</b>	8,045,524
<b>NON-FEDERAL PROJECTS</b>	<b>6,407,799</b>	6,686,582
<b>TROJAN DECOMMISSIONING COST</b>	<b>78,307</b>	85,587
<b>CONSERVATION, net of accumulated amortization</b>	<b>486,350</b>	552,427
<b>FISH AND WILDLIFE, net of accumulated amortization</b>	<b>142,671</b>	145,572
<b>CURRENT ASSETS</b>	<b>1,288,190</b>	1,204,545
<b>OTHER ASSETS</b>	<b>188,972</b>	182,647
	<b>\$16,709,974</b>	\$16,902,884
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>ACCUMULATED NET REVENUES (EXPENSES)</b>	<b>(\$509,152)</b>	\$21,290
<b>FEDERAL APPROPRIATIONS</b>	<b>4,550,583</b>	4,505,697
<b>CAPITALIZATION ADJUSTMENT</b>	<b>2,311,344</b>	2,379,145
<b>LONG-TERM DEBT</b>	<b>2,513,200</b>	2,397,400
<b>NON-FEDERAL PROJECTS DEBT</b>	<b>6,052,211</b>	6,374,003
<b>TROJAN DECOMMISSIONING RESERVE</b>	<b>65,707</b>	62,987
<b>CURRENT LIABILITIES</b>	<b>792,763</b>	716,639
<b>DEFERRED CREDITS</b>	<b>933,318</b>	445,723
	<b>\$16,709,974</b>	\$16,902,884

**Comparative Statements of Revenues and Expenses (Unaudited)**

(Thousands of Dollars)

	Three months ended		Twelve months ended	
	December 31		December 31	
	2000	1999	2000	1999
<b>Operating Revenues:</b>				
Revenues	<b>\$788,313</b>	\$687,487	<b>\$3,140,995</b>	\$2,717,385
SFAS 133 mark-to-market loss	<b>(292,720)</b>	0	<b>(292,720)</b>	0
<b>Operating Revenues</b>	<b>495,593</b>	687,487	<b>2,848,275</b>	2,717,385
<b>Operating Expenses:</b>				
Operations and maintenance	<b>199,889</b>	183,092	<b>939,140</b>	861,946
Purchased power	<b>433,651</b>	39,549	<b>1,018,984</b>	253,102
Tenaska	<b>0</b>	0	<b>(26,817)</b>	0
Non-Federal projects	<b>162,550</b>	157,410	<b>565,739</b>	644,145
Residential exchange	<b>11,821</b>	15,818	<b>59,596</b>	66,895
Federal projects depreciation	<b>79,695</b>	75,682	<b>323,955</b>	313,922
<b>Operating Expenses</b>	<b>887,606</b>	471,551	<b>2,880,597</b>	2,140,010
Net operating revenues	<b>(392,013)</b>	215,936	<b>(32,322)</b>	577,375
<b>Interest Expense</b>	<b>81,459</b>	86,479	<b>329,630</b>	351,050
<b>Net Income from Continuing Operations</b>	<b>(\$473,472)</b>	\$129,457	<b>(\$361,952)</b>	\$226,325
<b>Cumulative Effect of SFAS 133</b>	<b>(168,490)</b>	0	<b>(168,490)</b>	0
<b>NET REVENUES (EXPENSES)</b>	<b>(\$641,962)</b>	\$129,457	<b>(\$530,442)</b>	\$226,325

**Derivative Instruments and Hedging Activities**

On the date of adoption (Oct. 1, 2000), BPA recorded a \$168 million loss primarily attributable to the accounting requirements for bookout transactions under SFAS 133. Going forward from the date of adoption, BPA estimates the impact of SFAS 133 to be immaterial on a long term basis, as the effects of marking derivatives, including bookout transactions, to market will reverse and eliminate over the terms of the related contracts. However, SFAS 133 is expected to have significant effect in increasing volatility of earnings (losses) on a period to period basis.



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
LONG-TERM RECEIVABLES (NOTE 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
NET INCREASE IN CASH	675	23	850	1,061
CASH AT JUNE 30, 1999	3,296	16	3,830	3,535
CASH AT JUNE 30, 2000 (NOTE 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
<b>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS</b>			
1990A	7.25%	7-1-2006	\$ 35,790
1990C	7.00-7.50	7-1-2001/2002	82,435
	(A)	7-1-2004/2005	18,054
			<u>100,489</u>
1991A	6.30-6.60	7-1-2001/2004	72,430
	(A)	7-1-2006/2007	10,267
			<u>82,697</u>
1992A	5.60-6.30	7-1-2001/2009	117,445
	6.25	7-1-2012	14,525
	6.30	7-1-2012	50,000
			<u>181,970</u>
1993A	5.25-6.00	7-1-2001/2010	154,255
	5.75	7-1-2012	42,105
			<u>196,360</u>
1993B	5.00-5.65	7-1-2001/2008	80,550
	5.55	7-1-2010	51,000
	5.625	7-1-2012	43,455
			<u>175,005</u>
1994A	4.30-6.00	7-1-2001/2011	518,490
	5.40	7-1-2012	100,200
	(A)	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
<b><u>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS (Continued)</u></b>			
1997-2A-1,2	Variable	7-1-2001/2012	\$ 120,865
<i>Compound interest bonds accretion</i>			59,763
<i>Revenue bonds payable</i>			\$ 2,254,875 (B)
<i>Estimated fair value at June 30, 2000</i>			\$ 2,270,278 (D)
<b><u>PACKWOOD LAKE PROJECT REVENUE BONDS</u></b>			
1962	3.625%	3-1-2012	\$ 4,408
1965	3.75	3-1-2012	1,440
<i>Revenue bonds payable</i>			\$ 5,848
<i>Estimated fair value at June 30, 2000</i>			\$ 5,488 (D)
<b><u>NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS</u></b>			
1989A	7.10-7.30	7-1-2000/2001	\$ 7,160
1989B	7.10-7.15	7-1-2000/2001	10,485
	7.125	7-1-2016	41,070
			51,555
1990A	7.30-7.50	7-1-2000/2002	20,780
1990B	7.00-7.20	7-1-2000/2003	17,720
	7.25	7-1-2009	72,770
			90,490
1990C	7.25-7.75	7-1-2000/2003	76,485
1991A	6.25-6.60	7-1-2000/2004	21,505
1992A	5.45-6.25	7-1-2000/2007	8,915
	6.25	7-1-2017	68,015
			76,930

(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	<u>176,180</u>
			<u>480,010</u>
1993B	5.00-7.00	7-1-2000/2010	69,485
	5.60	7-1-2015	<u>94,885</u>
			<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	<u>75,650</u>
			<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	<u>24,860</u>
			<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>
<i>Revenue bonds payable</i>			<u>\$ 2,141,770</u> (C)
<i>Estimated fair value as June 30, 2000</i>			<u>\$ 2,184,311</u> (D)

(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% (A)	7-1-2000/2001 7-1-2003/2014	\$ 6,945 <u>18,668</u> <u>25,613</u>
1989B	7.10-7.15 (A) 7.125 5.50 5.50	7-1-2000/2001 7-1-2004/2014 7-1-2016 7-1-2017 7-1-2018	35,225 70,580 76,145 62,560 <u>65,905</u> <u>310,415</u>
1990B	7.25 (A) 7.375	7-1-2000 7-1-2001/2010 7-1-2004	24,920 38,685 <u>55,920</u> <u>119,525</u>
1991A	6.25-6.60	7-1-2000/2004	<u>21,220</u>
1993B	5.00-7.00 5.625 5.60 5.60 5.70	7-1-2000/2010 7-1-2012 7-1-2015 7-1-2017 7-1-2018	107,800 28,295 49,095 37,795 <u>20,605</u> <u>243,590</u>
1993C	4.40-7.50 5.40 (A) 5.375 5.50	7-1-2000/2010 7-1-2012 7-1-2013/2018 7-1-2015 7-1-2018	149,880 105,000 24,143 188,335 <u>20,805</u> <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
<b>NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS (Continued)</b>			
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</u> (C)
<i>Estimated fair value at June 30, 2000</i>			\$ <u>1,890,511</u> (D)

(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
<b>6/30/2000</b>						
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
<b>Balance Through</b>						
2012	1,476,608	385,050	1,861,658	2,956	317	3,273
<b>Adjustment **</b>						
	59,763	(59,763)	0			
	<b>\$ 2,254,875</b>	<b>\$ 875,647</b>	<b>\$3,130,522</b>	<b>\$ 5,848</b>	<b>\$ 1,238</b>	<b>\$ 7,086</b>

FISCAL YEAR	NUCLEAR PROJECT NO. 1			NUCLEAR PROJECT NO. 3		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
<b>6/30/2000</b>						
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
<b>Balance Through</b>						
2017	1,673,035	689,426	2,362,461			
2018				1,256,970	851,682	2,108,652
<b>Adjustment **</b>						
				398,204	(398,204)	0
	<b>\$ 2,141,770</b>	<b>\$ 1,289,717</b>	<b>\$ 3,431,487</b>	<b>\$ 2,088,160</b>	<b>\$ 931,551</b>	<b>\$ 3,019,711</b>

\* 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 B-16, to give an indication of the type and amounts of investments held by each business unit at year end. (See table on page B-16)

**AVAILABLE-FOR-SALE INVESTMENTS**

(Dollars in Thousands)

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

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

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

**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 Retirements 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 B-6 through B-10, and debt service requirements for these bonds are presented on page B-11.

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.

**Upon delivery of the Series 2001-A Bonds  
Bond Counsel proposes to render  
an opinion in substantially the following form.**

Executive Board  
Energy Northwest  
Richland, Washington 99352-0968

Ladies and Gentlemen:

We have acted as bond counsel to Energy Northwest (formerly known as the Washington Public Power Supply System), a municipal corporation of the State of Washington (the "State"), created and existing under and pursuant to Chapter 43.52 of the Revised Code of Washington, as amended (the "Act"), in connection with the issuance of its \$\_\_\_\_\_ Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A (the "Series 2001-A Bonds"). The Series 2001-A Bonds are authorized to be issued pursuant to (i) the Act, (ii) Resolution No. 835 (the "Electric Bond Resolution"), adopted by the Executive Board of Energy Northwest (the "Executive Board") on November 23, 1993, and (iii) a resolution entitled "A Supplemental Resolution Providing for the Issuance of \$\_\_\_\_\_ Energy Northwest Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A" (the "Supplemental Resolution") adopted by the Executive Board pursuant to the Electric Bond Resolution on \_\_\_\_\_, 2001. The Electric Bond Resolution and the Supplemental Resolution are hereinafter, collectively, referred to as the "Electric Bond Resolutions." All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Electric Bond Resolutions.

The Series 2001-A Bonds are dated \_\_\_\_\_, will mature on July 1 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth in the Supplemental Resolution. The Series 2001-A Bonds are subject to redemption in the manner and upon the terms and conditions set forth in the Electric Bond Resolutions, including mandatory redemption at par by application of sinking fund payments. The Series 2001-A Bonds rank junior as to security and payment to bonds issued and outstanding under the Prior Lien Resolution. The Series 2001-A Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Series 2001-A Bonds, we have examined the following:

- (a) The Constitution and statutes of the State, including particularly the Act, and such court decisions, rulings and regulations, both State and Federal, as we have deemed relevant;
- (b) A certified copy of Energy Northwest Resolution No. 769 adopted on September 18, 1975, as amended and supplemented (the "Prior Lien Resolution");
- (c) Certified copies of the proceedings of Energy Northwest preliminary to and in connection with the issuance of the Series 2001-A Bonds, including particularly (i) the Electric Bond Resolution which authorizes, among other things, the issuance, from time to time, of Parity Debt, (ii) the Supplemental Resolution which authorizes, among other things, the issuance of the Series 2001-A Bonds and (iii) a resolution, adopted by Energy Northwest on \_\_\_\_\_, 2001 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Series 2001-A Bonds and the execution and delivery of: a Contract of Purchase, dated \_\_\_\_\_, 2001 (the "Contract of Purchase"), by and between Energy Northwest and the underwriters named therein;;
- (d) The Contract of Purchase, and such legal opinions, certificates and proofs submitted to us relative to the issuance and sale of the Series 2001-A Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Series 2001-A Bond issued on the date hereof.

Based upon the foregoing, it is our opinion that:

- I. Energy Northwest is a municipal corporation and joint operating agency, duly created and existing under the laws of the State, including particularly the Act, having the right and power under the Act to acquire, construct, own and operate the Project, adopt the Prior Lien Resolution, the Electric Bond Resolutions and the Electric Bond Sale Resolution,

issue the Series 2001-A Bonds and apply the proceeds of the Series 2001-A Bonds in accordance with the Supplemental Resolution.

2. The Electric Bond Resolutions and the Electric Bond Sale Resolution have been duly and lawfully adopted by Energy Northwest, are in full force and effect, are valid and binding upon Energy Northwest and are enforceable in accordance with their terms.

3. The Prior Lien Bond Resolution has been duly and lawfully adopted by Energy Northwest, is in full force and effect, is valid and binding upon Energy Northwest and is enforceable in accordance with its terms.

4. The Series 2001-A Bonds have been duly and validly authorized and issued under the Act and the Electric Bond Resolutions and constitute valid and binding special revenue obligations of Energy Northwest, enforceable in accordance with their terms and the terms of the Electric Bond Resolutions.

5. The Series 2001-A Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Series 2001-A Bonds are not a debt of the State or any political subdivision thereof (other than Energy Northwest) and neither the State nor any other political subdivision of the State is liable thereon.

In rendering the foregoing opinions, we wish to advise you that the enforceability of the Electric Bond Resolutions, the Electric Bond Sale Resolution, the Prior Lien Resolution and the Series 2001-A Bonds may be limited by (i) any applicable bankruptcy, insolvency or other law or enactment now or hereinafter enacted by the State or Federal government affecting the enforcement of creditors' rights and (ii) the unavailability of equitable remedies or the application thereto of equitable principles. Further, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings. We have not verified, and express no opinions as to, the accuracy of any "CUSIP" identification number which may be printed on any Series 2001-A Bond.

Very truly yours,

**Upon delivery of the Series 2001-A Bonds  
Bond Counsel proposes to render  
an opinion in substantially the following form.**

Executive Board  
Energy Northwest  
Richland, Washington 99352-0968

Ladies and Gentlemen:

We are acting as bond counsel with respect to the issuance of Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A, in the aggregate principal amount of \$ \_\_\_\_\_ (the "Series 2001-A Bonds"), by Energy Northwest (formerly known as the Washington Public Power Supply System), a municipal corporation and a joint operating agency organized and existing under the laws of the State of Washington (the "State"). The Series 2001-A Bonds are authorized to be issued pursuant to (i) Chapter 43.52 of the Revised Code of Washington, as amended (the "Act"), (ii) Electric Revenue Bond Resolution No. 835, entitled "A Resolution Providing For The Issuance Of Washington Public Power Supply System Project No. 1 Electric Revenue Bonds," adopted by the Executive Board of Energy Northwest (the "Executive Board") on November 23, 1993 (the "Resolution"), and (iii) Resolution No. \_\_\_\_\_, entitled "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A" adopted by the Executive Board on \_\_\_\_\_, 2001 (the "Supplemental Resolution"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Resolution or the Supplemental Resolution, as applicable.

In connection with the issuance of the Series 2001-A Bonds, Energy Northwest has requested that we examine the validity of the WPPSS No. 1 Project Net Billing Agreements (the "Net Billing Agreements"), the Project No. 1 Assignment Agreement, dated as of August 24, 1984 (the "Assignment Agreement"), by and between Energy Northwest and the United States of America, Department of Energy, acting by and through the Administrator (the "Administrator") of the Bonneville Power Administration ("Bonneville"), the letter agreement, dated August 1, 1989 (the "1989 Letter Agreement"), by and between Energy Northwest and the Administrator, and the agreement dated August 11, 1989 (the "Bonneville Agreement"), between the Administrator and Energy Northwest regarding the disposition of Project 1 properties after termination.

For the purpose of rendering this opinion, we have reviewed the following:

- (a) The Constitution of the State and such statutes and regulations as we deemed relevant to this opinion, including particularly the Act;
- (b) The Constitution of the United States of America and such statutes and regulations as we deemed relevant to this opinion, including particularly the Bonneville Project Act of 1937, as amended (the "Bonneville Act"), the Flood Control Act of 1944, Public Law 88-552, as amended, the Federal Columbia River Transmission System, Act of 1974, as amended, and the Pacific Northwest Electric Power Planning and Conservation Act of 1980, as amended;
- (c) Executed or certified copies of the Resolution and the Supplemental Resolution;
- (d) Executed or certified copies of the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement;
- (e) The Certificate of the Chairman of the Executive Board, dated the date hereof, certifying that, except as described in the Official Statement for the Series 2001-A Bonds, dated March \_\_\_\_, 2001, (i) neither Energy Northwest nor, to the best of his knowledge, any other party thereto has taken any action to (1) repeal, modify or terminate the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement or the Bonneville Agreement, or (2) repeal any proceeding authorizing the execution and delivery of any such Agreement, and (ii) to the best of his knowledge, each such Agreement remains in full force and effect as of the date hereof;
- (f) The Certificate of the Administrator, dated the date hereof, certifying that (i) neither the Administrator nor, to the best of his knowledge, any other party thereto has taken any action to (1) repeal, modify or terminate the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement or the Bonneville Agreement, or (2) repeal any

proceeding authorizing the execution and delivery of any such Agreement, and (ii) to the best of his knowledge, each such Agreement remains in full force and effect as of the date hereof;

(g) Certified copies of the proceedings of Energy Northwest authorizing the execution and delivery of the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement and such other documents, proceedings and matters relating to the authorization, execution and delivery of such Agreements by each of the parties thereto as we deemed relevant;

(h) The respective opinions of counsel for each of the WPPSS No. 1 Project Participants (collectively, the "Local Counsel Opinions"), rendered in 1971 and 1972, to the effect that, *inter alia*, the Net Billing Agreement to which such WPPSS No. 1 Project Participant is a party was duly authorized, executed and delivered by such Participant and did not constitute a violation of or conflict with the provisions of applicable law;

(i) The opinion of Acting General Counsel to Bonneville, dated the date hereof, to the effect that, *inter alia*, (i) the office of Administrator was duly established and is validly existing under the Bonneville Act, (ii) the Administrator was duly authorized to execute and deliver the Net Billing Agreements, the Project Agreement, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement and (iii) each of the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement has been duly authorized, executed and delivered by the Administrator and did not constitute a violation of or conflict with the provisions of applicable law;

(j) The opinion of Lindsay, Hart, Neil & Weigler, special counsel to Energy Northwest, dated March 14, 1990, to the effect that the WPPSS No. 1 Project Participant identified therein is validly existing and that such Participant has duly adopted, ratified and confirmed the execution and delivery of the Net Billing Agreement to which it is a party;

(k) The decision of the United States Court of Appeals for the Ninth Circuit in *City of Springfield v. Washington Public Power Supply System, et al.*, 752 F.2d 1423 (9th Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986);

(l) A certified copy of Energy Northwest Resolution No. 769 adopted on September 18, 1975, as amended and supplemented (the "Prior Lien Resolution"); and

(m) Such other documents, agreements, proceedings, pleadings, court decisions, statutes, matters and questions of law as we deemed necessary or appropriate for the purposes hereof.

Based upon the foregoing and in reliance thereon, we are of the opinion that each of the Net Billing Agreements and the Assignment Agreement is a legal and valid obligation of each of the parties thereto, enforceable against such parties in accordance with its terms, and that the 1989 Letter Agreement and the Bonneville Agreement are legal and valid obligations of Energy Northwest, enforceable against Energy Northwest in accordance with their terms; provided, however, that the enforceability of all such Agreements may be subject to (i) the valid exercise of sovereign state police powers; (ii) the limitations on legal remedies against the United States of America under Federal law now or hereafter enacted; (iii) applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws or enactments now or hereafter enacted by any state or the Federal government affecting the enforcement of creditors' rights; and (iv) the unavailability of equitable remedies or the application of general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

In rendering this opinion, (a) we have assumed with your consent (1) the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the legal capacity of natural persons, and the conformity to the originals of all documents submitted to us as copies; (2) the truth and accuracy of all representations set forth in the Certificates of the Chairman of the Executive Board and the Administrator referred to above in paragraphs (e) and (f); and (3) the correctness, as of its date and the date hereof, of each Local Counsel Opinion referred to above in paragraph (h) as to (A) the due incorporation and valid organization and existence as a municipality, publicly owned utility or rural electric cooperative, as applicable, of the WPPSS No. 1 Project Participant represented by such counsel, (B) the due authorization by all requisite governmental or corporate action, as the case may be, and due execution and delivery of the Net Billing Agreement to which such Participant is a party by such Participant and (C) no violation of or conflict with the provisions of applicable law; and (b) we have, with your consent, relied on (1) the opinion of Acting General Counsel to Bonneville referred to above in paragraph (i) as to the matters described therein and (2) the opinion of Lindsay, Hart, Neil & Weigler referred to above in paragraph (j) as to the matters described therein.

Very truly yours,



**Upon delivery of the Series 2001-A Bonds  
Bond Counsel proposes to render  
an opinion in substantially the following form.**

Executive Board  
Energy Northwest  
Richland, Washington 99352-0968

Ladies and Gentlemen:

We have acted as bond counsel to Energy Northwest (formerly known as the Washington Public Power Supply System), a municipal corporation of the State of Washington (the "State") created and existing under and pursuant to Chapter 43.52 of the Revised Code of Washington, as amended (the "Act"), in connection with the issuance of its \$\_\_\_\_\_ Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A (the "Series 2001-A Bonds"). The Series 2001-A Bonds are authorized to be issued pursuant to (i) the Act, (ii) Resolution No. 1042, adopted by the Executive Board of Energy Northwest on October 23, 1997 (the "Electric Bond Resolution"), and (iii) a resolution entitled "A Supplemental Resolution Providing for the Issuance of \$\_\_\_\_\_ Energy Northwest Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A" (the "Supplemental Resolution") adopted by Energy Northwest pursuant to the Electric Bond Resolution on \_\_\_\_\_, 2001. The Electric Bond Resolution and the Supplemental Resolution are hereinafter collectively referred to as the "Electric Bond Resolutions." All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Electric Bond Resolutions.

The Series 2001-A Bonds are dated, will mature on July 1 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth in the Supplemental Resolution. The Series 2001-A Bonds are subject to redemption in the manner and upon the terms and conditions set forth in the Electric Bond Resolutions, including mandatory redemption at par by application of sinking fund payments. The Series 2001-A Bonds rank junior as to security and payment to bonds heretofore or hereafter issued and outstanding under the Prior Lien Resolution. The Series 2001-A Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Series 2001-A Bonds, we have examined the following:

- (a) The Constitution and statutes of the State, including particularly the Act, and such court decisions, rulings and regulations, both State and Federal, as we have deemed relevant;
- (b) A certified copy of Supply System Resolution No. 640 adopted on June 26, 1973, as amended and supplemented (the "Prior Lien Resolution");
- (c) Certified copies of the proceedings of Energy Northwest preliminary to and in connection with the issuance of the Series 2001-A Bonds, including particularly (i) the Electric Bond Resolution which authorizes, among other things, the issuance, from time to time, of Parity Debt, (ii) the Supplemental Resolution which authorizes, among other things, the issuance of the Series 2001-A Bonds and (iii) a resolution, adopted by Energy Northwest on \_\_\_\_\_, 2001 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Series 2001-A Bonds and the execution and delivery of: a Contract of Purchase, dated \_\_\_\_\_, 2001 (the "Contract of Purchase"), by and between Energy Northwest and the underwriters named therein;
- (d) The Contract of Purchase, and such legal opinions, certificates and proofs submitted to us relative to the issuance and sale of the Series 2001-A Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Series 2001-A Bond issued on the date hereof.

Based upon the foregoing, it is our opinion that:

1. Energy Northwest is a municipal corporation and joint operating agency, duly created and existing under the laws of the State, including particularly the Act, having the right and power under the Act to acquire, construct, own and operate the Project, adopt the Prior Lien Resolution, the Electric Bond Resolutions and the Electric Bond Sale Resolution,

issue the Series 2001-A Bonds and apply the proceeds of the Series 2001-A Bonds in accordance with the Supplemental Resolution.

2. The Electric Bond Resolutions and the Electric Bond Sale Resolution have been duly and lawfully adopted by Energy Northwest, are in full force and effect, are valid and binding upon Energy Northwest and are enforceable in accordance with their terms.

3. The Prior Lien Bond Resolution has been duly and lawfully adopted by Energy Northwest, is in full force and effect, is valid and binding upon Energy Northwest and is enforceable in accordance with its terms.

4. The Series 2001-A Bonds have been duly and validly authorized and issued under the Act and the Electric Bond Resolutions and constitute valid and binding special revenue obligations of Energy Northwest, enforceable in accordance with their terms and the terms of the Electric Bond Resolutions.

5. The Series 2001-A Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Series 2001-A Bonds are not a debt of the State or any political subdivision thereof (other than Energy Northwest) and neither the State nor any other political subdivision of the State is liable thereon.

In rendering the foregoing opinions, we wish to advise you that the enforceability of the Electric Bond Resolutions, the Electric Bond Sale Resolution, the Prior Lien Resolution and the Series 2001-A Bonds may be limited by (i) any applicable bankruptcy, insolvency or other law or enactment now or hereinafter enacted by the State or Federal government affecting the enforcement of creditors' rights and (ii) the unavailability of equitable remedies or the application thereto of equitable principles. Further, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings. We have not verified, and express no opinions as to, the accuracy of any "CUSIP" identification number which may be printed on any Series 2001-A Bond.

Very truly yours,

**Upon delivery of the Series 2001-A Bonds  
Bond Counsel proposes to render  
an opinion in substantially the following form.**

Executive Board  
Energy Northwest  
Richland, Washington 99352-0968

Ladies and Gentlemen:

We are acting as bond counsel with respect to the issuance of Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A, in the aggregate principal amount of \$\_\_\_\_\_ (the "Series 2001-A Bonds") by Energy Northwest (formerly known as the Washington Public Power Supply System), a municipal corporation and a joint operating agency organized and existing under the laws of the State of Washington (the "State"). The Series 2001-A Bonds are authorized to be issued pursuant to (i) Chapter 43.52 of the Revised Code of Washington, as amended (the "Act"), (ii) Electric Revenue Bond Resolution No. 1042, entitled "A Resolution Providing For The Issuance Of Washington Public Power Supply System Project No. 2 Electric Revenue Bonds," adopted by the Executive Board of Energy Northwest (the "Executive Board") on October 23, 1997 (the "Resolution"), and (iii) Resolution No. \_\_\_\_\_, entitled "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A" adopted by the Executive Board on \_\_\_\_\_, 2001 (the "Supplemental Resolution"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Resolution or the Supplemental Resolution, as applicable.

In connection with the issuance of the Series 2001-A Bonds, Energy Northwest has requested that we examine the validity of the WPPSS No. 2 Project Net Billing Agreements (the "Net Billing Agreements"), the WPPSS No. 2 Project Agreement (the "Project Agreement"), the Project No. 2 Assignment Agreement, dated as of August 24, 1984 (the "Assignment Agreement"), by and between Energy Northwest and the United States of America, Department of Energy, acting by and through the Administrator (the "Administrator") of the Bonneville Power Administration ("Bonneville"), the letter agreement, dated August 1, 1989 (the "1989 Letter Agreement"), by and between Energy Northwest and the Administrator, and the agreement dated March 1, 1990 (the "Bonneville Agreement"), between the Administrator and Energy Northwest regarding the disposition of the Columbia Generating Station properties after termination. The Columbia Generating Station was formerly known as Nuclear Project No. 2.

For the purpose of rendering this opinion, we have reviewed the following:

- (a) The Constitution of the State and such statutes and regulations as we deemed relevant to this opinion, including particularly the Act;
- (b) The Constitution of the United States of America and such statutes and regulations as we deemed relevant to this opinion, including particularly the Bonneville Project Act of 1937, as amended (the "Bonneville Act"), the Flood Control Act of 1944, Public Law 88-552, as amended, the Federal Columbia River Transmission System, Act of 1974, as amended, and the Pacific Northwest Electric Power Planning and Conservation Act of 1980, as amended;
- (c) Executed or certified copies of the Resolution and the Supplemental Resolution;
- (d) Executed or certified copies of the Net Billing Agreements, the Project Agreement, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement;
- (e) The Certificate of the Chairman of the Executive Board, dated the date hereof, certifying that (i) neither Energy Northwest nor, to the best of his knowledge, any other party thereto has taken any action to (1) repeal, modify or terminate the Net Billing Agreements, the Project Agreement, the Assignment Agreement, the 1989 Letter Agreement or the Bonneville Agreement, or (2) repeal any proceeding authorizing the execution and delivery of any such Agreement, and (ii) to the best of his knowledge, each such Agreement remains in full force and effect as of the date hereof;
- (f) The Certificate of the Administrator, dated the date hereof, certifying that (i) neither the Administrator nor, to the best of his knowledge, any other party thereto has taken any action to (1) repeal, modify or terminate the Net Billing Agreements, the Project Agreement, the Assignment Agreement, the 1989 Letter Agreement or the Bonneville Agreement, or (2) repeal any proceeding authorizing the execution and delivery of any such Agreement, and (ii) to the best of his knowledge, each such Agreement remains in full force and effect as of the date hereof;
- (g) Certified copies of the proceedings of Energy Northwest authorizing the execution and delivery of the Net Billing Agreements, the Project Agreement, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement and such other documents, proceedings and matters relating to the authorization, execution and delivery of such Agreements by each of the parties thereto as we deemed relevant;
- (h) The respective opinions of counsel (collectively, the "Local Counsel Opinions") for each WPPSS No. 2 Project Participant, (herein "Columbia Generating Station Participant") rendered in 1971 and 1972, to the effect that, *inter*

*alia*, the Net Billing Agreement to which such Columbia Generating Station Participant is a party was duly authorized, executed and delivered by such Participant and did not constitute a violation of or conflict with the provisions of applicable law;

(i) The opinion of Acting General Counsel to Bonneville, dated the date hereof, to the effect that, *inter alia*, (i) the office of Administrator was duly established and is validly existing under the Bonneville Act, (ii) the Administrator was duly authorized to execute and deliver the Net Billing Agreements, the Project Agreement, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement and (iii) each of the Net Billing Agreements, the Project Agreement, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement has been duly authorized, executed and delivered by the Administrator and did not constitute a violation of or conflict with the provisions of applicable law;

(j) The opinion of Lindsay, Hart, Neil & Weigler, special counsel to Energy Northwest, dated March 14, 1990, to the effect that the Columbia Generating Station Participant identified therein is validly existing and that such Participant has duly adopted, ratified and confirmed the execution and delivery of the Net Billing Agreement to which it is a party;

(k) The decision of the United States Court of Appeals for the Ninth Circuit in *City of Springfield v. Washington Public Power Supply System, et al.*, 752 F.2d 1423 (9th Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986);

(l) A certified copy of Supply System Resolution No. 640 adopted on June 26, 1973, as amended and supplemented (the "Prior Lien Resolution"); and

(m) Such other documents, agreements, proceedings, pleadings, court decisions, statutes, matters and questions of law as we deemed necessary or appropriate for the purposes hereof.

Based upon the foregoing and in reliance thereon, we are of the opinion that each of the Net Billing Agreements, the Project Agreement and the Assignment Agreement is a legal and valid obligation of each of the parties thereto, enforceable against such parties in accordance with its terms, and that the 1989 Letter Agreement and the Bonneville Agreement are legal and valid obligations of Energy Northwest, enforceable against Energy Northwest in accordance with their terms; provided, however, that the enforceability of all such Agreements may be subject to (i) the valid exercise of sovereign state police powers; (ii) the limitations on legal remedies against the United States of America under Federal law now or hereafter enacted; (iii) applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws or enactments now or hereafter enacted by any state or the Federal government affecting the enforcement of creditors' rights; and (iv) the unavailability of equitable remedies or the application of general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

In rendering this opinion, (a) we have assumed with your consent (1) the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the legal capacity of natural persons, and the conformity to the originals of all documents submitted to us as copies; (2) the truth and accuracy of all representations set forth in the Certificates of the Chairman of the Executive Board and the Administrator referred to above in paragraphs (e) and (f); and (3) the correctness, as of its date and the date hereof, of each Local Counsel Opinion referred to above in paragraph (h) as to (A) the due incorporation and valid organization and existence as a municipality, publicly-owned utility or rural electric cooperative, as applicable, of the Columbia Generating Station Participant represented by such counsel, (B) the due authorization by all requisite governmental or corporate action, as the case may be, and due execution and delivery of the Net Billing Agreement to which such Participant is a party by such Participant and (C) no violation of or conflict with the provisions of applicable law; and (b) we have, with your consent, relied on (1) the opinion of Acting General Counsel to Bonneville referred to above in paragraph (i) as to the matters described therein and (2) the opinion of Lindsay, Hart, Neil & Weigler referred to above in paragraph (j) as to the matters described therein.

Very truly yours,

**Upon delivery of the Series 2001-A Bonds  
Bond Counsel proposes to render  
an opinion in substantially the following form.**

Executive Board  
Energy Northwest  
Richland, Washington 99352-0968

Ladies and Gentlemen:

We have acted as bond counsel to Energy Northwest (formerly known as the Washington Public Power Supply System), a municipal corporation of the State of Washington (the "State") created and existing under and pursuant to Chapter 43.52 of the Revised Code of Washington, as amended (the "Act"), in connection with the issuance of its \$\_\_\_\_\_ Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A (the "Series 2001-A Bonds"). The Series 2001-A Bonds are authorized to be issued pursuant to (i) the Act, (ii) Resolution No. 838 (the "Electric Bond Resolution"), adopted by the Executive Board of Energy Northwest (the "Executive Board") on November 23, 1993 and (iii) a resolution entitled "A Supplemental Resolution Providing for the issuance of \$\_\_\_\_\_ Energy Northwest Project No. 3 Refunding Revenue Bonds, Series 2001-A" (the "Supplemental Resolution") adopted by the Executive Board pursuant to the Electric Bond Resolution on \_\_\_\_\_, 2001. The Electric Bond Resolution and the Supplemental Resolution are hereinafter collectively referred to as the "Electric Bond Resolutions." All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Electric Bond Resolutions.

The Series 2001-A Bonds are dated, will mature on July 1 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth in the Supplemental Resolution. The Series 2001-A Bonds are subject to redemption in the manner and upon the terms and conditions set forth in the Electric Bond Resolutions, including mandatory redemption at par by application of sinking fund payments. The Series 2001-A Bonds rank junior as to security and payment to bonds issued and outstanding under the Prior Lien Resolution. The Series 2001-A Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Series 2001-A Bonds, we have examined the following:

- (a) The Constitution and statutes of the State, including particularly the Act, and such court decisions, rulings and regulations, both State and Federal, as we have deemed relevant;
- (b) A certified copy of Energy Northwest Resolution No. 775 adopted on December 3, 1975, as amended and supplemented (the "Prior Lien Resolution");
- (c) Certified copies of the proceedings of Energy Northwest preliminary to and in connection with the issuance of the Series 2001-A Bonds, including particularly (i) the Electric Bond Resolution which authorizes, among other things, the issuance, from time to time, of Parity Debt, (ii) the Supplemental Resolution which authorizes, among other things, the issuance of the Series 2001-A Bonds and (iii) a resolution, adopted by Energy Northwest on \_\_\_\_\_, 2001 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Series 2001-A Bonds and the execution and delivery of: a Contract of Purchase, dated \_\_\_\_\_, 2001 (the "Contract of Purchase") by and between Energy Northwest and the underwriters named therein;
- (d) The Contract of Purchase and such legal opinions, certificates and proofs submitted to us relative to the issuance and sale of the Series 2001-A Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Series 2001-A Bond issued on the date hereof.

Based upon the foregoing, it is our opinion that:

1. Energy Northwest is a municipal corporation and joint operating agency, duly created and existing under the laws of the State, including particularly the Act, having the right and power under the Act to acquire, construct, own and operate the Project, adopt the Prior Lien Resolution, the Electric Bond Resolutions and the Electric Bond Sale Resolution, issue the Series 2001-A Bonds and apply the proceeds of the Series 2001-A Bonds in accordance with the Supplemental Resolution.
2. The Electric Bond Resolutions and the Electric Bond Sale Resolution have been duly and lawfully adopted by Energy Northwest, are in full force and effect, are valid and binding upon Energy Northwest and are enforceable in accordance with their terms.

3. The Prior Lien Bond Resolution has been duly and lawfully adopted by Energy Northwest, is in full force and effect, is valid and binding upon Energy Northwest and is enforceable in accordance with its terms.

4. The Series 2001-A Bonds have been duly and validly authorized and issued under the Act and the Electric Bond Resolutions and constitute valid and binding special revenue obligations of Energy Northwest, enforceable in accordance with their terms and the terms of the Electric Bond Resolutions.

5. The Series 2001-A Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Series 2001-A Bonds are not a debt of the State or any political subdivision thereof (other than Energy Northwest) and neither the State nor any other political subdivision of the State is liable thereon.

In rendering the foregoing opinions, we wish to advise you that the enforceability of the Electric Bond Resolutions, the Electric Bond Sale Resolution, the Prior Lien Resolution and the Series 2001-A Bonds may be limited by (i) any applicable bankruptcy, insolvency or other law or enactment now or hereinafter enacted by the State or Federal government affecting the enforcement of creditors' rights and (ii) the unavailability of equitable remedies or the application thereto of equitable principles. Further, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings. We have not verified, and express no opinions as to, the accuracy of any "CUSIP" identification number which may be printed on any Series 2001-A Bond.

Very truly yours,

**Upon delivery of the Series 2001-A Bonds  
Bond Counsel proposes to render  
an opinion in substantially the following form.**

Executive Board  
Energy Northwest  
Richland, Washington 99352-0968

Ladies and Gentlemen:

We are acting as bond counsel with respect to the issuance of Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A, in the aggregate principal amount of \$ \_\_\_\_\_ (the "Series 2001-A Bonds") by Energy Northwest (formerly known as the Washington Public Power Supply System), a municipal corporation and a joint operating agency organized and existing under the laws of the State of Washington (the "State"). The Series 2001-A Bonds are authorized to be issued pursuant to (i) Chapter 43.52 of the Revised Code of Washington, as amended (the "Act"), (ii) Electric Revenue Bond Resolution No. 838, entitled "A Resolution Providing For The Issuance Of Washington Public Power Supply System Project No. 3 Electric Revenue Bonds" adopted by the Executive Board of Energy Northwest (the "Executive Board") on November 23, 1993 (the "Resolution"), and (iii) Resolution No. \_\_\_\_\_, entitled "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A" adopted by the Executive Board on \_\_\_\_\_, 2001 (the "Supplemental Resolution"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Resolution or the Supplemental Resolution, as applicable.

In connection with the issuance of the Series 2001-A Bonds, Energy Northwest has requested that we examine the validity of the WPPSS No. 3 Project Net Billing Agreements (the "Net Billing Agreements"), the Project No. 3 Assignment Agreement, dated as of August 24, 1984 (the "Assignment Agreement"), by and between Energy Northwest and the United States of America, Department of Energy, acting by and through the Administrator (the "Administrator") of the Bonneville Power Administration ("Bonneville"), the letter agreement, dated August 1, 1989 (the "1989 Letter Agreement"), by and between Energy Northwest and the Administrator, and the agreement dated August 11, 1989 (the "Bonneville Agreement"), between the Administrator and Energy Northwest regarding the disposition of Project 3 properties after termination.

For the purpose of rendering this opinion, we have reviewed the following:

- (a) The Constitution of the State and such statutes and regulations as we deemed relevant to this opinion, including particularly the Act;
- (b) The Constitution of the United States of America and such statutes and regulations as we deemed relevant to this opinion, including particularly the Bonneville Project Act of 1937, as amended (the "Bonneville Act"), the Flood Control Act of 1944, Public Law 88-552, as amended, the Federal Columbia River Transmission System, Act of 1974, as amended, and the Pacific Northwest Electric Power Planning and Conservation Act of 1980, as amended;
- (c) Executed or certified copies of the Resolution and the Supplemental Resolution;
- (d) Executed or certified copies of the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement;
- (e) The Certificate of the Chairman of the Executive Board, dated the date hereof, certifying that (i) neither Energy Northwest nor, to the best of his knowledge, any other party thereto has taken any action to (1) repeal, modify or terminate the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement or the Bonneville Agreement, or (2) repeal any proceeding authorizing the execution and delivery of any such Agreement, and (ii) to the best of his knowledge, each such Agreement remains in full force and effect as of the date hereof;
- (f) The Certificate of the Administrator, dated the date hereof, certifying that, except as described in the Official Statement for the Series 2001-A Bonds dated March \_\_, 2001 (i) neither the Administrator nor, to the best of his knowledge, any other party thereto has taken any action to (1) repeal, modify or terminate the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement or the Bonneville Agreement, or (2) repeal any proceeding authorizing the execution and delivery of any such Agreement, and (ii) to the best of his knowledge, each such Agreement remains in full force and effect as of the date hereof;

(g) Certified copies of the proceedings of Energy Northwest authorizing the execution and delivery of the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement and such other documents, proceedings and matters relating to the authorization, execution and delivery of such Agreements by each of the parties thereto as we deemed relevant;

(h) The respective opinions of counsel for each of the WPPSS No. 3 Project Participants (collectively, the "Local Counsel Opinions"), rendered in 1973, to the effect that, *inter alia*, the Net Billing Agreement to which such WPPSS No. 3 Project Participant is a party was duly authorized, executed and delivered by such Participant and did not constitute a violation of or conflict with the provisions of applicable law;

(i) The opinion of Acting General Counsel to Bonneville, dated the date hereof, to the effect that, *inter alia*, (i) the office of Administrator was duly established and is validly existing under the Bonneville Act. (ii) the Administrator was duly authorized to execute and deliver the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement and (iii) each of the Net Billing Agreements, the Assignment Agreement, the 1989 Letter Agreement and the Bonneville Agreement has been duly authorized, executed and delivered by the Administrator and did not constitute a violation of or conflict with the provisions of applicable law;

(j) The opinion of Lindsay, Hart, Neil & Weigler, special counsel to Energy Northwest, dated July 19, 1989 and September 14, 1989, to the effect that the WPPSS No. 3 Project Participant identified therein is validly existing and that such Participant has duly adopted, ratified and confirmed the execution and delivery of the Net Billing Agreement to which it is a party;

(k) The decision of the United States Court of Appeals for the Ninth Circuit in *City of Springfield v. Washington Public Power Supply System, et al.*, 752 F.2d 1423 (9th Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986);

(l) A certified copy of Supply System Resolution No. 775 adopted on December 3, 1975, as amended and supplemented (the "Prior Lien Resolution"); and

(m) Such other documents, agreements, proceedings, pleadings, court decisions, statutes, matters and questions of law as we deemed necessary or appropriate for the purposes hereof.

Based upon the foregoing and in reliance thereon, we are of the opinion that each of the Net Billing Agreements and the Assignment Agreement is a legal and valid obligation of each of the parties thereto, enforceable against such parties in accordance with its terms, and that the 1989 Letter Agreement and the Bonneville Agreement are legal and valid obligations of Energy Northwest, enforceable against Energy Northwest in accordance with their terms; provided, however, that the enforceability of all such Agreements may be subject to (i) the valid exercise of sovereign state police powers; (ii) the limitations on legal remedies against the United States of America under Federal law now or hereafter enacted; (iii) applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws or enactments now or hereafter enacted by any state or the Federal government affecting the enforcement of creditors' rights; and (iv) the unavailability of equitable remedies or the application of general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

In rendering this opinion, (a) we have assumed with your consent (1) the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the legal capacity of natural persons, and the conformity to the originals of all documents submitted to us as copies; (2) the truth and accuracy of all representations set forth in the Certificates of the Chairman of the Executive Board and the Administrator referred to above in paragraphs (e) and (f); and (3) the correctness, as of its date and the date hereof, of each Local Counsel Opinion referred to above in paragraph (h) as to (A) the due incorporation and valid organization and existence as a municipality, publicly-owned utility or rural electric cooperative, as applicable, of the WPPSS No. 3 Project Participant represented by such counsel, (B) the due authorization by all requisite governmental or corporate action, as the case may be, and, except to the extent such matters are addressed in the opinions of Lindsay, Hart, Neil & Weigler referred to above in paragraph (k), the due execution and delivery of the Net Billing Agreement to which such Participant is a party by such Participant and (C) no violation of or conflict with the provisions of applicable law; (b) we have, with your consent, relied on (1) the opinion of Acting General Counsel to Bonneville referred to above in paragraph (i) as to the matters described therein and (2) the opinion of Lindsay, Hart, Neil & Weigler referred to above in paragraph (k) as to the matters described therein.

Very truly yours,



**Upon delivery of the Series 2001-A Bonds  
Special Tax Counsel proposes to render  
an opinion in substantially the following form.**

Energy Northwest  
P.O. Box 968  
Richland, Washington 99352

Energy Northwest  
\$ \_\_\_\_\_ Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A  
\$ \_\_\_\_\_ Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A  
\$ \_\_\_\_\_ Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A

Ladies and Gentlemen:

We have acted as Special Tax Counsel in connection with the issuance by Energy Northwest (formerly known as the Washington Public Power Supply System), a municipal corporation and a joint operating agency of the State of Washington, of \$ \_\_\_\_\_ aggregate principal amount of Project No. 1 Refunding Electric Revenue Bonds, Series 2001-A (the "Project 1 2001-A Bonds"), \$ \_\_\_\_\_ aggregate principal amount of Columbia Generating Station Refunding Electric Revenue Bonds, Series 2001-A (the "Columbia 2001-A Bonds"), and \$ \_\_\_\_\_ aggregate principal amount of Project No. 3 Refunding Electric Revenue Bonds, Series 2001-A (the "Project 3 2001-A Bonds" and together with the Project 1 2001-A Bonds and the Columbia 2001-A Bonds, the "Series 2001-A Bonds"). The Project 1 2001-A Bonds are being issued pursuant to Chapter 43.52 of the Revised Code of Washington, as amended (the "Act"), and Resolution No. 835, adopted by Energy Northwest on November 23, 1993, as amended and supplemented, and a supplemental resolution adopted on \_\_\_\_\_, 2001 (the "Project 1 Resolution"). The Columbia 2001-A Bonds are being issued pursuant to the Act and Resolution No. 1042, adopted by Energy Northwest on October 23, 1997, as amended and supplemented, and a supplemental resolution adopted on \_\_\_\_\_, 2001 (the "Columbia Resolution"). The Project 3 2001-A Bonds are being issued pursuant to the Act and Resolution No. 838, adopted by Energy Northwest on November 23, 1993, as amended and supplemented, and a supplemental resolution adopted on \_\_\_\_\_, 2001 (the "Project 3 Resolution" and together with the Project 1 Resolution and the Columbia Resolution, the "Resolutions"). The Series 2001-A Bonds are being issued for the purpose of refunding certain outstanding bonds issued by Energy Northwest.

In such connection, we have reviewed certified copies of the Resolutions; the Tax Matters Certificate executed and delivered by Energy Northwest on the date hereof and the Tax Matters Certificate executed and delivered on the date hereof by the Bonneville Power Administration (collectively, the "Tax Certificates"); the opinion of Willkie Farr & Gallagher, as Bond Counsel; certificates of Energy Northwest, the Bonneville Power Administration and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Resolutions, the Tax Certificates and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Series 2001-A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Series 2001-A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Series 2001-A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions and the Tax Certificates, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2001-A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2001-A Bonds, the Resolutions and the Tax Certificates and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against bodies politic and corporate of the State of Washington and against the Bonneville Power Administration. Finally, as Special Tax Counsel we undertake no

responsibility for the accuracy, completeness or fairness of the Official Statement of Energy Northwest, dated \_\_\_\_\_, 2001, relating to the Series 2001-A Bonds or other offering material relating to the Series 2001-A Bonds and express no opinion with respect thereto.

We have relied with your consent on the opinion of Willkie Farr & Gallagher, Bond Counsel, with respect to the validity of the Series 2001-A Bonds and the due authorization and issuance of the Series 2001-A Bonds.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that interest on the Series 2001-A Bonds is excluded from gross income for federal income tax purposes under Title XIII of the Tax Reform Act of 1986, as amended, and Section 103 of the Internal Revenue Code of 1954, as amended. Interest on the Series 2001-A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income.

The amount by which the respective issue price of the Series 2001-A Bonds of any maturity is less than the amount to be paid at maturity of such Series 2001-A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2001-A Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2001-A Bonds and is excluded from gross income for federal income tax purposes to the same extent as set forth in the preceding paragraph hereof. For this purpose, the issue price of each maturity of the Series 2001-A Bonds is the first price at which a substantial amount of the Series 2001-A Bonds of such maturity is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

Except as expressly stated herein, we express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2001-A Bonds.

Faithfully yours,

**ENERGY NORTHWEST  
PARTICIPANT UTILITY SHARE  
FISCAL YEAR 2001 BUDGET**

<u>Participant Utility</u>	<u>Project 1 Share</u>	<u>Columbia Share</u>	<u>Project 3 Share</u>
City of Albion, Idaho	0.004	0.016	0.003
Alder Mutual Light Company, Washington	0.002		
City of Bandon, Oregon	0.166	0.263	0.144
* Public Utility District No. 1 of Benton County, Washington	4.965	5.350	4.295
Benton Rural Electric Association, Washington	0.308	0.666	0.645
Big Bend Electric Cooperative, Inc., Washington	0.179	1.610	0.374
Blachly-Lane County Cooperative Electric Association, Oregon	0.234	0.272	0.491
Blaine City Light, Washington	0.109	0.185	0.101
City of Bonners Ferry, Idaho, Electric Department	0.115	0.182	0.099
City of Burley, Idaho, Electric	0.179	0.694	0.155
Canby Utility Board, Oregon	0.296	0.090	0.256
City of Cascade Locks, Oregon	0.074	0.054	0.064
Central Electric Cooperative, Inc., Oregon	0.462	0.586	0.966
Central Lincoln People's Utility District, Oregon	4.169	4.017	3.607
City of Centralia, Washington, Electric Light Department	0.298	0.739	0.258
Public Utility District No. 1 of Chelan County, Washington	0.501		0.433
City of Cheney, Washington, Light Department	0.511	0.539	0.442
Public Utility District No. 1 of Clallam County, Washington	1.157	1.769	1.001
Public Utility District No. 1 of Clark County, Washington	14.285	6.151	13.633
Clatskanie People's Utility District, Oregon	0.418	1.996	0.530
Clearwater Power Company, Idaho	0.274	0.775	0.573
Columbia Basin Electric Cooperative, Inc., Oregon	0.161	0.673	0.338
Columbia Power Cooperative Association, Oregon	0.042	0.143	0.088
Columbia Rural Electric Association, Inc., Washington	0.621	0.761	1.298
Consolidated Irrigation District No. 19, Washington	0.005		0.005
Consumers Power, Inc., Oregon	1.068	0.453	2.242
Coos-Curry Electric Cooperative, Inc., Oregon	0.223	1.634	0.781
Town of Coulee Dam, Washington, Light Department	0.048	0.137	0.041
Public Utility District No. 1 of Cowlitz County, Washington	7.379	5.525	3.461
City of Declo, Idaho	0.026	0.019	0.023
Public Utility District No. 1 of Douglas County, Washington	0.044		0.049
Douglas Electric Cooperative, Inc., Oregon	0.331	0.363	0.692
City of Drain, Oregon, Light and Power	0.096	0.218	0.083
East End Mutual Electric Company, Ltd., Idaho	0.011	0.033	0.023
Town of Eatonville, Washington	0.010		
City of Ellensburg, Washington	0.780	1.028	0.675
Elmhurst Mutual Power and Light Co., Washington	0.170		
Eugene Water & Electric Board, Oregon	0.061		
Fall River Rural Electric Cooperative, Inc., Idaho	0.188	0.409	0.393
Farmers Electric Co., Idaho	0.005	0.041	0.011
* Public Utility District No. 1 of Ferry County, Washington	0.105	0.171	0.091
City of Fircrest, Washington	0.056		

<b>Participant Utility</b>	<b>Project 1 Share</b>	<b>Columbia Share</b>	<b>Project 3 Share</b>
Flathead Electric Cooperative, Inc., Montana	0.123	0.370	0.257
City of Forest Grove, Oregon, Light and Power Department	0.470	0.181	0.091
* Public Utility District No. 1 of Franklin County, Washington	1.330	2.370	1.151
Glacier Electric Cooperative, Inc., Montana	0.098		
* Public Utility District No. 2 of Grant County, Washington	0.486		0.420
* Public Utility District No. 1 of Grays Harbor County, Washington	2.769	3.075	2.386
Harney Electric Cooperative, Inc., Oregon	0.105	0.719	0.221
City of Heyburn, Idaho	0.167	0.504	0.145
Hood River Electric Cooperative, Oregon	0.224	0.502	0.469
Idaho County Light and Power Cooperative Association, Inc., Idaho	0.047	0.186	0.098
City of Idaho Falls, Idaho, Electric Division	0.908	2.376	0.787
Inland Power & Light Company, Washington	0.907	1.222	1.915
* Public Utility District No. 1 of Kittitas County, Washington	0.238	0.220	0.206
* Public Utility District No. 1 of Klickitat County, Washington	0.517	1.009	0.448
Kootenai Electric Cooperative, Inc., Idaho	0.212	0.391	0.443
Lakeview Light and Power Company, Washington	0.168		
Lane Electric Cooperative, Inc., Oregon	0.537	1.452	1.123
Public Utility District No. 1 of Lewis County, Washington	1.276	2.274	1.103
Lincoln Electric Cooperative, Inc., Montana	0.087	0.255	0.182
Lost River Electric Cooperative, Inc., Idaho	0.056	0.202	0.118
Lower Valley Power and Light, Inc., Wyoming	0.266	0.820	0.557
Public Utility District No. 1 of Mason County, Washington	0.186	0.231	0.161
Public Utility District No. 3 of Mason County, Washington	1.262	1.446	1.265
Town of McCleary, Washington	0.069	0.234	0.059
McMinnville Water and Light, Oregon	1.141	1.227	0.547
Midstate Electric Cooperative, Inc., Oregon	0.336	0.488	0.704
City of Milton, Washington	0.027		
Milton-Freewater Light and Power, Oregon	0.238	0.583	0.002
City of Minidoka, Idaho	0.001	0.005	0.001
Missoula Electric Cooperative, Inc., Montana	0.168	0.294	0.352
City of Monmouth, Oregon	0.679	0.236	0.588
Nespelem Valley Electric Cooperative, Inc., Washington	0.059	0.149	0.123
Northern Lights, Inc., Idaho	0.234	0.455	0.489
Northern Wasco County People's Utility District, Oregon	0.246	0.051	0.213
Ohop Mutual Light Company, Washington	0.025		
Okanogan County Electric Cooperative, Inc., Washington	0.038	0.190	0.079
* Public Utility District No. 1 of Okanogan County, Washington	0.255	1.042	0.143
Orcas Power and Light Company, Washington	0.251	0.725	0.733
Public Utility District No. 2 of Pacific County, Washington	1.006	1.503	0.870
Parkland Light and Water Company, Washington	0.096		
Public Utility District No. 1 of Pend Oreille County, Washington	0.055		0.047
Peninsula Light Company, Washington	0.261		
City of Port Angeles, Washington	0.665	2.416	0.576
Raft River Rural Electric Cooperative, Inc., Idaho	0.224	0.853	0.468
Ravalli County Electric Cooperative, Inc., Montana	0.195	0.301	0.409
* City of Richland, Washington, Energy Service Department	1.828	2.780	1.592
Riverside Electric Company, Idaho	0.007	0.020	0.015
City of Rupert, Idaho, Electric Department	0.123	0.348	0.106
Salem Electric, Oregon	0.662	0.453	1.385
Salmon River Electric Cooperative, Inc., Idaho	0.046	0.170	0.097

<u>Participant Utility</u>	<u>Project 1 Share</u>	<u>Columbia Share</u>	<u>Project 3 Share</u>
City of Seattle, Washington, City Light Department	8.605	7.193	7.206
* Public Utility District No. 1 of Skamania County, Washington	0.321	0.547	0.278
* Public Utility District No. 1 of Snohomish County, Washington	19.584	15.363	19.334
South Side Electric Lines, Inc., Idaho	0.032	0.073	0.067
City of Springfield, Oregon, Utility Board	0.228	0.363	0.238
Town of Steilacoom, Washington	0.038		
City of Sumas, Washington	0.021	0.048	0.018
Surprise Valley Electrification Corp., California	0.049	0.323	0.102
* Tacoma Power, Washington	5.971		5.803
Tanner Electric Cooperative, Washington	0.050	0.122	0.104
Tillamook People's Utility District, Oregon	0.963	1.729	0.833
Umatilla Electric Cooperative, Oregon	0.997	0.036	2.107
United Electric Cooperative, Inc., Idaho	0.320	0.466	0.670
Vera Water and Power, Washington	0.314	0.701	0.401
Vigilante Electric Cooperative, Inc., Montana	0.042	0.294	0.088
* Public Utility District No. 1 of Wahkiakum County, Washington	0.229	0.328	0.198
Wasco Electric Cooperative, Inc., Oregon	0.116	0.342	0.244
Wells Rural Electric Company, Nevada	0.102		0.214
West Oregon Electric Cooperative, Inc., Oregon	0.121	0.182	0.252
Public Utility District No. 1 of Whatcom County, Washington	0.387		0.335
 TOTAL PARTICIPANT UTILITIES (112)	 100.000	 100.000	 100.000

\* Energy Northwest members.

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## SUMMARY OF CERTAIN PROVISIONS OF RELATED CONTRACTS

APPENDIX F

The following summary of certain provisions of the Net Billing Agreements, the Project No. 2 Project Agreement (hereinafter referred to as the "Columbia Project Agreement"), and the Assignment Agreements does not purport to be complete. A copy of the foregoing agreements may be obtained from Energy Northwest.

### THE NET BILLING AGREEMENTS

On February 6, 1973, Energy Northwest, Bonneville and each Project 1 Participant entered into a Project 1 Net Billing Agreement. As originally executed, the Project 1 Net Billing Agreements contained a description of Project 1 which included the use of the generating facilities which are a part of HGP. Subsequently, on May 31, 1974, Energy Northwest, Bonneville and each Project 1 Participant entered into Amendatory Agreement No. 1 to each Project 1 Net Billing Agreement (the "Project 1 Amendatory Agreements"). Under the Project 1 Amendatory Agreements, among other things, the description of Project 1 was changed so that it no longer includes the use of HGP generating facilities. However, the provisions relating to the obligations incurred with respect to HGP after July 1, 1980 remain in effect. See "ENERGY NORTHWEST PROJECTS — Hanford Generating Project" in this Official Statement.

On January 4, 1971, Energy Northwest, Bonneville and each Columbia Participant entered into a Columbia Net Billing Agreement.

On September 25, 1973, Energy Northwest, Bonneville and each Project 3 Participant entered into a Project 3 Net Billing Agreement.

Many of the provisions of the Net Billing Agreements have been summarized under the caption "SECURITY FOR THE NET BILLED BONDS." A summary of certain additional provisions of the Net Billing Agreements, as amended, follows. Except where the text indicates otherwise, reference to Project 1 Net Billing Agreements is to such Agreements as amended by the Project 1 Amendatory Agreements. The full text of the form of the Net Billing Agreements may be obtained from Energy Northwest. The summary describes the common features of, and highlights the differences among, the Net Billing Agreements for each of Project 1, Columbia and Project 3. Each of the Net Billing Agreements for the same Net Billed Project is identical except as to the Participants' shares.

The capitalization of any word or words which are not conventionally capitalized indicates that such words are defined in the Net Billing Agreements. (The same practice is followed in the summaries of the Columbia Project Agreement and the Net Billed Resolutions which follow.)

#### Term

Each Net Billing Agreement became effective upon its execution and delivery and will terminate as provided therein. See "Termination" below.

Although the Net Billing Agreements may be terminated prior to the maturity of the related Net Billed Bonds, the obligation of each of the Participants thereunder to pay its proportionate share of debt service on the related Net Billed Bonds shall continue until such Net Billed Bonds have been retired, and Bonneville will continue to be obligated to offset or credit these payments against payments pursuant to the Participant's contracts with Bonneville.

Project 1 and Project 3 and the Project 1 and Project 3 Net Billing Agreements have been terminated. See "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements — Payment Procedures — Terminated Projects" in this Official Statement.

#### Ownership and Operation

Energy Northwest covenants in the Columbia Net Billing Agreement to use its best efforts to arrange for the financing, design, construction, operation and maintenance of the Columbia Generating Facility. Similar covenants of Energy Northwest under the Project 1 and Project 3 Net Billing Agreements terminated when the Board of Directors of Energy Northwest terminated Projects 1 and 3.

#### Sale, Purchase and Assignment

Under the Columbia Net Billing Agreements, Energy Northwest sells, and each Participant purchases, the Participant's share of the Columbia Generating Station capability and each Participant in turn assigns its share of such capability to Bonneville. Such shares in the Columbia Generating Station for selected years are shown in the last four columns of Exhibit A attached thereto. Similar provisions in the Project 1 and Project 3 Net Billing Agreements terminated when the Board of Directors of Energy Northwest terminated Projects 1 and 3.

The provisions of the Net Billing Agreements with respect to payments are summarized under the caption "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements" above.

If Bonneville is unable to satisfy its obligation to a Participant by net billing, assignment or cash payment and determines that this condition will continue for a significant period, the affected Participant may direct that all or a portion of the energy associated with its share of the Columbia Generating Station capability be delivered by Energy Northwest for the Participant's account at a specified point of delivery, either for the expected period of such inability or the remainder of the term of the Columbia Net Billing Agreement, whichever is specified by the Participant when it elects to have such energy delivered to it. The amount of energy delivered will be limited to the amount of the Participant's share of the Columbia Generating Station capability for which payment by Bonneville cannot be made.

#### **Energy Northwest Costs Payable Under Net Billing Agreements**

All costs of Project 1, Columbia and Project 3 are payable under the respective Net Billing Agreements, and the Annual Budgets adopted by Energy Northwest shall make provision for all such costs, including accruals and amortizations, resulting from the ownership, operation (including cost of fuel), and maintenance of Project 1, Columbia and Project 3 and repairs, renewals, replacements, and additions to the Projects, including, but not limited to, the amounts which Energy Northwest is required under the respective Resolutions to pay into the various funds provided for in the Resolutions for debt service and all other purposes. Each Participant is required to pay the amount specified in the Annual Budget, less amounts payable from sources other than payments under the Net Billing Agreements, multiplied by such Participant's share of Project capability.

#### **Termination**

If the Columbia Generating Station is ended pursuant to Section 15 of the Columbia Project Agreement, as described below under "The Columbia Project Agreement," Energy Northwest is required to give notice of termination of the Columbia Net Billing Agreement effective upon the date of termination of such Project Agreement. Energy Northwest shall then terminate all activities relating to construction and operation of the Project and shall undertake the salvage and disposition or sale of such Project as provided in the Columbia Project Agreement.

In May 1994, the Board of Directors of Energy Northwest adopted a resolution which terminated Project 1 and a resolution requesting that the Project 3 Owners Committee declare the termination of Project 3. The Project 3 Owners Committee voted unanimously to terminate Project 3 in June 1994. In October of 1998, Energy Northwest acquired all of the remaining assets of Project 3. See "ENERGY NORTHWEST — Project 1" and "— Project 3" and "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements — Projects 1 and 3 Post Termination Agreements."

For a description of payments required to be made following termination of the Net Billing Agreements, see "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements — Payment Procedures — Terminated Projects" in this Official Statement.

#### **Modification and Assignment of Agreement**

Each Net Billing Agreement provides that it shall not be amended, modified or otherwise changed by agreement of the parties in any manner that will impair or adversely affect the security afforded by its provisions for the payment of the principal, interest, and premium, if any, on the related Net Billed Bonds. The Net Billing Agreements further provide that, except for the reassignments of Participants' shares of Project capability provided for therein, no transfer or assignment of the Net Billing Agreements by any party thereto (except to the United States or an agency thereof) is permitted without the written consent of the other parties and that no assignment or transfer relieves the parties of any obligations thereunder.

#### **Participants' Review Board**

Each of the Net Billing Agreements provides for the establishment of a Participants' Review Board consisting of nine members who are elected by the Participants in the related Net Billed Project. Except in the event of an emergency requiring immediate action, copies of all proposed Construction and Annual Budgets and fuel management plans, including amendments thereto, and plans for refinancing a Net Billed Project are required to be submitted by Energy Northwest to the Participants' Review Board within a reasonable time prior to the time such proposed budgets and plans are adopted by Energy Northwest.

The Net Billing Agreements provide that written recommendations of the Participants' Review Board shall be forwarded to Energy Northwest within a reasonable time and that Energy Northwest will consider such recommendations, giving due regard to Prudent Utility Practice and Energy Northwest's statutory duties. If Energy Northwest modifies or rejects a written recommendation of the Participants' Review Board, the Participants' Review Board may refer the matter to the Project Consultant in the manner described in the Project Agreement for his written decision and his decision shall be binding. Pending any such decision by the Project Consultant, Energy Northwest shall proceed in accordance with the Project Agreement. See "THE PROJECT AGREEMENTS — Term" hereinafter. The Net Billing Agreements provide that the provisions described above shall not affect the procedure for the settlement of any dispute between Bonneville and Energy Northwest under the Net Billing Agreements or the Project Agreement. See "THE PROJECT AGREEMENTS — Bonneville's Approval and Project Consultant" hereinafter.

Prudent Utility Practice has the same meaning as is given in "THE PROJECT AGREEMENTS — Design Licensing and Construction of the Projects."



The Net Billing Agreements provide that, except as specifically provided in the Project Agreement, Energy Northwest shall not proceed with any item as proposed by it and not concurred in by Bonneville without approval of the Participants' Review Board.

### **THE PROJECT AGREEMENTS**

On February 6, 1973, Energy Northwest and Bonneville entered into an agreement (the "Project 1 Project Agreement") which, among other things, provided standards for the design, licensing, financing, construction, fueling, operation and maintenance of Project 1, and for the making of any replacements, repairs or capital additions thereto. Subsequently on May 31, 1974, Energy Northwest and Bonneville entered into Amendatory Agreement No. 1 to the Project 1 Project Agreement for the purpose of changing the description of Project 1 to conform to the changes made in the Project 1 Net Billing Agreements and to revise provisions relating to HGP.

On January 4, 1971, Energy Northwest and Bonneville entered into an agreement (the "Columbia Project Agreement") which, among other things, contains provisions with respect to the licensing, financing, construction, fueling, operation and maintenance of Columbia, and the making of any replacements, repairs or capital additions thereto, and budgeting under the Columbia Net Billing Agreements.

On September 25, 1973, Energy Northwest and Bonneville entered into an agreement (the "Project 3 Project Agreement" and, together with the Project 1 Project Agreement and the Columbia Project Agreement, the "Project Agreements") which, among other things, contained provisions with respect to the financing, construction, operation and maintenance of Project 3, and the making of any replacements, repairs or capital additions thereto, and budgeting under the Project 3 Net Billing Agreements.

#### **Term**

The Project 1 Project Agreement terminated as provided in Section 15 of the Project 1 Project Agreement in May 1994 when the Board of Directors of Energy Northwest adopted a resolution terminating Project 1.

The Columbia Project Agreement became effective upon its execution and delivery and will terminate as provided in Section 15 of the Columbia Project Agreement.

Section 15 of the Columbia Project Agreement provides that Columbia shall terminate and Energy Northwest shall cause Columbia to be salvaged, discontinued, decommissioned and disposed of or sold, in whole or in part, to the highest bidder or bidders, or disposed of in such other manner as the parties may agree when:

- (a) Energy Northwest determines that it is unable to construct, operate, or proceed as owner of Columbia due to licensing, financing, or operating conditions or other causes which are beyond its control,
- (b) The parties determine that Columbia is not capable of producing energy consistent with Prudent Utility Practice, or, if the parties disagree, the Project Consultant so determines, or
- (c) Bonneville directs the end of Columbia pursuant to the provisions of the Columbia Project Agreement, which provides that if the estimated cost of a replacement or repair or capital addition required by a governmental agency after the date of commercial operation exceeds 20% of the then depreciated value of Columbia, Bonneville may direct that Energy Northwest end Columbia in accordance with Section 15.

In May 1994 the Board of Directors of Energy Northwest adopted a resolution requesting that the Project 3 Owners Committee declare the termination of Project 3. The Project 3 Owners Committee voted unanimously to terminate Project 3 and the Project 3 Project Agreement terminated in June 1994. In October of 1998, Energy Northwest acquired all of the remaining assets of Project 3.

#### **Design, Licensing and Construction of the Projects**

In the Columbia Project Agreement, Energy Northwest agrees, among other things, (i) to perform its duties and exercise its rights under such agreement in accordance with Prudent Utility Practice; (ii) to use its best efforts to obtain all licenses, permits and other rights and regulatory approvals necessary for the ownership, construction, and operation of the related Project; (iii) to construct the related Project in accordance with Prudent Utility Practice; and (iv) to keep Bonneville informed of all significant matters with respect to planning and construction of the related Project.

"Prudent Utility Practice," as defined in the Columbia Project Agreement, at a particular time means any of the practices, methods and acts, including those engaged in or approved by a significant portion of the electrical utility industry prior to such time, which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In evaluating whether any matter conforms to Prudent Utility Practice, Bonneville, Energy Northwest and any Project Consultant shall take into account the fact that Energy Northwest is a municipal corporation with statutory duties and responsibilities and the objective to integrate the entire Project capability with the generating resources of the Federal System in

order to achieve optimum utilization of the resources of that System taken as a whole and to achieve efficient and economical operation of that System.

### **Financing**

With respect to Columbia, Energy Northwest agrees in the Columbia Project Agreement to use its best efforts to issue and sell Columbia Net Billed Bonds (if such Bonds may then be legally issued and sold) to finance the costs of Columbia and of any capital additions, renewals, repairs, replacements or modifications to Columbia.

The Columbia Project Agreement also provides that Energy Northwest may, after submitting its financing proposal to Bonneville, or shall, if requested by Bonneville, authorize the issuance and sale of additional Columbia Net Billed Bonds to refund outstanding Columbia Net Billed Bonds in accordance with the Columbia Net Billed Resolution. A proposal to refund outstanding Columbia Net Billed Bonds is required to be referred to the Project Consultant if, in the judgment of Bonneville or Energy Northwest, no substantial benefits will be achieved by such refunding. See "Bonneville's Approval and Project Consultant" below.

Net Billed Resolutions and resolutions of Energy Northwest supplementing or amending the Net Billed Resolutions are subject to approval by Bonneville, and Bonneville has approved each Net Billed Resolution and each supplemental resolution.

### **Budgets**

Separate Annual Budgets for the Net Billed Projects will be prepared annually. See "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements." The Annual Budget and any amendment thereof are to be submitted to Bonneville for its approval. In the absence of any objection by Bonneville, the Annual Budget will become effective within 30 days after submittal, and within seven days in the case of any amendment thereof. Any item disapproved is required to be referred to the Project Consultant. See "Bonneville's Approval and Project Consultant" below.

### **Operation and Maintenance**

Energy Northwest shall operate and maintain Columbia in accordance with Prudent Utility Practice and in accordance with the requirements of government agencies having jurisdiction.

### **Bonds for Replacements, Repairs and Capital Additions**

If in any contract year the amounts in an Annual Budget relating to renewals, repairs, replacements and betterments and for capital additions necessary to achieve design capability or required by governmental agencies ("Amounts for Extraordinary Costs"), whether or not such amounts are costs of operation or costs of construction, exceed the amount of reserves, if any, maintained for such purpose pursuant to the Columbia Net Billed Resolutions plus the proceeds of insurance, if any, available by reason of loss or damage to Columbia, by the lesser of (1) \$3,000,000 or (2) an amount by which the amount of Bonneville's estimate of the total of the net billing credits available in such contract year to the Participants in Columbia and the amounts of such reserves and insurance proceeds, if any, exceeds the Annual Budget for such contract year exclusive of Amounts for Extraordinary Costs, Energy Northwest is required to, in good faith, use its best efforts to issue and sell Columbia Net Billed Bonds to pay such excess.

### **Bonneville's Approval and Project Consultant**

If a proposal submitted by Energy Northwest to Bonneville under any provision of the Columbia Project Agreement is not disapproved by Bonneville within the time specified or, if no time is specified, within seven days after receipt, the proposal is deemed approved. With certain exceptions specified in the Columbia Project Agreement (including Bonneville's right to approve a Net Billed Resolution and any supplemental resolutions), disapproval by Bonneville is required to be based solely on whether the proposal is consistent with Prudent Utility Practice.

If any proposal subject to approval by Bonneville is disapproved by Bonneville and an alternative proposal is suggested by Bonneville, Energy Northwest shall adopt such suggestion or, within seven days after receipt of such disapproval, shall appoint a Project Consultant acceptable to Bonneville to review the proposal. Proposals found by the Project Consultant to be consistent with Prudent Utility Practice shall become immediately effective. Proposals found by the Project Consultant to be inconsistent with Prudent Utility Practice shall be modified to conform to the recommendation of the Project Consultant or as the parties otherwise agree and shall become effective as and when modified. If any proposal referred to the Project Consultant has not been resolved and will affect the continuous operation of Columbia, Energy Northwest shall continue to operate Columbia and may proceed as proposed by Energy Northwest, or as proposed by Bonneville, or as modified by mutual agreement of Energy Northwest and Bonneville. If Energy Northwest proceeds with its proposal, and it is determined by the Project Consultant to be inconsistent with Prudent Utility Practice, Energy Northwest shall bear any net increase in the cost of construction or operation of Columbia resulting from such proposal without charge to Columbia to the extent such proposal is found by the Project Consultant to be inconsistent with Prudent Utility Practice.

## ASSIGNMENT AGREEMENTS

In August 1984, prior to the resolution of *City of Springfield v. Washington Public Power Energy Northwest, et al.*, Energy Northwest and Bonneville executed Assignment Agreements for each of Projects 1, Columbia and Project 3. The purpose of the Assignment Agreements is to assure that Bonneville receives the entire output of Project 1, Columbia and Project 3, and to assure that Energy Northwest receives sufficient funds to pay all obligations incurred in connection with the Projects, including debt service.

The Assignment Agreements provide that, subject only to the Participants' rights under the Net Billing Agreements, Energy Northwest assigns to Bonneville any rights which it now has or may hereafter obtain in project capability by a reversion of any Participant's share in project capability to Energy Northwest or by any other means. Bonneville accepted this assignment, and in the event that any Participant is determined not to be obligated pursuant to the Net Billing Agreements to pay for any interest in project capability which Bonneville obtains pursuant to the Assignment Agreements, Bonneville agrees to pay directly to Energy Northwest the amounts that would have been payable under the Net Billing Agreements for such project capability.

The Assignment Agreements are designed to assure that Bonneville will obtain any interest Energy Northwest has or may hereafter obtain in project capability, subject only to the Participants' rights and obligations under the Net Billing Agreements, and that the same economic and practical consequences will result for Bonneville and Energy Northwest as if Bonneville had acquired such interest in project capability pursuant to the assignment of project capability contained in the Net Billing Agreements.

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**SUMMARY OF CERTAIN PROVISIONS  
OF ELECTRIC REVENUE BOND RESOLUTIONS  
AND SUPPLEMENTAL ELECTRIC REVENUE BOND RESOLUTIONS**

The following summary is a brief outline of certain provisions contained in the Electric Revenue Bond Resolutions, and the Supplemental Electric Revenue Bond Resolutions and is not to be considered as a full statement thereof. This summary is qualified by reference to and is subject to the Electric Revenue Bond Resolutions, copies of which may be examined at the principal offices of Energy Northwest and the Trustee. Capitalized terms not otherwise defined in this Appendix G-1 shall have the meanings ascribed to them in the Official Statement.

**Definitions**

“*Authorized Purpose*” shall mean any one or more of the purposes described in Section 201 of the Electric Revenue Bond Resolutions.

“*Bank Bond*” means any Electric Revenue Bond owned by the Related Credit Issuer or its permitted assigns in connection with the provision of moneys under the Related Credit Facility.

“*Code*” means the Internal Revenue Code of 1986, as amended and supplemented from time to time, and the applicable temporary, proposed, or final regulations promulgated by the United States Treasury Department thereunder or under the Internal Revenue Code of 1954, as amended.

“*Credit Facility*” means a letter of credit, line of credit, insurance policy, surety bond, standby bond purchase agreement or standby payment agreement or similar obligation or instrument or any combination of the foregoing issued by a bank, insurance company or similar financial institution or by the parent corporation of any of the foregoing or by the State or the Federal Government or any agency, authority, instrumentality or subdivision thereof, including, without limitation, the Administrator.

“*Debt Service Deposit Date*” shall mean any date on which a deposit is required to be made into the related Debt Service Fund by each Electric Revenue Bond Resolution or any Supplemental Electric Revenue Bond Resolution.

“*Defeasance Obligations*” shall mean (a) any of the obligations described in clause (i) of the definition of Investment Securities, (b) Refunded Municipal Obligations, and (c) with respect to any Series of Electric Revenue Bonds, such other obligations as are described in the Supplemental Electric Revenue Bond Resolutions authorizing such Series.

“*Engineer*” shall mean any nationally recognized independent engineer or engineering firm appointed by Energy Northwest, and may be the Consulting Engineer appointed pursuant to Resolution Nos. 769, 640 and 775.

“*Investment Securities*” shall mean any of the following, if and to the extent that the same are legal for the investment of funds of Energy Northwest:

(i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(ii) obligations of any agency, subdivision, department, division or instrumentality of the United States of America, including, without limitation, the Federal Home Loan Mortgage Corporation, the Federal Agricultural Mortgage Corporation, the Student Loan Marketing Association and the International Bank for Reconstruction and Development; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America;

(iii) direct obligations of, or obligations guaranteed as to principal and interest by, any state or direct obligations of any agency or public authority thereof, insured or uninsured, provided such obligations are rated, at the time of purchase, in one of the two highest rating categories by each rating agency then rating the Electric Revenue Bonds;

(iv) bank time deposits evidenced by certificates of deposit and bankers’ acceptances issued by any bank or trust company (which may include the Trustee) which is a member of the Federal Deposit Insurance Corporation (or any successor thereto), provided that such time deposits and bankers’ acceptances (a) do not exceed at any one time in the aggregate five percent (5%) of the total of the capital and surplus of such bank or trust company, or (b) are secured by obligations described in items (i) or (ii) of this definition of Investment Securities, which such obligations at all times have a market value at least equal to such time deposits so secured;

(v) repurchase agreements with (1) any bank or trust company (which may include the Trustee) which is a member of the Federal Deposit Insurance Corporation (or any successor thereto), or (2) any securities broker which is a member of the Securities Investor Protection Corporation, which such agreements are secured by securities which

are obligations described in items (i) or (ii) of this definition of Investment Securities, provided that each such repurchase agreement (a) is in commercially reasonable form and is for a commercially reasonable period, and (b) results in transfer to the Trustee or Energy Northwest of legal title to, or the grant to the Trustee or Energy Northwest of a prior perfected security interest in, identified securities referred to in items (i) or (ii) of this definition which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Trustee or Energy Northwest; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement;

(vi) certificates or other obligations that evidence ownership of the right to payments of principal of or interest on obligations of the United States of America or any state of the United States of America or any political subdivision thereof or any agency or instrumentality of the United States of America or any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Trustee under the Electric Revenue Bond Resolutions, and provided further that, in the case of certificates or other obligations that evidence ownership of the right to payments of principal or interest on obligations of a state or political subdivision, the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by each rating agency then rating the Electric Revenue Bonds or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by each rating agency then rating the Electric Revenue Bonds;

(vii) investment agreements rated in one of the two highest rating categories by each rating agency then rating the Electric Revenue Bonds or the long-term unsecured debt obligations of the issuer of which are rated in one of the two highest rating categories by the respective agency rating such investment agreements or investment agreements which result in transfer to the Trustee or Energy Northwest of legal title to, or the grant to the Trustee or Energy Northwest of a prior perfected security interest in, identified securities referred to in items (i) or (ii) of this definition which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the counterparty to the investment agreement) as the agent solely of, or in trust solely for the benefit of, the Trustee or Energy Northwest;

(viii) bankers' acceptances drawn on and accepted or guaranteed by a commercial bank rated in either of the two highest rating categories by each rating agency then rating the Electric Revenue Bonds;

(ix) commercial paper rated, at the time of purchase, in the highest rating category by each rating agency then rating the Electric Revenue Bonds;

(x) shares of any publicly offered mutual fund of the type commonly known as a "money market fund" that, at the time of investment, has at least 85% of its assets directly invested in securities of the type described in items (i), (ii) and (iii) of this definition of Investment Securities; and

(xi) such other investments with respect to any Series of Electric Revenue Bonds as shall be specified in the Supplemental Electric Revenue Bond Resolution authorizing such Series of Electric Revenue Bonds.

"*Parity Debt*" shall mean bonds, notes or other obligations issued under a resolution or resolutions authorized pursuant to the Electric Revenue Bond Resolutions, the Electric Revenue Bonds and any Parity Reimbursement Obligation.

"*Parity Reimbursement Obligation*" shall mean a reimbursement obligation the payment of which, pursuant to the provisions of a Supplemental Electric Revenue Bond Resolution, is secured as to payment by the pledge created by the Electric Revenue Bond Resolutions.

"*Payment Agreement*" shall mean a written agreement which provides for an exchange of payments based on interest rates, or for ceilings or floors on such payments, or an option on such payments, or any combination, entered into on either a current or forward basis.

"*Payment Date*" shall mean each date on which interest shall be due and payable and each date on which both interest shall be due and payable and a scheduled Principal Installment (whether by payment of principal scheduled to mature or a sinking fund installment to be paid) shall be required to be made on any of the outstanding Electric Revenue Bonds according to their respective terms.

*“Principal Installment”* shall mean, as of any date of calculation and with respect to any Series or Subseries, as the case may be, (a) the principal amount of Electric Revenue Bonds (including any amount designated in, or determined pursuant to, the applicable Supplemental Electric Revenue Bond Resolution, as the “principal amount” with respect to any bonds) of such Series or Subseries scheduled to mature on a certain future date for which no sinking fund installments have been established, or (b) the unsatisfied balance of sinking fund installments scheduled to be paid on a certain future date for Electric Revenue Bonds of such Series or Subseries, or (c) if such future dates coincide as to different Electric Revenue Bonds of such Series or Subseries, the sum of such principal amount and such unsatisfied balance scheduled to mature or to be paid on such future date; in each case in the amounts and on the dates as provided in the applicable Supplemental Electric Revenue Bond Resolution authorizing such Series or Subseries regardless of any retirement of Electric Revenue Bonds except pursuant to Section 505 of the Electric Revenue Bond Resolutions or (d) that portion of a Parity Reimbursement Obligation which corresponds to the amount of principal scheduled to mature or a sinking fund installment scheduled to be paid or that portion of a Parity Reimbursement Obligation payable on a certain future date which corresponds to the amount of principal scheduled to mature or a sinking fund installment scheduled to be paid.

*“Rating Agency”* shall mean Fitch, Inc (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”) or Standard & Poor’s Corporation (“S&P”) or, if either Fitch, Moody’s or S&P no longer furnishes ratings on a particular Series of the Electric Revenue Bonds, as the case may be, then such other nationally recognized rating agency then rating such Series of the Electric Revenue Bonds, as the case may be.

*“Reserve Account Requirement”* shall mean, with respect to a Series of Electric Revenue Bonds, the amount, if any, prescribed by the Supplemental Electric Revenue Bond Resolution authorizing such Series of Electric Revenue Bonds.

*“Reserve Guaranty”* shall mean an insurance policy or surety bond provided by an insurer whose claims-paying ability is rated in either of the two highest rating categories by at least two nationally recognized rating agencies, or a letter of credit or other similar Credit Facility the long-term unsecured debt of the issuer of which is rated in either of the two highest rating categories by at least two nationally recognized rating agencies.

*“Subordinate Lien Obligation”* shall mean any bond, note, certificate, warrant or other evidence of indebtedness of Energy Northwest.

#### **Effect of Amendments Adopted March 9, 2001 (Project 1, Columbia and Project 3)**

The Supplemental Resolutions, each adopted by the Executive Board of Energy Northwest on March 9, 2001, amend the Project 1, Columbia and Project 3 Electric Revenue Bond Resolutions, respectively, to add a covenant to the effect that, from and after the issuance of the Series 2001-A Bonds, Energy Northwest will not issue Energy Northwest or authorize the issuance of Prior Lien Bonds under the related Prior Lien Resolution and shall not otherwise create any other special fund or funds for the payment of bonds, warrants or other obligations which will rank on a parity with the pledge and lien on the Revenues created by such Prior Lien Resolution.

Each Supplemental Resolution also amends the related Electric Revenue Bond Resolution to add a definition of the term “Energy Northwest” and to change the definition of the term “System,” as follows:

“Energy Northwest” shall mean the joint operating agency organized and existing under the provisions of the Act and formerly known as the Washington Public Power Supply System.

“System” shall mean Energy Northwest.

The Project 1 Supplemental Resolution further amends the Project 1 Electric Revenue Bond Resolution to provide that all bonds, notes and other obligations, including without limitation Parity Debt initially issued by Energy Northwest under the Project 1 Electric Revenue Bond Resolution, from and after the date of adoption of the Project 1 Electric Revenue Bond Supplemental Resolution, including any bonds, notes or other obligations substituted or exchanged therefor from and after the adoption of such Project 1 Electric Revenue Bond Supplemental Resolution, shall be known, as “Energy Northwest Project 1 Electric Revenue Bonds.”

The Columbia Supplemental Resolution further amends the Columbia Electric Revenue Bond Resolution to provide that all bonds, notes and other obligations, including without limitation Parity Debt initially issued by Energy Northwest under the Columbia Electric Revenue Bond Resolution, from and after the date of adoption of the Columbia Electric Revenue Bond Supplemental Resolution, including any bonds, notes or other obligations substituted or exchanged therefor from and after the adoption of such Columbia Electric Revenue Bond Supplemental Resolution, shall be known, as “Energy Northwest Columbia Generating Station Electric Revenue Bonds.”

The Project 3 Supplemental Resolution further amends the Project 3 Electric Revenue Bond Resolution to provide that all bonds, notes and other obligations, including without limitation Parity Debt initially issued by Energy Northwest under the Project 3 Electric Revenue Bond Resolution, from and after the date of adoption of the Project 3 Electric Revenue Bond Supplemental Resolution, including any bonds, notes or other obligations substituted or exchanged therefor from and after the adoption of such Project 3 Electric Revenue Bond Supplemental Resolution, shall be known, as “Energy Northwest Project 3 Electric Revenue Bonds.”

### **Electric Revenue Bond Resolutions to Constitute Contract (Section 103)**

Each Electric Revenue Bond Resolution shall constitute a contract between Energy Northwest and the owners from time to time of the Electric Revenue Bonds, and the issuer of a Credit Facility, if any, relating to such Subseries of Electric Revenue Bonds; and the pledge made in each related Electric Revenue Bond Resolution and the covenants and agreements therein set forth to be performed on behalf of Energy Northwest shall be for the equal benefit, protection and security of the owners of any and all of the Electric Revenue Bonds and the issuer of any related Credit Facility where the obligation of Energy Northwest to reimburse such issuer is a Party Reimbursement Obligation, each of which, regardless of time or times of maturity or due dates, shall be of equal rank without preference, priority or distinction of the Electric Revenue Bonds over any other thereof except as expressly provided in or permitted by the Electric Revenue Bond Resolutions.

### **Authorization of Bonds (Section 201)**

The Project 1 Electric Revenue Bond Resolution creates and establishes an issue of Electric Revenue Bonds of Energy Northwest known and designated as "Energy Northwest Project No. 1 Electric Revenue Bonds." Columbia Electric Revenue Bond Resolution creates and establishes an issue of Electric Revenue Bonds of Energy Northwest known and designated as "Energy Northwest Columbia Electric Revenue Bonds," and the Project 3 Electric Revenue Bond Resolution creates and establishes an issue of Electric Revenue Bonds of Energy Northwest known as "Energy Northwest Project No. 3 Electric Revenue Bonds."

The Electric Revenue Bonds may be issued under each Electric Revenue Bond Resolution from time to time in series, which may consist of two or more Subseries, pursuant and subject to the terms, conditions and limitations of the Electric Revenue Bond Resolutions and any Supplemental Electric Revenue Bond Resolutions providing for the issuance of Electric Revenue Bonds, in such amounts as may be determined by Energy Northwest, for one or more of the following purposes: (i) refunding any outstanding Prior Lien Bond, any outstanding Electric Revenue Bond or any outstanding Subordinate Lien Obligation; (ii) the payment, or reimbursement of Energy Northwest for the payment, of the costs of the acquisition, construction or installation of additional facilities or modifications to the related Project in compliance with the order or decision of any State or Federal agency or authority having competent jurisdiction; (iii) the payment, or the reimbursement of Energy Northwest for the payment, of all or a portion of the costs of making renewals, repairs, replacements, improvements or betterments to the related Project, including costs associated with the upgrading of the output capacity of the related Project, including expenses incurred in connection with the upgrading of any operating license in connection therewith; (iv) the payment, or the reimbursement of Energy Northwest for the payment, of all or a portion of the costs of capital additions, improvements or betterments to the related Project necessary to achieve design capability; (v) the payment, or the reimbursement of Energy Northwest for the payment, of all or a portion of the costs of (1) decommissioning the related Project or (2) restoring the site of the related Project, in compliance with applicable Federal or State law or any order or decision of any State or Federal agency or authority having competent jurisdiction; (vi) payment, or the reimbursement of Energy Northwest for the payment, of all or a portion of the costs of purchasing fuel for the related Project; (vii) providing funds for deposit into the Reserve Accounts or any other reserves established by any Supplemental Electric Revenue Bond Resolution for the payment of the principal or interest on the Series of Bonds authorized thereby and paying the costs incident to the issuance of such Series of Electric Revenue Bonds; and (viii) the payment, or the reimbursement of Energy Northwest for the payment, of the costs of any other purpose permitted by law; provided, however, that prior to the expenditure of the proceeds of any Series of Electric Revenue Bonds to pay the costs of the purposes described in items (iii) or (iv) above, Energy Northwest and the Trustee shall receive a Certificate of an Engineer stating that the making of such contemplated renewals, replacements, additions, betterments, improvements or extensions is consistent with prudent utility practice; provided, further, that any such Certificate delivered by an Engineer in connection with the expenditure of Electric Revenue Bond proceeds to pay the costs of an Authorized Purpose described in clause (iv) above shall also state the opinion of such Engineer that such Authorized Purpose is necessary or desirable to improve operating reliability, to increase output capacity or to reduce power costs.

### **Pledge Effected by the Electric Revenue Bond Resolutions (Section 202)**

Energy Northwest pledges for the payment of the principal or redemption price of, and interest on the Electric Revenue Bonds in accordance with their terms and the provisions of the Electric Revenue Bond Resolutions (i) the proceeds of the sale of the Electric Revenue Bonds pending application thereof in accordance with the provisions of the Electric Revenue Bond Resolutions or of any Supplemental Electric Revenue Bond Resolutions, (ii) subject to the provisions of each Electric Revenue Bond Resolution, all revenues and (iii) the Debt Service Fund established by each Electric Revenue Bond Resolution, including the investments, if any, therein; provided, however, that, subject to each Electric Revenue Bond Resolution, amounts on deposit to the credit of any Reserve Account in the Debt Service Funds are pledged only to the Series of Electric Revenue Bonds for which such Reserve Account was established pursuant to the Supplemental Electric Revenue Bond Resolutions authorizing such Series and may be applied only to pay the principal or redemption price, if any, of and interest on the Electric Revenue Bonds of such Series.

Except as may be otherwise provided in the Electric Revenue Bond Resolutions or in the Supplemental Electric Revenue Bond Resolutions authorizing a Series of Electric Revenue Bonds, the Electric Revenue Bonds of each such Series shall be equally and ratably payable and secured under the related Electric Revenue Bond Resolution without priority by reason of the



date of adoption of the Supplemental Electric Revenue Bond Resolutions providing for their issuance or by reason of their Series or Subseries, number or date, date of issue, execution, authentication or sale thereof, or otherwise.

The revenues and other moneys pledged and received by Energy Northwest shall immediately be subject to the lien of the pledge without any physical delivery or further act, and the lien of the pledge shall be valid and binding as against any parties having claims of any kind in tort, contract or otherwise against Energy Northwest, irrespective of whether such parties have notice thereof.

**Refunding Bonds (Section 204)**

All Electric Revenue Bonds issued to refund outstanding Electric Revenue Bonds shall be authenticated and delivered by the Trustee only upon receipt by it, in addition to other documents required by the Electric Revenue Bond Resolutions (and in addition to further documents required by the provisions of any Supplemental Electric Revenue Bond Resolutions) of:

(i) irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Electric Revenue Bonds to be redeemed on a redemption date or dates specified in such instructions;

(ii) if the Electric Revenue Bonds to be refunded are not to be redeemed within the next succeeding ninety (90) days, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of any refunding of such Electric Revenue Bonds on a specified date prior to their maturity, as provided in Article VI of each Electric Revenue Bond Resolution or in the Supplemental Electric Revenue Bond Resolution which authorized such Electric Revenue Bonds to be refunded, and Section 1101 of each Electric Revenue Bond Resolution;

(iii) either (A) moneys (which may include all or a portion of the proceeds of the refunding Electric Revenue Bonds to be issued) in an amount sufficient to effect payment of the principal or the redemption price of the Electric Revenue Bonds to be refunded, together with accrued interest on such Electric Revenue Bonds to the maturity or redemption date thereof, as the case may be, or (B) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications and any moneys, as shall be necessary to comply with the provisions of Section 1101 of each Electric Revenue Bond Resolution, which Defeasance Obligations and moneys shall be held in trust and used only as provided in Section 1101 of each Electric Revenue Bond Resolution; and

(iv) such further documents and moneys as are required by the provisions of each Electric Revenue Bond Resolution or any Electric Revenue Bond Supplemental Resolutions.

In addition, all refunding Electric Revenue Bonds of a Series issued to refund outstanding Prior Lien Bonds shall be authenticated and delivered by the Trustee, upon receipt by the Trustee, in addition to other documents required by the Electric Revenue Bond Resolutions, of evidence satisfactory to it that:

(i) irrevocable instructions have been delivered to the Prior Lien Bond Fund Trustee to give due notice of payment or redemption of all the Project 1, Columbia or Project 3 Prior Lien Bonds to be redeemed prior to their respective maturity dates on the date specified in such instructions, all in accordance with either Resolution Nos. 769, 640 or 775, as the case may be; and

(ii) such further documents and moneys as are required by the provisions of the Electric Revenue Bond Resolutions or any Electric Revenue Bond Supplemental Resolutions.

**Subordinate Obligations (Section 205)**

Nothing contained in the Electric Revenue Bond Resolutions prohibits or prevents Energy Northwest from authorizing and issuing bonds, notes, certificates, warrants or other evidences of any indebtedness for any purpose relating to the Projects payable as to principal and interest from the revenues subject and subordinate to the deposits and credits required to be made to the funds established under the Electric Revenue Bond Resolutions or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the revenues junior and inferior to the lien and the pledge on the revenues created by either Resolution Nos. 769, 640 or 775, as the case may be, and created by the Electric Revenue Bond Resolutions.

**Credit Facilities (Section 208)**

Electric Revenue Bond Supplemental Resolutions providing for the issuance of a Series of Electric Revenue Bonds may provide that Energy Northwest obtain or cause to be obtained Credit Facilities providing for payment of all or a portion of the purchase price or Principal Installment or Redemption Price of, or interest due or to become due on specified Electric Revenue Bonds of such Series or any Subseries thereof, or providing for the purchase of such Electric Revenue Bonds or a portion thereof by the issuer of the Credit Facilities, or providing, in whole or in part, for the funding of the Reserve Accounts pursuant to Section 505 of each Electric Revenue Bond Resolution, provided such Credit Facilities are Reserve Guaranties. In connection therewith, Energy Northwest may enter into agreements with the issuers of the Credit Facilities to provide for the terms and conditions thereof, including the security, if any, to be provided to such issuers.

Energy Northwest may secure the Credit Facilities by agreements providing for the purchase of the Electric Revenue Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified in the Supplemental Electric Revenue Bond Resolutions. Interest with respect to any Series of Electric Revenue Bonds so secured shall be calculated for purposes of the Reserve Account Requirement for such Series by using the actual rate of interest or, if applicable, the Certified Interest Rate on the Electric Revenue Bonds prior to adjustment under such agreement. Energy Northwest may also agree to reimburse directly the issuers of the Credit Facilities for any amounts paid thereunder together with interest thereon. Energy Northwest may provide that any such obligations to reimburse shall be Parity Reimbursement Obligations. In addition, Energy Northwest may, in connection with any such Credit Facility, agree to pay the fees and expenses of, and other amounts payable to, the issuers of such Credit Facilities, the payment of which may be secured by pledges of revenues, funds and other moneys pledged pursuant to the Electric Revenue Bond Resolutions on a parity with the pledges created by the Electric Revenue Bond Resolutions.

#### **Establishment of Funds (Section 502)**

The following special trust funds are established by each Electric Revenue Bond Resolution:

- (a) General Revenue Fund, to be held and maintained by Energy Northwest; and
- (b) Debt Service Fund, to be held and maintained by the Trustee. The Debt Service Fund shall include a separate Debt Service Account for each Series of Electric Revenue Bonds and a separate Subaccount for each Subseries of Electric Revenue Bonds issued under each Electric Revenue Bond Resolution and each such Debt Service Account and Subaccount shall be designated using the designation of the Series or Subseries, if any, to which such Debt Service Account or Subaccount relates.

The existence of such funds shall be continued for so long as any Electric Revenue Bonds remain outstanding. Energy Northwest may establish pursuant to Supplemental Electric Revenue Bond Resolutions authorizing the issuance of Electric Revenue Bonds, additional funds, accounts and Subaccounts for the purposes designated in such Supplemental Electric Revenue Bond Resolutions.

#### **Disposition of Revenues (Section 503)**

So long as the Project 1, Columbia or Project 3 Prior Lien Bonds shall remain outstanding, Energy Northwest obligates and binds itself irrevocably to pay, after first providing for all required deposits and payments under Resolution Nos. 769, 640 and 775, respectively, to each trustee or paying agent of Parity Debt (including the Trustee), and to each person entitled thereto in the event there is no trustee or paying agent for such Parity Debt, the respective stated amounts scheduled to be paid on such Parity Debt in accordance with its terms without preference or priority of any Parity Debt over any other Parity Debt, including the deposits into the Debt Service Accounts or Subaccounts, as the case may be, hereinafter specified. In the event that Energy Northwest shall have insufficient funds to make all payments required pursuant to the preceding sentence, Energy Northwest shall pay to each trustee or paying agent of Parity Debt (including the Trustee) and to each person entitled thereto, as applicable, its pro rata share of the amounts available to Energy Northwest for such payments. With respect to payments to be made to the Trustee, Energy Northwest shall set aside and pay (i) on or before the 25th day in each month immediately preceding a Payment Date to the Trustee for deposit into the Debt Service Account for each Series, or, in the event a Series consists of two or more Subseries, into each debt service Subaccount in the related Debt Service Account, from the revenues theretofore deposited in the Revenue Fund the amount, which, when added to the amount then on deposit in each respective Debt Service Account or Subaccount thereof, as appropriate, will make the amount on deposit in each such Debt Service Account, or, with respect to Subseries, each Subaccount thereof, equal to the amount of principal scheduled to mature, the amount of each scheduled sinking fund installment required to be paid and the amount of interest due and payable, or if such amount of interest is not known as of such date, the amount reasonably estimated by Energy Northwest to be necessary to pay interest, on the Electric Revenue Bonds of each Series or Subseries on the next succeeding Payment Date, (ii) as and when required, the amounts required to be deposited in the accounts and Subaccounts of the Debt Service Fund and (iii) to the extent not included in clause (i) above, to the issuer of any Credit Facility and the counterparty to any Payment Agreement, and, with respect to any Parity Reimbursement Obligation, the amounts, if any, provided to be so paid pursuant to the related Supplemental Electric Revenue Bond Resolution, in each case, in the amounts, at the times and in the manner provided therein. There shall also be deposited in the Debt Service Fund and any accounts and Subaccounts thereof, as and when received by the Trustee, all other amounts required by the Electric Revenue Bond Resolutions to be so deposited.

On and after the date on which there shall be no Prior Lien Bonds outstanding, Energy Northwest covenants and agrees that it will pay into each General Revenue Fund as promptly as practical after receipt thereof all revenues and all other amounts required by the Electric Revenue Bond Resolutions to be so deposited.

#### **Purposes of Funds (Sections 504 and 505)**

*General Revenue Fund.* The amounts on deposit in each General Revenue Fund shall be trust funds in the hands of Energy Northwest and, subject to certain provisions described herein, shall be used and applied as provided in the applicable Electric Revenue Bond Resolution solely for the purpose of paying principal and interest on Parity Debt, the cost of operating and maintaining the related Project and paying all other costs, charges and expenses in connection with the costs of making

repairs, renewals, replacements, additions, betterments and improvements to and extensions of the related Project and for purposes of paying all other charges and obligations against said revenues, income, receipts, profits and other moneys of whatever nature now or hereafter imposed thereon by law or contract, to the payment of which for such purposes said revenues and other moneys are pledged, including amounts required to be paid to the issuers of any Credit Facilities pursuant to the provisions of any related Supplemental Electric Revenue Bond Resolutions.

After the date on which there are no Prior Lien Bonds outstanding, Energy Northwest shall pay, from the moneys on deposit in each General Revenue Fund, to each trustee or paying agent of Parity Debt (including the Trustee), and to each person entitled thereto in the event there is no trustee or paying agent for such Parity Debt, the respective stated amounts scheduled to be paid on such Parity Debt in accordance with its terms without preference or priority of any Parity Debt over any other Parity Debt, including the deposits into the Debt Service Accounts or Subaccounts, as the case may be, hereinafter specified. In the event that the moneys on deposit in the General Revenue Fund shall be insufficient to make all payments required pursuant to the preceding sentence, Energy Northwest shall pay to each trustee or paying agent of Parity Debt and to each person thereof entitled thereto, as applicable, its pro rata share of the amounts on deposit in the General Revenue Fund. With respect to payments to be made to the Trustee, Energy Northwest shall set aside and pay (i) on or before the last Business Day in each month immediately preceding a Payment Date to the Trustee for deposit into the Debt Service Account for each Series, or, in the event a Series consists of two or more Subseries, into each relevant debt service Subaccount in the related Debt Service Account, the amount, which, when added to the amount, if any, then on deposit in each respective Debt Service Account or Subaccount thereof, as appropriate, will make the amount on deposit in each such Debt Service Account, or, with respect to Subseries, each Subaccount thereof, equal to the amount of principal scheduled to mature, the amount of each sinking fund installment required to be paid, and the amount of interest due and payable, or, if such amount of interest is not known as of such date, the amount reasonably estimated by Energy Northwest to be necessary to pay interest on the Electric Revenue Bonds of each Series or Subseries on the next succeeding Payment Date, (ii) as and when required, the amounts required to be deposited in the accounts and Subaccounts of the Debt Service Fund and (iii) to the extent not included in clause (i) above, to the issuer of any Credit Facility and the counterparty to any Payment Agreement, and, with respect to any Parity Reimbursement Obligation, the amounts, if any, required to be so paid pursuant to the provisions of the related Supplemental Electric Revenue Bond Resolution, in each case, in the amounts, at the times and in the manner provided therein. There shall also be deposited in the Debt Service Fund and any accounts and Subaccounts thereof, as and when received by the Trustee, all other amounts required by the applicable Electric Revenue Bond Resolution to be so deposited.

*Debt Service Fund.* The Trustee shall, for each Series or Subseries of Electric Revenue Bonds outstanding, pay from the moneys on deposit in each relevant Debt Service Account or Subaccount of each Debt Service Fund (i) the amounts required for the payment of the principal, if any, due on each Payment Date and (ii) the amount required for the payment of interest due on each Payment Date and (iii) on any redemption date the amounts required to pay the redemption price of the Electric Revenue Bonds to be redeemed on such date, unless the payment of such redemption price shall be otherwise provided, and (iv) on any redemption date or date of purchase, the amounts required for the payment of accrued interest on Electric Revenue Bonds to be redeemed or purchased on such date unless the payment of such accrued interest shall be otherwise provided and (v) at the times and in the manner provided in the related Supplemental Electric Revenue Bond Resolution and the agreements between Energy Northwest and any issuer of a Credit Facility or counterparty to any Payment Agreement, to the issuer of any Credit Facility and the counterparty to any Payment Agreement, and, with respect to any Parity Reimbursement Obligation, the amounts provided to be so paid.

Unless otherwise provided for a Series of Electric Revenue Bonds in the Supplemental Electric Revenue Bond Resolutions authorizing such Series, Energy Northwest may, prior to the forty-fifth day preceding the due date of any sinking fund installment purchase Electric Revenue Bonds of the Series or Subseries, as the case may be, and maturity for which such sinking fund installment was established, at prices (including any brokerage and other charges) not exceeding the redemption price payable for such Electric Revenue Bonds when such Electric Revenue Bonds are redeemable by application of such sinking fund installment plus unpaid interest accrued to the date of purchase, such purchases to be made by the Trustee as directed in writing by an authorized officer of Energy Northwest.

Unless otherwise provided for a Series of Electric Revenue Bonds in the Supplemental Electric Revenue Bond Resolutions authorizing such Series, upon the purchase or redemption (other than by application of sinking fund installments) of any Electric Revenue Bond, an amount equal to the principal amount of the Electric Revenue Bond so purchased or redeemed shall be credited toward the sinking fund installments thereafter to become due as directed in writing by an authorized officer of Energy Northwest.

At the option of Energy Northwest, Energy Northwest may, in lieu of depositing all or any part of the sinking fund installments into each relevant Debt Service Account or Subaccount thereof of each Debt Service Fund, furnish the Trustee with a Certificate of an authorized officer stating that Energy Northwest has purchased for cancellation term bonds of a Series or Subseries of Electric Revenue Bonds in the principal amount, and bearing the numbers, specified therein, and that said term bonds have not been previously included in any such Certificate; and thereupon the sinking fund installments with respect to the term bonds of such Series or Subseries, as the case may be, may be reduced by the principal amount of such term bonds canceled, as provided by such Certificate.

Unless otherwise provided for a Series of Electric Revenue Bonds or Subseries thereof, as the case may be, in the Supplemental Electric Revenue Bond Resolutions authorizing such Series, as soon as practicable after the forty-fifth day preceding the due date of any such sinking fund installment, the Trustee shall proceed to call for redemption, pursuant to Article IV of each Electric Revenue Bond Resolution or the applicable Supplemental Electric Revenue Bond Resolutions, as the case may be, on such due date, Electric Revenue Bonds of the Series or Subseries, as the case may be, and maturity for which such sinking fund installment was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such sinking fund installment of the Electric Revenue Bonds of such Series or Subseries, as the case may be, and maturity. The Trustee shall so call such Electric Revenue Bonds for redemption whether or not it then has moneys in each Debt Service Account or Subaccount thereof of each Debt Service Fund established for such Series or Subseries, as the case may be, sufficient to pay the applicable redemption price thereof on the redemption date. The Trustee shall apply to the redemption of the Electric Revenue Bonds on each such redemption date, the amount required for the redemption of such Electric Revenue Bonds.

#### **Investment of Funds (Section 508)**

Moneys held in each Debt Service Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Trustee upon request of Energy Northwest (promptly confirmed in writing) solely in Investment Securities which shall mature or be subject to redemption at the option of the owner thereof on or prior to the respective dates when the moneys therein will be required for the purposes intended. However, moneys in each Reserve Account in each Debt Service Fund not required for immediate disbursement for the purpose for which said Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Trustee at the direction of Energy Northwest (promptly confirmed in writing) solely in, and obligations credited to each Reserve Account shall be, Investment Securities which, unless otherwise provided in the related Supplemental Electric Revenue Bond Resolution, shall mature or be subject to redemption at the option of the owner thereof on or prior to the last maturity date of the related Series of Bonds. The Trustee shall not be liable for any depreciation in value of any such investments. For the purpose of Section 508 of the Electric Revenue Bond Resolutions, the term "Investment Securities" shall be limited to obligations described in clauses (i) and (v) of the definition of Investment Securities.

Nothing in the Electric Revenue Bond Resolutions shall prevent any Investment Securities acquired as investments of funds held thereunder from being issued or held in book-entry form.

#### **Valuation or Sale of Investments (Section 509)**

Investment Securities in any fund or account created under the provisions of each Electric Revenue Bond Resolution shall be deemed at all times to be part of such fund or account and any profit realized from the liquidation of such investment shall be credited to such fund or account and any loss resulting from liquidation of such investment shall be charged to such fund or account. So long as the Project 1, Columbia or Project 3 Prior Lien Bonds shall remain outstanding, any net profits remaining after accumulating the sum of all profits realized and losses suffered from the liquidation of such investments in any fund or account shall be retained in the related Debt Service Accounts (or Subaccounts) of each Debt Service Fund, unless otherwise provided in Supplemental Electric Revenue Bond Resolutions authorizing Series of Electric Revenue Bonds; provided, however, that if the money and value of investments in any Reserve Account in each Debt Service Fund shall exceed the applicable Reserve Account Requirement for the Series of Bonds for which such Reserve Account was established, the amount of such excess shall be transferred by the Trustee, without further authorization or direction by Energy Northwest to each Debt Service Account established for such Series, unless otherwise provided in Supplemental Electric Revenue Bond Resolutions authorizing such Series of Electric Revenue Bonds. After the date on which there shall be no Project 1, Columbia or Project 3 Prior Lien Bonds outstanding, any such net profits or excess shall be transferred by the Trustee, without further authorization or direction by Energy Northwest, or paid to, or retained in, each General Revenue Fund.

In computing the amount in any fund or account, Investment Securities therein shall be valued at cost or, if purchased at a premium or discount, at their amortized value. Any such computation shall include accrued interest on the Investment Securities paid as part of the purchase price thereof and not repaid. Such computation shall be made annually on June 30th for all funds and accounts established pursuant to the Electric Revenue Bond Resolutions and at such other times as Energy Northwest shall determine or as may be required by the Electric Revenue Bond Resolutions.

Except as otherwise provided in the Electric Revenue Bond Resolutions, the Trustee, as directed by an authorized officer of Energy Northwest (promptly confirmed in writing), shall use its best efforts to sell at the best price obtainable, or present for redemption, any Investment Securities held by the Trustee in any fund or account whenever it shall be necessary, and upon oral request (promptly confirmed in writing) from an authorized officer of Energy Northwest in order to provide moneys to meet any payment or transfer from such fund or account. The Trustee shall not be liable or responsible for any loss resulting from any such investment, sale, liquidation or presentation for investment made in the manner provided above.

Subject to the foregoing limitations, any moneys held by Energy Northwest or the Trustee under a particular Electric Revenue Bond Resolution may be pooled in order to make any purchase of Investment Securities or deposit of moneys held under such Electric Revenue Bond Resolution, which purchases or deposits are otherwise permitted thereunder; provided, however, that Energy Northwest and the Trustee shall at all times keep accurate and complete records of the Investment Securities so purchased and deposits so made in sufficient detail as will permit the application of such Investment Securities and

deposits, and the proceeds thereof, solely for the purposes, at the times and in the manner provided in each Electric Revenue Bond Resolution.

### **Certain Covenants (Article VII)**

Energy Northwest covenants and agrees with the purchasers and owners of all Electric Revenue Bonds issued pursuant to the Electric Revenue Bond Resolutions as follows:

*Compliance with Resolution Nos. 769, 640 and 775.* So long as any of the Project 1 Prior Lien Bonds, the Columbia Prior Lien Bonds or the Project 3 Prior Lien Bonds are outstanding, Energy Northwest shall comply in all respects with each of the provisions, covenants and agreements of or contained in Resolution Nos. 769, 640 and 775, respectively.

*Concerning the Agreements and Resolution Nos. 769, 640 and 775.* So long as any of the Electric Revenue Bonds are outstanding, Energy Northwest will not (i) voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with any of the Net Billing Agreements which will reduce the payments provided for therein or which will in any manner impair or adversely affect the rights of Energy Northwest or of the owners from time to time of the Electric Revenue Bonds or (ii) voluntarily consent to or permit any rescission of or consent to any amendment to or modification of or otherwise take any action under or in connection with, each Project Agreement in the case of Columbia, each Assignment Agreement, each Property Disposition Agreement or each 1989 Letter Agreement which will in any manner impair or adversely affect the rights of Energy Northwest or of the owners from time to time of the Electric Revenue Bonds; and Energy Northwest shall perform all of its obligations under said Agreements and shall take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the Electric Revenue Bonds afforded by the provisions of said Agreements. Energy Northwest will not, so long as any Project 1, Columbia or Project 3 Prior Lien Bonds remain outstanding, consent to or agree to any change, amendment or modification of Resolutions 769, 640 and 775, respectively, which would in any way or manner prejudice or affect adversely the rights or interests of the owners of the Electric Revenue Bonds.

*Encumbrance or Disposition of Project Properties; Termination of Projects.* On and after the date on which the Prior Lien Bonds are no longer outstanding, Energy Northwest will not sell, mortgage, lease or otherwise dispose of any properties of the related Project, or permit the sale, mortgage, lease or other disposition thereof, except as provided below.

(i) Energy Northwest may sell, lease or otherwise dispose of all or any portion of the works, plants and facilities of a Project and any real and personal property comprising a part thereof which is unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the operation of a Project, provided, however, that if the original costs of the properties so to be disposed of was in excess of \$5,000,000, an Engineer shall first certify that the properties to be disposed of are unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the operations of a Project; provided, however, no such certification shall be required if such sale or other disposition takes place after a Project has been terminated. Monies received by Energy Northwest as the proceeds of any such sale, lease or other disposition of all or any portion of the properties of a Project shall be used for the purchase or redemption of Electric Revenue Bonds and thereafter, any excess shall be deposited in the respective General Revenue Fund; provided, however, that if such sale, lease or other disposition of all or any portion of the properties of a Project is in connection with the replacement of such properties, all moneys received from such partial disposition of property may be transferred to the respective General Revenue Funds.

(ii) Energy Northwest may sell, lease or otherwise dispose of fuel for a price not less than the lesser of the cost to Energy Northwest thereof or the fair market value thereof at the time of such sale, lease or other disposition; provided, that any moneys received by Energy Northwest as proceeds of any such sale, lease or purchase shall be either transferred to the respective General Revenue Funds or used for the purchase or redemption of Electric Revenue Bonds.

(iii) In the event that the ownership of the properties of a Project or any part thereof shall be transferred from Energy Northwest through the operation of law, any moneys received by Energy Northwest as a result of any such transfer shall be used for the purchase or redemption of Electric Revenue Bonds and thereafter, any excess shall be deposited in the respective General Revenue Funds.

(iv) Energy Northwest may terminate a Project at any time. Any moneys received by Energy Northwest from the disposition of the properties of a Project so terminated may be applied to the payment of the cost of decommissioning such Project including the cost of restoring the site thereof, and any amounts so received not required to pay such costs shall be applied as provided in paragraph (iii) above or in each Electric Revenue Bond Resolution.

Nothing contained in the Electric Revenue Bond Resolutions shall be construed to prevent Energy Northwest from constructing as a separate utility system any additional generating unit or units on or near the site of any Project, and using facilities of a Project in connection with the construction or operation therewith without compensation therefor; provided, however, that an Engineer shall certify to Energy Northwest and the Trustee that such use will not adversely affect the operations of the applicable Project or interfere with the performance by Energy Northwest of its obligations under the Electric Revenue

Bond Resolutions; and provided further, however, that any compensation received by Energy Northwest on account of any such use shall be paid into the respective General Revenue Funds.

Notwithstanding the provisions of subsection (a) of Section 707 of each Electric Revenue Bond Resolution, moneys received by Energy Northwest as a result of any sale, lease, transfer or other disposition specified in such subsection (a) and which are in excess of the amounts required for decommissioning and site restoration costs may be transferred to such funds or accounts determined by Energy Northwest or used to purchase or redeem Electric Revenue Bonds.

*Insurance.* Energy Northwest shall, to the extent available at reasonable cost with responsible insurers, keep, or cause to be kept, the works, plants and facilities comprising the properties of the related Project and the operation thereof insured, with policies payable to Energy Northwest for the benefit of Energy Northwest, the Participants and Bonneville, as their interests may appear, against risks of direct physical loss, damage to or destruction of such properties or any part thereof, and against accidents, casualties, or negligence, including liability insurance and employer's liability, at least to the extent that similar insurance is usually carried by electric utilities operating like properties, and such other insurance as may be agreed upon by the parties to the Columbia Project Agreement. To the extent such insurance is being maintained by Energy Northwest pursuant to the Prior Lien Resolutions, no such insurance need be maintained under the related Electric Revenue Bond Resolution. In the case of loss, including loss of revenue, caused by suspension or interruption of generation or transmission of power and energy by a Project, the proceeds of any insurance policy or policies covering such loss received by Energy Northwest, prior to the retirement of the related Prior Lien Bonds, shall be paid into the related Revenue Fund, and thereafter, shall be paid into the related General Revenue Fund. Within sixty (60) days after the end of each fiscal year, Energy Northwest shall file, or cause to be filed, with the Trustee a certificate of an Engineer describing in reasonable detail the insurance on the Projects then in effect pursuant to the requirements of the related Electric Revenue Bond Resolution and stating whether, in its opinion, such insurance then in effect reasonably complies with the provisions hereof. Prior to the retirement of the Project 1, Columbia or Project 3 Prior Lien Bonds, the filing of such a certificate pursuant to the related Prior Lien Resolutions shall satisfy the requirement of the preceding sentence.

*Books of Account; Annual Audit.* Energy Northwest shall keep proper books of account for each Project, showing as a separate utility system the accounts of each Project in accordance with the rules and regulations prescribed by any governmental agency authorized to prescribe such rules, including the Division of Municipal Corporations of the State Auditor's office of the State of Washington, or other state department or agency succeeding to such duties of the State Auditor's office, and in accordance with the Uniform System of Accounts prescribed from time to time by the Federal Energy and Regulatory Commission, or any successor federal agency having jurisdiction over electric public utility companies owning and operating properties similar to each Project, whether or not Energy Northwest is required by law to use such system of accounts. Within one hundred twenty (120) days after the end of each fiscal year, Energy Northwest shall cause such books of account to be audited by independent certified public accountants of national reputation licensed, registered or entitled to practice and practicing as such under the laws of the State of Washington who, or each of whom, is in fact independent and does not have any interest, direct or indirect, in any contract with Energy Northwest other than his contract of employment to audit books of account of Energy Northwest, and who is not connected with Energy Northwest as an officer or employee of Energy Northwest. A copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of each Project as of the close of each fiscal year and summarizing in reasonable detail the income and expenses for such year, including the transactions relating to the funds and accounts and the amounts expended for maintenance and for renewals, replacements and gross capital additions to each Project shall be filed promptly with the Trustee and sent to any Bondholder filing with Energy Northwest a written request for a copy thereof. Each such audit report shall state therein that the auditor has examined and is familiar with the provisions of the related Electric Revenue Bond Resolution and each Supplemental Electric Revenue Bond Resolution relating to the matters set forth above, and that as to such matters Energy Northwest is in compliance therewith or, if not in compliance therewith, the details of such failure to comply and the action to be taken by Energy Northwest to be in compliance therewith.

*Consulting Engineer.* To the extent required by a Supplemental Electric Revenue Bond Resolution, Energy Northwest will, as prescribed in the Electric Revenue Bond Resolutions, retain a nationally recognized independent engineer or engineering firm (the "Consulting Engineer") on a continuous basis for the purpose of providing Energy Northwest immediate and continuous engineering counsel with respect to each Project; provided, however, that no Consulting Engineer need be retained so long as Energy Northwest retains a "Consulting Engineer" pursuant to the Prior Lien Resolutions.

*Protection of Security; Additional Parity Indebtedness.* Energy Northwest is duly authorized under all applicable laws to create and issue the Electric Revenue Bonds and to adopt the Electric Revenue Bond Resolutions and to pledge the revenues and other moneys, securities and funds purported to be pledged by the Electric Revenue Bond Resolutions in the manner and to the extent provided in the Electric Revenue Bond Resolutions. The revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto, prior to, or of equal rank with, the pledge created by the Electric Revenue Bond Resolutions, so long as any of the Project 1, Columbia, or Project 3 Prior Lien Bonds remain outstanding, except for the lien and pledge of the Prior Lien Resolutions, and all corporate action on the part of Energy Northwest to that end has been duly and validly taken. The Electric Revenue Bonds and the provisions of the Electric Revenue Bond Resolutions are and will be valid and legally enforceable obligations of Energy Northwest in accordance with their terms and the terms of the Electric Revenue Bond Resolutions. Energy Northwest shall at all times, to the extent

permitted by law, defend, preserve and protect the pledge of the revenues and other moneys, securities and funds pledged under the Electric Revenue Bond Resolutions and all the rights of the Bondholders under the Electric Revenue Bond Resolutions or any issuer of a Credit Facility pursuant to a Supplemental Electric Revenue Bond Resolution against all claims and demands of all persons whomsoever.

Subject to the provisions of the Prior Lien Resolutions, Energy Northwest will not hereafter create any other special fund or funds for the payment of bonds, warrants or other obligations or issue any bonds, warrants or other obligations payable out of or secured by a pledge of revenues or create any additional obligations which will rank on a parity with or in priority over the pledge and lien of such revenues created under the Electric Revenue Bond Resolutions, except that Energy Northwest may issue bonds, notes or other obligations, under a separate resolution or resolutions, which are payable from or secured by a pledge of the revenues and may create or cause to be created any lien or charge on such revenues, ranking on a parity with the pledge and lien created by the Electric Revenue Bond Resolutions, for any one or more of the purposes provided in the Electric Revenue Bond Resolutions or may create Parity Reimbursement Obligations. However, Energy Northwest shall not issue any such additional bonds, notes or other obligations or create Parity Reimbursement Obligations unless, on the date of issue of such bonds, the certain contracts or agreements described in the Electric Revenue Bond Resolutions are in full force and effect and no Event of Default under the Electric Revenue Bond Resolutions shall have occurred and be continuing.

*Further Assurances.* Energy Northwest will at any and all times, insofar as it may be authorized so to do by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, revenues and other funds pledged or assigned to the payment of the obligations issued by Energy Northwest payable from the revenues of each Project, including the Electric Revenue Bonds or intended so to be, or which Energy Northwest may hereafter become bound to pledge or assign.

*Tax Covenants.* Energy Northwest covenants with the owners from time to time of the Electric Revenue Bonds that (i) throughout the term of the Electric Revenue Bonds and (ii) through the date that the final rebate, if any, must be made to the United States in accordance with Section 148 of the Code it will comply with the provisions of Sections 103 and 141 through 150 of the Code and all regulations proposed and promulgated thereunder that must be satisfied in order that interest on the Electric Revenue Bonds shall be and continue to be excluded from gross income for federal income tax purposes.

Energy Northwest shall not permit at any time or times any of the proceeds of the Electric Revenue Bonds or any other funds of Energy Northwest to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Electric Revenue Bond to be an "arbitrage bond" as defined in Section 148 of the Code, or any successor provision of law.

Energy Northwest shall not permit at any time or times any proceeds of any Series of Electric Revenue Bonds or any other funds of Energy Northwest to be used, directly or indirectly, in a manner which would result in the exclusion of any Electric Revenue Bond from the treatment afforded by Section 103(a) of the Code.

Anything contained in the three preceding paragraphs to the contrary notwithstanding, Energy Northwest reserves the right to issue, from time to time, one or more Series of Electric Revenue Bonds the interest on which is includable in the gross income of the recipient thereof for federal income tax purposes ("Taxable Bonds"), provided that the issuance of any such Series of Taxable Bonds does not adversely affect the federal tax exemption of the interest on any other Series of Electric Revenue Bonds.

#### **Events of Default and Remedies (Section 801)**

The occurrence of one or more of the following events shall constitute an "Event of Default" under the Electric Revenue Bond Resolution to which such Event of Default relates:

- (1) if payment of principal or the redemption price of any related Electric Revenue Bond shall not punctually be made when due and payable, whether at the stated maturity thereof, upon redemption or otherwise;
- (2) if payment of the interest on any related Electric Revenue Bond shall not punctually be made when due;
- (3) if payment of any related Parity Reimbursement Obligation shall not be punctually made when due;
- (4) if Energy Northwest shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the applicable Electric Revenue Bond Resolution or in the related Electric Revenue Bonds, on the part of Energy Northwest to be performed (other than the covenant relating to compliance with Resolution Nos. 769, 640 and 775, as the case may be), and such failure shall continue for ninety (90) days after written notice thereof from the Trustee or the owners of not less than twenty-five percent (25%) of the related Electric Revenue Bonds then outstanding; provided that, if such failure cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; and provided further that the exclusion of the covenant relating to

compliance with Resolution Nos. 769, 640 and 775, as the case may be, shall not be construed to prevent the Trustee from enforcing any remedy it may have, at law or in equity, for a breach of such covenant;

(5) if an order, judgment, or decree shall be entered by any court of competent jurisdiction, with the consent or acquiescence of Energy Northwest, or if such order, judgment or decree, having been entered without the consent or acquiescence of Energy Northwest, shall not be vacated or set aside or discharged or stayed (or in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated) within ninety (90) days after the entry thereof, and if appealed, shall not thereafter be vacated or discharged: (i) appointing a receiver, trustee or liquidator for Energy Northwest; or (ii) assuming custody or control of the whole or any substantial part of the applicable Project under the provisions of any law for the relief or aid of debtors; or (iii) approving a petition filed against Energy Northwest under the provisions of 11 USC 901-946, as amended (the "Bankruptcy Act"); or (iv) granting relief to Energy Northwest under any amendment to said Bankruptcy Act, or under any other applicable Bankruptcy Act, which shall give relief substantially similar to that afforded by Chapter IX thereof; and

(6) if Energy Northwest shall (i) admit in writing its inability to pay its debts generally as they become due; or (ii) file a petition in bankruptcy or seeking a composition of indebtedness; or (iii) make an assignment for the benefit of its creditors; or (iv) file a petition or any answer seeking relief under the Bankruptcy Act referred to in the preceding clause, or under any amendment thereto, or under any other applicable bankruptcy act which shall give relief substantially the same as that afforded by Chapter IX of said act; or (v) consent to the appointment of a receiver of the whole or any substantial part of the applicable Project; or (vi) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of Energy Northwest or of the whole or any substantial part of the applicable Project.

Upon the occurrence of an Event of Default described in the preceding paragraphs, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the related Electric Revenue Bonds shall have already become due and payable, the Trustee may, and upon the written request of the owners of not less than 25% of all related Electric Revenue Bonds then outstanding shall, proceed to enforce by such proceedings at law or in equity as it deems most effectual the rights of related Bondholders, and either the Trustee (by notice in writing to Energy Northwest), or the owners of not less than 25% in principal amount of the related Electric Revenue Bonds outstanding (by notice in writing to Energy Northwest and the Trustee), may declare the principal of all the related Electric Revenue Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable; provided, however, that so long as any of the Prior Lien Bonds of the related Project remain outstanding, no such declaration may be made unless the principal of all the Prior Lien Bonds of the related Project then outstanding, and the interest accrued thereon, shall have been declared to be due and payable immediately pursuant to Section 12.1 of Resolution No. 769, Section 11.1 of Resolution No. 640 or Section 11.1 of Resolution No. 775, as the case may be. The Trustee shall not be obligated to notify Energy Northwest of its intent to make such a declaration prior to making such declaration. The right of the Trustee or of the owners of not less than 25% in principal amount of the related Electric Revenue Bonds to make any such declaration, however, shall be subject to the condition that if, at any time after such declaration, but before the related Electric Revenue Bonds shall have matured by their terms, all overdue installments of interest upon the related Electric Revenue Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee (including reasonable fees and expenses of counsel to the Trustee), and all other sums then payable by Energy Northwest under the related Electric Revenue Bond Resolution (except the principal of, and interest accrued since the next preceding Payment Date on, the related Electric Revenue Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of Energy Northwest or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the related Electric Revenue Bonds or under the related Electric Revenue Bond Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall either be cured or provision shall be made therefor, then and in every such case the owners of a majority in principal amount of the related Electric Revenue Bonds outstanding, by written notice to Energy Northwest and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written directions to the contrary by the owners of a majority in principal amount of the related Electric Revenue Bonds then outstanding, then any such declaration shall *ipso facto* be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any resulting right or power.

#### **Notice to Bondholders of an Event of Default (Section 802)**

The Trustee, within twenty-five (25) days after the occurrence of an Event of Default, shall give to the Bondholders of the related Electric Revenue Bonds, in the manner provided in the applicable Electric Revenue Bond Resolution, notice of all defaults known to the Trustee, and shall give prompt written notice thereof to Energy Northwest, unless such defaults shall have been cured before the giving of such notice.

#### **Accounting and Examination of Records After Default (Section 803)**

Energy Northwest covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of Energy Northwest relating to the related Project and all other records relating thereto shall at all times be subject to the inspection and use of the Trustee and any persons holding at least twenty-five percent (25%) of the



principal amount of the related Electric Revenue Bonds outstanding and of their respective agents and attorneys or of any committee therefor.

Energy Northwest covenants that if an Event of Default shall have happened and shall not have been remedied, Energy Northwest will continue to account, as a trustee of an express trust, for all revenues and other moneys, securities and funds pledged under the related Electric Revenue Bond Resolution.

#### **Application of Revenues in an Event of Default (Section 804)**

Energy Northwest covenants that if an Event of Default shall have happened and shall not have been remedied, upon demand of the Trustee, Energy Northwest shall pay over to the Trustee (i) forthwith, all moneys, securities and funds, if any, then held by Energy Northwest and pledged under the related Electric Revenue Bond Resolution, and (ii) subject to the provisions of Resolution Nos. 769, 640 or 775, as the case may be, as promptly as practicable after receipt thereof, all revenues of the related Project (provided that if other Parity Debt is outstanding Energy Northwest shall pay over to the Trustee the Trustee's pro rata share of such revenues).

Subject to the provisions of Resolution Nos. 769, 640 and 775, respectively, during the continuance of an Event of Default, the revenues and other moneys of the related Project received by the Trustee shall be applied by the Trustee: first to the payment of the reasonable and necessary cost of operation, maintenance, repair and replacement of the related Project, including the costs of decommissioning and site restoration, if any, and all other proper disbursements or liabilities made or incurred by the Trustee (including the fees and expenses of counsel to the Trustee); and second, to the then due and overdue payments into the related Debt Service Fund and the due and overdue payments on any related Parity Reimbursement Obligations and the due and overdue payments of any other obligation of Energy Northwest for which the Revenues are pledged on a parity with the pledge under Section 202(a) of the related Electric Revenue Bond Resolution pursuant to a Supplemental Electric Revenue Bond Resolution ("Other Parity Obligations"); and lastly, for any lawful purpose in connection with the related Project.

In the event that at any time the funds held by the Trustee shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the related Electric Revenue Bonds and payments then due on any related Parity Reimbursement Obligations and Other Parity Obligations, such funds (other than funds held for the payment or redemption of particular Electric Revenue Bonds or Parity Reimbursement Obligations or Other Parity Obligations, including, without limiting the generality of the foregoing, amounts held in any Reserve Account for a particular Series of Electric Revenue Bonds) and all revenues of Energy Northwest and other moneys received or collected for the benefit or for the account of owners of the Electric Revenue Bonds and any Parity Reimbursement Obligations and Other Parity Obligations by the Trustee shall be applied as follows:

- (1) Unless the principal of all of the related Electric Revenue Bonds shall have become due and payable,
  - First*, to the payment of all necessary and proper operating expenses of the applicable Project and all other proper disbursements or liabilities made or incurred by the Trustee;
  - Second*, to the payment to the persons entitled thereto of all installments of interest then due on the related Electric Revenue Bonds (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and on any related Parity Reimbursement Obligations and Other Parity Obligations and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and
  - Third*, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the related Electric Revenue Bonds and on any related Parity Reimbursement Obligations and Other Parity Obligations at the time of such payment without preference or priority of any related Electric Revenue Bond or related Parity Reimbursement Obligation or Other Parity Obligation over any other Electric Revenue Bond or related Parity Reimbursement Obligation or Other Parity Obligation, and if the amounts available therefor shall not be sufficient to pay in full any principal and premium, if any, due and unpaid upon the related Electric Revenue Bonds and on any related Parity Reimbursement Obligations and Other Parity Obligations at such time, then to the payment thereof, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference.
- (2) If the principal of all of the related Electric Revenue Bonds shall have become due and payable,
  - First*, to the payment of all necessary and proper operating expenses of the related Project and all other proper disbursements or liabilities made or incurred by the Trustee; and
  - Second*, to the payment of the principal and interest then due and unpaid upon the related Electric Revenue Bonds and any related Parity Reimbursement Obligations and Other Parity Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any related Electric Revenue Bond or related Parity Reimbursement Obligation or Other Parity Obligation over any other Electric Revenue Bond or related Parity

Reimbursement Obligation or Other Parity Obligation, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied as described in the preceding paragraphs, such moneys shall be applied by the Trustee, at such times, and from time to time, as it in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future.

If and whenever all overdue installments of interest on all Electric Revenue Bonds and any related Parity Reimbursement Obligations and Other Parity Obligations, together with the reasonable and proper charges, expenses, and liabilities of the owners of the Electric Revenue Bonds or the obligees of such Parity Reimbursement Obligation or Other Parity Obligation, as applicable, their respective agents and attorneys, and all other sums payable by Energy Northwest under the related Electric Revenue Bond Resolution including the Principal Installment or redemption price of all Electric Revenue Bonds which shall then be payable, shall either be paid in full by or for the account of Energy Northwest or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the applicable Electric Revenue Bond Resolutions or the related Electric Revenue Bonds shall be made good and secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate therefor, the Trustee shall pay over to Energy Northwest all of its monies, securities, funds and revenues then remaining unexpended in the hands of the Trustee (except moneys, securities, funds or revenues deposited or pledged, or required by the terms of the applicable Electric Revenue Bond Resolution to be deposited or pledged, with the Trustee), control of the business and possession of the property of the applicable Project shall be restored to Energy Northwest, and thereupon Energy Northwest and the Trustee shall be restored to their former positions and rights under the applicable Electric Revenue Bond Resolution, and all revenues shall thereafter be applied as provided in Article V of the applicable Electric Revenue Bond Resolution. No such payment to Energy Northwest by the Trustee or resumption of this application of revenues as provided in Article VI of the applicable Electric Revenue Bond Resolution shall extend to or affect any subsequent default under the applicable Electric Revenue Bond Resolution or impair any right consequent thereon.

#### **Remedies Not Exclusive (Section 809)**

No remedy by the terms of either of the Electric Revenue Bond Resolutions conferred upon or reserved to the owners of the related Electric Revenue Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the owners of the related Electric Revenue Bonds or now or hereafter existing at law or in equity or by statute.

#### **Supplemental Electric Revenue Bond Resolutions (Article IX)**

*Supplemental Electric Revenue Bond Resolutions Effective Without Consent of Owners of Bonds.* Energy Northwest, from time to time and at any time and without the consent or concurrence of any owner of any Electric Revenue Bond, may adopt a resolution amendatory of each Electric Revenue Bond Resolution or supplemental to each Electric Revenue Bond Resolution (i) for the purpose of providing for the issuance of Electric Revenue Bonds pursuant to the provisions of Article II of each Electric Revenue Bond Resolution; or (ii) if the provisions of such Supplemental Electric Revenue Bond Resolutions shall not adversely affect the rights of the owners of the Electric Revenue Bonds of each Series or, if a Series consists of two or more Subseries, of each Subseries thereof, affected by such Supplemental Electric Revenue Bond Resolutions then outstanding, for any one or more of the following purposes:

- (1) to make any changes or corrections in the Electric Revenue Bond Resolutions as to which Energy Northwest shall have been advised by counsel that the same are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Electric Revenue Bond Resolutions, or to insert in the Electric Revenue Bond Resolutions such provisions clarifying matters or questions arising under the Electric Revenue Bond Resolutions as are necessary or desirable;
- (2) to add additional covenants and agreements of Energy Northwest for the purpose of further securing the payment of the Electric Revenue Bonds;
- (3) to surrender any right, power or privilege reserved to or conferred upon Energy Northwest by the terms of the Electric Revenue Bond Resolutions;
- (4) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Electric Revenue Bond Resolutions;
- (5) to grant or to confer upon the owners of the Electric Revenue Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them, or to grant to or to confer upon the Trustee for the benefit of the owners of the Electric Revenue Bonds any additional rights, duties, remedies, powers, authority or security or to provide for one or more Credit Facilities;
- (6) to make any appointment or to add any provision, in either case, required or permitted by the Electric Revenue Bond Resolutions to be so made or added pursuant to a Supplemental Electric Revenue Bond Resolution;
- (7) to enter into Payment Agreements; and

(8) to make any other change which Energy Northwest deems necessary or desirable and which does not adversely affect the rights of the Bondholders.

*Supplemental Electric Revenue Bond Resolutions Effective With Consent of Bondholders.* At any time or from time to time, Supplemental Electric Revenue Bond Resolutions may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of each Electric Revenue Bond Resolution, which Supplemental Electric Revenue Bond Resolutions, upon the filing with the Trustee of a copy thereof certified by an authorized officer of Energy Northwest and upon compliance with the provisions of Article X of each Electric Revenue Bond Resolution, shall become fully effective in accordance with its terms as provided in said Article.

#### **Powers of Amendment (Section 1002)**

Any modification or amendment of the Electric Revenue Bond Resolutions or of the rights and obligations of Energy Northwest and of the owner of the Electric Revenue Bonds thereunder, in any particular, may be made by Supplemental Electric Revenue Bond Resolutions, with the written consent given as provided in each Electric Revenue Bond Resolution, (i) of the owners of not less than a majority in principal amount of the related Electric Revenue Bonds outstanding at the time such consent is given and (ii) in case less than all of the several Series of Electric Revenue Bonds or, if any Series consists of two or more Subseries, the Subseries thereof, then outstanding are affected by the modification or amendment, of the owners of not less than a majority in principal amount of the Electric Revenue Bonds of such Series or Subseries, as the case may be, so affected and outstanding at the time such consent is given; except that if such modification or amendment will, by its terms, not take effect so long as any Electric Revenue Bonds of any specified like Series, Subseries, if applicable, and maturity remain outstanding, the consent of the owners of such Electric Revenue Bonds shall not be required and such Electric Revenue Bonds shall not be deemed to be outstanding for the purpose of any calculation of outstanding Electric Revenue Bonds under this provision of each Electric Revenue Bond Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding Electric Revenue Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the owner of such Electric Revenue Bond, or shall reduce the percentages or otherwise affect the classes of Electric Revenue Bonds the consent of the owners of which is required to effect any such modification or amendment, or permit a preference or priority of any Electric Revenue Bond over any other or shall change or modify any of the rights or obligations of any fiduciary without its written assent thereto. For the purposes of this provision of each Electric Revenue Bond Resolution, a Series or Subseries, as the case may be, shall be deemed to be affected by a modification or amendment of each Electric Revenue Bond Resolution if the same adversely affects or diminishes the rights of the owners of Electric Revenue Bonds of such Series or Subseries, respectively. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment of the Electric Revenue Bonds of any particular Series, Subseries, if applicable, or maturity would be affected by any modification or amendment of the Electric Revenue Bond Resolutions and any such determination shall be binding and conclusive on Energy Northwest and all owners of Electric Revenue Bonds. For the purposes of this Section, the owners of the Electric Revenue Bonds may include the initial owners thereof, regardless of whether such Electric Revenue Bonds are being held for immediate resale.

#### **Defeasance (Article XI)**

Except as otherwise provided in Supplemental Electric Revenue Bond Resolutions authorizing the issuance of variable rate Electric Revenue Bonds, the obligations of Energy Northwest under the Electric Revenue Bond Resolutions and the liens, pledges, charges, trusts, covenants and agreements of Energy Northwest made or provided for in the Electric Revenue Bond Resolutions, shall be fully discharged and satisfied as to any related Electric Revenue Bond and such related Electric Revenue Bond shall no longer be deemed to be outstanding hereunder,

(i) when such related Electric Revenue Bond shall have been canceled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by the Trustee from moneys held under the related Electric Revenue Bond Resolutions; or

(ii) as to any related Electric Revenue Bond not canceled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal of and premium, if any, on such related Electric Revenue Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (A) shall have been made or caused to be made in accordance with the terms thereof, or (B) shall have been provided for by irrevocably depositing with the trustee or a paying agent for such Electric Revenue Bond, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Defeasance Obligations maturing, or redeemable at the option of the owner thereof, as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, or a combination thereof, whichever Energy Northwest deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Trustee and the paying agents pertaining to the Electric Revenue Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee and said paying agents.

At such time as an Electric Revenue Bond shall be deemed to be no longer outstanding under the related Electric Revenue Bond Resolution, such Electric Revenue Bond shall no longer be secured by or entitled to the benefits of the related Electric Revenue Bond Resolution, except for the purposes of any payment from such moneys or Defeasance Obligations.

Notwithstanding the foregoing, in the case of an Electric Revenue Bond which is to be redeemed or otherwise prepaid prior to its stated maturity, no deposit under clause (B) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid until such Electric Revenue Bond shall have been irrevocably designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been previously published in accordance with each Electric Revenue Bond Resolution or in accordance with the provisions of the Supplemental Electric Revenue Bond Resolutions which authorized the issuance of the Electric Revenue Bonds being refunded or provision satisfactory to the Trustee shall have been irrevocably made for the giving of such notice.

Any such moneys so deposited with the trustee or paying agents for the Electric Revenue Bonds as provided in the Electric Revenue Bond Resolutions may at the direction of Energy Northwest also be invested and reinvested in Defeasance Obligations, maturing in the amounts and times as hereinbefore set forth. All income from all Defeasance Obligations in the hands of the trustee or paying agents pursuant to Section 1101 which is not required for the payment of the Electric Revenue Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be paid to Energy Northwest for deposit in the respective General Revenue Funds. Likewise, whenever all of the Electric Revenue Bonds of a Series shall be deemed to be no longer outstanding under the related Electric Revenue Bond Resolution, as aforesaid, the amounts, if any, remaining on deposit to the credit of the Reserve Accounts established for such Series shall be paid to Energy Northwest for deposit in the respective General Revenue Funds.

Any provision contained in the Electric Revenue Bond Resolutions to the contrary notwithstanding, all moneys and Defeasance Obligations set aside and held in trust pursuant to the provisions of Section 1101 for the payment of Electric Revenue Bonds shall be applied to and used solely for the payment of the particular Electric Revenue Bond with respect to which such moneys and Defeasance Obligations have been so set aside in trust.

Anything in the Electric Revenue Bond Resolutions to the contrary notwithstanding, if moneys or Defeasance Obligations have been deposited or set aside with the trustee or a paying agent pursuant to Section 1101 for the payment of a specific Electric Revenue Bond and such Electric Revenue Bond shall be deemed to have been paid and to be no longer outstanding as provided in Section 1101, but such Electric Revenue Bond shall not have in fact been actually paid in full, no amendment to the provisions of either of the Electric Revenue Bond Resolutions shall be made without the consent of the owner of each Electric Revenue Bond affected thereby.

Energy Northwest may at any time surrender to the Trustee for cancellation by it any Electric Revenue Bonds previously executed and delivered, which Energy Northwest may have acquired in any manner whatsoever, and such Electric Revenue Bonds upon such surrender for cancellation shall be deemed to be paid and no longer outstanding under either of the Electric Revenue Bond Resolutions.

Neither the obligations of Energy Northwest under the Electric Revenue Bond Resolutions and the liens, pledges, charges, trusts, covenants and agreements of Energy Northwest made or provided for in the Electric Revenue Bond Resolutions, nor any Supplemental Resolutions authorizing Parity Reimbursement Obligations and/or Other Parity Obligations, shall be discharged or satisfied with respect to such Parity Reimbursement Obligations or Other Parity Obligations, respectively, until such Parity Reimbursement Obligations shall have been paid in accordance with their terms.

#### **Summary of the Supplemental Electric Revenue Bond Resolutions**

*Debt Service Account.* Each Supplemental Electric Revenue Bond Resolution creates and establishes a special trust account of the Debt Service Fund which shall be held by the Trustee subject to the lien of the related Project's Electric Revenue Bond Resolution. The Debt Service Accounts shall be funded as provided in the related Electric Revenue Bond Resolution and amounts therein shall be used and applied as provided in the related Supplemental Electric Revenue Bond Resolution and in the related Electric Revenue Bond Resolution.

## SUMMARY OF CERTAIN PROVISIONS OF PRIOR LIEN RESOLUTIONS

## NOS. 769, 640 AND 775

The following summary is a brief outline of certain provisions contained in the Project 1 Prior Lien Resolution, the Columbia Prior Lien Resolution and the Project 3 Prior Lien Resolution, as amended and supplemented (collectively referred to in this Appendix G-2 as the "Prior Lien Resolutions"), and is not to be considered as a full statement thereof. This summary is qualified by reference to and is subject to the Prior Lien Resolutions, copies of which may be examined at the principal offices of Energy Northwest and the respective Bond Fund Trustees and Paying Agents for the Project 1, Columbia and Project 3 Prior Lien Bonds.

**Subsequent Series of Prior Lien Bonds**

Under the Supplemental Resolutions, Energy Northwest has covenanted with the owners from time to time of the Electric Revenue Bonds not to issue any further Prior Lien Bonds or any other bonds, warrants or obligations having a lien on Revenues on a parity with the Prior Lien Bonds.

**Effect of Amendments Adopted September 14, 1989 and March 16, 1990 (Project 1, Columbia and Project 3)**

*Amendments Effective Immediately:* Resolution No. 548 (the "Project 1 1989A Supplemental Resolution") and Resolution No. 549 (the "Project 3 1989A Supplemental Resolution" and, together with the Project 1 1989A Supplemental Resolution, the "1989A Supplemental Resolutions"), each adopted by the Executive Board of Energy Northwest on September 14, 1989, and Resolution No. 583 (the "Columbia 1990A Supplemental Resolution"), adopted by the Executive Board of Energy Northwest on March 15, 1990, amend the Project 1 Prior Lien Resolution, the Columbia Prior Lien Resolution and the Project 3 Prior Lien Resolution, respectively, to add the Property Disposition Covenants described in this Official Statement under "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements." The 1989A Supplemental Resolutions and Columbia 1990A Supplemental Resolution also amend the Project 1 Prior Lien Resolution, the Columbia Prior Lien Resolution and the Project 3 Prior Lien Resolution to add a covenant of Energy Northwest that it shall take such actions as are necessary to enforce the provisions of the Assignment Agreements relating to Project 1, Columbia and Project 3, respectively, and the agreements of Bonneville with respect to the disposition of the respective Project 1, Columbia and Project 3 properties following a termination of such Projects. (See "SECURITY FOR THE NET BILLED BONDS — Net Billing Agreements" in this Official Statement for a description of such agreements.) Each of the Prior Lien Resolutions is also amended to add a covenant by Energy Northwest with respect to the Project 1 Prior Lien Bonds, Columbia Prior Lien Bonds and Project 3 Prior Lien Bonds issued prior to the date of adoption of the amending resolution to the effect that, in exercising any rights it may have to redeem such Bonds at par under the extraordinary redemption provisions relating to such Bonds in the event of a termination of the related Project, it will only redeem such Bonds from the proceeds, if any, received by Energy Northwest from the sale or other disposition of Project 1, Columbia or Project 3 properties, as the case may be, and, in the case of Project 1 and Project 3 Prior Lien Bonds, from amounts, if any, then on deposit in the Construction Fund established under the Project 1 Prior Lien Resolution or the Project 3 Prior Lien Resolution, as the case may be. Such amendments became effective immediately upon effectiveness of the respective 1989A Supplemental Resolutions and Columbia 1990A Supplemental Resolution in accordance with their terms.

*Springing Amendments:* The Project 1 1989A Supplemental Resolution effects various amendments to the Project 1 Prior Lien Resolution which became effective when the Project 1 Prior Lien Bonds issued prior to the adoption of the Project 1 1989A Supplemental Resolution ceased to be outstanding. The Columbia 1989A Supplemental Resolution effects various amendments to the Columbia Prior Lien Resolution which became effective when the Columbia Prior Lien Bonds issued prior to the adoption of the Columbia 1989A Supplemental Resolution ceased to be outstanding. The Project 3 1989A Supplemental Resolution effects various amendments to the Project 3 Prior Lien Resolution which became effective when the Project 3 Prior Lien Bonds issued prior to the adoption of the Project 3 1989A Supplemental Resolution ceased to be outstanding.

The 1989A Supplemental Resolutions and the Columbia 1990A Supplemental Resolution amend the Prior Lien Resolutions to add the defined terms summarized below to each such Prior Lien Resolution, such amendments to become effective as described above. As used below, the term "Bonds" refers to the Project 1 Prior Lien Bonds, Columbia Prior Lien Bonds and the Project 3 Prior Lien Bonds.

*"Credit Facility"* means a letter of credit, revolving credit agreement, standby bond purchase agreement, surety bond, insurance policy or similar obligation or instrument which provides for payment of all or a portion of the Principal Installments or interest due on any Series of Bonds or provides funds for the purchase of such Bonds or portions thereof.

*"Qualified Credit Facility"* means a Credit Facility (A) which provides funds for (1) the direct payment of the Principal Installments of and interest on such Bonds when due or (2) the payment of the Principal Installments of and interest on such Bonds in the event amounts otherwise pledged to the payment thereof are not available when due and (B) which (1) requires Energy Northwest to directly reimburse the issuer of such Credit Facility for amounts paid thereunder and (2) provides that such obligation is a Parity Reimbursement Obligation.

*"Financial Guaranties"* means one or more of the following: (A) letters of credit, lines of credit or other similar credit facilities issued by banking institutions the senior long-term debt obligations of which (or the holding company of any such banking institution) are (at the time of issue of such credit facility) rated in one of the two highest rating categories by Moody's Investors Service Inc. and by Standard & Poor's Corporation; or (B) a policy or policies of insurance or surety bond or bonds issued by municipal bond insurers the obligations insured by which are eligible for a rating in one of the two highest rating categories by Moody's Investors Service Inc. and by Standard & Poor's Corporation; in each case providing for the payment of sums for the payment of Principal Installments of and interest on Bonds in the manner provided in the supplemental resolution authorizing such Bonds.

*"Parity Reimbursement Obligation"* means a Reimbursement Obligation, the payment of which is secured by a lien on the revenues, receipts, profits, income and other moneys pledged by the applicable Prior Lien Resolution on a parity with the lien created by the applicable Prior Lien Resolution in favor of Bonds issued thereunder. "Reimbursement Obligation" means the obligation of Energy Northwest to directly reimburse the issuer of a Credit Facility for amounts paid by such issuer thereunder.

*"Principal Installment"* means, as of any date of calculation and with respect to any Series of Bonds, so long as any such Bonds are outstanding, (A) the principal amount (including (1) any amount designated in, or determined pursuant to, the applicable supplemental resolution as the "principal amount" with respect to any Bonds which do not pay full current interest for all or any part of their term, and (2) the principal amount of any Parity Reimbursement Obligation) of such Series of Bonds due on a certain future date for which no sinking fund payments for the retirement of term bonds in advance of maturity have been established, or (B) the unsatisfied balance of any such sinking fund payments due on a certain future date for Bonds of such Series, or (C) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of sinking fund payments due on such future date.

The 1989A Supplemental Resolutions and Columbia 1990A Supplemental Resolution also affect the amendments to the Prior Lien Resolutions, which take effect as described above and which are summarized below.

The Prior Lien Resolutions are amended to: (i) authorize the issuance of Project 1, Columbia and Project 3 Prior Lien Bonds, respectively, payable from and secured by a Qualified Credit Facility and to permit the creation of Parity Reimbursement Obligations with respect to such Qualified Credit Facility payable on a parity with the related Net Billed Bonds and secured by an equal charge and lien on the revenues of the related Net Billed Project; (ii) provide that no amount need be deposited in the Reserve Account for any Prior Lien Bonds the principal of and interest on which is payable from and secured by a Qualified Credit Facility; (iii) provide that the deposit required to be made into the reserve account established for any Prior Lien Bonds may be satisfied by depositing Financial Guaranties in such reserve account; and (iv) provide that, in connection with the issuance of any refunding Project 1, Columbia or Project 3 Prior Lien Bonds, the amount, if any, required to be deposited in the reserve account established for such Bonds may be accomplished through the transfer of all or a portion of the moneys on deposit in the reserve account for the Project 1, Columbia or Project 3 Prior Lien Bonds (as the case may be) being refunded, whether or not such Bonds being refunded constitute all of the remaining outstanding Project 1, Columbia or Project 3 Prior Lien Bonds of a Series of such Bonds.

Resolution No. 565 and Resolution No. 566, each adopted by the Board of Directors of Energy Northwest on December 7, 1989, and Columbia 1990A Supplemental Resolution provide that, unless Financial Guaranty Insurance Company consents to the deposit of a Financial Guaranty in a reserve account, certain requirements must be met as a condition to any such deposit.

The Prior Lien Resolutions are also amended to provide, in connection with the issuance of refunding Project 1, Columbia or Project 3 Prior Lien Bonds, that amounts on deposit in the Interest Account representing interest accrued on refunded Project 1, Columbia or Project 3 Prior Lien Bonds (as the case may be) no longer deemed outstanding under the applicable Prior Lien Resolution may be withdrawn on the date such refunded Bonds cease to be outstanding and may be transferred to a separate trust fund established with the applicable Bond Fund Trustee or Paying Agent to pay when due interest on such refunded Bonds.

The Prior Lien Resolutions each provide that upon the happening of an Event of Default thereunder, and prior to such Event of Default having been remedied, either the applicable Bond Fund Trustee or the holders of not less than 20% in principal amount of the Project 1 Prior Lien Bonds, the Columbia Prior Lien Bonds or the Project 3 Prior Lien Bonds (as the case may be) then outstanding under the applicable Resolution may declare the principal of all the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable. The Prior Lien Resolutions are amended to provide that the right of the applicable Bond Fund Trustee, or the holders of not less than 20% in principal amount of the related Prior Lien Bonds then outstanding, to declare the principal of all the related Prior Lien Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, as aforesaid, shall be available only if there shall occur and be continuing an Event of Default involving failure to pay amounts required to be paid into the related Revenue Fund, failure to pay principal of, premium, if any, or interest on the related Prior Lien Bonds or the bankruptcy or insolvency of Energy Northwest, or appointment of a receiver for the properties of the related Net Billed Project.

See "Events of Default; Remedies" in this Appendix G-2 for a description of the Events of Default under the Prior Lien Resolutions and the Events of Default to which such amendments are applicable.

The Prior Lien Resolutions are also amended to clarify the right of Energy Northwest, in the event of a termination of Project 1, Columbia or Project 3, to sell or otherwise dispose of the properties of such terminated Project without first having to provide for the payment of the outstanding related Prior Lien Bonds.

In addition, the Project 1 1989A Supplemental Resolution and Columbia 1990A Supplemental Resolution amend the Project 1 Prior Lien Resolution and Columbia Prior Lien Resolution, respectively, to permit the adoption of supplemental resolutions, with the consent of the Bond Fund Trustee for the related Project, to cure any ambiguity or defect or inconsistent provision in the related Prior Lien Resolution or to insert such provisions clarifying matters or questions arising under the related Prior Lien Resolution as are necessary or desirable and, in the case of the Project 1 Prior Lien Resolution, either (i) not contrary to or inconsistent with such Prior Lien Resolution as theretofore in effect or (ii) not adverse to the rights and interests of the holders of the Project 1 Prior Lien Bonds or, in the case of the Columbia Prior Lien Resolution, not adverse to the rights and interests of the holders of the Columbia Prior Lien Bonds.

In connection with the refunding of the balance of the Project 1 and 3 Prior Lien Bonds issued prior to 1989, and in connection with the Columbia Prior Lien Bonds issued prior to 1990, the Project 1, Columbia and Project 3 Prior Lien Resolutions were amended to provide that the applicable Bond Fund Trustee shall, after making the required transfers of investment income to the applicable Revenue Fund, transfer the balance remaining on deposit in the applicable Interest Account, Principal Account, Bond Retirement Account and the Reserve Account, as directed by Energy Northwest, to the trustee of the applicable trust fund established to pay the principal of, and redemption premium, if any, and interest on the related Prior Lien Bonds, for deposit into such separate trust fund or, to the extent not so transferred, to the applicable bond fund trustee of each bond fund established for bonds issued from and after 1989 and 1990, respectively, pursuant to the applicable Prior Lien Resolution and then outstanding, for deposit to the credit of the interest account therein in the same proportion as the amount of interest due on the next succeeding interest payment date of such series of bonds bears to the total amount of interest due on such next succeeding interest payment date on all such series of additional bonds.

#### **Construction Fund**

The Project 1 Prior Lien Resolution establishes an Energy Northwest Project No. 1 Construction Fund and a Construction Interest Account and a Fuel Account therein, to be held by the Construction Fund Trustee. First Trust of New York, National Association, is Construction Fund Trustee under the Project 1 Prior Lien Resolution.

The Project 3 Prior Lien Resolution establishes an Energy Northwest Nuclear Project No. 3 Construction Fund to be held in trust by Energy Northwest.

The Project 3 Prior Lien Resolution provides that if working capital is not provided for by September 1, 1982, or if a Reserve and Contingency Fund requirement of \$3,000,000 is not provided for by the Date of Commercial Operation, through revenues received pursuant to the Project 3 Net Billing Agreements, such amounts will be provided from Project 3 Prior Lien Bond proceeds, including moneys then on deposit in the Project No. 3 Construction Fund.

The proceeds of sale of subsequent Series of Project 1 or Project 3 Prior Lien Bonds issued to pay the Cost of Construction of the related Net Billed Project will be applied as follows:

(a) An amount equal to the interest accrued on such Series of Prior Lien Bonds from their date to the date of their delivery to the initial purchasers will be credited, in the case of Project 1 Prior Lien Bonds, to the interest Account in the Construction Fund for Project 1 or, in the case of Project 3 Prior Lien Bonds, to the Interest Account in the Bond Fund for Project 3;

(b) Except as otherwise authorized pursuant to the amendments described under "Effect of Amendments Adopted September 4, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)" above, an amount equal to the largest amount of interest required to be paid on such Series of Prior Lien Bonds during any six-month period from the date of such Bonds to the final maturity date thereof will be credited to the Reserve Account in the Bond Fund for the related Net Billed Project if such amount is not funded by revenues of the related Net Billed Project;

(c) In the case of Project 1 Prior Lien Bonds, such amounts as Energy Northwest determines will be credited to the Fuel Account in the Construction Fund for Project 1; and

(d) The balance of such Bond proceeds will be deposited in the Construction Fund for the respective Net Billed Project, provided a part of such proceeds may be deposited in the Revenue Fund for such Net Billed Project as required for additional working capital.

Moneys in each Net Billed Project Construction Fund are to be used to pay Energy Northwest's Cost of Construction of such Net Billed Project, which includes costs of constructing and acquiring such Project, obtaining permits and licenses and acquiring property and fuel, trustees' and paying agents' fees, taxes and insurance premiums, the cost of engineering services and administrative and overhead expenses of Energy Northwest allocable to the acquisition and construction of such Project. The cost of acquiring fuel for each Net Billed Project will be paid from such Project's Fuel Fund.

Each Prior Lien Resolution prescribes certain procedures designed to safeguard payments or transfers from each Net Billed Project's Construction Fund, including, among others, certificates by the appropriate Construction Engineer and, for Project 1, a detailed itemization by Energy Northwest of the amounts to be paid and the purposes thereof.

Moneys remaining in a Net Billed Project Construction Fund after providing for the payment of all Costs of Construction, in the case of Project 1, and all of Energy Northwest's Costs of Construction, in the case of Project 3, and after required payments, if any, to other accounts, are to be transferred to such Project's Bond Retirement Account.

#### **Other Funds Established by the Prior Lien Resolutions; Flow of Revenues**

In addition to the Construction Fund, each Prior Lien Resolution establishes a separate Revenue Fund, Fuel Fund, and Reserve and Contingency Fund. Each Prior Lien Resolution also establishes a Bond Fund (including an Interest Account, a Principal Account, a Bond Retirement Account, and a Reserve Account) from which payments are to be made with respect to the related Prior Lien Bonds issued to pay the Cost of Construction of the related Net Billed Project. A separate bond fund, including an interest account, a principal account (if applicable), a bond retirement account (if applicable), and a reserve account, is required to be established for each Series of additional Prior Lien Bonds issued for purposes other than paying the Cost of Construction of the related Net Billed Project. All such funds are to be held by Energy Northwest, except for the Project No. 1 Construction Fund, the Project No. 1 Bond Fund, the Columbia Bond Fund, the Project No. 3 Bond Fund and the separate bond funds (collectively, the "Bond Funds"), each of which is to be held by the appropriate Bond Fund Trustee.

*Project No. 1 Revenue Fund:* All income, revenues, receipts, and profits derived by Energy Northwest from its ownership and operation of Project 1 are to be paid into the Project No. 1 Revenue Fund. Moneys in such Revenue Fund are to be used solely for the purpose of making required payments into the Hanford Project Revenue Fund, paying the principal of and premium, if any, and interest on the Project 1 Prior Lien Bonds, paying for the costs of operating and maintaining Project 1, making required payments into the Project No. 1 Fuel Fund and Reserve and Contingency Fund, making repairs, renewals, replacements, additions, betterments and improvements to and extensions of Project 1, and paying all other charges or obligations against the revenues pledged to the Project No. 1 Revenue Fund.

*Project No. 1 Bond Funds:* From the revenues theretofore paid into the Project No. 1 Revenue Fund, Energy Northwest is to pay monthly into the Project No. 1 Bond Funds, after making the required payments, if any, to the Hanford Project Revenue Fund, fixed amounts sufficient in the aggregate to pay the principal of and premium, if any, and interest on the Project 1 Prior Lien Bonds as the same become due and payable.

There is required to be paid into and maintained in the Project No. 1 Reserve Account, for each Series of outstanding Project 1 Prior Lien Bonds issued to pay costs of construction, and in separate reserve accounts, for each Series of outstanding Project 1 Prior Lien Bonds issued for other purposes, an amount equal to the largest amount of interest on such Bonds during any six-month period from the date of such Bonds to the final maturity date thereof. Energy Northwest is required to maintain the required amount in the reserve accounts by payments from the Project No. 1 Revenue Fund. See "Effect of Amendments Adopted September 14, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)" in this Appendix G-2 for a description of amendments to certain of the provisions described above.

*Project No. 1 Fuel Fund:* Beginning on the Date of Commercial Operation, all payments for fuel for Project 1 will be made from the Project No. 1 Fuel Fund. After the Date of Commercial Operation, after making the required payments, if any, into the Hanford Project Revenue Fund and Project No. 1 Bond Funds and after paying or making provision for payment of the reasonable and necessary costs of operating and maintaining Project 1, including taxes or payments in lieu thereof, Energy Northwest will transfer from the Project No. 1 Revenue Fund to said Fuel Fund the following amounts:

- (i) the amount included in the annual budget for fuel adopted pursuant to the Project 1 Project Agreement,
- (ii) all amounts received by Energy Northwest as fuel credits, including the proceeds of the sale of fuel creditable to operations, and
- (iii) any additional amounts necessary to avoid a deficiency in the Project No. 1 Fuel Fund.

Upon termination of Project 1 in accordance with the Project 1 Project Agreement, the Project 1 Prior Lien Resolution required that the unobligated balance in the Project No. 1 Fuel Fund be transferred into the Project No. 1 Revenue Fund.

*Project No. 1 Reserve and Contingency Fund:* Since September 25, 1980, Energy Northwest has been required to pay monthly out of the Project No. 1 Revenue Fund into the Project No. 1 Reserve and Contingency Fund, after making the required payments, if any, into the Hanford Project Revenue Fund and the Project No. 1 Bond Funds, paying or making provision for payment of the reasonable and necessary costs of operating and maintaining Project 1, including taxes or payments in lieu thereof, and making the required payments in the Project No. 1 Fuel Fund, an amount equal to 10% of the aggregate of the amounts required to be paid during such month into the Interest, Principal and Bond Retirement Accounts in the Project No. 1 Bond Funds.



*Columbia Revenue Fund:* All income, revenues, receipts, and profits derived by Energy Northwest from its ownership and operation of Columbia are to be paid into the Columbia Revenue Fund. Moneys in the Columbia Revenue Fund are to be used for the purpose of making required payments into the Columbia Bond Funds, paying for the costs of operating and maintaining Columbia, making required payments into the Columbia Fuel Fund and the Columbia Reserve and Contingency Fund, paying the costs of repairs, renewals, replacements, additions, betterments and improvements to and extensions of Columbia, and paying all other charges or obligations against the revenues pledged to the Columbia Revenue Fund.

*Columbia Bond Funds:* From the revenues theretofore paid into said Revenue Fund, Energy Northwest is to pay monthly into the Columbia Bond Funds fixed amounts sufficient in the aggregate to pay the principal of and premium, if any, and interest on Columbia Prior Lien Bonds as the same become due and payable.

There is required to be paid into and maintained in the Columbia Reserve Account, for each Series of outstanding Columbia Prior Lien Bonds issued to pay costs of construction, and in separate reserve accounts, for each Series of outstanding Columbia Prior Lien Bonds issued for other purposes, an amount equal to the largest amount of interest on such Bonds during any six-month period from the date of such Bonds to the final maturity date thereof. The reserve account requirement for additional Columbia Prior Lien Bonds shall be deposited from Columbia Prior Lien Bond proceeds or revenues available therefor at the time of issuance of such Bonds. Energy Northwest is required to maintain the required amount in said reserve accounts by payments from the Columbia Revenue Fund. See "Effect of Amendments Adopted September 14, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)" in this Appendix G-2 for a description of amendments to certain of the provisions described above, which amendments will become effective in the future.

*Columbia Fuel Fund:* All payments for fuel for Columbia have been made, since the Date of Commercial Operation of Columbia, and will continue to be made, from the Columbia Fuel Fund. After making the required payments into the Columbia Bond Funds and after paying or making provision for payment of the reasonable and necessary costs of operating and maintaining Columbia, including taxes or payments in lieu thereof, Energy Northwest will transfer from the Columbia Revenue Fund to said Fuel Fund the following amounts:

- (1) the amount included in the annual budget for fuel adopted pursuant to the Columbia Net Billing Agreement,
- (2) all amounts received by Energy Northwest from fuel credits, including the proceeds of the sale of fuel creditable to operations, and
- (3) any additional amounts necessary to avoid a deficiency in said Fuel Fund.

If Columbia is terminated pursuant to the Columbia Project Agreement, the Columbia Prior Lien Resolution requires that the balance in the Columbia Fuel Fund be transferred into the Columbia Revenue Fund.

*Columbia Reserve and Contingency Fund:* Since September 5, 1977, Energy Northwest has been required to pay monthly out of the Columbia Revenue Fund into the Columbia Reserve and Contingency Fund, after making the required payments into the Columbia Bond Funds, paying or making provisions for payment of the reasonable and necessary costs of operating and maintaining Columbia, and making the required payments into the Columbia Fuel Fund, an amount equal to 10% of the aggregate of the amounts required to be paid during such month from said Revenue Fund into the Interest, Principal, and Bond Retirement Accounts in the Columbia Bond Funds.

*Project No. 3 Revenue Fund:* All income, revenues, receipts, and profits derived by Energy Northwest from its ownership and operation of Project 3 are to be paid into the Project No. 3 Revenue Fund. Moneys in the Project No. 3 Revenue Fund are to be used for the purpose of making required payments into the Project No. 3 Bond Funds, paying for Energy Northwest's costs of operating and maintaining Project 3, making required payments into the Project No. 3 Fuel Fund and the Project No. 3 Reserve and Contingency Fund, paying Energy Northwest's costs of repairs, renewals, replacements, additions, betterments and improvements to and extensions of Project 3, and paying all other charges or obligations against the revenues pledged to the Project No. 3 Revenue Fund.

*Project No. 3 Bond Funds:* From the revenues theretofore paid into said Revenue Fund, Energy Northwest is to pay monthly into the Project No. 3 Bond Funds fixed amounts sufficient in the aggregate to pay the principal of and premium, if any, and interest on the Project 3 Prior Lien Bonds as the same become due and payable.

There is required to be paid into and maintained in the Project No. 3 Reserve Account, for each Series of outstanding Project 3 Prior Lien Bonds issued to pay costs of construction, and in separate reserve accounts, for each Series of outstanding Project 3 Prior Lien Bonds issued for other purposes, an amount equal to the largest amount of interest on such Bonds during any six-month period from the date of such Bonds to the final maturity date thereof. Energy Northwest is required to maintain the required amount in the reserve accounts by payments from the Project No. 3 Revenue Fund. See "Effect of Amendments Adopted September 14, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)" in this Appendix G-2 for a description of amendments to certain of the provisions described above.

*Project No. 3 Fuel Fund:* Beginning on the Date of Commercial Operation, all payments for fuel for Project No. 3 will be made from the Project No. 3 Fuel Fund. After the Date of Commercial Operation, after making the required payments into the

Project No. 3 Bond Funds and after paying or making provision for payment of Energy Northwest's reasonable and necessary costs of operating and maintaining Project 3, including taxes or payments in lieu thereof, Energy Northwest will transfer from the Project No. 3 Revenue Fund to said Fuel Fund the following amounts:

- (1) the amount included in the annual budget for fuel adopted pursuant to the Project 3 Project Agreement,
- (2) all amounts received by Energy Northwest from fuel credits, including the proceeds of the sale of fuel creditable to operations, and
- (3) any additional amounts necessary to avoid a deficiency in said Fuel Fund.

Upon termination of Project 3 pursuant to the Project 3 Project Agreement, the Project 3 Prior Lien Resolution required that the unobligated balance in the Project No. 3 Fuel Fund be transferred into the Project No. 3 Revenue Fund.

*Project No. 3 Reserve and Contingency Fund:* Since September 25, 1982, Energy Northwest has been required to pay monthly out of the Project No. 3 Revenue Fund into the Project No. 3 Reserve and Contingency Fund, after making the required payments into the Project No. 3 Bond Funds, paying or making provision for payment of Energy Northwest's reasonable and necessary costs of operating and maintaining Project 3, and making the required payments into the Project No. 3 Fuel Fund, an amount equal to 10% of the aggregate of the amounts required to be paid during such month from said Revenue Fund into the Interest, Principal and Bond Retirement Accounts in the Project No. 3 Bond Funds.

Moneys in each Net Billed Project's Reserve and Contingency Fund are required to be used to make up deficiencies in the respective Project's Bond Funds for which funds are not available in the respective Project's Construction Fund or Reserve Accounts. To the extent not required for any such deficiency, moneys in each Project's Reserve and Contingency Fund may be used after the respective Date of Commercial Operation for any one or more of the following purposes:

- (i) To pay the cost of renewals, replacements and normal additions to and extensions of such Net Billed Project; and
- (ii) To pay extraordinary operation and maintenance costs, including extraordinary costs of fuel and the cost of preventing or correcting any unusual loss or damage (including major repairs) to such Project.

*Investment of Funds:* The term "Investment Securities", as defined in the Project 1 Prior Lien Resolution, the Columbia Prior Lien Resolution and the Project 3 Prior Lien Resolution, means (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America; (ii) general obligation bonds of any state of the United States rated by a nationally recognized bond rating agency in either of the two highest rating categories assigned by such rating agency; (iii) bonds, debentures, notes or participation certificates issued by the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks or the Federal National Mortgage Association or of any agency of or corporation wholly owned by the United States of America; (iv) in the case of the Project 1 Prior Lien Resolution and the Columbia Prior Lien Resolution, Public Housing Bonds or Project Notes issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions to be paid by the United States of America or any agency thereof and, in the case of the Project 3 Prior Lien Resolution, New Housing Authority Bonds or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions to be paid by the United States of America or any agency thereof; (v) bank time deposits evidenced by certificates of deposit, and, in the case of the Project 1 Prior Lien Resolution and the Project 3 Prior Lien Resolution, by bankers' acceptances, in each case, issued by any bank, trust company or national banking association authorized to do business in the State of Washington, which is a member of the Federal Reserve System, provided that the aggregate of such bank time deposits and, in the case of the Project 1 or Project 3 Prior Lien Resolution, bankers' acceptances issued by any bank, trust company or banking association do not exceed at any time, in the case of the Project 1 Prior Lien Resolution and the Project 3 Prior Lien Resolution, fifty per centum (50%) of the aggregate of the capital stock, surplus and undivided profits of such bank, trust company or banking association and, in the case of the Columbia Prior Lien Resolution, twenty-five per centum (25%) of the total of the capital stock and surplus of such bank, trust company or banking association; (vi) in the case of the Project 1 Prior Lien Resolution and the Project 3 Prior Lien Resolution, bank time deposits evidenced by certificates of deposit, and bankers' acceptances, issued by any bank, trust company or national banking association authorized to do business in any state of the United States of America other than the State of Washington, which is a member of the Federal Reserve System, provided that the aggregate of such bank time deposits and bankers' acceptances issued by any bank, trust company or banking association do not exceed at any one time twenty-five per centum (25%) of the aggregate of the capital stock, surplus and undivided profits of such bank, trust company or banking association and provided further that such capital stock, surplus and undivided profits shall not be less than Fifty Million Dollars (\$50,000,000); and (vii) in the case of the Project 1 Prior Lien Resolution, evidences of indebtedness issued by any corporation organized and existing under the laws of any state of the United States of America rated by any nationally recognized bond rating agency in either of the two highest rating categories assigned by such rating agency.

Moneys in the Project No. 1 Revenue Fund not required for immediate disbursement are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable at or prior to the estimated time for disbursement of

such moneys. Moneys in the Project No. 1 Interest Accounts, Principal Accounts and Bond Retirement Accounts are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable on or before the respective dates when such moneys will be required for the purposes intended. Except as otherwise described below, moneys in the Project No. 1 Reserve Accounts not required for immediate disbursement are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable within seven years from the date of investment (but maturing prior to the final maturity date of the Project 1 Prior Lien Bonds). Moneys in the Project No. 1 Fuel Fund and Reserve and Contingency Fund not required for immediate disbursement are to be invested in Investment Securities maturing or redeemable within seven years from the date of investment (but maturing prior to the final maturity date of the Project 1 Prior Lien Bonds). Moneys in the Project No. 1 Construction Fund are to be invested by the Project No. 1 Construction Fund Trustee in Investment Securities maturing or redeemable within five years of the date of investment.

Moneys in the Columbia Revenue Fund not required for immediate disbursement are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable at or prior to the estimated time for the disbursement of such moneys. Moneys in the Columbia Interest Accounts, Principal Accounts and Bond Retirement Accounts are to be invested in Investment Securities described in clauses (i) through (iv) above maturing on or before the respective dates when such moneys will be required for the purposes intended. Except as otherwise described below, moneys in the Columbia Reserve Accounts not required for immediate disbursement are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable within seven years from the date of investment (but maturing prior to the final maturity date of the Columbia Prior Lien Bonds). Moneys in the Columbia Fuel Fund and Reserve and Contingency Fund not required for immediate disbursement are to be invested in Investment Securities maturing or redeemable within two years from the date of investment with respect to the Fuel Fund and within seven years from the date of investment with respect to the Reserve and Contingency Fund (but in each case maturing prior to the final maturity date of the Columbia Prior Lien Bonds).

Moneys in the Project No. 3 Revenue Fund not required for immediate disbursement are to be invested in Investment Securities maturing or redeemable at or prior to the estimated time for the disbursement of such moneys. Moneys in the Project No. 3 Interest Accounts, Principal Accounts and Bond Retirement Accounts are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable on or before the respective dates when such moneys will be required for the purposes intended. Except as otherwise described below, moneys in the Project No. 3 Reserve Accounts not required for immediate disbursement are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable within seven years from the date of investment (but maturing prior to the final maturity date of the Project 3 Prior Lien Bonds). Moneys in the Project No. 3 Fuel Fund and Reserve and Contingency Fund not required for immediate disbursement are to be invested in Investment Securities maturing or redeemable within seven years from the date of investment (but maturing prior to the final maturity date of the Project 3 Prior Lien Bonds). Moneys in the Project No. 3 Construction Fund are to be invested in Investment Securities maturing or redeemable within seven years of the date of investment.

In the case of certain Refunding Bonds, the supplemental resolutions authorizing such Refunding Bonds provide that moneys on deposit in the related Project's reserve account in the bond fund established for such Refunding Bonds and not required for immediate disbursement are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable at the option of the holder thereof on or prior to the final maturity date of such Refunding Bonds.

*Excess Moneys:* Moneys and the value of Investment Securities in each Project's Reserve and Contingency Fund in excess of \$3,000,000 plus the commitments or obligations incurred by, or the requirements of Energy Northwest for, any of the purposes for which such Reserve and Contingency Funds may be used constitute "excess moneys" in respect of such Fund; and moneys and the value of Investment Securities described in clauses (i) through (iv) in this Appendix G-2 under "Investment of Funds" in each Project's Reserve Accounts in excess of the amounts required to be maintained in said Reserve Accounts constitute "excess moneys" in respect of such Accounts.

If as of any June 30, excess moneys exist in the Reserve and Contingency Fund for any Net Billed Project, such moneys shall be paid proportionately into such Project's Reserve Accounts, to the extent of any deficiency therein, and the balance of such excess moneys shall be paid into such Project's Revenue Fund.

If as of any June 30, excess moneys exist in the Reserve Account in the Bond Fund for any Net Billed Project, such moneys shall be paid proportionately into such Project's other reserve accounts in the separate bond funds, to the extent of any deficiency therein, and the balance of such excess moneys shall be paid into such Project's Revenue Fund.

If as of June 30, there shall exist in any Net Billed Project's Revenue Fund, after giving effect to any transfer of excess moneys from such Project's Reserve Account and Reserve and Contingency Fund to such Fund, an amount which exceeds Energy Northwest's required amount of working capital for such Project, the amount of such excess is to be applied to reduce annual power costs under the related Net Billing Agreements. The "required amount of working capital" shall be \$3,000,000 or, in the case of the Project 1 and 3 Prior Lien Resolutions, such greater amount, and, in the case of the Columbia Prior Lien Resolution, such lesser amount (but not less than \$2,000,000) or such greater amount, as may be decided upon by Energy Northwest and Bonneville with the approval of the Consulting Engineer. In addition, if Energy Northwest and Bonneville agree, all or any part of such excess over required working capital for a Net Billed Project may be applied to the making of repairs, renewals, replacements, additions, betterments and improvements to, and extensions of, such Project, the purchase or redemption of Bonds for such Project or for other purposes in connection with such Project.

## Certain Covenants

Certain covenants of Energy Northwest with the holders of the Prior Lien Bonds are summarized as follows:

*The Hanford Project:* Under the Project 1 Prior Lien Resolution, Energy Northwest covenants that it (a) will not issue any evidences of indebtedness under Resolution No. 178 so long as the obligations of said resolution are satisfied under the Project 1 Prior Lien Resolution, (b) will discharge all of its duties and obligations under Resolution No. 178, (c) will make all payments and deposits to be made under the provisions of Resolution No. 178 from moneys to be provided pursuant to the Project 1 Prior Lien Resolution if and to the extent such obligations are not otherwise provided for, (d) will, on each December 31, apply any excess of amounts in the Hanford Project Revenue Fund over the required amount of working capital to reduce the amounts required by the Project 1 Prior Lien Resolution to be deposited in the Hanford Project Revenue Fund, and (e) will not amend Resolution No. 178 in any manner which adversely affects the rights of Bondholders under the Project 1 Prior Lien Resolution.

*The Net Billed Projects:* Energy Northwest covenants that it will, subject to the Project Agreements for each of the Net Billed Projects, complete construction of the Net Billed Projects at the earliest practicable time, operate such Projects and the business in connection therewith in an efficient manner and at reasonable cost, maintain such Projects in good condition and make all necessary and proper repairs, renewals, replacements, additions, extensions and betterments to such Projects.

*Rates:* Energy Northwest covenants that it will dispose of all capability of and power and energy from Project 1 solely for the benefit and account of such Project and pursuant to the provisions of the Project 1 Net Billing Agreements; and Energy Northwest covenants that it will maintain and collect rates and charges for capability, power and energy and other services, facilities and commodities sold, furnished or supplied through such Project, which will be adequate, whether or not the generation or transmission of power by such Project is suspended, interrupted or reduced for any reason whatever, to provide revenues sufficient, among other things, (i) to make the required payments into the Hanford Project Revenue Fund, (ii) to pay the expenses of operating and maintaining Project 1, (iii) to make the required payments into the Project No. 1 Bond Funds and (iv) to make the required payments into the Project No. 1 Fuel Fund and Project No. 1 Reserve and Contingency Fund.

Energy Northwest covenants that it will dispose of all capability of and power and energy from Columbia solely for the benefit and account of such Project and pursuant to the provisions of the Columbia Net Billing Agreements; and Energy Northwest covenants that it will maintain and collect rates and charges for power and energy, including capability, and other services, facilities, and commodities sold, furnished, or supplied through such Project, which will be adequate, whether or not the generation or transmission of power by the Project is suspended, interrupted, or reduced for any reason whatever, to provide revenues sufficient, among other things, (i) to pay the expenses of operating and maintaining such Project, (ii) to make the required payments into the Columbia Bond Funds, and (iii) to make the required payments into the Columbia Fuel Fund and the Columbia Reserve and Contingency Fund.

Energy Northwest covenants that it will dispose of all capability of and power and energy from Project 3 solely for the benefit and account of such Project and pursuant to the provisions of the Project 3 Net Billing Agreements and the Project 3 Power Sales Agreement; and Energy Northwest covenants that it will maintain and collect rates and charges for power and energy, including capability, and other services, facilities and commodities sold, furnished or supplied by such Project, which will be adequate, whether or not the generation or transmission of power by the Project is suspended, interrupted or reduced for any reason whatever, to provide revenues sufficient, among other things, (i) to pay Energy Northwest's expenses of operating and maintaining such Project, (ii) to make the required payments into the Project No. 3 Bond Funds, and (iii) to make the required payments into the Project No. 3 Fuel Fund and Project No. 3 Reserve and Contingency Fund.

*Net Billing Agreements and Project Agreements:* Energy Northwest covenants that it will not voluntarily consent to any amendment or permit any rescission of or take any action under or in connection with any of the Project Agreements or the Net Billing Agreements which will in any manner impair or adversely affect the rights of Energy Northwest or any of its Bondholders, or take any action under or in connection with the Net Billing Agreements which will reduce the payments provided for therein.

*Disposition of Properties:* Energy Northwest covenants that it will not sell, mortgage, lease or otherwise dispose of any properties of Project 1 except that (a) Energy Northwest may sell, lease or otherwise dispose of such properties if simultaneous provision is made for the payment of cash into the Hanford Project Revenue Fund and the Project No. 1 Bond Funds sufficient to retire all of the Project 1 Prior Lien Bonds and the Hanford Project Bonds and to pay interest accrued thereon or (b) Energy Northwest may sell, lease or otherwise dispose of any portion of the works, plants, and facilities of Project 1 and any real or personal property comprising a part thereof which is unserviceable, inadequate, obsolete or no longer required for use in connection with the operation of Project 1, in which case \$100,000 of the moneys received therefor is to be transferred to the Project No. 1 Reserve and Contingency Fund and the balance is to be paid proportionately into the Project No. 1 Bond Retirement Accounts unless such disposition is in connection with the replacement of such properties or the disposition of fuel, in which case all moneys received from such disposition are to be transferred to the Project No. 1 Reserve and Contingency Fund or the Project No. 1 Fuel Fund, respectively, or (c) in the event that the ownership of such properties in whole or in part is transferred by operation of law, moneys received therefor are to be paid proportionately into the Project No. 1 Bond Retirement Accounts.

Energy Northwest covenants that it will not sell, mortgage, lease or otherwise dispose of any properties of Columbia except that (a) Energy Northwest may sell, lease or otherwise dispose of such properties if simultaneous provision is made for the payment of cash into the Columbia Bond Funds sufficient to retire all of the Columbia Prior Lien Bonds and to pay interest accrued thereon or (b) Energy Northwest may sell, lease or otherwise dispose of any portion of the works, plants, and facilities of Columbia and any real or personal property comprising a part thereof which is unserviceable, inadequate, obsolete or no longer required for use in connection with the operation of Columbia, in which case \$50,000 of the moneys received therefor is to be transferred to the Columbia Reserve and Contingency Fund and the balance is to be paid proportionately into the Columbia Bond Retirement Accounts unless such disposition is in connection with the replacement of such properties or the disposition of fuel, in which case all moneys received from such disposition are to be transferred to the Columbia Reserve and Contingency Fund or the Columbia Fuel Fund, respectively, or (c) in the event that the ownership of such properties in whole or in part is transferred by operation of law, moneys received therefor are to be paid proportionately into the Columbia Bond Retirement Accounts.

Energy Northwest covenants that it will not sell, mortgage, lease or otherwise dispose of any properties of Project 3 except that (a) Energy Northwest may sell, lease or otherwise dispose of such properties if simultaneous provision is made for the payment of cash into the Project No. 3 Bond Funds sufficient to retire all of the Project 3 Prior Lien Bonds and to pay interest accrued thereon or (b) Energy Northwest may sell, lease or otherwise dispose of any portion of the works, plants, and facilities of Project 3 and any real and personal property comprising a part thereof which is unserviceable, inadequate, obsolete or no longer required for use in connection with the operation of Project 3, in which case \$100,000 of the moneys received therefor is to be transferred to the Project No. 3 Reserve and Contingency Fund and the balance is to be paid proportionately into the Project No. 3 Bond Retirement Accounts, unless such disposition is in connection with the replacement of such properties or the disposition of fuel, in which case all moneys received from such disposition are to be transferred to the Project No. 3 Reserve and Contingency Fund or the Project No. 3 Fuel Fund, respectively, or (c) in the event that the ownership of such properties in whole or in part is transferred by operation of law, moneys received therefor are to be paid proportionately into the Project No. 3 Bond Retirement Accounts.

In the case of Project 1 and Project 3, notwithstanding the provisions of clauses (b) and (c) above with respect to each Net Billed Project, moneys received by Energy Northwest prior to the Date of Commercial Operation for a Net Billed Project as a result of any sale, lease, transfer or other disposition specified therein shall be transferred to such Project's Construction Fund.

See "Effect of Amendments Adopted September 14, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)" in this Appendix G-2 for a description of covenants relating to the disposition of properties of a Net Billed Project following termination of such Project.

Energy Northwest covenants that it will keep Project 1, Columbia and Project 3 insured, to the extent such insurance is available at reasonable cost, against risks of direct physical loss or damage to or destruction of each such Project, at least to the extent that similar insurance is usually carried by electric utilities operating like properties, and against accidents, casualties, or negligence, including liability insurance and employer's liability, in the case of Project 1 and Project 3, at least to the extent that similar insurance is usually carried by electric utilities operating like properties.

In the event that any loss or damage to the properties of any Net Billed Project occurs during the period of construction of such Project, Energy Northwest is to transfer the insurance proceeds, if any, in respect of such loss or damage to such Project's Construction Fund; any insurance proceeds received by Energy Northwest in respect of such loss or damage occurring thereafter are to be transferred into such Project's Reserve and Contingency Fund, or, in the case of insurance covering loss or damage to fuel, to such Project's Fuel Fund.

*Books of Account:* Energy Northwest covenants that it will keep proper books of account, showing Project 1, Columbia and Project 3 as separate utility systems in accordance with the rules and regulations of the Division of Municipal Corporations of the State Auditor's office of the State of Washington and in accordance with the Uniform System of Accounts prescribed by the Federal Power Commission. Such books of account are to be audited annually by a firm of independent certified public accountants of national reputation. Bondholders may obtain copies of the annual financial statements showing the financial condition of the Project and the annual audit report by sending a written request therefor to Energy Northwest.

*Consulting Engineer:* Energy Northwest will retain a nationally recognized independent consulting engineer or engineering firm to render continuous engineering counsel in the operation of each Net Billed Project. In addition to his other duties, the Consulting Engineer shall prepare, not later than 18 months after the respective Date of Commercial Operation of each Net Billed Project, and each three years thereafter, a report for each such Project based upon a survey of such Project and the operation and maintenance thereof. Each report is to show, among other things, whether Energy Northwest has satisfactorily performed and complied with certain covenants in the related Prior Lien Resolution. The Consulting Engineer is also required to report to the respective Bond Fund Trustee and Energy Northwest upon the economic soundness and feasibility of all contemplated renewals, replacements, additions, betterments and improvements to, and extensions of, Project 1, Columbia and Project 3 involving an expenditure of, in the case of Projects 1 and 3, \$500,000 or more, and, in the case of Columbia, \$100,000 or more. The Consulting Engineer is also required to file annually a certificate with each Bond Fund Trustee describing the insurance then in effect for the respective Project and stating whether or not such insurance complies with the requirements of the related Prior Lien Resolution. In the event of any loss or damage, in the case of Projects 1 and 3, in excess of \$500,000, and, in the case of Columbia, in excess of \$100,000, whether or not covered by insurance, the Consulting Engineer is to ascertain the

amount of such loss or damage and deliver to Energy Northwest a certificate setting forth the amount and nature of such loss or damage, together with recommendations as to whether or not such loss or damage should be replaced or repaid. Copies of any such triennial report, annual certificate as to insurance or certificate in respect of any such loss or damage will be sent to Bondholders filing with Energy Northwest written requests therefor.

#### **Events of Default; Remedies**

Under each Prior Lien Resolution, the happening of one or more of the following events constitutes an Event of Default: (i) default in the performance of any obligation with respect to payments into the respective Revenue Fund; (ii) default in the payment of the principal of and premium, if any, or default for 30 days in the payment of interest on any of the respective Prior Lien Bonds or any sinking fund installment on any Project 1 or Columbia Prior Lien Bonds; (iii) default for 90 days in the observance and performance of any other of the covenants, conditions and agreements of Energy Northwest in the respective Prior Lien Resolution; (iv) the sale or conveyance of any properties of the respective Net Billed Project except as permitted by the respective Net Billed Resolution or the voluntary forfeiture of any license, franchise, permit or other privilege necessary or desirable in the operation of such Project; (v) the entering by any court of competent jurisdiction of an order, judgment or decree (a) appointing a receiver, trustee or liquidator for Energy Northwest or the whole or any substantial part of the respective Net Billed Project, (b) approving a petition filed against Energy Northwest under Federal bankruptcy laws, or (c) assuming custody or control of Energy Northwest or of the whole or any substantial part of the respective Net Billed Project under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated), within 60 days from the date of the entry of such order, judgment or decree; or (vi) Energy Northwest (a) admits in writing its inability to pay its debts incurred in the ownership and operation of the respective Net Billed Project generally as they become due, (b) files a petition in bankruptcy or seeking a composition of indebtedness, (c) consents to the appointment of a receiver of its creditors, (d) consents to the appointment of a receiver of the whole or any substantial part of the respective Net Billed Project, (e) files a petition or an answer seeking relief under Federal bankruptcy laws, or (f) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of Energy Northwest or of the whole or any substantial part of the respective Net Billed Project.

If an Event of Default shall have occurred and shall not have been remedied, the respective Bond Fund Trustee or the holders of not less than 20% in principal amount of the respective Prior Lien Bonds then outstanding under the related Prior Lien Resolution, may declare the principal of all such Bonds and the interest accrued thereon to be immediately due and payable, but such declaration may be annulled under certain circumstances.

As described in this Appendix G-2 under "Effect of Amendments Adopted September 14, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)," the 1989A Supplemental Resolutions and Columbia 1990A Supplemental Resolution amend the Prior Lien Resolutions to provide that the applicable Bond Fund Trustee or the holders of not less than 20% in principal amount of Project 1 Prior Lien Bonds, Columbia Prior Lien Bonds or Project 3 Prior Lien Bonds (as the case may be) shall have the right to declare the Project 1 Prior Lien Bonds, Columbia Prior Lien Bonds or Project 3 Prior Lien Bonds immediately due and payable only upon the occurrence and continuance of an Event of Default described in clauses (i), (ii), (v), or (vi) in the second preceding paragraph. Such amendments became effective in the case of the Project 1 and Project 3 Prior Lien Resolutions when the Project 1 and Project 3 Prior Lien Bonds issued prior to the adoption of the 1989A Supplemental Resolutions ceased to be outstanding and may become effective in the future in the case of the Columbia Prior Lien Resolution, as described under "Effect of Amendments Adopted September 14, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)."

After the occurrence of an Event of Default and prior to the curing of such Event of Default, the Bond Fund Trustee of the Net Billed Project in default may, to the extent permitted by law, take possession and control of such Net Billed Project and operate and maintain the same, prescribe rates for capability or power sold or supplied through the facilities of such Project, collect the gross revenues resulting from such operation and perform all of the agreements and covenants contained in any contract which Energy Northwest is then obligated to perform. Such gross revenues, after payment of reasonable and proper charges, expenses and liabilities paid or incurred by the Bond Fund Trustee and operating expenses of the related Net Billed Project, and, in the case of Project 1, after additional payment of the amounts required by the Project 1 Prior Lien Resolution to be paid into the Hanford Project Revenue Fund, shall be applied to the payment of principal of and interest on the defaulting Net Billed Project's Bonds. Each Prior Lien Resolution provides that, in the event that at any time the funds held by the applicable Bond Fund Trustee and the Paying Agents for Prior Lien Bonds in default shall be insufficient for the payment of the principal of and premium, if any, and interest then due on such Prior Lien Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and all revenues and other moneys received or collected for the benefit or for the account of holders of such Bonds by the applicable Bond Fund Trustee shall be applied as follows:

- (1) Unless the principal of all such Bonds shall have become or have been declared due and payable,

*First*, to the payment of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon; and

*Second*, to the payment of the unpaid principal and premium, if any, of any such Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available shall not be sufficient to pay in full all amounts due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date.

(2) If the principal of all of such Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts of principal and interest due.

After all sums then due in respect of such Bonds have been paid, and after all Events of Default have been cured or secured to the satisfaction of the defaulting Net Billed Project's Bond Fund Trustee, such Bond Fund Trustee is required to relinquish possession and control of such Net Billed Project to Energy Northwest.

The Prior Lien Resolutions empower each Bond Fund Trustee to file proofs of claims for the benefit of the holders of the defaulting Net Billed Project's Bonds in bankruptcy, insolvency or reorganization proceedings and to institute suit for the collection of sums due and unpaid in connection with such Bonds, to enforce specific performance of covenants contained in the Prior Lien Resolution governing the Net Billed Project in default or to obtain injunctive or other appropriate relief for the protection of the holders of such Net Billed Bonds.

The holders of a majority in principal amount of the defaulting Net Billed Project's Prior Lien Bonds at the time outstanding have the right to direct the time, method and place of conducting any proceeding for any remedy available to the defaulting Net Billed Project's Bond Fund Trustee, or exercising any trust or power conferred upon such Bond Fund Trustee, but such Bond Fund Trustee must be provided with reasonable security and indemnity and also may decline to follow any such direction if it shall be advised by counsel that the action or proceeding so directed may not lawfully be taken or if it in good faith determines that the action or proceeding so directed would involve it in personal liability or that the action or proceeding so directed would be unjustly prejudicial to the holders of such Bonds not parties to such direction. No holder of any Prior Lien Bond has any right to institute suit to enforce any provision of the respective Prior Lien Resolution or the execution of any trust thereunder (except to enforce the payment of principal or interest installments as they mature), unless the respective Bond Fund Trustee has been requested by the holders of not less than 20% in aggregate principal amount of such Bonds then outstanding to exercise the powers granted it by such Resolution or to institute such suit and unless such Bond Fund Trustee has failed or refused to comply with the aforesaid request.

#### **Amendments; Supplemental Resolutions**

Any amendment to a Prior Lien Resolution in any particular, except the percentage of Bondholders the approval of which is required to approve such amendment, may be made by Energy Northwest with the consent of the holders of 66<sup>2</sup>/<sub>3</sub>% in principal amount of the Prior Lien Bonds issued pursuant to such Resolution then outstanding and with the consent of the holders of 66<sup>2</sup>/<sub>3</sub>% in principal amount of such outstanding Bonds which are adversely affected by an amendment which does not equally affect all other such outstanding Bonds, provided that no such amendment shall permit a change in the date of payment of principal of or any installment of interest on any such Bond or a reduction in the principal or redemption price thereof or the rate of interest thereon without the consent of each such Bondholder so affected.

Without the consent of any Bondholder, Energy Northwest may adopt supplemental resolutions: (i) to authorize the issuance of subsequent Series of Project 1, Columbia or Project 3 Prior Lien Bonds; (ii) to add to the covenants of Energy Northwest contained in, or to surrender any rights reserved to or conferred upon it by, a Prior Lien Resolution; (iii) to add to the restrictions contained in a Prior Lien Resolution upon the issuance of additional indebtedness; (iv) to confirm as further assurance any pledge under a Prior Lien Resolution of the revenues of the respective Net Billed Project or other moneys; (v) otherwise to modify any of the provisions of a Prior Lien Resolution (but no such modification may be effective while any of the Prior Lien Bonds theretofore issued pursuant to such Resolution are outstanding); or (vi) to cure any ambiguity or defect or inconsistent provision in such Resolution or to insert such provisions clarifying matters or questions arising under such Resolution as necessary or desirable in the event any such modifications are not contrary to or inconsistent with such Resolution or, in the case of the Project 3 Prior Lien Resolution, not adverse to the rights and interests of the holders of the Project 3 Prior Lien Bonds, provided that the appropriate Bond Fund Trustee shall consent thereto.

As described in this Appendix G-2 under "Effect of Amendments Adopted September 14, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)," the Project 1 1989A Supplemental Resolution, Columbia 1990A Supplemental Resolution and Project 3 1989A Supplemental Resolution amend the Project 1 Prior Lien Resolution, Columbia Prior Lien Resolution and Project 3 Prior Lien Resolution, respectively, to permit the adoption of supplemental resolutions for purposes described in clause (vi) of the preceding paragraph if such modifications are not adverse to the rights and interests of the holders of the Project 1 Prior Lien Bonds, Columbia Prior Lien Bonds or Project 3 Prior Lien Bonds, as the case may be. Such amendments became effective in the case of the Project 1 and Project 3 Prior Lien Resolutions when the Project 1 and Project 3 Prior Lien Bonds issued prior to the adoption of the 1989A Supplemental Resolutions ceased to be outstanding and may become effective in the future in the case of the Columbia Prior Lien Resolution, as described under "Amendments Adopted September 14, 1989 and March 15, 1990 (Project 1, Columbia and Project 3)."

### **Defeasance**

The obligations of Energy Northwest under a Prior Lien Resolution shall be fully discharged and satisfied as to any related Prior Lien Bond, and such Bond shall no longer be deemed to be outstanding thereunder when payment of the principal of and the applicable redemption premium, if any, on such Bond plus interest to the due date thereof (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with the Bond Fund Trustee or the Paying Agents therefor in trust solely for such payment (i) moneys sufficient to make such payments or (ii) Investment Securities described in clauses (i) through (iv) under "Investment of Funds" in this Appendix G-2 maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, and, except for the purposes of such payment, such Bond shall no longer be secured by or entitled to the benefits of such Prior Lien Resolution; provided that, with respect to Prior Lien Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof but are not then redeemable, no deposit under (b) above shall constitute such discharge and satisfaction unless such Bonds shall have been irrevocably called or designated for redemption on the first date thereafter such Bonds may be redeemed in accordance with the provisions thereof and notice of such redemption shall have been given or irrevocable provision shall have been made for the giving of such notice.



**BOOK-ENTRY ONLY SYSTEM**

The Series 2001-A Bonds will be available to the ultimate purchasers in book-entry form only, in denominations of \$5,000 and integral multiples thereof. Purchasers of the Series 2001-A Bonds will not receive certificates representing their interests in the Series 2001-A Bonds purchased, except as described below.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2001-A Bonds. The 2001-A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2001-A Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of 2001-A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2001-A Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2001-A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2001-A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2001-A Bonds, except in the event that use of the book-entry system for the 2001-A Bonds is discontinued.

To facilitate subsequent transfers, all 2001-A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2001-A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2001-A Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2001-A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2001-A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2001-A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. Beneficial Owners of 2001-A Bonds may wish to ascertain that the nominee holding the 2001-A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2001-A Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2001-A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2001-A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2001-A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2001-A Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, 2001-A Bond certificates are required to be printed and delivered.

Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2001-A Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

## SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT

## APPENDIX I

In order to assist the Underwriters in complying with Rule 15c2-12, Energy Northwest, Bonneville and the Trustee will enter into a written agreement (the "Agreement") for the benefit of the holders of the Series 2001-A Bonds to provide continuing disclosure.

In addition to the definitions set forth in the Net Billed Resolutions which apply to any capitalized term used in the Agreement, the following capitalized terms shall have the following meanings:

"BPA Annual Information" shall mean financial information and operating data of the type included in the final Official Statement for the Bonds in the following tables under the heading "THE BONNEVILLE POWER ADMINISTRATION": "Federal System Statement of Revenues and Expenses," "Statement of Non-Federal Project Debt Service Coverage and United States Treasury Payments" (under the "Actual" columns only) and "Statement of Net Billing Obligations and Expenditures" (under the "Actual" columns only) (provided that such financial information and operating data shall include such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial information and operating data and in judging the financial condition of Bonneville).

"Energy Northwest Annual Information" shall mean financial information and operating data of the type included in the final Official Statement for the Bonds in the following tables under the heading "ENERGY NORTHWEST": "Energy Northwest Construction and Refunding Bonds Outstanding as of December 1, 1997" under the subheading "— Energy Northwest Bonds"; "Regional Requirements" under the subheading "— Columbia-Regional Presentation of Columbia Regional Requirements"; "Columbia Operating Performance" under the subheading "— Columbia-Operating Performance"; and "Annual Costs" under the subheading "— Columbia-Annual Costs" (provided that such financial information and operating data shall include such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial information and operating data and in judging the financial condition of Energy Northwest).

"Energy Northwest Fiscal Year" shall mean the fiscal year ending each June 30 or, if such fiscal year end is changed, on such new date; provided that if the Energy Northwest Fiscal Year End is changed, Energy Northwest shall notify, in a timely manner, the Repository or the MSRB and the State Depository.

"FCRPS" shall mean the Federal Columbia River Power System.

"FCRPS Fiscal Year" shall mean the fiscal year ending each September 30 or, if such fiscal year end is changed, on such new date; provided that if the FCRPS Fiscal Year is changed, Bonneville shall notify, in a timely manner, the Repository or the MSRB and the State Depository.

"MSRB" shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

"Repository" shall mean each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12. The name and address of each Repository shall be set forth in a list to be on file at the offices of Energy Northwest and Bonneville.

"Rule 15c2-12" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934, as amended through the date of this Agreement, including any official interpretations thereof promulgated on or prior to the effective date of this Agreement.

"State Depository" shall mean any public or private repository or entity designated by the State of Washington as the state repository for the purpose of Rule 15c2-12 and recognized as such by the Securities and Exchange Commission.

"Trustees" shall mean (i) First Trust of New York, National Association, as trustee for the Project 1 2001-A Bonds and (ii) First Trust, National Association, as trustee for the Columbia 2001-A and Project 3 2001-A Bonds.

"Underwriters" shall mean the underwriter or underwriters that have contracted to purchase the Bonds from Energy Northwest upon initial issuance.

Bonneville will undertake for the benefit of the holders of the Series 2001-A Bonds to provide each Repository, on an annual basis no later than 180 days after the end of each FCRPS Fiscal Year, commencing the fiscal year ending September 30, 2001, the BPA Annual Information. Bonneville will undertake to provide each Repository audited financial statements of the FCRPS no later than 180 days after the end of each FCRPS Fiscal Year.

Energy Northwest will undertake for the benefit of the holders of the Series 2001-A Bonds to provide each Repository, on an annual basis no later than 180 days after the end of each Energy Northwest Fiscal Year, commencing the fiscal year ending June 30, 2001, Energy Northwest Annual Information. Energy Northwest will undertake to provide each Repository with Energy Northwest's audited financial statements no later than 180 days after the end of each Energy Northwest Fiscal Year. In addition, Energy Northwest will undertake, for the benefit of the holders of the Series 2001-A Bonds, to provide to each such Repository or to the Municipal Securities Rulemaking Board ("MSRB"), and to State Information Depository, in a timely manner, the notices described below.

The notices described above include notices of any of the following events with respect to the Series 2001-A Bonds, if material: (1) principal and interest payment delinquencies; (2) nonpayment related defaults; (3) unscheduled draws on debt service

reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2001-A Bonds; (7) modifications to the rights of holders of the Series 2001-A Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2001-A Bonds; and (11) rating changes. In addition, Energy Northwest will undertake, for the benefit of the holders of the Series 2001-A Bonds, to provide to each Repository or the MSRB and to State Information Depository, in a timely manner, notice of any failure by Bonneville to provide the BPA Annual Information and annual financial statements, of the FCRPS by the date required in Bonneville's undertaking described above and notice of any failure by Energy Northwest to provide Energy Northwest Annual Information and annual financial statements of Energy Northwest by the date required in Energy Northwest's undertaking described above.

The sole and exclusive remedy for breach or default by Energy Northwest under the Agreement is an action to compel specific performance of the undertakings of Energy Northwest, and no person, including the holders of the Series 2001-A Bonds, may recover monetary damages thereunder under any circumstances. Specific performance is not available as a remedy against Bonneville. A Bondholder will have any rights available to him or her under law with respect to remedies against Bonneville. A breach or default under the Agreement shall not constitute an Event of Default under the Net Billed Resolutions or the Supplemental Resolution relating to the Series 2001-A Bonds. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the provision of such information, shall no longer be required to be provided.

The Agreement shall be governed by the laws of the State of Washington with respect to Energy Northwest and by federal law with respect to Bonneville.

The foregoing summary is intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where the Agreement calls for information that no longer can be generated or is no longer relevant because the operations to which it is related have been materially changed or discontinued, a statement to that effect will be provided. As a result, the parties to the Agreement do not anticipate that it often will be necessary to amend the informational undertakings. The Agreement, however, may be amended or modified under certain circumstances set forth therein. Copies of the Agreement when executed by the parties thereto at the Closing will be on file at the offices of Energy Northwest.



**FINANCIAL  
SECURITY  
ASSURANCE®**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER:

Policy No.:

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)







DO NOT STAPLE THIS FORM

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MSRB

FORM G-36 (OS) - FOR OFFICIAL STATEMENTS

SECTION I - MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1.[X] A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: 03-19-2001

(b) DATE SENT TO MSRB: 03-19-2001

2.[ ] AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: \_\_\_\_\_

(b) DATE SENT TO MSRB: \_\_\_\_\_

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: [ ]

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original form G-36 (OS)): [ ]

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately.

If more space is needed to list additional issues, please include on a separate sheet and check here: [ ]

NAME OF ENERGY NORTHWEST SERIES 2001-A

ISSUER

STATE: WA

DESCRIPTION PROJECT NO. 1 ELECTRIC REVENUE REFUNDING BONDS

DATED

OF ISSUE

DATE: 03/22/2001

NAME OF ENERGY NORTHWEST SERIES 2001-A

ISSUER

STATE: WA

DESCRIPTION COLUMBIA GENERATING STATION ELECTRIC REFUNDING REVENUE BONDS

DATED

OF ISSUE

DATE: 03/22/2001

NAME OF ENERGY NORTHWEST SERIES 2001-A

ISSUER

STATE: WA

DESCRIPTION PROJECT NO. 3 ELECTRIC REFUNDING REVENUE BONDS

DATED

OF ISSUE

DATE: 03/22/2001

SECTION III - TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 07/01/2018

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 03/09/2001

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 03/22/2001

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: [X]

A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITER ASSESSMENT INFORMATION

The information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING

SEC REG.

UNDERWRITER Goldman, Sachs & Co.

NUMBER: 8-00129

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$ 500,125,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): \$

C. CHECK ALL THAT APPLY

1.[ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

2.[ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

3.[ ] This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF THE ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
07/01/2001A	29270CAA3	07/01/2002A	29270CAB1	07/01/2003A	29270CAC9
07/01/2004A	29270CAD7	07/01/2007A	29270CAE5	07/01/2010A	29270CAF2
07/01/2011A	29270CAG0	07/01/2012A	29270CAH8	07/01/2013A	29270CAJ4
07/01/2013B	29270CAK1	07/01/2014B	29270CAL9	07/01/2015B	29270CAM7
07/01/2016B	29270CAN5	07/01/2017B	29270CAPO	07/01/2001C	29270CAQ8
07/01/2002C	29270CAR6	07/01/2003C	29270CAS4	07/01/2004C	29270CAT2
07/01/2010C	29270CAU9	07/01/2011C	29270CAV7	07/01/2017C	29270CAW5
07/01/2018C	29270CAX3				

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: [ ]

(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: \_\_\_\_\_

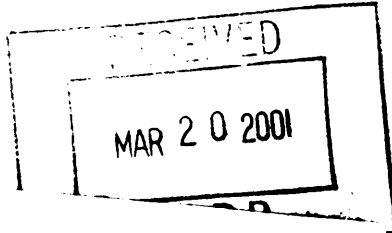
State the reason why such securities have not been assigned a "CUSIP-9": \_\_\_\_\_

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: [ ]

State the reason why such securities are ineligible for CUSIP number assignment: \_\_\_\_\_

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.



ON BEHALF OF

SIGNED: \_\_\_\_\_

NAME: G  
(PRINT - M)

IV ABOVE

J

(writer)

FAX: \_\_\_\_\_

\_\_\_\_\_ PH  
most likely to be

NO

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or noted as inapp

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MSRB within the  
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Virginia