

NEW ISSUE — BOOK-ENTRY ONLY

Series 2003-A Bonds: In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, based on an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2003-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"). In the further opinion of Special Tax Counsel, interest on the Series 2003-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. See "TAX EXEMPTION" herein.

Series 2003-B Bonds: In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, interest on the Series 2003-B Bonds is not excluded from gross income for federal income tax purposes pursuant to Title XIII of the 1986 Act or Section 103 of the Code. See "TAX EXEMPTION" herein.

\$682,175,000

Energy Northwest

\$241,455,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2003-A

\$154,490,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-A

\$241,915,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2003-A

\$18,210,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2003-B (Taxable)

\$4,530,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-B (Taxable)

\$21,575,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2003-B (Taxable)

Dated: Date of delivery

Due: July 1, as shown on the inside cover

The Series 2003-A and Series 2003-B Bonds are being issued for the purpose of refunding Prior Lien Bonds and Electric Revenue Bonds heretofore issued by Energy Northwest in connection with Project 1, Columbia and Project 3, as more fully described herein. The Series 2003-A and Series 2003-B Bonds are special revenue obligations of Energy Northwest secured and payable as provided herein on a subordinated basis to the Prior Lien Bonds.

The Series 2003-A and Series 2003-B 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 2003-A and Series 2003-B 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 2003-A and Series 2003-B Bonds and nominee of DTC, references herein to holders or registered owners shall mean Cede & Co. and shall not mean the beneficial owners of the Series 2003-A and Series 2003-B Bonds. See "BOOK-ENTRY ONLY SYSTEM" and Appendix H hereto. Principal of the 2003-A and Series 2003-B Bonds is payable at the principal office of BNY Western Trust Company, Seattle, Washington, as Trustee for the Series 2003-A and Series 2003-B Bonds. Interest on the Series 2003-A and Series 2003-B Bonds is payable semiannually on January 1 and July 1 of each year, commencing July 1, 2003, 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 2003-A and Series 2003-B 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 2003-A Bonds are subject to redemption prior to maturity as set forth herein. The Series 2003-B Bonds are not subject to redemption prior to maturity.

The Series 2003-A and Series 2003-B Bonds are special revenue obligations of Energy Northwest, payable solely from the sources described herein, including 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 2003-A and Series 2003-B 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.

MATURITY SCHEDULE — See Inside Cover

The Series 2003-A and Series 2003-B 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 legal matters will be passed upon for Energy Northwest by its General Counsel and for Bonneville by its 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 2003-A and Series 2003-B Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about April 10, 2003.

**Salomon Smith Barney
JPMorgan**

Prager, Sealy & Co., LLC

**Goldman, Sachs & Co.
UBS PaineWebber Inc.**

March 20, 2003

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES

The Series 2003-A Bonds

\$241,455,000 Project No. 1 Refunding Electric Revenue Bonds

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2013	\$45,750,000	5.50%	4.00%	29270CEW1
2014	128,650,000	5.50	4.12	29270CEX9
2016	57,980,000	5.50	4.34*	29270CEY7
2017	9,075,000	5.50	4.45*	29270CEZ4

\$154,490,000 Columbia Generating Station Refunding Electric Revenue Bonds

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2010†	\$18,100,000	5.50%	3.31%	29270CFA8
2010††	23,105,000	5.50	3.41	29270CFB6
2012	32,195,000	5.50	3.88	29270CFC4
2015	81,090,000	5.50	4.23	29270CFD2

\$241,915,000 Project No. 3 Refunding Electric Revenue Bonds

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2011††	\$50,000,000	5.50%	3.66%	29270CFE0
2012†	50,000,000	5.50	3.70	29270CFE7
2013	52,890,000	5.50	4.00	29270CFG5
2015†	32,415,000	5.50	4.03*	29270CFH3
2017	36,610,000	5.50	4.45*	29270CFJ9
2017††	20,000,000	5.50	4.35*	29270CFK6

The Series 2003-B Bonds (Taxable)

\$18,210,000 Project No. 1 Refunding Electric Revenue Bonds

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2009†	\$18,210,000	4.06%	4.06%	29270CFL4

\$4,530,000 Columbia Generating Station Refunding Electric Revenue Bonds

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2009	\$4,530,000	4.15%	Not re-offered	29270CFM2

\$21,575,000 Project No. 3 Refunding Electric Revenue Bonds

<u>Year (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2009	\$21,575,000	4.15%	Not re-offered	29270CFN0

* Priced to July 1, 2013 par call date.
 † Insured by MBIA Insurance Corporation.
 †† Insured by XL Capital Assurance Inc.

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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 2003-A Bonds or Series 2003-B 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 MBIA Insurance Corporation (“MBIA”) and XL Capital Assurance Inc. (“XLCA”) contained under “SECURITY FOR NET BILLED BONDS - Bond Insurance,” Appendix J-1 “Specimen Financial Guaranty Policy” and Appendix J-2 “Specimen Municipal Bond Insurance Policy” herein, none of the information in this Official Statement has been supplied or verified by MBIA or by XLCA and neither MBIA nor XLCA makes any representation or warranty, express or implied, as to: (i) the accuracy or completeness of such information; (ii) the validity of the Series 2003-A Bonds or Series 2003-B Bonds; or (iii) the tax exempt status of the interest on the Series 2003-A 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 2003-A BONDS AND SERIES 2003-B 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

\$682,175,000

ENERGY NORTHWEST

REFUNDING ELECTRIC REVENUE BONDS

\$241,455,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2003-A

\$154,490,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-A

\$241,915,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2003-A

\$18,210,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2003-B (Taxable)

\$4,530,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-B (Taxable)

\$21,575,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2003-B (Taxable)

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 \$241,455,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2003-A (the "Project 1 2003-A Bonds"), \$154,490,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-A (the "Columbia 2003-A Bonds"), \$241,915,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2003-A (the "Project 3 2003-A Bonds", and together with the Project 1 2003-A Bonds and the Columbia 2003-A Bonds, the "Series 2003-A Bonds"), \$18,210,000 Project No. 1 Refunding Electric Revenue Bonds, Series 2003-B (the "Project 1 2003-B Bonds"), \$4,530,000 Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-B (the "Columbia 2003-B Bonds") and \$21,575,000 Project No. 3 Refunding Electric Revenue Bonds, Series 2003-B (the "Project 3 2003-B Bonds", and together with the Project 1 2003-B Bonds and the Columbia 2003-B Bonds, the "Series 2003-B Bonds. The Series 2003-A Bonds and Series 2003-B Bonds are together referred to herein as the "2003 Bonds." The Series 2003-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 certain outstanding Prior Lien Bonds (hereinafter defined) and certain outstanding Electric Revenue Bonds (hereinafter described) heretofore issued by Energy Northwest in connection with Project 1, the Columbia Generating Station and Project 3 (hereinafter described). The Series 2003-B Bonds are being issued pursuant to Chapter 43.52 of the Act and the resolutions of Energy Northwest hereinafter referred to for the purpose of paying certain costs relating to the refunding of certain Prior Lien Bonds and Electric Revenue Bonds, as well as costs relating to the issuance of the Series 2003-A Bonds, Series 2003-B Bonds and Series 2003-C, D and E Bonds (hereinafter defined). The 2003 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 2003-A Bonds or Series 2003-B Bonds, respectively. Accordingly, the owners of the Series 2003-A Bonds or Series 2003-B Bonds issued for a particular Project will have no claim on the receipts, income and revenues securing any other Energy Northwest Project. The 2003 Bonds will be secured on a parity with bonds heretofore issued by Energy Northwest pursuant to the related Electric Revenue Bond Resolution (hereinafter defined), and additional bonds or notes that may be issued by Energy Northwest in the future under, or other obligations of Energy Northwest that may be secured pursuant to, the related Electric Revenue Bond Resolution or any related Separate Subordinated Resolution. For further information, see "SECURITY FOR THE NET BILLED BONDS" in this Official Statement.

Simultaneously with the delivery of the Series 2003-A Bonds and the Series 2003-B Bonds, Energy Northwest expects to deliver approximately \$200,000,000 of its Project No. 1 Refunding Electric Revenue Bonds, Series 2003-C (the "Project 1 2003-C Bonds"), approximately \$200,000,000 of its Project No. 3 Refunding Electric Revenue Bonds, Series 2003-D (the "Project 3 2003-D Bonds") and approximately \$100,000,000 of its Project No. 3 Refunding Electric Revenue Bonds, Series 2003-E (the "Project 3 2003-E Bonds" and, together with the Project 1 2003-C Bonds and the Project 3 2003-D Bonds, the "Series 2003-C, D and E Bonds"). The Series 2003-C, D and E Bonds will be issued on a parity with the Series 2003-A Bonds and the Series 2003-B Bonds under the respective Electric Revenue Bond Resolutions. Energy Northwest will issue the Series 2003-C, D and E Bonds as variable rate demand bonds, including auction reset securities, pursuant to the related Electric Revenue Bond Resolutions. The proceeds thereof will be applied to the refunding of a portion of Energy Northwest's outstanding Prior Lien Bonds and Refunding Electric Revenue Bonds, as more fully described in a separate official statement to be issued by Energy Northwest relating to the Series 2003-C, D and E Bonds.

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 2003 Bonds.

INTRODUCTION

This Introduction is not intended to provide all information material to a prospective purchaser of the Series 2003-A Bonds or Series 2003-B 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 17 members, consisting of 14 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 operates the Nine Canyon Wind Project, which consists of 37 turbines with a maximum generating capacity of approximately 48 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 “SECURITY FOR THE NET BILLED BONDS — Project 1,” “— Project 3,” “— Projects 4 and 5” and “— Site Restoration of Projects 1 and 4” 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 (hereinafter defined), with payments being made through a combination of credits against customer bills and cash payments from the Bonneville Fund (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 66.7% and has generated 116,802,029 megawatt-hours (net of station use) of electric power through February 2003. On February 27, 2003, Energy Northwest initiated an unscheduled temporary shutdown of Columbia in order to address operability concerns related to one of the three Columbia backup diesel generators. On March 15, 2003, Columbia returned to 100 percent power following successful resolution of the operability concerns of the backup diesel generator. See “ENERGY NORTHWEST — The Columbia Generating Station — Operating Performance” in this Official Statement. 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.

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 and 4" 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" 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. 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. 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 30 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.

THE 2003 BONDS

Security

The Project 1 2003-A Bonds and Project 1 2003-B Bonds (together, the "Project 1 2003 Bonds") are special revenue obligations of Energy Northwest issued under and pursuant to the Project 1 Electric Revenue Bond Resolution (hereinafter defined) 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 2003 Bonds are secured on parity with \$583,525,000 outstanding principal amount of Project 1 Electric Revenue Bonds, heretofore issued pursuant to the Project 1 Electric Revenue Bond Resolution and 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.

The Columbia 2003-A Bonds and Columbia 2003-B Bonds (together, the “Columbia 2003 Bonds”) are special revenue obligations of Energy Northwest issued under and pursuant to the Columbia Electric Revenue Bond Resolution (hereinafter defined) 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 2003 Bonds are secured on parity with \$623,860,000 outstanding principal amount of Columbia Electric Revenue Bonds, heretofore issued pursuant to the Columbia Electric Revenue Bond Resolution and 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.

The Project 3 2003-A Bonds and Project 3 2003-B Bonds (together, the “Project 3 2003 Bonds”) are special revenue obligations of Energy Northwest issued under and pursuant to the Project 3 Electric Revenue Bond Resolution (hereinafter defined) 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 2003 Bonds are secured on parity with \$459,230,000 outstanding principal amount of Project 3 Electric Revenue Bonds, heretofore issued pursuant to the Project 3 Electric Revenue Bond Resolution and 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.

Purpose of Issuance

The Project 1 2003-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 20, 2003 (the “Project 1 2003-A Electric Revenue Bond Supplemental Resolution”). Energy Northwest is issuing the Project 1 2003-A Bonds for the purpose (directly or indirectly through repayment of the \$26,070,000 Project 1 Promissory Note (hereinafter defined)) of refunding (i) \$257,595,000 aggregate principal amount of the \$1,406,690,000 of the Project 1 Prior Lien Bonds (hereinafter defined) currently outstanding under Resolution No. 769, adopted September 18, 1975 (as amended and supplemented the “Project 1 Prior Lien Resolution”) and (ii) \$11,670,000 aggregate principal amount of the \$583,525,000 of Project 1 Electric Revenue Bonds (hereinafter defined) currently outstanding under the Project 1 Electric Revenue Bond Resolution. Bonds issued pursuant to the Project 1 Prior Lien Resolution are referred to herein as the “Project 1 Prior Lien Bonds” and Bonds issued pursuant to the Project 1 Electric Revenue Bond Resolution are referred to herein as the “Project 1 Electric Revenue Bonds.” The Project No. 1 Refunding Revenue Promissory Note, 2002A issued by Energy Northwest under the Project 1 Credit Agreement, dated as of April 25, 2002, by and between Citibank, N.A. and Energy Northwest (the “Project 1 Credit Agreement”) is herein referred to as the “Project 1 Promissory Note.” See “Plan of Refunding.”

The Columbia 2003-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 20, 2003 (the “Columbia 2003-A Electric Revenue Bond Supplemental Resolution”). Energy Northwest is issuing the Columbia 2003-A Bonds for the purpose of (directly or indirectly through repayment of \$72,585,000 of the Columbia Promissory Note (hereinafter defined)) refunding (i) \$168,045,000 aggregate principal amount of the \$1,480,576,018 of the Columbia Prior Lien Bonds currently outstanding under Resolution No. 640, adopted on June 26, 1973 (as amended and supplemented the “Columbia Prior Lien Resolution”) and (ii) \$5,800,000 aggregate principal amount of the \$623,860,000 of Columbia Generating Station Electric Revenue Bonds (hereinafter defined) currently outstanding under the Columbia Electric Revenue Bond Resolution. Bonds issued pursuant to the Columbia Prior Lien Resolution are referred to herein as the “Columbia Prior Lien Bonds” and Bonds issued pursuant to the Columbia Electric Revenue Bond Resolution are referred to herein as the “Columbia Electric Revenue Bonds.” The Columbia Refunding Revenue Promissory Note, 2002A issued by Energy Northwest under the Columbia Credit Agreement, dated as of April 25, 2002, by and between Citibank, N.A. and Energy Northwest (the “Columbia Credit Agreement”) is herein referred to as the “Columbia Promissory Note.” See “Plan of Refunding.”

The Project 3 2003-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, 20, 2003 (the “Project 3 2003-A Electric Revenue Bond Supplemental Resolution” and together with the Project 1 2003-A Electric Revenue Bond Supplemental Resolution and the Columbia 2003-A Electric Revenue Bond Supplemental Resolution, the “2003-A Supplemental Resolutions”). Energy Northwest is issuing the Project 3 2003-A Bonds for the purpose of (directly or indirectly through repayment of the \$48,571,732.50 Project 3 Promissory Note (hereinafter defined)) refunding (i) \$249,340,000 aggregate principal amount of the \$1,296,257,106 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”) and (ii) \$21,600,000 aggregate principal amount of the \$459,230,000 of Project 3 Electric Revenue Bonds (hereinafter defined) currently outstanding under the Project 3 Electric Revenue Bond Resolution. Bonds issued pursuant to the Project 3 Prior Lien Resolution are referred to herein as the “Project 3 Prior Lien Bonds” and Bonds issued pursuant to the Project 3 Electric Revenue Bond Resolution are referred to herein as the “Project 3 Electric Revenue Bonds.” The Project No. 3 Refunding Revenue Promissory Note, 2002A issued by Energy Northwest under the

Project 3 Credit Agreement, dated as of April 25, 2002, by and between Citibank, N.A. and Energy Northwest (the “Project 3 Credit Agreement”) is herein referred to as the “Project 3 Promissory Note.” See “Plan of Refunding.”

The Project 1 2003-B Bonds are being issued pursuant to the Project 1 Electric Revenue Bond Resolution and a supplemental resolution adopted on March 20, 2003 (the “Project 1 2003-B Electric Revenue Bond Supplemental Resolution”). Energy Northwest is issuing the Project 1 2003-B Bonds for the purpose of paying costs relating to the issuance of the Project 1 2003-A Bonds, Project 1 2003-B Bonds and Project 1 2003-C Bonds, as well as certain costs relating to the refunding of certain of the Project 1 Prior Lien Bonds and Project 1 Electric Revenue Bonds. See “Plan of Refunding.”

The Columbia 2003-B Bonds are being issued pursuant to the Columbia Electric Revenue Bond Resolution and a supplemental resolution adopted on March 20, 2003 (the “Columbia 2003-B Electric Revenue Bond Supplemental Resolution”). Energy Northwest is issuing the Columbia 2003-B Bonds for the purpose of paying certain costs relating to the issuance of the Columbia 2003-A Bonds and Columbia 2003-B Bonds, as well as certain costs relating to the refunding of certain of the Columbia Prior Lien Bonds and Columbia Electric Revenue Bond. See “Plan of Refunding.”

The Project 3 2003-B Bonds are being issued pursuant to the Project 3 Electric Revenue Bond Resolution and a supplemental resolution adopted on March 20, 2003 (the “Project 3 2003-B Electric Revenue Bond Supplemental Resolution” and together with the Project 1 2003-B Electric Revenue Bond Supplemental Resolution and the Columbia 2003-B Electric Revenue Bond Supplemental Resolution, the “2003-B Supplemental Resolutions”). Energy Northwest is issuing the Project 3 2003-B Bonds for the purpose of paying costs relating to the issuance of the Project 3 2003-A Bonds, Project 3 2003-B Bonds, Project 3 2003-D Bonds and Project 3 2003-E Bonds, as well as certain costs relating to the refunding of certain of the Project 3 Prior Lien Bonds and Project 3 Electric Revenue Bonds. See “Plan of Refunding.”

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 Project 1 Electric Revenue Bond Resolution, the Columbia Electric Revenue Bond Resolution and the Project 3 Electric Revenue Bond Resolution are collectively referred to herein as the “Electric Revenue Bond Resolutions”. The Prior Lien Resolutions, the Electric Revenue Bond Resolutions and the Separate Subordinated Resolutions 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 Project 1 Electric Revenue Bonds, the Columbia Electric Revenue Bonds and the Project 3 Electric Revenue Bonds are collectively referred to herein as the “Electric Revenue Bonds.” The Prior Lien Bonds, the Electric Revenue Bonds, including the 2003 Bonds and any bonds or notes which may be issued pursuant to the Separate Subordinated Resolutions are collectively referred to herein as the “Net Billed Bonds.” 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 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 2003 BONDS

GENERAL

The Project 1 Electric Revenue Bond Resolution authorizes the issuance of Project 1 2003-A Bonds and Project 1 2003-B Bonds for the respective purposes of refunding Project 1 Prior Lien Bonds, Project 1 Electric Revenue Bonds and the Project 1 Promissory Note previously issued and of paying costs associated with such refundings. The Columbia Electric Revenue Bond Resolution authorizes the issuance of Columbia 2003-A Bonds and Columbia 2003-B Bonds for the respective purposes of refunding Columbia Prior Lien Bonds, Columbia Electric Revenue Bonds and the Columbia Promissory Note previously issued and of paying costs associated with such refundings. The Project 3 Electric Revenue Bond Resolution authorizes the issuance of Project 3 2003-A Bonds and Project 3 2003-B Bonds for the respective purposes of refunding Project 3 Prior Lien Bonds, Project 3 Electric Revenue Bonds and the Project 3 Promissory Note previously issued and of paying costs associated with such refundings.

The 2003 Bonds will initially be dated the date of delivery, 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, 2003, at the rates shown on the inside cover of this Official Statement. Interest on the 2003 Bonds is payable by check or draft mailed to the registered owners thereof by BNY Western Trust Company, as Trustee for each Series of the 2003 Bonds. Principal of the 2003 Bonds is payable at the office of the Trustee in Seattle, Washington. Notwithstanding the foregoing, upon the written request of a registered owner of at least \$1,000,000 in aggregate principal amount of a Series of 2003 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 2003 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 2003 Bonds will not receive certificates representing their interests in such 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 each Series of 2003 Bonds.

As discussed in Appendix H hereto, transfers of ownership interests in the 2003 Bonds will be accomplished by book entries made by DTC and, in turn, by DTC Participants acting on behalf of Beneficial Owners of the 2003 Bonds. The 2003-A Supplemental Resolutions and 2003-B Supplemental Resolutions provide that Energy Northwest shall not be required to issue, transfer or exchange the related Series 2003-A Bonds or Series 2003-B Bonds for a period of ten days next preceding any interest payment date therefor, to issue, transfer or exchange any Series 2003-A Bond or Series 2003-B Bond for a period of ten days next preceding any selection of the applicable Series of Bonds to be redeemed or for a period of ten days thereafter or to transfer or exchange any such Series of 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 2003 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 2003 Bond shall be overdue or not. All payments of or on account of interest or principal to any registered owner of any such 2003 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 2003 Bond, to the extent of the sum or sums paid.

REDEMPTION

Optional Redemption

The Project 1 2003-A Bonds maturing on or after July 1, 2016 will be subject to redemption prior to maturity at the option of Energy Northwest on and after July 1, 2013, 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 a redemption price equal to the principal amount of such Bonds to be redeemed, together with accrued interest to the redemption date.

The Project 3 2003-A Bonds maturing on or after July 1, 2015 will be subject to redemption prior to maturity at the option of Energy Northwest on and after July 1, 2013, 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 a redemption price equal to the principal amount of such Bonds to be redeemed, together with accrued interest to the redemption date.

The Columbia 2003-A Bonds and the Series 2003-B Bonds are not subject to redemption prior to maturity.

Notice of Redemption

Each Supplemental Resolution requires that notice of redemption of any Series of the 2003 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 2003 Bonds which are to be redeemed. Such notice shall be deemed conclusively to be received by the registered owners of the 2003 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 2003 Bonds being redeemed. Each Supplemental Resolution further provides that, notice of redemption having been given as described above, the 2003 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 2003 Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Paying Agent for such 2003 Bonds on the redemption date.

PLAN OF REFUNDING

GENERAL

The Project 1 2003-A Bonds are being issued for the purposes of providing funds (directly or indirectly through repayment of the \$26,070,000 principal amount of the Project 1 Promissory Note) to refund \$257,595,000 aggregate principal amount of outstanding Project 1 Prior Lien Bonds (the "Project 1 Prior Lien Refunded Bonds") and \$11,670,000 aggregate principal amount of outstanding Project 1 Electric Revenue Bonds (the "Project 1 Electric Revenue Refunded Bonds" and, together with the Project 1 Prior Lien Refunded Bonds and the Project 1 Promissory Note, the "Project 1 Refunded Obligations"). The Project 1 Refunded Obligations were issued pursuant to the Project 1 Prior Lien Resolution and the Project 1 Electric Revenue Bond Resolution for the purpose of refinancing the costs of planning, construction and acquisition of Project 1. The Columbia 2003-A Bonds are being issued for the purposes of providing funds (directly or indirectly through repayment of \$72,585,000 of the principal amount of the Columbia Promissory Note) to refund \$168,045,000 aggregate principal amount of outstanding Columbia Prior Lien Bonds (the "Columbia Prior Lien Refunded Bonds") and \$5,800,000 aggregate principal amount of outstanding Columbia Electric Revenue Bonds (the "Columbia Electric Revenue Refunded Bonds" and, together with the Columbia Prior Lien Refunded Bonds and the Columbia Promissory Note, the "Columbia Refunded Obligations"). The Columbia Refunded Obligations were issued pursuant to the Columbia Prior Lien Resolution and the Columbia Electric Revenue Bond Resolution for the purpose of refinancing the costs of planning, construction and acquisition of Columbia. The Project 3 2003-A Bonds are being issued for the purposes of providing funds (directly or indirectly through repayment of the \$48,571,732.50 principal amount of the Project 3 Promissory Note) to refund \$249,340,000 aggregate principal amount of outstanding Project 3 Prior Lien Bonds (the "Project 3 Prior Lien Refunded Bonds") and \$21,600,000 aggregate principal amount of outstanding Project 3 Electric Revenue Bonds (the "Project 3 Electric Revenue Refunded Bonds" and, together with the Project 3 Prior Lien Refunded Bonds and the Project 3 Promissory Note, the "Project 3 Refunded Obligations" and, together with the Project 1 Refunded Obligations and the Columbia Refunded Obligations, collectively the "Refunded Obligations"). The Project 3 Refunded Obligations were issued pursuant to the Project 3 Prior Lien Resolution and the Project 3 Electric Revenue Bond Resolution for the purpose of refinancing the costs of planning, construction and acquisition of Project 3. The Project 1 Prior Lien Refunded Bonds, the Columbia Prior Lien Refunded Bonds and the Project 3 Prior Lien Refunded Bonds are herein referred to collectively as the "Prior Lien Refunded Bonds." The Project 1 Electric Revenue Refunded Bonds, the Columbia Electric Revenue Refunded Bonds and the Project 3 Electric Revenue Refunded Bonds are herein referred to collectively as the "Electric Revenue Refunded Bonds."

The Project 1 2003-B Bonds are being issued for the purposes of providing funds to pay certain costs relating to the refunding of certain of the Project 1 Refunded Obligations, as well as costs relating to the issuance of the Project 1 2003-A Bonds and Project 1 2003-B Bonds. The Columbia 2003-B Bonds are being issued for the purposes of providing funds to pay certain costs relating to the refunding of certain of the Columbia 2003-A Refunded Obligations, as well as costs relating to the issuance

of the Columbia 2003-A Bonds and Columbia 2003-B Bonds. The Project 3 2003-B Bonds are being issued for the purposes of providing funds to pay certain costs relating to the refunding of certain of the Project 3 2003-A Refunded Obligations, as well as costs relating to the issuance of the Project 3 2003-A Bonds and Project 3 2003-B Bonds.

A major portion of the proceeds of the Series 2003-A Bonds and other available amounts will be used to purchase investment securities permitted by the Prior Lien Resolutions and the Electric Revenue Bond Resolutions, respectively (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, as applicable, of all of the Refunded Obligations on the dates and in the amounts set forth in the following table entitled "Refunded Obligations" and to pay interest on all fixed interest rate Refunded Obligations 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 Obligations pursuant to the 2003-A 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 Obligations. At the time of such deposit, Energy Northwest shall direct the Bond Fund Trustee for each of the Series of Refunded Obligations to make an irrevocable provision for the giving of notice of redemption of such Refunded Obligations to be redeemed, if any.

Simultaneously with the delivery of the Series 2003-A Bonds and the Series 2003-B Bonds, Energy Northwest expects to deliver its Series 2003-C, D and E Bonds. The Series 2003-C, D and E Bonds will be issued on a parity with the Series 2003-A Bonds and the Series 2003-B Bonds under the respective Electric Revenue Bond Resolutions. Energy Northwest will issue the Series 2003-C, D and E Bonds as variable rate demand bonds, including auction reset securities, pursuant to the related Electric Revenue Bond Resolutions. The proceeds thereof will be applied to the refunding of a portion of Energy Northwest's outstanding Prior Lien Bonds and Refunding Electric Revenue Bonds, as more fully described in a separate official statement to be issued by Energy Northwest relating to the Series 2003-C, D and E Bonds.

REFUNDING PLAN

In the spring of 2000, Bonneville presented its Debt Optimization Proposal ("Bonneville Proposal") to Energy Northwest. The Bonneville Proposal involves the extension of the final maturity of outstanding Columbia Refunding Revenue Bonds from 2012 to 2018 through a series of refunding bond issues. 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. Implementing the Bonneville Proposal is intended to 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. The 2000 Refunding Plan also reaffirmed the historical debt service savings goals for any future refinancing of Projects 1, 3 and Columbia Net Billed Bonds. The Executive Board of Energy Northwest formally adopted the 2000 Refunding Plan in October 2000.

In September 2001, Energy Northwest's Executive Board adopted an updated Refunding Plan. Such Refunding Plan included a revision which incorporated the increase in the average life of Projects 1 and 3 Net Billed Bonds as a refinancing program objective for any future refinancing of such bonds. An additional objective of the refinancing program is to advance refund outstanding, noncallable Net Billed Bonds.

Information relating to the Refunded Bonds to be paid or redeemed with the proceeds of the Series 2003-A Bonds and other funds is set forth below.

REFUNDED OBLIGATIONS

Prior Lien Refunded Bonds:

Project	Series	Amount	Maturity (July 1)	Interest Rate/ Yield	Payment/ Redemption Date	Redemption Price
1	1990C	\$170,000	2003	7.75%	At Maturity	—
1	1992A	605,000	2003	5.80	At Maturity	—
1	1993B	5,555,000	2003	5.25	At Maturity	—
1	1993C	1,560,000	2003	4.80	At Maturity	—
1	1996A	2,050,000	2003	5.10	At Maturity	—
1	1996B	9,090,000	2003	5.75	At Maturity	—
1	1996C	14,585,000	2003	5.00	At Maturity	—
1	1997B	890,000	2003	5.00	At Maturity	—
1	1998A	255,000	2003	5.00	At Maturity	—
1	1993B	315,000	2011	5.60	7/1/03	102%
1	1993B	595,000	2012	5.60	7/1/03	102
1	1993B	630,000	2013	5.60	7/1/03	102
1	1993A	40,265,000	2014	5.70	7/1/03	102
1	1993B	24,260,000	2014	5.60	7/1/03	102
1	1993A	42,685,000	2015	5.70	7/1/03	102
1	1993B	68,835,000	2015	5.60	7/1/03	102
1	1993A	45,250,000	2016	5.70	7/1/03	102
Columbia	1993A	3,395,000	2003	5.25	At Maturity	—
Columbia	1994A	8,270,000	2003	4.70	At Maturity	—
Columbia	1996A	825,000	2003	5.75	At Maturity	—
Columbia	1997B	42,270,000	2003	5.50	At Maturity	—
Columbia	1998A	42,020,000	2003	5.00	At Maturity	—
Columbia	1993B (PARS)	6,000,000	2008	5.55	7/1/03	100
Columbia	1993B (INFLOS)	6,000,000	2008	5.55	7/1/03	104
Columbia	1993A	4,655,000	2009	6.00	7/1/03	102
Columbia	1993B (PARS)	9,500,000	2009	5.55	7/1/03	100
Columbia	1993B (INFLOS)	9,500,000	2009	5.55	7/1/03	104
Columbia	1993A	4,920,000	2010	6.00	7/1/03	102
Columbia	1993B (PARS)	10,000,000	2010	5.55	7/1/03	100
Columbia	1993B (INFLOS)	10,000,000	2010	5.55	7/1/03	104
Columbia	1993A	5,200,000	2011	5.75	7/1/03	102
Columbia	1993A	5,490,000	2012	5.75	7/1/03	102
3	1989A	4,125,000	2003	7.20 [†]	At Maturity	—
3	1990B	12,000,000	2003	7.40 [†]	At Maturity	—
3	1993B	8,600,000	2003	5.25	At Maturity	—
3	1993C	6,910,000	2003	4.80	At Maturity	—
3	1996A	305,000	2003	5.10	At Maturity	—
3	1997A	500,000	2003	5.00	At Maturity	—
3	1998A	35,625,000	2003	5.00	At Maturity	—
3	1993C (ACES)	29,300,000	2012	5.40	7/1/03	100
3	1993C (FLOATERS)	29,300,000	2012	5.40	7/1/03	104
3	1993B	15,430,000	2013	5.60	7/1/03	102
3	1993C	50,780,000	2013	5.375	7/1/03	102
3	1993B	16,345,000	2014	5.60	7/1/03	102
3	1993B	17,320,000	2015	5.60	7/1/03	102
3	1993B	18,350,000	2016	5.60	7/1/03	102
3	1993C	4,450,000	2017	5.50	7/1/03	102

(Continued on next page)

[†] Compound Interest Bonds.

REFUNDED OBLIGATIONS (Continued)

Electric Revenue Refunded Bonds:

Project	Series	Amount	Maturity (July 1)	Interest Rate	Payment/ Redemption Date	Redemption Price
1	1993-1A-1	\$2,260,000	2017	Variable	7/1/03	100%
1	1993-1A-2	2,260,000	2017	Variable	7/1/03	100
1	1993-1A-3	745,000	2017	Variable	7/1/03	100
1	2001A	6,405,000	2003	5.50	At Maturity	—
Columbia	1997-2A-1	2,900,000	2012	Variable	7/1/03	100
Columbia	1997-2A-2	2,900,000	2012	Variable	7/1/03	100
3	1993-3A-3	640,000	2018	Variable	7/1/03	100
3	1998-3A	5,350,000	2018	Variable	7/1/03	100
3	2001A	15,610,000	2003	5.00	At Maturity	—

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds

Principal of Project 1 2003-A Bonds.....	\$241,455,000
Principal of Columbia 2003-A Bonds	154,490,000
Principal of Project 3 2003-A Bonds.....	241,915,000
Principal of Project 1 2003-B Bonds.....	18,210,000
Principal of Columbia 2003-B Bonds	4,530,000
Principal of Project 3 2003-B Bonds.....	21,575,000
Original Issue Premiums	76,180,698
Moneys Available under Prior Lien Bond Resolutions	<u>156,230,692</u>
Total	\$914,586,390

Uses of Funds

Deposits with the escrow trustees for the Project 1 2003-A Refunded Bonds.....	\$280,411,252
Deposits with the escrow trustees for the Columbia 2003-A Refunded Bonds.....	179,349,766
Deposits with the escrow trustees for the Project 3 2003-A Refunded Bonds.....	280,511,420
Notes Repayment.....	147,226,733
Costs of Issuance including Underwriters' Discount for 2003-A and 2003-B Bonds	5,925,091
Costs of Issuance including Underwriters' Discount for 2003-C, D and E Bonds.....	5,332,197
Deposits with the escrow trustees for bonds to be refunded by 2003-C, D and E Bonds.....	<u>15,829,931</u>
Total.....	\$914,586,390

SECURITY FOR THE NET BILLED BONDS

SOURCES OF PAYMENT AND SECURITY

The Project 1 2003 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. Under the Project 1 Electric Revenue Bond Resolution, the Project 1 2003 Bonds will be secured on a parity with any bonds or notes heretofore or hereafter issued by Energy Northwest or other obligations of Energy Northwest that are secured pursuant thereto or pursuant to any Project 1 Separate Subordinated Resolution (hereinafter defined).

The Columbia 2003 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. Under the Columbia Electric Revenue Bond Resolution, the Columbia 2003 Bonds will be secured on a parity with any bonds or notes heretofore or hereafter issued by Energy Northwest or other obligations of Energy Northwest that are secured pursuant thereto or pursuant to any Columbia Separate Subordinated Resolution (hereinafter defined).

The Project 3 2003 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. Under the Project 3 Electric Revenue Bond Resolution, the Project 3 2003 Bonds will be secured on a parity with any bonds or notes heretofore or hereafter issued by Energy Northwest or other obligations of Energy Northwest that are secured pursuant thereto or pursuant to any Project 3 separate subordinated Resolution (hereinafter defined).

In March 2001, each Electric Revenue Bond Resolution was amended 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 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 the 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 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.

Amounts paid to Energy Northwest pursuant to the Project 1 Net Billing Agreements entered into among Energy Northwest, Bonneville and the Project 1 Participants (which amounts are ultimately derived from net billing credits provided by Bonneville and from cash payments from the Bonneville Fund) are a source of payment for the Project 1 2003 Bonds, subject to the payments required in connection with the Project 1 Prior Lien Bonds as described in the following sentence. 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 2003 Bonds.

Amounts paid to Energy Northwest pursuant to the Columbia Net Billing Agreements entered into among Energy Northwest, Bonneville and the Columbia Participants (which amounts are ultimately derived from net billing credits provided by Bonneville and from cash payments from the Bonneville Fund) are a source of payment for the Columbia 2003 Bonds, subject to the payments required in connection with the Columbia Prior Lien Bonds as described in the following sentence. 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 2003 Bonds.

Amounts paid to Energy Northwest pursuant to the Project 3 Net Billing Agreements entered into among Energy Northwest, Bonneville and the Project 3 Participants (which amounts are ultimately derived from net billing credits provided by Bonneville and from cash payments from the Bonneville Fund) are a source of payment for the Project 3 2003 Bonds, subject to the payments required in connection with the Project 3 Prior Lien Bonds as described in the following sentence. 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 2003 Bonds.

The Project 1 2003 Bonds, the Columbia 2003 Bonds and the Project 3 2003 Bonds are separately secured and are not general obligations of Energy Northwest. The owners of the Project 1 2003 Bonds will have no claim on the assets, revenues or funds of any other Project of Energy Northwest, including those securing the Columbia 2003 Bonds and the Project 3 2003 Bonds. The owners of the Columbia 2003 Bonds will have no claim on the assets, revenues or funds of any other Project of Energy Northwest, including those securing the Project 1 2003 Bond and the Project 3 2003 Bonds. The owners of the Project 3 2003 Bonds will have no claim on the assets, revenues or funds of any other Project of Energy Northwest, including those securing the Project 1 2003 Bonds and the Columbia 2003 Bonds.

The 2003 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, Columbia 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 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 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 Participants”) under net billing agreements (the “Columbia 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 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 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 respective shares of the Project Fiscal Year 2003 Budgets.

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, 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 such 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 — 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 such Participant's Billing Statement. 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 Agreement 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 Agreement 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 Columbia, 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 disposition of 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 Resolutions 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 — 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 (hereinafter defined) or Separate Subordinated Resolutions (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. Bonneville met its fiscal year 2002 payment responsibility to the United States Treasury in full and on time.

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 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 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, 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 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."

For information regarding the amount of bonds and other obligations of Energy Northwest outstanding under the Electric Revenue Bond Resolutions and Separate Subordinated Resolutions, see "ENERGY NORTHWEST – Energy Northwest Indebtedness."

Planned Additional Bonds

Simultaneously with the delivery of the Series 2003-A Bonds and the Series 2003-B Bonds, Energy Northwest expects to deliver its Series 2003-C, D and E Bonds. The Series 2003-C, D and E Bonds will be issued on a parity with the Series 2003-A Bonds and the Series 2003-B Bonds under the respective Electric Revenue Bond Resolutions. Energy Northwest will issue the Series 2003-C, D and E Bonds as variable rate demand bonds, including auction reset securities, pursuant to the related Electric Revenue Bond Resolutions. The proceeds thereof will be applied to the refunding of a portion of Energy Northwest's outstanding Prior Lien Bonds and Refunding Electric Revenue Bonds, as more fully described in a separate official statement to be issued by Energy Northwest relating to the Series 2003-C, D and E Bonds.

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 been 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

MBIA Municipal Bond Insurance Policy

Concurrently with the issuance of the of the 2003 Bonds, MBIA Insurance Corporation ("MBIA") will issue its Financial Guaranty Policies (the "MBIA Policies") for the Columbia 2003-A Bonds in the aggregate principal amount of \$18,100,000 due July 1, 2010, the Project 3 2003-A Bonds due July 1, 2012 and July 1, 2015 in the aggregate principal amounts of \$50,000,000 and \$32,415,000, respectively and the Project 1 2003-B Bonds due July 1, 2009 in the aggregate principal amount of \$18,210,000. The 2003 Bonds so insured are herein referred to as the "MBIA Insured Bonds." The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix J-1 for a specimen of MBIA's Policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2003 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 2003 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2003 Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the 2003 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the 2003 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 2003 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a 2003 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2003 Bonds or presentment of such other proof of ownership of the 2003 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2003 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2003 Bonds in any legal proceeding related to payment of insured amounts on the 2003 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such 2003 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and

individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading BOND INSURANCE — MBIA Municipal Bond Insurance Policy. Additionally, MBIA makes no representation regarding the 2003 Bonds or the advisability of investing in the 2003 Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the 2003 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002), are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington, D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2002, MBIA had admitted assets of \$9.0 billion (unaudited), total liabilities of \$5.9 billion (unaudited), and total capital and surplus of \$3.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength of MBIA

Moody's Investors Service, Inc. (“Moody’s”) rates the financial strength of MBIA “Aaa.”

Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc. (Standard & Poor’s”) rates the financial strength of MBIA “AAA.”

Fitch, Inc. (“Fitch”) rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2003 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2003 Bonds. MBIA does not guaranty the market price of the 2003 Bonds nor does it guaranty that the ratings on the 2003 Bonds will not be revised or withdrawn.

XL Capital Assurance Inc.

Concurrently with the issuance of the 2003 Bonds, XL Capital Assurance Inc. (the “Insurer” or “XLCA”) will issue its Financial Guaranty Insurance Policies (the “XLCA Policies”) for the Columbia 2003-A Bonds due July 1, 2010 in the aggregate principal amount of \$23,105,000, the Project 3 2003-A Bonds due July 1, 2011 in the aggregate principal amount of \$50,000,000 and the Project 3 2003-A Bonds due July 1, 2017 in the aggregate principal amount of \$20,000,000. The 2003 Bonds so insured are herein referred to as the “XLCA Insured Bonds” and, together with the MBIA Insured Bonds, the “Insured Bonds.” The

following information has been furnished by XLCA for use in this Official Statement. Reference is made to Appendix J-2 for a specimen of the XLCA Policies.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the 2003 Bonds or the advisability of investing in the 2003 Bonds.

General

XL Capital Assurance Inc. is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-seven other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Insurer has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the XLCA Policies.

Based on the audited financials of XLFA as of December 31, 2001, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of US\$543,538,559, US\$244,403,576, US\$39,000,000 and US\$260,134,983, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. In addition, XLFA has obtained a financial enhancement rating of "AAA" from Standard & Poor's.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's financial strength rating is "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the 2003 Bonds, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the holders of the 2003 Bonds will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the holders of the 2003 Bonds.

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the 2003 Bonds, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these

ratings may have an adverse effect on the market price of the 2003 Bonds. The Insurer does not guaranty the market price of the 2003 Bonds nor does it guaranty that the ratings on the 2003 Bonds will not be revised or withdrawn.

Capitalization of the Insurer

Based on the audited statutory financial statements for XLCA as of December 31, 2001, XLCA had total admitted assets of \$158,442,157, total liabilities of \$48,899,461 and total capital and surplus of \$109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the unaudited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$180,993,189, total liabilities of \$58,685,217 and total and capital surplus of \$122,307,972 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities and Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the 2003 Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd.'s reports filed with the Commission are incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE XLCA POLICIES, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

Rights of Bond Insurers

The provisions of the Project 1 Electric Revenue Bond Resolution, the Columbia Electric Revenue Bond Resolution and the Project 3 Electric Revenue Bond Resolution notwithstanding, under the Columbia 2003-A Electric Revenue Bond Supplemental Resolution, the Project 3 2003-A Electric Revenue Bond Supplemental Resolution and the Project 1 2003-B Electric Revenue Bond Supplemental Resolution, each Bond Insurer shall be deemed to be the sole holder of the Series 2003 Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2003 Bonds insured by it are entitled to take pursuant to the applicable Electric Revenue Bond Resolution. In addition, the maturity of Series 2003-A Bonds insured by a Bond Insurer shall not be accelerated without the consent of such Bond Insurer.

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 operates the Nine Canyon Wind Project, consisting of 37 wind turbines with a maximum generating capacity of approximately 48 megawatts. 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.”

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 together 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, 2002.

ENERGY NORTHWEST INDEBTEDNESS

The following table sets forth the principal amounts of revenue bonds and refunding revenue bonds issued by Energy Northwest and outstanding as of March 1, 2003.

**Energy Northwest Revenue Bonds
Outstanding as of March 1, 2003**

Revenue Bonds	Principal Amount
Project 1 Prior Lien Refunding Revenue Bonds	\$ 1,406,690,000
Columbia Prior Lien Refunding Revenue Bonds	1,480,576,018 ⁽¹⁾
Project 3 Prior Lien Refunding Revenue Bonds	1,296,257,106 ⁽¹⁾
Project 1 Refunding Electric Revenue Bonds	583,525,000
Columbia Refunding Electric Revenue Bonds	623,860,000
Project 3 Refunding Electric Revenue Bonds	459,230,000
Packwood Revenue Bonds	4,316,000
Nine Canyon Wind Project Revenue Bonds	70,675,000

(1) Includes \$75,006,018 accreted value of Compound Interest Bonds for Columbia and \$335,808,007 accreted value of Compound Interest Bonds for Project 3 as of January 1, 2003.

In April 2002, Citibank, N.A. extended a line of credit to Energy Northwest for each of the Projects pursuant to three separate credit facilities. Under the Project 1, Columbia and Project 3 credit facilities, Energy Northwest may borrow up to \$34,760,000, \$136,780,000 and \$68,065,000, respectively, from time to time during the period from April 25, 2002 to June 25, 2003. Proceeds of advances made under a line of credit may be applied to refinance a portion of the cost of the related Project by providing a portion of the funds necessary to refund principal and, in some cases, interest on certain Prior Lien Bonds maturing on July 1, 2003 issued to finance such Project. Additionally, for Columbia, proceeds of advances made under the Columbia line of credit may be applied to finance costs for the Columbia Independent Spent Fuel Storage Installation facility. Energy Northwest's obligation to repay advances under a credit facility is evidenced by a note (the "Note") authorized to be executed and delivered by Energy Northwest pursuant to the related Separate Subordinated Resolution. As of March 1, 2003, Energy Northwest had borrowed \$23,173,333.36, \$99,038,000.00 and \$42,073,976.64 under the Project 1, Columbia and Project 3 credit facilities, respectively. The above amount for Columbia includes \$34,518,000 borrowed in May 2002 to finance the reimbursement of prior costs for the Columbia Independent Spent Fuel Storage Installation facility. Energy Northwest expects to borrow additional amounts prior to the issuance of the 2003 Bonds. Each Note is secured on a parity with bonds and notes issued by Energy Northwest under the related Electric Revenue Bond Resolution and with all other obligations issued pursuant to additional related Separate Subordinated Resolutions. A portion of the proceeds of the Series 2003-A Bonds is to be applied to pay certain of the Notes.

ORGANIZATIONAL STRUCTURE

Energy Northwest currently has a membership of 17, consisting of 14 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 17 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
John F. Cockburn, Chairman	Retired Bank Executive	June 2004
Dan G. Gunkel, Vice Chairman	Public Utility District Commissioner	June 2006
Sid W. Morrison, Secretary	Retired Executive	June 2005
Vera Claussen, Assistant Secretary	Public Utility District Commissioner	June 2006
Margaret Allen	Attorney	June 2004
Darrel Bunch	Public Utility District Commissioner	June 2006
Tom Casey	Public Utility District Commissioner	June 2006
Edward E. Coates	Retired Utility Executive	June 2006
Larry Kenney	Retired Organized Labor Executive	June 2006
Amy C. Solomon	Management Consultant	June 2005
Roger C. Sparks	Public Utility District Commissioner	June 2006

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/Chief Nuclear Officer	32 years
Rodney L. Webring	Vice President, Nuclear Generation	29 years
Dale K. Atkinson	Vice President, Technical Services	25 years
John W. Baker	Vice President, Energy/Business Services/Public Information Officer	32 years
Albert E. Mouncer	Vice President, Corporate Services/General Counsel/Chief Financial Officer	22 years

EMPLOYEES

Energy Northwest currently employs approximately 1,185 employees. Of these employees, 374 are members of the International Brotherhood of Electrical Workers (“IBEW”), 85 are members of the Paper, Allied Industrial, Chemical & Energy Workers (“PACE”) and 7 are members of the Hanford Atomic Metal Trades Council (“HAMTC”) unions. The IBEW union members comprise the Administrative, Nuclear, Travelers 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 Technicians. The Nuclear, HAMTC and Plant collective bargaining agreements expire on October 1, 2004. The Administrative and Travelers collective bargaining agreements expire on October 30, 2004. The PACE collective bargaining agreement expired on November 2, 2002. Negotiations continue for a new agreement for the PACE bargaining unit. Washington State law provides for binding interest arbitration for the PACE 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 — Investment of Funds (Section 508)” and Appendix G-2, “SUMMARY OF CERTAIN PROVISIONS OF PRIOR LIEN RESOLUTIONS NOS. 769, 640 AND 775 — Other Funds Established by the Prior Lien Resolutions; Flow of Revenues.”

THE COLUMBIA GENERATING STATION

Description

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’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

Independent Spent Fuel Storage Installation facility. For additional information concerning the Independent Spent Fuel Storage Installation facility, see “Energy Northwest—The Columbia Generating Station—Nuclear Fuel” below.

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 from Columbia is sold at cost to Bonneville through the Columbia Net Billing Agreements. Energy Northwest has a maintenance, operating, outage, fuel and capital budget for Columbia of \$233.8 million during the 2003 fiscal year.

The cost of production, using industry standard methodology (such cost calculation methodology includes general and administration and capital, but excludes debt service, taxes, depreciation and decommissioning costs) of Columbia electricity is projected at \$27.26 per megawatt-hour during the 2003 fiscal year. This cost is higher than the \$20.60 per megawatt-hour for the 2002 fiscal year due to a bi-annual refueling occurring this fiscal year. These costs are about average for the nuclear industry. Energy Northwest will continue to place a high priority on cost-containment.

Energy Northwest continues to focus on plant reliability and availability and increasing gross plant capacity as the primary factors to reduce the cost of power. During the past fiscal year, Columbia produced more power, 9,261,873 megawatt hours, than in any other year in the history of the plant. The capacity factor was also the highest ever at 92.0%. Factors contributing to these achievements include no major outages in fiscal 2002 and the transition to a 24-month refueling cycle.

While Energy Northwest intends to operate Columbia a greater percentage of the time, Energy Northwest has also evaluated plans to increase the gross capacity of the plant. Engineers evaluated a proposal that could increase the plant’s name plate capacity to about 1,350 megawatts - a 12.5% increase in power. Based on current market conditions and other technical considerations, this effort has been put on hold. Initiatives to reduce losses of generation, such as reducing outage length and reducing or eliminating the occurrences of forced outages, are being evaluated and implemented.

To increase the value of the plant over time, engineers now are working on a proposal to extend Columbia’s 40-year operating license by 20 years, from 2023 to 2043. The NRC established a protocol to handle license extension requests, and granted five in 2000, one in 2001 and four in 2002. The Executive Board will determine whether to apply for an extension.

Energy Northwest has executed the power purchase agreement for the Nine Canyon Wind Project to acquire four megawatts of the output from that project for station use by Columbia. The Nine Canyon Wind Project commenced commercial operation on September 25, 2002. Power costs for the project to be billed to Columbia are expected to be in the range of 3.5 to 3.9 cents per kilowatt hour during the first five fiscal years of operation and will constitute an operating expense of Columbia. See “Energy Northwest—Nine Canyon Wind Project” in this Official Statement.

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

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 66.7% and has generated 116,802,029 megawatt hours (net of station use) of electric power through February 2003.

Successful implementation of employee performance enhancement initiatives at Columbia has produced significant positive results in plant performance since 1995. Calendar year 2002 was the best generating calendar year at Columbia since commencing commercial operation, eclipsing the previous record in 2000. In fiscal year 2001, Columbia produced 7,995,916 megawatt hours of electric power while attaining a capacity factor of 81.8% and a plant availability factor of 85.1%. In fiscal year 2002, Columbia produced 9,261,873 megawatt hours of electric power while attaining a capacity factor of 92.0% and a plant availability factor of 95.4%. The increased production of megawatt hours of electric power and capability resulted from the fact that fiscal year 2002 was a non-refueling outage year which resulted in increased generation and capability from Columbia operation.

On July 2, 2001, Energy Northwest completed its most recent refueling outage, which lasted 45 days. Energy Northwest began a shutdown process of Columbia operations on February 27, 2003, after concerns were raised over long-term reliability of a backup diesel generator. Energy Northwest technicians have been tracking small vibrations in one of the three Columbia diesel generators. These diesel generators are included as part of the plant and are intended to provide external power to Columbia in the event of an emergency. These diesel generators are sized such that operation of any one of the three is sufficient to provide the necessary backup power in the case of an emergency. However, under NRC regulations, each of the

three diesel generators must be maintained to provide thirty days of uninterrupted service. Although there were vibrations in one of the diesel generators, Columbia engineers were confident that the diesel generator could operate for the required thirty days. An outside consulting engineering firm confirmed their judgment. However, the NRC asked for further consideration of the vibration in February 2003. After considerable data review and evaluation, Energy Northwest determined that too much engineering judgment (via quantitative analysis) was required to allow continued reliance on the diesel generator in question. Energy Northwest declared to the NRC that the diesel generator was inoperable on February 13, 2003. Columbia would then, by regulation, be forced to shut down the plant if the vibration condition was not corrected in seventy-two hours. Energy Northwest asked the NRC for a notice of enforcement discretion with respect to the seventy-two hour plant technical specification requirement for repairing the vibration problem based on its continuing belief that the problem was correctable in a reasonable amount of time and not unduly increases any potential danger to the plant or the public. The NRC agreed, but placed a deadline of 9:00 pm on February 27th for Energy Northwest to make the diesel generator repairs and declare it operable. Even though new bearings were placed in the diesel generator and the diesel generator re-installed, recurring vibrations were recorded. Engineers determined that the vibrations were indicative of damage to the new bearings caused by a circulating electrical current. Though the damage was light, Energy Northwest and its outside consultants could not provide absolute assurance that the diesel generator could operate for the required thirty days without fail. Energy Northwest has determined the root cause of the bearing damage and is performing the required repairs and has ordered new bearings to be installed. As such the statement of inoperability of the diesel generator remains. Operability concerns of the diesel generator were successfully resolved and on March 12, 2003, Energy Northwest initiated restart of Columbia operations. Columbia returned to 100 percent power on March 15, 2003. The next scheduled refueling outage for Columbia is expected to start in May 2003.

Annual Costs

Annual costs for Columbia based on the audited financial statement presentation format for fiscal years ended June 30, 2001 and 2002 are shown below. The information is developed on a cost basis with depreciation calculated on the straight line method by major components based on expected useful life.

Statement of Operations⁽¹⁾ (Dollars in Thousands)

Cost Category	FY 2002	FY 2001
Operations, Maintenance and Overhead.....	\$144,588	\$ 160,450
Nuclear Fuel Burnup	30,311	34,204
Spent Fuel Disposal Fee.....	8,487	7,542
Generation Taxes.....	3,198	2,497
Decommissioning	16,408	16,246
Depreciation and Amortization	96,171	96,026
Investment Income.....	(11,540)	(23,643)
Interest Expense and Discount Amortization	121,584	130,161
Other Expense/(Revenue).....	(2,212)	(2,331)
Total Costs.....	\$ 406,995	\$ 421,152
 Net Generation (Million kWhs)	 9,262 ⁽²⁾	 7,996 ⁽²⁾

(1) Amounts derived from audited Energy Northwest financial statements.

(2) Includes credit for "Economic Dispatch" of 336 million kWhs and 68 million kWhs for fiscal years 2002 and 2001, respectively. 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 2002, the cash spent on capital improvements was \$22.4 million (compared to \$15.1 million in fiscal year 2001). Expenditures for capital improvements for fiscal year 2003 are planned to be approximately \$17.6 million. Of this amount, \$6.3 million is planned to be expended for the spent fuel storage project and the remainder for various plant and facilities modifications and programs. For additional information concerning spent fuel storage, see "— Nuclear Fuel" below.

Nuclear Regulatory Commission Actions

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 normally 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 plant 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.

To monitor these seven cornerstones, the NRC assigned colors of green, white, yellow or red to specific performance indicators and inspection findings. For performance indicators, a green coding indicates performance within an expected performance level in which the related cornerstone objectives are met; white coding indicates performance outside an expected range of nominal utility performance but related cornerstone objectives are still being met; yellow coding indicates related cornerstone objectives are being met, but with a minimal reduction in safety margin; and red coding indicates a significant reduction in safety margin in the area measured by that performance indicator. For inspection findings, green findings are indicative of issues that, while they may not be desirable, represent very low safety significance. White findings indicate issues that are of low to moderate significance. Yellow findings are issues that are of substantial safety significance. Red findings represent issues that are of high safety significance with a significant reduction in safety margin.

Results from the monitored cornerstones are compiled and published quarterly in the NRC's Reactor Oversight Process Action Matrix Summary. The Action Matrix Summary reflects overall plant performance which is based on defined performance indicators and inspection findings. Individual plant performance is segregated into one of five performance Columns.

Best performing plants are included in the Licensee Response Column where routine inspector and staff interaction is the norm. The next level of performance is the Regulatory Response Column, which includes plants that have no more than two white inputs in different Cornerstones of safe operation. Plants in this column are subject to NRC inspection follow-up of utility corrective actions. There are three remaining Response Columns, including the Unacceptable Performance Column, which includes plants that are not permitted to operate.

The NRC's Fourth Quarter 2002 Regulatory Oversight Process Summary lists 77 plants in the Licensee Response Column, 22 plants in the Regulatory Response Column and three plants in the next two lower columns. There are no plants currently included in the Unacceptable Performance Column. Columbia is currently included with plants in the Regulatory Response Column due to a white finding in the mitigating system cornerstone originating in the first quarter of 2002.

On December 28, 2001, Energy Northwest received a Notice of Violation from the NRC regarding its Emergency Preparedness program, which was a yellow finding. The NRC found that Energy Northwest's Emergency Preparedness program was not sufficient to adequately assure emergency notification to certain private businesses leasing property from Energy Northwest within the exclusion area boundary of the Columbia Generating Station. The Violation did not involve the direct operation of Columbia. Energy Northwest believes that it has implemented corrective measures that have brought Columbia into compliance with NRC requirements. In addition, Energy Northwest has terminated the leases to the private businesses, the last effective July 31, 2002. A follow up inspection of this issue was conducted by the NRC in May 2002. The NRC found Energy Northwest's corrective measures acceptable and the yellow finding has been closed.

On June 24, 2002, Energy Northwest received a Notice of Violation from the NRC regarding an electrical breaker design modification. The NRC found that Energy Northwest failed to incorporate vendor information regarding the maintenance of switches in these breakers, resulting in breaker failures that affected plant systems, which resulted in this white finding. An NRC follow-up inspection of the corrective actions was conducted in December 2002. The NRC found Energy Northwest's corrective measures acceptable and the white finding was subsequently closed in January 2003.

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.

At the completion of the September 2000 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.

INPO performed an evaluation of Columbia in October 2002. A number of beneficial practices and accomplishments were noted, as well as some areas for improvement. Among the areas in need of improvement, the most significant were equipment performance and material condition, outage performance and sustaining performance. Based on INPO inspection findings, Columbia was issued an overall rating of 2, indicating that overall performance is exemplary. INPO ratings range from 1 to 5, with 1 being the highest achievable rating.

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” 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. The NPDES permit is effective until April 2006 and is renewable for five-year terms thereafter. 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 the 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. For the period from 1996 through 2002, the reload fuel assemblies were provided by CE Nuclear Power LLC, a subsidiary of the Westinghouse Electric Company. A new contract for reload fuel design and fabrication services for three “firm” reloads and two “optional” reloads was executed between Energy Northwest and Framatome ANP, Inc. on January 24, 2002.

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 eliminates refueling outages every other year and results in increased average generation. After two transition cycles totaling approximately thirty-six months in length, the first twenty-four month cycle began 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 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 (\$8.5 million for the twelve months ended June 30, 2002). 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 calendar year 2003. To accommodate spent fuel discharges after 2003, Energy Northwest constructed the Independent Spent Fuel Storage Installation ("ISFSI") facility, 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. Construction of the initial concrete pads is complete. Initial capital costs of the ISFSI facility are approximately \$34.5 million with additional costs for dry storage casks projected at approximately \$25 million through 2010. The first dry storage cask was transported from the Columbia reactor building and placed on a concrete pad in September 2002. A total of five dry storage casks were transported and placed on concrete pads as of December 9, 2002. This activity provided the off-loading of enough spent fuel from the spent fuel pool in the reactor building to provide sufficient room in the spent fuel pool for the fuel reload planned as part of the next outage for Columbia, expected to commence in May 2003. The concrete pads will have enough capacity to handle spent fuel discharges through 2010. The facility will be expanded in increments as needed in the future.

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 most recent report to the NRC on March 23, 2001.

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 \$360 million (in 2001 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 \$56 million (in 2001 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, 2002. 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, if necessary, 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 January 31, 2003 totaled approximately \$68.4 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 had been extended three times and was subject to renewal in August 2002. Legislation was signed by the president in December 2002, which reauthorized Price Anderson through December 2004.

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 under \$9.25 billion, based on 105 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 \$9.45 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 was granted a FERC operating license on March 1, 1960, and began commercial operation in June 1964. The initial FERC license has a duration of 50 years and expires on February 28, 2010. Based on the existing FERC licensing process, Energy Northwest expects to initiate relicensing efforts in fiscal year 2004.

Average annual generation for the facility is 92,000 megawatt-hours. The electric power produced at the facility is expected to generate enough revenues to pay all Packwood costs, including debt service on the Packwood bonds. Until October 2002, the electric power produced at the facility was sold to Bonneville for distribution to the original 12 public utilities who are the Packwood participants. The Packwood participants are required to pay their share of the annual budget of the project, which includes debt service on the Packwood Bonds, whether or not the project is producing power or capable of producing power. As of November 2002, the power produced is being sold directly to two of those participants, Benton County PUD and Franklin County PUD. The agreements with Benton County PUD and Franklin County PUD expire on September 30, 2003.

NINE CANYON WIND PROJECT

Energy Northwest has completed construction of a wind turbine generating project, capable of generating 48.1 megawatts of electricity. The project is located on leased land, near Kennewick, Washington, and includes 37 wind turbines. Each turbine has a power generating capacity of 1,300 kilowatts. The turbines were manufactured by BONUS Energy A/S, a Denmark corporation. In early November 2001, Energy Northwest issued approximately \$70.7 million of bonds to finance the

acquisition, development and construction costs of the project. The project is a separate system of Energy Northwest and the bonds are secured by, and payable solely from, the revenues derived by Energy Northwest under power purchase agreements executed with public utility purchasers, including Energy Northwest, which has acquired a portion of the capability for station use by Columbia. On and after the date of commercial operation, which commenced on September 25, 2002, for the term of the power purchase agreements, the purchasers are required to pay their share of the annual budget of the project, which includes debt service on the related bonds, whether or not the project is operating or capable of operating. Power costs for the project to be billed to the purchasers are expected to be in the range of 3.5 cents per kilowatt hour to 3.9 cents per kilowatt hour during the first five fiscal years of operation and the cost allocable to Energy Northwest would constitute an operating expense of Columbia. See “ENERGY NORTHWEST — The Columbia Generating Station — Management Discussion of Operations” in this Official Statement.

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.

In April 2001, as a result of the significant energy shortages and price increases in the western region’s power market, Energy Northwest was asked to study the viability of completing Project 1. Energy Northwest and Bonneville agreed to fund this study. A consultant’s report given to the Energy Northwest Executive Board on April 23, 2002 recommended that Project 1 not be completed as a commercial nuclear power plant, since the cost of completion was not economically feasible.

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.

On October 22, 1998, Energy Northwest’s Executive Board 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 Project 3 site.

An agreement for the transfer of the Project 3 site (other than the Satsop CT site) and infrastructure was negotiated with the Satsop Redevelopment Project and signed on February 26, 1999.

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 AND 4

Site restoration requirements for Projects 1 and 4 are governed by site certification agreements between Energy Northwest and the State of Washington and regulations adopted by EFSEC and 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.

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 ("BRI"). Legislation introduced by BRI and adopted into law by the State of Washington in March 2000 authorized the transfer of the Projects 1 and 4 site to BRI. In June 2000, the City of Richland and Energy Northwest withdrew from the Benton Redevelopment Initiative inter-local agreement; however, Energy Northwest continues to provide administrative and management support.

In late 1999, BRI sponsored a study to review the issues, critical elements requiring resolution and the marketplace for possible reuse of the Projects 1 and 4 site. Based on this review, which was completed in April 2000 and found no fatal flaws for potential reuse, BRI developed a more detailed plan and approach for determining the necessary information to proceed. This second study was completed on July 31, 2001, and determined a realistic build-out scenario, a conceptual development plan, a business plan and an assessment of the attendant risks. Among the principal conclusions of the study was the recommendation that the final "end state" condition result be established by DOE with an associated restoration plan and assignment of restoration responsibility. In January 2002, BRI notified Bonneville that it would await resolution of these issues before further considering possible redevelopment. In September 2002, DOE formally identified a preferred restoration end state for both the Project 1 and Project 4 facilities.

Bonneville, Energy Northwest, EFSEC and the Department of Energy - Richland Operations Office ("RL") have negotiated a proposed agreement concerning site restoration for Projects 1 and 4. While Bonneville and Energy Northwest have signed the proposed agreement, EFSEC and RL have not yet done so.

The proposed agreement would require that Bonneville fund site remediation of Projects 1 and 4 in return for a commitment on a level of site remediation that is less expensive than maximum site restoration. The total cost of the proposed level of remediation has been estimated at \$45 million (calendar year 2003 dollars).

All parties would also agree that in order to not preclude the possibility of reuse of the existing structures on the Project 1 and Project 4 sites, remediation may be deferred by Bonneville so long as restoration activity is initiated within 23 years of approval of the remediation plan by EFSEC. The agreement specifies that remediation would be completed within about three years after the end of the deferral period.

With the exception of near-term remediation compatible with reuse (approximately \$3 million to \$4 million expended within 24 months of approval of the remediation plan by EFSEC), assuming execution and delivery of the agreement by all parties, Bonneville would probably defer the remediation obligation for about 20 years, leaving the sites and the structures available for potential reuse.

To meet its proposed financial commitment for remediation, Bonneville expects to place funds in a separate interest-bearing trust account in order to have sufficient funds for the eventual final remediation. Bonneville's site remediation obligation, if reuse of the sites and structures does not occur, would not be conditioned on the adequacy of funds in the trust account.

Energy Northwest is continuing to investigate possible reuse of the sites, which may include a potential transfer of the property.

Physical restoration activities are also currently underway. Special authorization was received from DOE and EFSEC to store the cooling tower asbestos transite material in an onsite landfill. A landfill located on the site was prepared to accept this material. This transite removal process commenced in late 2000 and was completed in the fall of 2001. At completion, approximately 28,000 cubic yards of concrete asbestos material were deposited into the landfill in four lifts. The stored material is permanently covered with approximately two feet of cover and has been marked to prevent any future disturbance.

Energy Northwest has recorded accrued liabilities of \$59.3 million for Project 1 site restoration based on current 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 currently estimates that the cost of site restoration for Project 4 will be approximately \$41.3 million.

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. Energy Northwest and DOE reached agreement in May 2002 concerning DOE's liability for radioactive contamination and its related impacts on HGP site restoration. Per the agreement, DOE will reimburse Energy Northwest for all cost impacts related to the radioactive contamination of the piping and equipment.

Completed activities include the removal and disposal of all exterior asbestos, the removal and disposal of all uncontaminated asbestos insulation from interior piping and equipment, the removal and disposal of transformers and transmission towers, and the removal and disposal of all external piping and equipment. In 2001 environmental cleanup activities were initiated to prepare for final site demolition and restoration. Completed activities include outboard drain pond radioactive soil cleanup, underground fuel oil storage tank cleanup, cleanup of soil contamination areas in the storage yard, and PCB soil contaminated cleanup in the transformer yard.

Activities are currently underway to remove the river intake pumphouse and outfall structures and begin the final demolition and restoration phase.

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.

OTHER ACTIVITIES

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 ("Duke Grays Harbor"), an unregulated subsidiary of Duke Energy, submitted a proposal that was approved by Energy Northwest's Executive Board on January 3, 2001. The purchase agreement with Duke Grays Harbor, signed on January 11, 2001, provides for Energy Northwest to receive \$10 million in payment for the site or, in the alternative, \$5 million if it successfully negotiates a contract with Duke Grays Harbor to operate the first 500 megawatt natural gas-fired power plant to be completed on the site. The agreement also provides Energy Northwest with various other options, including an option to purchase up to 50 megawatts of electricity generated from the plant for five years at the cost of production and an option to participate in a second combustion turbine power plant that Duke Grays Harbor may construct at the site. Energy Northwest has been retained to operate the first power plant on the site for an initial period of five years and has received the \$5 million payment. At the option of Duke Grays Harbor, this initial period may be extended for two additional five-year periods. Under the contract, the maximum liability of Energy Northwest is limited to the net income received from Duke Grays Harbor for the preceding 12-month period, with an aggregate liability of up to \$1 million for the term of the contract. On August 26, 2002, Duke Grays Harbor made the decision to put the project on hold.

Resource Development

Several years ago, Energy Northwest set out to develop new sources of electricity generation and provide energy and environmental related services to meet the needs of its member utilities and the region. Since 1992, Energy Northwest has provided a wide range of chemical analysis and environmental monitoring services to utility, municipal, commercial, and nuclear

customers. Energy Northwest is a founding member of Noanet, offering access to a fiber-optic cable network licensed from Bonneville and other broadband providers. Energy Northwest is actively investing in emerging technologies through its support of the Applied Process Engineering Laboratory, currently in its fourth year of operation. Energy Northwest has begun the search for biomass generating locations, adhering to its commitment to develop alternative power resources.

The Energy Northwest Board of Directors approved a second wind power project in April 2002. The Zintel Canyon Wind Project is planned to be located adjacent to the Nine Canyon Wind Project and has a potential capacity of about 50 megawatts. The Project is in the early planning stages. Studies necessary to determine project feasibility and utility customer interest are underway.

All of these current and future Energy Northwest initiatives to develop new sources of electricity generation and related energy and environmental services have been or will be funded from sources other than Bonneville, the Net Billing Agreements or Projects 1, 3 and Columbia.

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 2003 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 30 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, purchases 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 power for direct consumption to about six companies ("Direct Service Industries" or "DSIs") located in the Region, although the contracted amount of service Bonneville provides to DSIs has diminished substantially relative to historical levels.

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. Bonneville met its fiscal year 2002 payment responsibility to the United States Treasury in full and on time. 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 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.

DEVELOPMENTS RELATING TO BONNEVILLE’S POWER MARKETING APPROACH AND BONNEVILLE’S FINANCIAL CONDITION

For much of its history, Bonneville 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”). As a result of deregulation actions relating to Western energy markets, hydroelectric generating conditions primarily relating to the amount of precipitation in the West, natural gas prices, variations in load levels due to changes in economic activity and the weather, and a variety of other factors, wholesale power prices in the West have been very volatile in the past several years. Prices peaked in the fiscal year 2000-2001 period at levels that were many multiples of historical prices. Prices declined in fiscal year 2002, although they have risen somewhat in the current fiscal year. Electric power prices affect both the revenues Bonneville receives from disposing of electric power and the expenses Bonneville incurs to meet contracted electric power loads.

Subscription Strategy and Power Rates for Fiscal Years 2002-2006

At or slightly before the end of Bonneville’s fiscal year 2001, which ended on September 30, 2001, all of Bonneville’s then existing long-term, in-Region power sales contracts with Preference Customers and DSIs, and all of Bonneville’s settlements with Regional investor-owned utilities (“Regional IOUs”) to whom Bonneville is required by law to provide Residential Exchange Program benefits, as hereinafter described, expired. In anticipation of the expiration of such contracts and during the unprecedented volatility in Western power markets described herein, Bonneville and its Regional customers negotiated new long-term power sales and related agreements for the period beginning on or slightly before October 1, 2001. Under this “Subscription Strategy,” Bonneville entered into five- and ten-year power sales contracts with 135 Regional Preference Customers and into five-year power sales contracts with eight DSI companies. Bonneville also entered into settlement contracts with all six of the Regional IOUs to settle Bonneville’s obligations under the Residential Exchange Program through fiscal year 2011.

The aggregate power sales commitment initially undertaken by Bonneville under these agreements, together with certain pre-existing surplus firm power sales and related obligations, exceeded by roughly 3200-3300 average megawatts the aggregate amount of power from Federal System resources and contract purchases, which was estimated at the time to be roughly 8000 average megawatts. To meet a portion of this difference, Bonneville entered into a number of power purchases to augment Federal System generation resources (“Augmentation Purchases”). Given the very high energy prices prevailing at the time, Bonneville subsequently negotiated a number of load reduction agreements with its Regional customers in lieu of making additional Augmentation Purchases. Under the load reduction agreements Bonneville agreed to pay customers to reduce the amount of power Bonneville otherwise was obligated to provide under related Subscription power sales agreements. Most of the load reductions occurred or will occur in fiscal years 2002 and 2003; however, about 700 average megawatts of the load reductions are in effect through fiscal year 2006.

In view of the foregoing Augmentation Purchases and load reduction agreements, lowered expectations regarding Regional load growth, and declining expectations that aluminum company DSIs will meet their power purchase obligations, Bonneville now believes that its firm resources, including existing Augmentation Purchases, are roughly equal to its expected firm load obligations in fiscal years 2004 through 2006 and that Bonneville may have somewhat more firm resources than firm loads for the remainder of fiscal year 2003, depending on the month. Bonneville therefore believes that it will not have to make substantial additional Augmentation Purchases, if any, to meet its Subscription loads through at least fiscal year 2006, subject to changes in contracted loads or generation from Federal System generating resources, and subject to the receipt of power under Augmentation Purchases and other power purchase and related agreements. If contracted loads, especially those of DSIs, drop

from current contract levels (after taking into account load reduction agreements), Bonneville could have a firm energy surplus in fiscal years 2004-2006.

In fiscal years 2000-2001, coincident with the development of the power sales and related contracts under the Subscription Strategy, Bonneville developed and proposed power rates for such Subscription agreements for the five-year period beginning October 1, 2001 (the "2002 Final Power Rate Proposal"). The 2002 Final Power Rate Proposal is comprised of an initial filing with FERC for "base rates" and a subsequent filing with FERC setting forth certain rate level adjustment mechanisms.

The proposed "base rates" are subject to three intra-rate-period rate level adjustments that are triggered upon the occurrence of specified circumstances. The base rates proposed by Bonneville are between approximately 1.93 cents per kilowatt hour and 2.30 cents per kilowatt hour, excluding transmission and depending on type of service, and are at levels similar to those in effect for like service in the fiscal year 1997-2001 rate period. While the base rates are low relative to the cost of most other power generation, the triggering of the adjustment mechanisms has had the effect of raising Bonneville's rates substantially. Under the first of the rate adjustment mechanisms, the Load Based Cost Recovery Adjustment Clause ("LB-CRAC"), Bonneville makes semi-annual adjustments to rate levels tied to the direct cost of certain Augmentation Purchases and certain load reduction agreements entered into to address the increment of loads assumed by Bonneville under the Subscription Strategy.

The second rate level adjustment, the Financial Based Cost Recovery Adjustment Clause ("FB-CRAC"), provides one-year adjustments in rate levels in addition to the LB-CRAC. The FB-CRAC is intended to increase rate levels to obtain limited amounts of revenues in a fiscal year if Bonneville forecasts that its Power Business Line accumulated net revenues will be below identified fiscal year end threshold levels. The amount of revenues Bonneville can obtain under the FB-CRAC is limited to a maximum of between about \$90 million and \$115 million per fiscal year, depending on the fiscal year in which the FB-CRAC adjustment is used.

The third rate adjustment mechanism, the Safety Net Cost Recovery Adjustment Clause ("SN-CRAC"), enables Bonneville to increase rate levels in order to recover costs on a temporary basis if, at any time during the five year rate period, Bonneville (i) forecasts a 50 percent or greater probability of missing a payment to the United States Treasury or other creditor in the then current fiscal year or (ii) misses a scheduled payment to the United States Treasury or other creditor.

As described below, rate level increases under the LB-CRAC and FB-CRAC are currently in effect. Bonneville also has initiated actions that will lead to the formal process necessary to possibly increase rate levels under the SN-CRAC. Some Subscription contracts are not subject to any of the rate adjustment mechanisms and some are subject only to some of such mechanisms. See "— Power Business Line — Certain Statutes and other Matters Affecting Bonneville's Power Business Line — Power Marketing in the Period After Fiscal year 2001 — Subscription Power Rate Proposal."

FERC granted interim approval of the 2002 Final Power Rate Proposal in September 2001 and Bonneville awaits a final order from FERC approving such rates. For a more detailed description of Bonneville's proposal for power rates applicable to Subscription power sales, see "POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Power Marketing in the Period After Fiscal Year 2001 — Subscription Power Rate Proposal."

Bonneville's Fiscal Year 2002 Financial Results

While Bonneville had positive net revenues of \$9.5 million in fiscal year 2002, an increase of approximately \$347 million over fiscal year 2001, Bonneville estimates it had an operating loss of about \$308 million after excluding the positive net revenue effects of extending the 2002 maturities of Energy Northwest net billed program debt under the Debt Optimization Proposal. The debt restructuring increased cash flow to Bonneville in fiscal year 2002, thereby enabling Bonneville to make planned prepayments and planned amortization ahead of schedule of about \$266 million in bonds issued by Bonneville to the United States Treasury and appropriated repayment obligations to the United States Treasury. The low net revenues in fiscal year 2002 occurred despite a power rate level increase of over 40 percent over prior rates for similar service, on average during fiscal year 2002. The rate level increase applicable in fiscal year 2002 was made under the LB-CRAC, which is designed for the limited purpose of recovering only the direct costs of power purchases and load reductions under identified contracts Bonneville entered into to meet the 3200-3300 megawatt load increment Bonneville assumed under the Subscription Strategy. The LB-CRAC was not designed to and does not assure recovery of all of Bonneville's costs. The two semi-annual net LB-CRAC adjustments in fiscal year 2002 were about 46 percent and 39 percent of base rates, respectively.

Several developments affected Bonneville's financial results in fiscal year 2002. The main reason for the low net revenues was lower than expected revenues from seasonal surplus energy sales. A substantial portion of Bonneville's power sales revenues, in some years up to 25 percent or more, is derived from the sale of seasonal surplus hydroelectric energy. Bonneville's 2002 Final Power Rate Proposal for the five years beginning October 1, 2001, is based on certain assumptions regarding expected revenues from the sale of seasonal surplus energy. In making seasonal surplus energy revenue projections to support the rate proposal, Bonneville assumed average hydroelectric generation and used price forecasts finalized in May 2001, at a time when prevailing West Coast market prices for electric power were about 20.0 cents per kilowatt-hour. Bonneville's rate case projections assumed that the average price it would receive in fiscal year 2002 for seasonal surplus sales would be about 5.7 cents per kilowatt hour. Contrary to these forecasts, prevailing West Coast wholesale energy prices declined, resulting in Bonneville's obtaining between about 2.0 to 2.5 cents per kilowatt-hour for its seasonal surplus energy in fiscal year 2002.

In addition, although Columbia River Basin precipitation levels in fiscal year 2002 returned from the historically low levels of fiscal year 2001 to the average levels upon which the forecasts in the rate case are based, actual hydroelectric generation was below average, primarily as a result of the effects of refilling reservoirs. In addition, spring runoff conditions resulted in Bonneville's having to sell more than expected amounts of seasonal surplus energy during periods of the year when prices typically are, and in fact were, relatively low. As a consequence of the foregoing factors, Bonneville's discretionary power sales revenues were roughly \$670 million lower in fiscal year 2002 than Bonneville forecast in the final stages of developing the 2002 Final Power Rate Proposal.

The lower than average hydroelectric generation and lower than forecast prices also led to a lower than expected realization in fiscal year 2002 of United States Treasury repayment credits for certain fish and wildlife costs incurred by Bonneville. Bonneville receives such credits, which it counts as revenues, under section 4(h)(10)(C) of the Northwest Power Act. A portion of these expenses is for power purchases made by Bonneville that are attributable to the effects of hydroelectric system constraints for the benefit of fish. If power prices decline, the credits Bonneville obtains for such expenditures also decline. Other factors that contributed to Bonneville's 2002 financial results were increased costs from the agreements with Regional IOUs to settle Bonneville's Residential Exchange obligations and increases in other O&M expenses. See "— Power Business Line — Certain Statutes and other Matters Affecting Bonneville's Power Business Line — Fish and Wildlife — Federal Repayment Offsets for Certain Fish and Wildlife Costs Borne by Bonneville."

As a result of the financial performance in fiscal years 2001 and 2002, Bonneville ended fiscal year 2002 with financial reserves of about \$188 million. By contrast, Bonneville's financial reserves for the fiscal years ending September 30, 2000 and September 30, 2001 were about \$811 million and \$625 million, respectively. Bonneville's financial reserves include cash and deferred borrowing. Deferred borrowing represents amounts that Bonneville is authorized to borrow from the United States Treasury for expenditures that Bonneville has incurred to date but the borrowing for which Bonneville has elected to delay.

For a discussion of year-to-year financial results see "BONNEVILLE FINANCIAL OPERATIONS — Management Discussion of Operating Results."

Fiscal Year 2003 Financial Developments

The 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 at very low levels this fiscal year. March 2003 forecasts prepared outside of, but relied on by, Bonneville indicate that January 2003 through July 2003 runoff in the Columbia River Basin as measured at the Dalles Dam may be about 75 percent of average. Therefore, Bonneville may have only about 80-85 percent of the seasonal surplus hydroelectric generation that Bonneville would expect under average water conditions.

In view of Bonneville's fiscal year 2002 financial results, continuing, lower-than-forecast revenues from discretionary sales of electric power, and increasing costs in several areas, Bonneville has taken a number of steps to assure that its revenues are adequate to meet its costs through the remainder of the rate period. First, with indications in early calendar year 2002 that revenues from discretionary power sales would be lower than previously forecasted, Bonneville began reducing its costs substantially. It has continued to do so in fiscal year 2003. Through expense reductions, deferrals and other actions, Bonneville expects to improve its Power Business Line financial health by \$350 million in aggregate over the fiscal year 2003-2006 period. Bonneville continues to explore additional cost reductions and deferrals.

Second, Bonneville triggered the application of the FB-CRAC rate level adjustment for all of fiscal year 2003. This rate level adjustment will allow Bonneville to recover about \$90 million in additional revenues in fiscal year 2003, after taking into account certain effects related to the Slice of the System contracts described herein. See "— Power Business Line — Certain Statutes and other Matters Affecting Bonneville's Power Business Line — Power Marketing in the Period After Fiscal Year 2001." The FB-CRAC has the effect of raising the average rates for those power sales and related contracts to which the adjustment applies by about 11 percent over applicable base rates. In view of forecasts for the end of fiscal year 2003, Bonneville expects that the FB-CRAC will again be employed in fiscal year 2004, having roughly the same effect on rates and revenue, as is the case in fiscal year 2003. The rate level increases under the FB-CRAC are in addition to rate level increases in effect under the LB-CRAC. Bonneville set the net LB-CRAC adjustment at about 32 percent of base rates for the first six months of fiscal year 2003 and at about 39 percent of base rate for the second six months of the fiscal year.

Third, in February 2003, Bonneville notified its customers that it would initiate the formal rate procedures to potentially increase rate levels under the SN-CRAC. Under the SN-CRAC, Bonneville may adjust power rates an indeterminate amount to recover its costs if Bonneville forecasts a 50 percent or greater probability that it will miss a scheduled payment to the United States Treasury or other party in the then current fiscal year. Bonneville has concluded that there is a 74 percent probability that it would not meet in full its scheduled fiscal year 2003 payments to the United States Treasury.

On March 13, 2003, Bonneville published its initial proposal for the SN-CRAC rate level adjustment. The initial proposal calls for a three-year variable SN-CRAC adjustment with a cap limiting the amount of revenues that can be collected each year under the adjustment. The SN-CRAC adjustment would be structured much like the FB-CRAC adjustment, to be triggered when "accumulated net revenues" fall below identified thresholds. Like the FB-CRAC adjustment, the proposed SN-CRAC adjustment would be set annually in August 2003, 2004 and 2005 on the basis of third quarter financial reports for the related fiscal year, would take effect at the beginning of the next fiscal year, and would remain in effect for the subsequent twelve

months. Under the initial proposal, the amount of revenues derived thereunder would be capped at about \$470 million per year. In general, “accumulated net revenues” would be measured by the accumulated annual differences, in each fiscal year of the remaining years of the five-year rate period, between accrued revenues and expenses of Bonneville’s Power Business Line.

The initial proposal for the SN-CRAC rate level adjustment is designed to recover an expected value of about \$340 million to \$370 million for each of the three fiscal years in which it is proposed to be in effect. Bonneville estimates that the proposed rate level increase under the initial proposal would average about 15.7 percent of current power rate levels.

The final SN-CRAC adjustment to be proposed by Bonneville will be determined in the formal rate setting process and will be influenced by changes in forecasts, projections and rate design. In proposing a rate level increase under the SN-CRAC, Bonneville expects, among other things, that it will receive lower price levels for discretionary power sales and lower revenues from such sales than Bonneville forecast in the final phases of developing the 2002 Final Power Rate Proposal. The final SN-CRAC proposal will also depend on many other factors including updated financial information, customer input on rate design and the exercise by Bonneville of its judgment about the appropriateness of various rate level increases. The final SN-CRAC proposal could differ, perhaps substantially, from the initial proposal.

Bonneville’s long standing goal has been to set rates that achieve an 88 percent probability over five years of meeting its annual United States Treasury payment responsibility in full. Bonneville expects that it will not use this standard in developing the SN-CRAC adjustment. Since Bonneville expects to reserve the ability to adjust rate levels under the SN-CRAC again if the revenues from the first adjustment under the SN-CRAC provision prove inadequate, using a multi-year Treasury payment probability may be less meaningful to Bonneville in setting an SN-CRAC adjustment. Bonneville also believes there is a probability that it will employ a flexible SN-CRAC level adjustment that would vary by reference to periodic financial performance or cost indicators and without additional rate proceedings. Such a feature would also render using a multi-year United States Treasury payment probability goal less meaningful to Bonneville in setting an SN-CRAC adjustment.

Assuming an SN-CRAC adjustment in the 15-16 percent range over the current base rate levels and expected rate level adjustments in fiscal year 2004 under the FB-CRAC and LB-CRAC, Bonneville’s average power rates would increase from 3.0 to 3.4 cents per kilowatt hour for the last half of fiscal year 2003 to about 3.2 to 3.6 cents per kilowatt hour during the first six months of fiscal year 2004, without transmission and depending on type of service. In total, such adjustments would exceed by more than 50 percent the rate levels in effect for like service in fiscal year 2001, the year preceding the current power rate period. As described herein, the rate level increases under the rate adjustment mechanisms vary depending on the type of Subscription power sales contract. Some contracts are not subject to any of the rate adjustment mechanisms and some are subject only to some of such mechanisms.

Some of the cost reductions and deferrals and the commencement in October 2002 of the rate level increase under the FB-CRAC have impacts in fiscal year 2003. Nonetheless, based on updated quarterly review dated as of February 2003, Bonneville estimates that if current forecasts of costs, streamflows and discretionary power sales are realized, Bonneville would have net revenues of between positive \$40 million and negative \$160 million in fiscal year 2003. The forecasted net revenue amount excludes \$270 million in positive net revenue effects arising from debt management actions under the Debt Optimization Proposal. See “Plan of Refunding — Refunding Plan.” Given the many variables and assumptions upon which such forecasts are based, actual net revenues could differ substantially from those indicated in such forecasts.

Notwithstanding the possibility that Bonneville could have negative net revenues in the current fiscal year, and in view of the relatively low fiscal year 2003 starting reserve balance of \$188 million, Bonneville intends to manage its finances to assure that the fiscal year 2003 ending reserve level balance will not be lower than between \$100 million and \$200 million. The possible financial tools Bonneville may rely on to assure adequate reserves to meet cash flow needs in early fiscal year 2004 include, among other items: (i) deferring all or a portion of planned early repayments and amortization of about \$315 million in bonds issued by Bonneville to the United States Treasury and appropriations repayment obligations by Bonneville to the United States Treasury at the end of fiscal year 2003 in great part under the Debt Optimization Proposal, (ii) seeking access to short-term borrowing with the United States Treasury under Bonneville’s existing borrowing authority, or (iii) deferring scheduled interest and/or principal payments to the United States Treasury, meaning planned payments to the United States Treasury as scheduled under applicable repayment criteria in contrast to the advance amortization payments described in clause (i). Whether and the extent to which Bonneville will rely on the foregoing financial tools will depend on financial performance through the remainder of fiscal year 2003.

Under current internal forecasts of future market prices, Bonneville believes that its Subscription power rates levels, as adjusted by the various rate level adjustment mechanisms, on average in fiscal years 2003-2006 will be at or near average market prices for such period based on similar power products. Bonneville believes that its Subscription Power rates will still not exceed the cost of new natural gas fired generation when shaped to serve load similar to the shaping ability of the Federal System. Such belief is based on market, rate and other forecasts that are subject to many variables most of which are not within Bonneville’s control.

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 67% of Bonneville’s firm power supply. Bonneville also has acquired a small amount of power from 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 2003.”

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 seasonal surplus energy (as described below) based on certainty of occurrence.

Bonneville defines “firm power” as electric power that (i) is continuously available from the Federal System even during the most adverse water conditions, and (ii) is 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 2003, the Federal System, including firm energy purchases, is capable of producing about 10,300 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 in most water years. Bonneville estimates that in most months its peaking capacity, for long-term planning purposes, will meet or exceed its requirements for the next ten years. Bonneville expects this excess of peaking capacity to persist, because most new 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.

While Bonneville markets most of its energy on a firm basis, the amount of energy that the Federal System can produce varies from period to period and depends on a number of factors, including weather conditions, streamflows, storage conditions, flood control needs, and fish and wildlife requirements.

The energy that Bonneville has to market above critical water assumptions in a specified period is referred to as seasonal surplus energy. The amount of seasonal surplus energy generated by the Federal System depends primarily on precipitation and reservoir storage levels, thermal plant performance (the Columbia Generating Station), and other factors. During median water years, the Federal System would generate seasonal surplus energy of about 2700 annual average megawatts, while in wet years the amount of such energy available may average in some months as much as 4300 annual average megawatts. In dry water years, the amount of seasonal surplus energy generated by the Federal System could be quite small.

Under the Slice of the System contracts for the ten years beginning October 1, 2002, Slice customers purchased from Bonneville, for their requirements, an aggregated 22.63 percent proportionate interest of the output of the Federal System. This purchase includes firm power and what would otherwise be seasonal surplus energy from the Federal System in the same proportion. See “Power Business Line — Power Marketing in the Period After Fiscal Year 2001— Preference Customer Loads.”

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 measures under the biological opinions (and supplements thereto) issued with respect to the Federal System beginning in 1995, in each case under the Endangered Species Act (“ESA”), including measures from the 2000 Biological Opinion and a biological opinion issued by the U.S. Fish and Wildlife Service (“Fish and Wildlife Service”) in 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. 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. In addition, Bonneville has a number of power purchase contracts that are not tied to specific generating resources. The amount of power purchased under these contracts has increased substantially from prior years as Bonneville has used such contracts to obtain electric power needed to meet the increased loads taken on by Bonneville under the Subscription Strategy.

Operating Federal System Projects For Operating Year 2003

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 2003, 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 2003⁽¹⁾

Project	Initial Year in Service	No. of Generating Units	January Capacity (Peak MW) ⁽²⁾	Maximum Energy (aMW) ⁽³⁾	Median Energy (aMW) ⁽⁴⁾	Firm Energy (aMW) ⁽⁵⁾
<u>United States Bureau of Reclamation Hydro Projects</u>						
Grand Coulee	1941	33	5,325	3,041	2,378	1,872
Hungry Horse	1952	4	323	129	101	77
Other Bureau Projects⁽⁶⁾		<u>15</u>	<u>225</u>	<u>163</u>	<u>156</u>	<u>130</u>
Total Bureau of Reclamation Projects		52	5,873	3,333	2,635	2,079
<u>United States Army Corps of Engineers Hydro Projects</u>						
Chief Joseph	1955	27	2,129	1,622	1,334	1,047
John Day	1968	16	1,888	1,376	1,065	768
The Dalles including Fishway ⁽⁷⁾	1957	24	2,074	1,077	839	602
Bonneville including Fishway	1938	20	752	562	523	357
McNary	1953	14	935	711	697	551
Lower Granite	1975	6	485	439	323	212
Lower Monumental	1969	6	595	411	272	214
Little Goose	1970	6	752	440	321	209
Ice Harbor	1961	6	471	314	199	97
Libby	1975	5	533	297	223	166
Dworshak	1974	3	343	219	190	125
Other Corps Projects⁽⁸⁾		<u>20</u>	<u>396</u>	<u>294</u>	<u>268</u>	<u>223</u>
Total Corps of Engineers Projects		<u>153</u>	<u>11,353</u>	<u>7,762</u>	<u>6,254</u>	<u>4,571</u>
Total Bureau of Reclamation and Corps of Engineers Projects		205	17,226	11,095	8,889	6,650
<u>Non-Federally-Owned Projects</u>						
The Columbia Generating Station ⁽⁹⁾	1984	1	1,150	877	877	877
Other Non-Federal Projects⁽¹⁰⁾		<u>18</u>	<u>96</u>	<u>181</u>	<u>169</u>	<u>167</u>
Total Non-Federally-Owned Projects		19	1,246	1,058	1,046	1,044
Total Bonneville Contract Purchases⁽¹¹⁾		<u>N/A</u>	<u>2,440</u>	<u>2,560</u>	<u>2,560</u>	<u>2,560</u>
Total Federal System Resources		<u>224</u>	<u>20,912</u>	<u>14,713</u>	<u>12,495</u>	<u>10,254</u>

Source: 2001 Pacific Northwest Loads and Resources Study, Bonneville, October 2002.

- (1) Operating Year 2003 is August 1, 2002 through July 31, 2003.
- (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. The hydroregulation studies for this analysis contain measures from biological opinions from and after 1995.
- (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) The Dalles Project is portrayed here for convenience as including the Dalles Fishway Project of 4 megawatts of peaking capacity and 3 average megawatts of energy. The Dalles Project in fact is non-Federally-owned.
- (8) Other Corps Projects include: Albeni Falls (1955), Big Cliff (1954), Cougar (1964), Detroit (1953), Dexter (1955), Foster (1968), Green Peter (1967), Green Springs (1960), Hills Creek (1962), Lookout Point (1954) and Lost Creek (1975).
- (9) Columbia Generating Station has a scheduled maintenance outage, which will affect its energy output.
- (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), the Western Generation Agency's James River Wauna Cogeneration Project (1996), the State of Idaho DWR's Clearwater hydro (1998) and Dworshak Small Hydro (2000) projects. U.S. Park Service's Glines Canyon (1927) and Elwah (1910) hydro projects, shares of Foote Creek, LLC's Foote Creek 1 (1999), Foote Creek 4 (2000) wind projects, a share of PacifiCorp Power Marketing and Florida Light and Power's Stateline wind project, Condon Wind Project LLC's Condon wind project, a share of ENW's Nine Canyon Wind Project, NWW Wind Power's Klondike Phase 1 wind project, Calpine's Fourmile Hill Geothermal project, and a share of the City of Ashland's solar project.
- (11) Bonneville Contract Purchases include: Subscription Strategy Augmentation Purchases and other contracts by Bonneville for power from both inside and outside the Region, including Canada.

Customers and Other Power Contract Parties of Bonneville's Power Business Line

Historically, Bonneville has had 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."

Credit risk may be concentrated to the extent that one or more groups of counterparties, including purchasers and sellers, 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.

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 "Priority Firm Rate" (or, "PF Rate") for most of their loads, and as a class are Bonneville's principal customer base. Under the Public Preference, Bonneville must 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 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.

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. Under Subscription, about 75 average megawatts of firm power at the Priority Firm rates were reserved for, and are now provided to, such new entities.

Direct Service Industrial Customers

Bonneville may, but is not required to, offer to sell power to a limited number of DSIs within the Region for the purchase of power for their direct consumption. For several years prior to 1995, Bonneville's annual DSI firm loads averaged approximately 2800 average megawatts. Through the implementation of the Subscription Strategy, Bonneville signed contracts

with eight DSI companies to serve about 1500 average megawatts of loads for the five years beginning October 1, 2001; however, the amount of power now being purchased by the DSIs is substantially less than the initially contracted amount. See “Certain Statutes and Other Matters Affecting Bonneville’s Power Business Line — Power Marketing in the Period After Fiscal Year 2001— DSI Loads.”

Regional Investor-Owned Utilities

As part of Bonneville’s Subscription Strategy, Bonneville entered into certain agreements, as amended, with all six of 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 in the Period After Fiscal Year 2001” and “BONNEVILLE FINANCIAL OPERATIONS — Historical Federal System Financial Data.”

Bonneville provides firm power to the Regional IOUs under contracts other than long-term firm requirements power sales contracts. Bonneville also sells substantial amounts of peaking capacity to Regional IOUs.

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 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.

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 unencumbered to a degree by 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 after October 1, 2001. 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 seasonal surplus energy from Bonneville and these sales account for the greatest share of revenues from Bonneville’s exports. The amount of seasonal surplus 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 power 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 surplus of power could be sold to the Pacific Southwest. Such sales may be limited, however, by Southern Intertie capacity and other factors.

Effect on Bonneville of Developments In California Power Markets

California power markets experienced historically high power prices and volatility in the period 1999-2001. For much of that period, the California investor-owned utilities (the “Cal-IOUs”), were faced with having a cap on the rates that they could charge their customers while being required to purchase virtually all of their power requirements at prices that were multiples of the rates they could charge.

The weakened financial positions of the Cal-IOUs, particularly Pacific Gas & Electric (PG&E), which filed for protection under federal bankruptcy laws in April 2001, and Southern California Edison (SCE), also affected the financial condition of two entities with central roles in the restructuring 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 were the Cal-IOUs. Defaults by PG&E and SCE in payments for energy and transmission have resulted in concerns by energy suppliers that the Cal-ISO may not be a creditworthy supplier, and led to the intervention by the State of California as purchaser of electric power to supply consumers served by 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 continued operation of the exchange during periods of unprecedented high market prices when the Cal-IOUs' retail rates could not recover the market prices for power, the Cal-PX has substantial outstanding payment obligations due from the Cal-IOUs. The Cal-PX filed for bankruptcy protection in March 2001.

Bonneville entered into certain power sales through the Cal-PX for which Bonneville is due payment but has not yet been paid. Bonneville ceased selling into the Cal-PX in December 2000. In addition, 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 also has a long-term seasonal power exchange agreement with SCE. Bonneville estimates that its total exposure for sales and exchanges with the foregoing California parties arising since October 1, 2000, is about \$90 million. Based on its current evaluation, Bonneville recorded provisions for uncollectible amounts, which in management's best estimate are sufficient to cover any potential exposure. Nonetheless, Bonneville is continuing to pursue collection of all amounts due in bankruptcy and other proceedings.

In connection with the historically high power prices and volatility in West Coast power markets, FERC has initiated two separate proceedings to address, under the Federal Power Act, whether certain power sellers charged unjust and unreasonable prices and therefore should refund to power purchasers any amounts overcharged. Bonneville is participating in both proceedings.

In the first proceeding, FERC is reviewing the extent to which the prices of power sales through the Cal-PX and to the Cal-ISO were "unjust and unreasonable" in the period October 2, 2000 to June 19, 2001. In this proceeding, FERC has concluded that unjust and unreasonable pricing in fact occurred. FERC bifurcated the proceeding and conducted a hearing before an Administrative Law Judge (ALJ) in March 2002 to determine a pricing structure that approximates a competitive market. FERC, through the ALJ, conducted a second hearing in August 2002 to determine the amount of refund liability of various power sellers that participated in such sales. Bonneville was a net seller through the Cal-PX and to the Cal-ISO during the period at issue. On December 12, 2002, the ALJ issued Proposed Findings related to the March and August phases of the hearing. The Proposed Findings are subject to review by FERC. The exact amount of any refund liability and a determination of who owes what to whom will be determined in a compliance filing that is yet to be scheduled. Despite the issuance of the Proposed Findings, Bonneville cannot predict with any accuracy the amount of refund liability against Bonneville because the actual calculation must be determined through the settlement computer systems of the Cal-ISO and Cal-PX. However, based upon prior calculations of refund liability and the impact of the Proposed Findings on these earlier calculations, Bonneville believes that the amount of any refunds determined by FERC against Bonneville would be substantially less than the unpaid amounts owed to Bonneville by the Cal-PX and the Cal-ISO. Under prior rulings by FERC, this should result in a net payment owed to Bonneville.

In the second proceeding, FERC is reviewing the extent to which the pricing of power sales in the bilateral "spot market" in the Pacific Northwest was "unjust and unreasonable" in the period December 25, 2000 through June 19, 2001. FERC has indicated that if it were to find that power sellers exacted unjust and unreasonable prices during this period, FERC would undertake a subsequent proceeding to determine refund liability.

FERC held a hearing in early September 2001 in this proceeding. On September 24, 2001, the presiding judge made recommendations to FERC concluding, among other things, that the prices charged in the bilateral "spot market" in the Pacific Northwest during the relevant period were not unjust and unreasonable, that refunds should not be ordered, and that FERC should conduct no further hearings and should terminate the proceeding. In addition, the presiding judge found that the reasoning that underlies the assertion of FERC's refund authority over power sales from Bonneville and other non-jurisdictional utilities to the Cal-ISO and through the Cal-PX markets in the first proceeding does not apply to bilateral power sales of such utilities in the Pacific Northwest. FERC has not yet ruled on the presiding judge's recommendations.

While Bonneville is a participant in the foregoing refund proceedings, Bonneville is taking the position before FERC in certain petitions for rehearing that FERC has no jurisdiction over Bonneville in this matter under the Federal Power Act, and therefore that FERC may not assess refund liability against Bonneville. Several other non-jurisdictional utilities have also filed petitions for rehearing challenging FERC's assertion of jurisdiction over them in this matter. On December 19, 2001, FERC rejected Bonneville's and the other nonjurisdictional utilities' petitions. Several nonjurisdictional utilities, including Bonneville, have filed appeals in Federal appellate court.

In a related matter, on February 13, 2002, FERC announced that it is initiating an investigation by FERC staff into whether any entity, including Bonneville, manipulated short-term electric power and natural gas prices in the West or otherwise exercised undue influence over wholesale prices in the West, from the period January 1, 2000 forward. The order directing the

investigation does not specify the remedial actions that FERC may implement or attempt to implement in the event it were to conclude that price manipulation or undue influence over prices in fact occurred. See “ — Effect on Bonneville of the Enron Bankruptcy” immediately below.

Effect on Bonneville of the Enron Bankruptcy

On December 2, 2001, Enron Corp. and a number of its subsidiaries, including Enron Power Marketing Incorporated (“EPMI”), filed for bankruptcy protection under federal bankruptcy laws. At the time, EPMI was Bonneville’s second largest electric power trading counterparty and Bonneville and EPMI had between them about one hundred separate transactions for forward sales and purchases of electric power. The parent, Enron Corp., guaranteed performance of all of the contracts Bonneville has with EPMI.

At the time of the bankruptcy filing, the aggregate amount of forward power transactions between Bonneville and EPMI exceeded 400 megawatts annually on average over the five years ending September 30, 2006. Under certain of the transactions, Bonneville agreed to sell power to EPMI and under other transactions, Bonneville agreed to purchase power from EPMI. Bonneville estimates that the average net obligation that EPMI was obligated to provide at the time of the bankruptcy filing was about 60 megawatts of power per year to Bonneville over such five year period. Bonneville has no contracts with EPMI beyond September 30, 2006.

Subsequent to the bankruptcy filing, Bonneville terminated two of the longer term contracts for the sale of power to EPMI. Following the termination of these two contracts, EPMI’s net delivery obligation to Bonneville under the remaining power contracts is about 200 megawatts on average through September 2006. Bonneville has not terminated any other transactions with EPMI. In addition, Bonneville estimated that with respect to the remaining contracts it would have a net payment obligation to EPMI in virtually all months through September 30, 2006.

While EPMI was unable to meet some off peak delivery obligations to Bonneville in December 2001, it has since met its power receipt and delivery obligations to Bonneville. Bonneville currently has no accounts receivable due from EPMI.

In view of the pricing of the remaining portfolio of power transactions, Bonneville believes, absent substantial changes in market prices for power, that EPMI has an economic incentive to continue to perform all of its obligations to Bonneville. Nonetheless, Bonneville cannot assure that such market conditions will continue or that EPMI will not seek to and succeed in rejecting some transactions with Bonneville. In such circumstances, Bonneville may have to purchase power at higher prices, or sell power at lower prices, than provided in the rejected transactions.

Bonneville continues to monitor the Enron bankruptcy, and, as a part of the U.S. Government and through the U.S. Department of Justice, has filed a notice of appearance in the bankruptcy proceeding.

On March 20, 2003 the Enron Bankruptcy Court, the U.S. District Court for the Southern District of New York, approved a proposed settlement of all claims relating to all power sales and purchase agreements between Bonneville and Enron. Under the proposed settlement, Enron would receive a single lump sum payment and all power purchases and sales between the two parties would be extinguished. The payment amount, which is yet to be determined, would be based on a calculation of the mark-to-market value of the contracts less a discount to Bonneville. The parties would agree on a payment amount at the time the settlement agreement is signed.

Bonneville believes that the settlement payment to Enron would be made from the United States Treasury under existing law providing for the payment of judgments against the United States and its instrumentalities. Bonneville would be responsible for repaying the United States Treasury from net proceeds available in the Bonneville Fund over a four-year period.

The court’s order approving the proposed settlement provides that neither Enron nor Bonneville are under any obligation to sign the proposed settlement.

Portland General Electric Company (“Portland General”), which is a Regional IOU as described herein and a contract party with Bonneville in several transactions, is a wholly owned subsidiary of Enron Corp. Portland General has not filed for bankruptcy protection. While Portland General has indicated that it has taken steps, with the consent of the bankruptcy court, to insulate itself and its assets from the Enron bankruptcy, Bonneville cannot provide any assurance whether such steps will in fact protect Portland General in the bankruptcy proceeding. As part of the bankruptcy proceeding Enron Corp. has solicited proposals for the purchase of Portland General. Bonneville continues to monitor Portland General’s creditworthiness.

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 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 that expired in fiscal year 2001, each of these customers had to identify annually the amount of its loads it would 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 its Subscription Strategy, Bonneville tendered proposed requirements power sales contracts to each of the Regional IOUs for specified periods following the expiration of the IOUs' 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 in 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 power rate development process; (ii) the amount of augmentation purchases that Bonneville will have to make to meet 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 had estimated 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 made power purchases in the market to address a portion of this potential shortfall, however, prices soared in the highly volatile deregulated wholesale power market. At the higher prices, Bonneville could not meet all obligations and maintain the initial base rate levels proposed in the Subscription process. To address the volatility of the wholesale power market, Bonneville negotiated amendments to certain Subscription contracts and proposed related rates, which incorporate: 1) cost recovery measures tied to the wholesale market price for power purchased by Bonneville to meet Subscription loads; and 2) reductions in Bonneville's power sales obligations through a combination of contracted load reductions and energy conservation measures. There are a number of variables that will affect the exact amount of load Bonneville will be required to serve during the five years beginning October 1, 2001. Customers have limited contract rights to withdraw from the Subscription contracts. See "— Power Marketing in the Period After Fiscal Year 2001." In addition, the contracted load reductions have various terms, but in no case do they extend past the end of fiscal year 2006. Thereafter, it is uncertain how much of that load will revert back to Bonneville. Among other things, the price of alternative power, load growth, and aluminum prices could affect Bonneville's power sales obligations, particularly in the later portion of the five-year rate period.

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.

Bonneville's 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 12-18 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 14.5 average megawatts from three wind energy projects in Wyoming, 20 average megawatts from two wind energy projects in central Oregon, and 30 average megawatts from a wind energy project on the eastern portion of the border between Oregon and Washington, 15 kilowatts from a solar photovoltaic project in southern Oregon, and 38 kilowatts from a solar photovoltaic project located on the Hanford Nuclear Reservation in Washington. 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 0.5 mills per kilowatt hour rate discount to its

customers that implement conservation measures and/or renewable resource projects. The discounts should result in about \$40 million per year (during the fiscal year 2002-2006 rate period) being spent on conservation and renewable resource initiatives by customers. In addition, Bonneville is purchasing about 100 average megawatts of conservation savings through fiscal year 2006 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 substantially increased its contracted load obligation, which has led Bonneville to make Augmentation Purchases. Consistent with the foregoing resource strategy, Bonneville has relied primarily on and will rely primarily on short-term (five years or less) purchase agreements to meld with firm power and seasonal surplus energy from the Federal System to meet these additional firm loads. See “— Power Marketing in the Period After Fiscal Year 2001.” While Bonneville believes that existing Augmentation Purchases and other actions to date will be sufficient to meet its loads through fiscal year 2006, it is possible that it may have to make additional power purchases if loads are substantially higher than expected or if the amount of power provided by Federal System generating resources or existing power purchases declines unexpectedly.

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.”

As part of the Subscription Strategy, Bonneville signed agreements with the Regional IOUs to settle Bonneville's Residential Exchange obligation for the period July 1, 2001 through September 30, 2011. These agreements provide for both sales of power and cash payments to the Regional IOUs. See “— Power Marketing in 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 National Oceanographic and Atmospheric Administration--Fisheries (“NOAA Fisheries,” which is a part of the U.S. Department of Commerce and which was formerly known as National Marine Fisheries Service) and the U.S. Department of Interior acting through the U.S. Fish and Wildlife Service (“Fish and Wildlife Service”) 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 federal projects' power purpose (as opposed to other project purposes such as irrigation, navigation and flood control). These measures mitigate for the impact on fish and wildlife of the 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 are integrated with and form a substantial portion of the measures undertaken by Bonneville 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. See "— Council's Fish and Wildlife Program."

Bonneville's fish and wildlife costs fall into two main categories, "Direct Costs" and "Operational Impacts," both of which are driven primarily by ESA requirements. Direct Costs include: (i) "Integrated Program Costs," which are the costs to Bonneville of implementing the Council Program, and which include expense and capital components for ESA-related and some non-ESA-related measures that are located at sites away from the Federal System dams; (ii) "Expenses for Recovery of Capital," which include depreciation, amortization and interest expenses for fish and wildlife capital investments by the Corps, Bureau and Bonneville; and, (iii) "Other Entities' O&M," which include fish and wildlife O&M costs of the Fish and Wildlife Service for the Lower Snake River Hatcheries and of the Corps and Bureau for Federal System projects.

"Operational Impacts" include "Replacement Power Purchase Costs" and "Foregone Power Revenues." Replacement Power Purchase Costs are the costs of certain power purchases made by Bonneville that are attributable to river operations in aid of fish and wildlife. To determine these costs in a given year, Bonneville compares the actual hydroelectric generation in such year against the hydroelectric generation that would have been produced had the hydroelectric system been operated without any fish and wildlife operating constraints. To the extent that this comparison indicates that Bonneville made a power purchase to meet load, which purchase Bonneville would not have had to make had the river been operated free of fish constraints, Bonneville accounts for such value as a fish and wildlife cost. "Foregone Power Revenues," are revenues that would have been earned absent changes in hydroelectric system operations attributable to fish and wildlife.

Bonneville estimates that in aggregate, Direct Costs and Replacement Power Purchase Costs were about \$419 million in fiscal year 2002. In addition, Bonneville estimates that it had about \$12 million in Foregone Power Revenues. The total of the preceding costs is within the range of such costs provided under the 1998 Guidance, as described in "— 1998 Guidance Regarding Fish and Wildlife Costs," and within the range assumed in the 2002 Final Power Rate Proposal.

The Endangered Species Act. As noted above, Bonneville, the Corps and the Bureau are 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. 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 the ESA has also resulted in additional Federal System costs in the form of non-operational measures funded from Bonneville revenues.

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, there have been 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, NOAA Fisheries 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.

Operation of the Federal System consistent with the biological opinions 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, decreased Federal System generation capability by about 1000 average megawatts, assuming average water conditions, from levels immediately preceding

the issuance of the first biological opinion in 1995. The consequences of this decrement in generation are reflected in the Replacement Power Purchase Costs and Foregone Power Revenues described above.

While in calendar years 1999-2001 the seasonal variance in market prices of electric power was 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.

These ESA listings and related actions to protect listed species and their habitat have also resulted in substantial cost increases to Bonneville. Prior to the initial ESA listings, Bonneville fish costs increased from about \$20 million in fiscal year 1981 to \$150 million in fiscal year 1991. After the issuance of the first biological opinion affecting Federal System operations, Bonneville's fish and wildlife costs, inclusive of Direct Costs and Operational Impacts rose to \$399 million in 1995. As noted above, Bonneville estimates that the total of Direct Costs and Operational Impacts in fiscal year 2002 was about \$430 million.

2000 Biological Opinion.

In December 2000, NOAA Fisheries promulgated a new biological opinion ("2000 Biological Opinion") that superseded all previous opinions issued by it concerning the Federal System hydroelectric dams. The 2000 Biological Opinion has been coordinated with a Fish and Wildlife Service biological opinion issued in 2000 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.

Included among the 13 biological opinion alternatives around which Bonneville developed its 2002 Final Power Rate Proposal were several that would have called for breaching four Federal System Snake River dams. The direct cost of breaching the dams 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, resulting in significantly increased power purchases and/or lost power sales. The 2000 Biological Opinion does not recommend implementation of dam breaching. However, NOAA Fisheries indicates that if measurable improvements in survival of listed fish are not seen, it may reinitiate formal consultations under the ESA with Bonneville, the Corps and the Bureau and recommend that they pursue authority to breach the four dams. In the opinion of the 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, NOAA Fisheries is expected to 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 first such report, which is to be completed in the fall of 2003, is expected to evaluate overall implementation of the reasonable and prudent alternative measures. The reports in year 2005 and year 2008 are expected to 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, NOAA Fisheries indicates that the 2008 checkpoint in particular is expected to focus on performance more than under the earlier checkpoints.

The 2000 Biological Opinion provides that if NOAA Fisheries 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, NOAA Fisheries 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 a new reasonable and prudent alternative for avoiding jeopardy to listed species.

A number of interests have filed litigation in connection with the 2000 Biological Opinion. See "BONNEVILLE LITIGATION — ESA Litigation — National Wildlife Federation v. National Marine Fisheries Service."

Federal Repayment Offsets For Certain Fish and Wildlife Costs Borne by Bonneville. In 1995, the United States Treasury, the Office of Management and Budget, DOE and other agencies agreed to provide for certain federal repayment credits to offset some of Bonneville's fish and wildlife costs. The foregoing agencies 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 allocated to non-power purposes. The agreement also directs Bonneville to recoup certain Direct Costs and Replacement Power Purchase Costs. The amount of such recoupments was about \$354 million and \$38.4 million in fiscal years 2001 and 2002, respectively. Bonneville currently projects that the recoupments will be about \$101 million in fiscal year 2003, but the actual

amount will depend to a great degree on actual hydroelectric generation results and market prices for electric energy through the remainder of the fiscal year. These credits are treated as revenues in Bonneville's ratemaking process, and such recoupments are taken against Bonneville's lowest priority financial obligation, its payments to the United States Treasury. The recoupments are initially taken based on estimates and are subsequently modified to reflect actual data.

In addition to agreeing to a protocol for the foregoing, annually realized 4(h)(10)(C) recoupments, the same federal agencies also agreed in 1996 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 for the non-power portion of fish and wildlife costs but had not recouped under section 4(h)(10)(C) against its payments to the United States Treasury. In 1997, Bonneville certified that there were approximately \$325 million in costs for past mitigation that had not been recouped against its payments to the United States Treasury. Bonneville obtained access to the Contingency Fund for the first time at the end of fiscal year 2001 in view of the poor water conditions that year, and applied about \$247 million from the Contingency Fund to reduce its fiscal year 2001 payments to the United States Treasury. The conditions governing access to the Contingency Fund were not met in fiscal year 2002, leaving an unused balance of about \$78 million in the Contingency Fund. Bonneville is currently forecasting low water conditions in fiscal year 2003 and believes that it will obtain access to the Contingency Fund this fiscal year. Nonetheless, it remains uncertain whether the criteria for access to the Contingency Fund will be met this fiscal year.

1998 Guidance Regarding Fish Costs. In September 1998, the Clinton Administration announced Fish and Wildlife Funding Principles ("1998 Guidance"). The 1998 Guidance permits Bonneville to continue to receive the previously agreed to annual 4(h)(10)(C) recoupments. The 1998 Guidance also provides 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, assuming a range of fish and wildlife cost scenarios. Bonneville employed these criteria in developing the Final 2002 Power Rate Proposal. See "— Power Marketing in the Period After Fiscal Year 2001."

Council's Fish and Wildlife Program. In November 2002, the Council adopted a new Fish and Wildlife Program (the "2002 Program"). The 2002 Program focuses on an ecosystem approach to rebuilding fish and wildlife populations in the Columbia River Basin, consistent with the 2000 Biological Opinion. Estimated costs to Bonneville of the Council's measures, as then encompassed in amendments to the Council's 1995 Program, were included in Bonneville's assumptions for the 2002 Final Power Rate Proposal. The 2002 Program, like the Council's predecessor program, sets forth an "integrated program" budget to Bonneville for both the Council Fish and Wildlife Program and the off-site mitigation program under the 2000 Biological Opinion. The costs of the integrated program (Integrated Program Costs) are included in the Direct Costs to Bonneville of its fish and wildlife obligations.

In response to financial developments over the past two years, Bonneville requested, and the Council has agreed, to a budget level of \$139 million for the expense portion of Bonneville's Integrated Program Cost obligation under the Council's 2002 Program. The Council is evaluating Bonneville's request that the fiscal year 2002 budget level remain in effect over the three remaining years of the five-year period beginning October 1, 2001. This level is approximately the same as was assumed in Bonneville's 2002 Final Power Rate Proposal.

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 in the Period After Fiscal Year 2001

General.

Under a power marketing approach (the "Subscription Strategy") begun in 1997, Bonneville proposed to subscribe access to Federal System electric power under long-term contracts to its Regional customers for the period after October 1, 2001, which is the date after which virtually all of Bonneville's prior Regional power sales contracts and all of Bonneville's Residential Exchange Program Contracts expired. Under the Subscription Strategy, Bonneville entered into long-term Subscription contracts through which it has contracted to sell all of its available firm power to Regional customers for various terms.

Preference Customer Loads.

Under the Subscription Strategy, Bonneville entered into long-term power sales contracts directly or indirectly to provide power to meet loads of about 135 Preference Customers. With the exception of eight contracts, which have terms of five years, such agreements have terms of ten years.

Under the Subscription Strategy, Bonneville sells Preference Customers three basic power products, which are not exclusive of each other: (i) Block Sales under which Bonneville provides ten-year fixed blocks of power at agreed times on a take or pay basis, (ii) Slice of the System, a form of requirements service in which Bonneville sells a proportion of Federal System output (including both firm power and what would otherwise be seasonal surplus energy) in return for a promise of the customer to pay a correlative proportion of the costs of the Federal System, and (iii) Partial and Full Requirements Products under which

Bonneville provides partial or full requirements service for all or a portion of a customer's loads. 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 request firm power load requirements service but who also want some flexibility to shape their purchases from Bonneville to optimize their own resource operations.

Under the foregoing agreements Bonneville is obligated to provide roughly 6300-6400 average megawatts to meet Preference Customer loads, on average, over the remaining term of the five-year rate period beginning October 1, 2001. Of this amount, about 1600 average megawatts is sold as Slice of the System, about 1900 average megawatts is in the form of Block Sales and the remainder is in the form of Requirements Products. The actual amount of power sold by Bonneville under the Slice of the System contracts varies from year to year depending on actual generation. The 1600 average megawatts figure reflects the firm power component of the Slice of the System. Slice of the System customers also receive what otherwise would be seasonal surplus energy in amounts that depend on precipitation in the Columbia River drainage.

The exact amount of Bonneville's obligation to Preference Customers is somewhat uncertain and depends on conservation activities, actual demand (which can fluctuate with weather and Regional economic activity), load reduction arrangements and other factors. For example, Bonneville entered into certain agreements with Preference Customers to reduce loads placed on Bonneville in fiscal years 2002 and 2003.

Residential Exchange Program Obligations.

As part of the Subscription Strategy, Bonneville and the six Regional IOUs participating in the Residential Exchange Program entered into six separate ten-year contracts ("Residential Exchange Settlement Agreements") that settle Bonneville's statutory Residential Exchange Program obligations during such periods. For the five years beginning October 1, 2001, Bonneville originally contracted to satisfy this obligation through direct sales of 1000 average megawatts of firm power to the Regional IOUs at Bonneville's Residential Load Rate ("RL Rate"). The RL Rate is proposed to be at a level similar to Bonneville's lowest available requirements service rate, the PF Rate. In addition, Bonneville originally agreed to provide Regional IOUs with cash payments for the Exchange Value of 900 average megawatts of firm power. In general, the Exchange Value is based on the difference between a forecast of the market price of power set in Bonneville's rate case and the RL Rate. All power sales and payments by Bonneville under the Residential Exchange Settlement Agreements, as amended, are provided for the benefit of the Regional IOUs' residential and small farm loads in the Region. Bonneville expects that its aggregate payments to Regional IOUs for Exchange Value will amount to about \$148 million per year on average over the five-year rate period. In fiscal year 2002, this amount was \$144 million.

Through subsequent contract amendments with two Regional IOUs, Bonneville obtained an aggregate reduction of about 620 average megawatts in the amount of firm power sales Bonneville was to provide throughout the five-year rate period. To obtain these load reductions, Bonneville agreed to pay the two Regional IOUs about \$240 million per year in aggregate. The two Regional IOUs also agreed to provide Bonneville with a discount to the foregoing payments if there is a settlement of certain litigation filed by Preference Customers challenging Bonneville's authority to enter into the Residential Exchange Settlement Agreements. See "BONNEVILLE LITIGATION — Residential Exchange Settlement Litigation." These payments, whether discounted or not, are recovered under the LB-CRAC in the 2002 Final Power Rate Proposal.

In addition, through the exercise by three other Regional IOUs of conversion rights in their Residential Exchange Settlement Agreements, Bonneville subsequently obtained about 125 average megawatts in additional load reductions throughout the five-year rate period. Under these conversions, Bonneville's power sales obligations converted into obligations to provide cash payments of about \$10 million per year in aggregate throughout the five-year rate period. As a consequence of the foregoing actions, Bonneville's Subscription power sales obligation to Regional IOUs is now limited to a single power sales agreement with one Regional IOU. The amount of power Bonneville provided under this agreement was about 225 average megawatts in fiscal year 2002, and it increases to about 260 average megawatts in fiscal year 2006.

The foregoing payments to and by Bonneville under the Residential Exchange Settlement Agreements are or could be affected by the application of at least one of the three intra-rate period rate level adjustments included in the 2002 Final Power Rate Proposal. For example, the Subscription power sale by Bonneville and the three converted power sales are served under the RL Rate and are therefore subject to the LB-CRAC, FB-CRAC and SN-CRAC. Under certain contract provisions, the payments by Bonneville under the load reduction amendments are to be reduced in the event Bonneville employs a rate level adjustment under the SN-CRAC. In addition, since the Exchange Value is subject to certain changes by reference to the RL Rate, Bonneville's payments for the Exchange Value may be reduced if the RL Rate level is increased due to the triggering of the SN-CRAC.

For the five-year period after fiscal year 2006, Bonneville expects to meet its Residential Exchange settlement obligations in full through the actual provision of about 2200 average megawatts of electric power to the Regional IOUs. Nonetheless, Bonneville negotiated default provisions for the payment of monetary benefits in lieu of power to the extent that Bonneville becomes unable to provide the full 2200 average megawatts of power in such period. Bonneville must decide by October 1, 2005 how much power it will provide to the Regional IOUs under the Residential Exchange Settlement Agreements after fiscal year 2006.

DSI Loads.

Historically, Bonneville sold substantial amounts of Federal System electric power to DSIs that smelt or fabricate aluminum. In 1981, as directed by the then recently enacted Northwest Power Act, Bonneville entered into 20-year power sales contracts with eligible DSIs. Under the 1981 contracts Bonneville was obligated to sell the aluminum company DSIs up to roughly 3200 average megawatts of power in aggregate. Under certain 1996 replacement agreements, the DSI loads Bonneville was obligated by contract to serve was reduced to roughly 1800 average megawatts through fiscal year 2001.

The United States Court of Appeals for the Ninth Circuit (“Ninth Circuit Court”) has held that Bonneville no longer has a statutory obligation to sell any power to meet DSI loads. Nonetheless, as part of Bonneville’s power marketing program for the post-fiscal year 2001 period, Bonneville entered into five-year take-or-pay power sales contracts with a number of aluminum company DSIs under which agreements such DSIs agreed to purchase approximately 1500 average megawatts. Under these DSI power sales contracts, as amended, the DSIs may curtail purchases but retain the take-or-pay requirements. If a DSI gives Bonneville advance notice that the DSI is unable or unwilling to take its power obligation to operate its facilities, Bonneville remarkets the power and applies the proceeds to offset the related DSI’s payment obligation to Bonneville. In the event that re-marketing proceeds are less than the amounts owed Bonneville under the DSI contract, the DSI remains obligated to pay Bonneville the differential. In the event that re-marketing proceeds exceed the amounts due to Bonneville by the DSI, Bonneville retains the excess proceeds as well.

Bonneville is currently selling almost no power to DSIs, either because Bonneville agreed to buy back some of its sales obligations and/or to suspend some of the DSI purchase obligations, or because the DSI has curtailed its operations. In addition, two of the aluminum company DSIs have filed for bankruptcy protection. One such company, Kaiser Aluminum, subsequently rejected its Bonneville power contract in bankruptcy, thereby terminating Bonneville’s obligation to sell any power under the contract. Bonneville has filed a proof of claim in the proceeding. See “LITIGATION — Kaiser Bankruptcy.”

On January 28, 2003, Bonneville notified Longview Aluminum, LLC (“Longview”) that Bonneville has terminated Longview’s 280 average megawatt take-or-pay power sales contract because of nonpayment by Longview. Bonneville estimates that Longview is approximately \$17 million in arrears in its payments under the contract and owes Bonneville approximately \$3 million for accounts receivable that are not yet in arrears and about \$29 million for the forward value of the contract, which is based on the mark-to-market value of remaining sales as of the date of termination. Longview has asserted to Bonneville, and Bonneville disagrees, that the power sales contract entitles Longview to suspend its take-or-pay purchase obligation. Longview also has an unpaid \$1.2 million payment obligation to Bonneville under a long-term transmission service agreement. In addition, Bonneville has made about \$9 million in transmission investments, which Longview would be responsible to pay if it fails to meet its long-term transmission purchase obligation. Bonneville is evaluating potential actions to obtain payment. While Bonneville is not optimistic that it will receive full value for these contract obligations, Bonneville has not yet determined whether to take an accounting charge reflecting unrecoverable revenues in this matter.

In February 2003, Longview Aluminum filed two petitions for review against Bonneville in the Ninth Circuit Court. The first petition is a challenge to an invoice from Bonneville’s Power Business Line for approximately \$16 million. The second petition, with approximately \$450,000 at issue, concerns invoices from Bonneville’s Transmission Business Line. No legal theory was given as a basis for either suit, and the petitions did not request any relief.

On March 4, 2003, Longview filed for bankruptcy protection under the federal bankruptcy laws. Bonneville will seek payment for amounts owed it by Longview in the bankruptcy proceeding.

In view of continued low prices for aluminum relative to the costs of production, and in particular the price of electric power under the DSI contracts, it is possible that other aluminum company DSIs may seek protection under the bankruptcy laws and reject their power contracts with Bonneville. Alternatively, such DSIs may fail to perform their take-or-pay purchase obligations entitling Bonneville to claims for breach of contract. In the event that Bonneville’s sales prices under such contracts are higher than market prices it is possible that Bonneville would be left with unsecured claims for accrued accounts receivable and, roughly, the amount of power contracted to be sold times the positive difference between the contract prices minus applicable market prices. Under Bonneville’s current forecasts of aluminum prices, Bonneville does not expect that aluminum company DSIs have an economic incentive to perform their purchase obligations in any material amount through the term of the contracts. While these possible future events could expose Bonneville to lost mark-to-market value (depending on volatile power prices) and certain other costs, Bonneville’s expectation is that aluminum company DSI loads will remain at very low levels through fiscal year 2006. If contracted loads, especially those of DSIs, drop from current contract levels (after taking into account load reduction agreements), Bonneville could have a firm energy surplus in fiscal years 2004-2006.

Subscription Strategy Contracts Opt-Out Provisions.

While Bonneville and its customers have entered into the foregoing Subscription contracts, the ultimate amount of electric power load Bonneville is and will become obligated to meet under such contracts during the next five to ten years remains somewhat uncertain because the Subscription contracts have provisions allowing customers to terminate such contracts if either FERC or the Ninth Circuit Court, which reviews FERC actions on Bonneville’s rates, subsequently remands Bonneville’s proposed base 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 may not opt out of their contracts solely on the basis that Bonneville has

included the cost recovery adjustment clauses in the rate proposal or that the cost recovery adjustment clauses are employed to increase rate levels. The customers who do not opt out after review of the final rate proposal would be committed to purchase as provided in their Subscription contracts. Bonneville awaits a final order from FERC approving the 2002 Final Power Rate Proposal.

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 and the revenues Bonneville receives from discretionary sales of energy; (ii) the level of Bonneville's load serving obligation after voluntary load reductions and negotiated power buy-backs; (iii) 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; (iv) 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 (v) operating costs, generally.

Subscription Power Rate Proposal.

On June 29, 2001, Bonneville filed its 2002 Final Power Rate Proposal with FERC, proposing power rates for the five years beginning October 1, 2001. On September 28, 2001 FERC granted interim approval of such rates pending final review. Bonneville awaits a final order by FERC approving the proposal. The rate proposal includes proposed base rates applicable to the varying types of Subscription agreements and certain intra-rate period adjustments that will increase or decrease power rate levels depending on certain conditions. The base rate levels proposed by Bonneville are between approximately 1.9 cents per kilowatt hour and 2.30 cents per kilowatt hour, excluding transmission and depending on type of service. The base rates are at levels similar to those in effect for like service in the immediately preceding rate period. The rate proposal also includes three intra-rate period adjustment mechanisms under which Bonneville can increase, and in some instances decrease, power rate levels: a Load Based Cost Recovery Adjustment Clause (LB-CRAC), a Financial Based Cost Recovery Adjustment Clause (FB-CRAC) and a Safety Net Cost Recovery Adjustment Clause (SN-CRAC). The 2002 Final Power Rate Proposal is comprised of the initial rate filing with FERC proposing the "base rates" and a subsequent supplementary rate filing with FERC that amends the initial proposal by proposing the LB-CRAC, FB-CRAC and SN-CRAC.

The proposed LB-CRAC is designed to recover the net cost of system Augmentation Purchases and certain load reduction agreements that is over and above the cost of such purchases that Bonneville forecasted in a rate filing prepared in July 2000. 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 occur.

The LB-CRAC is based on periodic forecasts of Bonneville's Subscription augmentation and certain related costs for consecutive six-month periods during the five-year rate period. The costs recovered under the LB-CRAC are those identified costs to Bonneville from addressing the increased loads it assumed under its Subscription power sales agreements, and include the costs of certain power purchases and certain load reduction agreements. Thus, the LB-CRAC is revised each six-month period during the rate period to reflect updated forecasts of Subscription Augmentation Purchase and load reduction costs in the next six months. Another adjustment to the amounts recovered under LB-CRAC reflects actual costs of Subscription augmentation in the prior six-month period to the extent that the forecast for such augmentation costs differ from actual costs in such period. The LB-CRAC is based on the cost of certain Subscription Augmentation Purchases and certain load reduction agreements only and is not subject to any other provision limiting the amount of revenues to be derived by Bonneville thereunder.

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 is implemented for an entire fiscal year and occurs during a subject fiscal year only if Bonneville's financial forecast made in the third quarter of the prior fiscal year indicates that the accumulated net revenues for the beginning of the subject fiscal year will be below the accumulated net revenue equivalent of the applicable Reserve Target. A rate increase under the FB-CRAC continues through the end of the applicable fiscal year.

In fiscal years 2003-2006, the revenues to be derived under an FB-CRAC increase are capped at a maximum of between \$90 million and \$115 million per fiscal year, depending on the year.

The proposed SN-CRAC is to be implemented to recover costs on a temporary basis if, at any time during the rate period, Bonneville were to (i) forecast a 50% probability or greater of missing a scheduled payment to the United States Treasury or other creditor or (ii) miss a scheduled payment to the United States Treasury or other creditor. A rate level increase under the SN-CRAC occurs independently of any LB-CRAC or FB-CRAC increase then in effect. An SN-CRAC adjustment could alter certain parameters of an FB-CRAC adjustment, 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 2002 Final Power Rate Proposal, Bonneville determines the level of the SN-CRAC in a record of decision after a brief formal rate-setting process.

Sales under Slice of the System contracts (about 1600 average megawatts of firm power plus proportionate amounts of Federal System power that would otherwise be seasonal surplus energy) are not subject to the SN-CRAC or the FB-CRAC but

are subject to the LB-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 are not subject to any of the three rate level adjustment mechanisms. These Preference Customers received certain contractual rate protections from Bonneville for making early contract commitments to purchase power from Bonneville on a long-term basis. All other Subscription power sales (Block Sales and the sale of Requirements Products) to Preference Customers are subject to all three rate adjustment mechanisms. The 1500 megawatts of Subscription power sales to DSIs are also subject to all three rate adjustments, although Bonneville expects that the DSIs are unlikely to meet their aggregate purchase obligations to a substantial degree. The remaining 300 megawatts of Subscription power sales under the Residential Exchange Settlement Agreements are subject to the LB-CRAC, FB-CRAC and the SN-CRAC.

For the first six months of the rate period, the LB-CRAC adjustment increased rate levels by 46% of the base rates for the rate period and, coincidentally, the rates for like service in the preceding rate period. For the second six months of the rate period, the LB-CRAC was set at about 39% of the base rates, and for the third six-month period (beginning October 1, 2002), the LB-CRAC was set at about 32% of base rates. Bonneville has notified its customers that the LB-CRAC for the six months beginning April 1, 2003, will be about 39% of base rates. Bonneville expects that the LB-CRAC adjustments for the remainder of the rate period will be in roughly the same range as has been the case to date.

The FB-CRAC was not implemented for fiscal year 2002 rates; however, the FB-CRAC was triggered after the third quarter fiscal year 2002 year end forecast, thus commencing a one-year rate level increase beginning October 1, 2002. The FB-CRAC adjustment in effect for fiscal year 2003 is roughly 11% of base rates for those contracts to which the FB-CRAC applies. Bonneville expects that the FB-CRAC will trigger again for fiscal year 2004, although, under the terms of the FB-CRAC, such a determination will be made some time after the end of the third quarter of this fiscal year.

Taking the cumulative effects of the base rates, the LB-CRAC and the FB-CRAC into account, average Subscription power rate levels for Block Sales and Requirements Products in each six month period to date were roughly: i) 2.9—3.3 cents per kilowatt hour in the first six months of the rate period, ii) 2.7—3.1 cents in the second six months of the rate period, and iii) 2.8—3.2 cents per kilowatt hour in the third six months of the period, in each case excluding transmission. Beginning April 1, 2003, the cumulative average Subscription power rate levels will be about 3.0—3.4 cents per kilowatt hour, excluding transmission.

On February 7, 2003, Bonneville issued a letter notifying its customers that the conditions triggering the SN-CRAC have been met and that Bonneville has initiated the formal rate procedures to possibly increase rate levels thereunder. Bonneville has concluded that there is approximately a 26 percent probability that it would meet in full its scheduled fiscal year 2003 payments to the United States Treasury.

On March 13, 2003, Bonneville published its initial proposal for the SN-CRAC rate level adjustment. The initial proposal calls for a three-year variable SN-CRAC adjustment with a cap limiting the amount of revenues that can be collected each year under the adjustment. The SN-CRAC adjustment would be structured much like the FB-CRAC adjustment, to be triggered when thresholds of accumulated net revenues fall below identified thresholds. Like the FB-CRAC adjustment, the proposed SN-CRAC adjustment would be set annually in August 2003, 2004 and 2005 on the basis of third quarter financial reports for the related fiscal year, would take effect at the beginning of the next fiscal year, and would remain in effect for the subsequent twelve months. Under the initial proposal, the amount of revenues derived under the SN-CRAC would be capped at about \$470 million per year. In general, “accumulated net revenues” would be measured by the accumulated annual differences, in each fiscal year of the remaining years of the five-year rate period, between accrued revenues and expenses of the power business line.

The initial proposal for the SN-CRAC rate level adjustment is designed to recover an expected value of about \$340 million to \$370 million for each of the three fiscal years in which it is proposed to be in effect. Bonneville estimates that the rate level increase under the initial proposal would average about 15.7 percent of power rate levels currently in effect. While the final SN-CRAC adjustment proposed by Bonneville will be influenced by various projections and forecasts, Bonneville expects that it will reserve the ability to adjust rate levels under the SN-CRAC again if the revenues from the first adjustment under the SN-CRAC provision prove inadequate. Bonneville’s initial proposal for the SN-CRAC rate level adjustment proposes an SN-CRAC adjustment that varies on the basis of financial performance indicators.

Assuming an SN-CRAC adjustment in the 15-16 percent range over expected adjustments in fiscal year 2004 under the FB-CRAC and LB-CRAC, Bonneville’s average Subscription power rates would be about 3.2—3.6 cents per kilowatt hour in the first six months of fiscal year 2004, without transmission and depending on whether it is for Block Sales or Requirements Products.

In proposing a rate level increase under the SN-CRAC, Bonneville expects, among other things, that it will use lower forecasts of price levels for discretionary surplus power sales and lower forecasts of revenues from such sales than Bonneville used in the final stages of developing the 2002 Final Power Rate Proposal.

The procedures for implementing the SN-CRAC require that Bonneville develop an initial proposed adjustment, conduct evidentiary hearings before a hearings officer, prepare an administrative record setting forth a final proposal and the rationale therefor, and submitting the record and final proposal to FERC for review. Bonneville expects to submit the final

proposal and record of decision to FERC in July 2003. The final SN-CRAC proposal will depend on many factors including updated financial information, customer input on rate design and the exercise by Bonneville of its judgment about the appropriateness of various rate level increases. The final SN-CRAC proposal could differ, perhaps substantially, from the initial proposal.

Rate Proposal for Surplus Power. With regard to rates for surplus firm power, Bonneville continues to employ flexible rates that recover Bonneville's cost of providing such power, but at rates that enable Bonneville to participate in power markets. With the exception of most months through the rest of fiscal year 2003, Bonneville does not expect to have substantial firm power to market during the remainder of the five year rate period because of Subscription sales. The amount of surplus power 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. Rates for the sale of surplus power are not subject to the rate adjustment mechanisms applicable to Subscription power sales.

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 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 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. Contrary to the opinion of Bonneville's General Counsel, several of Bonneville's transmission customers have taken the position that transmission rates may not be set to recover stranded power costs as Bonneville envisions under the Northwest Power Act. For a discussion of the proposed formation of a regional transmission organization that could affect some of Bonneville's transmission operation functions see "TRANSMISSION BUSINESS LINE—Bonneville's Participation in a Regional Transmission Organization."

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 May 2, 1997." 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. To date, 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. The implementation provisions of open access contained in this law were delayed with the passage of a subsequent law in 2001.

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 and Bonneville believes it is very unlikely that a restructuring bill will be introduced in the near future. 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 establish 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 certain non-federal 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 (or reliability transfer capability) of these facilities varies by generation patterns, weather conditions, load conditions and system outages.

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 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.

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. A number of conditions, actions, and events could affect the electric transfer capability of Bonneville's transmission system and diminish the capacity of the system to a level that could require remedial measures. For example, operating conditions such as weather, system outages and changes in generation and load patterns, may reduce the reliability transfer capability of the transmission system in some locations and limit the capacity of the system to meet the needs of users of the transmission system, including Bonneville's Power Business Line.

Bonneville has not added significant capacity to its transmission system since 1987. Bonneville is currently studying additional possible transmission investments to ease congestion, integrate new generation and provide a reliability margin on the transmission system. Bonneville's current transmission system investment plan calls for Bonneville to make investments of about \$425 million a year over the four fiscal years commencing October 1, 2002. The transmission system is operated at or near capacity and congestion is developing in some areas of the system. Load growth on the system has been about 1.8% a year and transmission use has grown about 2% a year. In addition, Bonneville expects to interconnect between 2000 and 5000 megawatts of proposed and new generation to the transmission system over the next four years. A number of issues will have to be resolved prior to Bonneville's committing to its transmission investment levels, including identifying sources of funding and determining which investments should be made by Bonneville. With regard to the financing of the foregoing projects, Bonneville will require that those applicants requesting that Bonneville provide transmission for new generating facilities bear the risk of stranded transmission interconnection costs by prepaying the related transmission investments and obtaining credits to their transmission bills from Bonneville. With regard to congestion and reliability investments, Bonneville expects to use its United States Treasury borrowing authority, although it is possible that Bonneville may use other sources of financing.

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 systems 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 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 such tariff with FERC seeking a reciprocity order. Bonneville's tariff offers transmission service to Bonneville's Power Business Line and other transmission users at the same tariff 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, open access tariff that conforms more closely to FERC's current *pro forma* open access tariff. In orders issued in March 2001 and September 2001, FERC found Bonneville's new tariff to be an acceptable reciprocity tariff. The revised open access transmission tariff became 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 conformance 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 Service 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 United States Treasury.

Bonneville’s transmission rates must also equitably allocate the cost of the Federal transmission system between Federal System power and non-federal power using the transmission system. Since 1996, the Power Business Line and customers transmitting Federal System power are charged the same transmission rates as are charged customers transmitting non-federal power. In compliance with the statutory requirements for its rates, Bonneville separately accounts for transmission and power revenues and costs. Since 1996, it also sets separate transmission and power rates to recover their respective costs.

Bonneville’s 2002 transmission and ancillary services rates were approved by FERC under the standards of the Northwest Power Act and under the reciprocity standards of Order 888. Such rates are effective through September 30, 2003. In January 2003, Bonneville published its initial transmission and ancillary services rate proposal for fiscal years 2004-2005. Under the initial proposal Bonneville would increase such rates by 1.5 per cent. Bonneville expects to issue a final proposal and submit it to FERC for review in the spring of 2003. The final proposal could differ from the initial proposal.

Bonneville’s Participation in a Regional Transmission Organization

Following the issuance in May 1999 of a notice of proposed rulemaking on regional transmission organizations (“RTOs”), in January 2000 FERC issued a final rule on RTOs that establishes minimum characteristics and functions for an RTO and requires that each jurisdictional 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 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 a region composed of Washington, Oregon, Idaho, Utah, Nevada, Montana and western Wyoming. Under the evolving RTO West proposal, Bonneville would retain ownership of all of the Federal System transmission assets, but would transfer planning and operational control over most of such facilities to RTO West and establish RTO West as the exclusive provider of transmission service over such facilities. Under the current draft operating agreement, Bonneville would retain the responsibility for maintaining the Federal System transmission assets. Investments to expand the Federal transmission system could be accomplished by Bonneville or third parties, with RTO West allocating the expansion costs to transmission owners who benefit from the expansion, including Bonneville. Until December 2011 or such other transition period approved by FERC, costs for the use of Bonneville’s transmission facilities would be recovered through Bonneville’s own “company rates.” The draft operating agreement also provides that Bonneville would continue to set its costs and billing determinants, which would be applied by RTO West to derive company rates that recover Bonneville’s costs from its own loads. In the opinion of the General Counsel to Bonneville, assuming the entry by Bonneville into the draft operating agreement, the draft operating agreement would be consistent with Bonneville’s obligation to recover its costs, and would not interfere with Bonneville’s authority to recover “stranded costs,” which are defined in the draft operating agreement to include power function costs. See “— POWER BUSINESS LINE — Certain Statutes and other Matters Affecting Bonneville’s Power Business Line— Recovery of Stranded Power Function Costs.” Under the draft operating agreement, no directive of RTO West may require Bonneville to violate its obligations under applicable statutes or regulations.

In April 2001, FERC acknowledged the need to provide assurances and protections to Bonneville with respect to its ability to continue to meet its statutory, treaty, contractual and other responsibilities. FERC also clarified that its jurisdiction over Bonneville is limited with regard to RTO formation, and that Bonneville’s authority to participate in RTO West is not subject to review by FERC. The General Counsel to DOE issued an opinion in May 1999, 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.

FERC also found that while RTO West will have the exclusive authority to make filings under section 205 of the Federal Power Act (applicable to jurisdictional utilities) that apply to rates, terms and conditions of RTO West Tariff service, it acknowledged that Bonneville is not a Federal Power Act jurisdictional utility and clarified that Bonneville's rates are established by the Administrator, and approved or disapproved by FERC. FERC also does not have the power to modify Bonneville's rates under the current statutes applicable to Bonneville.

FERC also rejected an RTO West proposal limiting the liability of the RTO West participants (including Bonneville) through a "no fault" liability structure for electric system property damage, liability limitations for tariff service interruptions, and indemnity provisions for bodily injury claims. In July 2001, FERC reversed itself in part and agreed to accept a proposal to allocate risk among the transmission owners and RTO West. FERC did not change its decision not to use the tariff to limit the liability of RTO West and transmission owners for damages to transmission users from interruptions in tariff service and bodily injury claims. In the opinion of the General Counsel to Bonneville, assuming the entry by Bonneville into the draft operating agreement, the Federal Torts Claims Act, which limits the grounds and manner in which the United States may be sued for actions sounding in tort, would continue to apply to actions taken by Bonneville in connection with RTO West. Nonetheless, liability for actions taken by RTO West could subject RTO West to liability and such costs could be allocated to Bonneville as a charge in applicable rates and tariffs.

In July 2002, FERC issued a new Notice of Proposed Rulemaking proposing to modify the Order 888 *pro forma* tariff for an interim period, and proposing a new standardized network access transmission service for independent transmission companies or RTOs and a new standardized market design for wholesale power participants (SMD NOPR). In September 2002, FERC approved a majority of the Phase 2 filing, including the company rate concept, an 8-year transition period, voluntary conversion of existing transmission contracts to RTO West Tariff service, and a modified congestion management proposal, FERC rejected the proposal that the proposed operating agreement provisions would govern in the event of a conflict with the RTO West Tariff. FERC directed the Filing Utilities to submit a memorandum of understanding providing for cooperation between the proposed western RTOs for resolving interregional issues. FERC also urged the Filing Utilities, in collaboration with stakeholders, to strengthen the oversight of the RTO West market monitoring unit regarding market mitigation measures to prevent the exercise of market power due to market design flaws or unusual market conditions. The RTO West market monitoring unit would report directly to FERC.

The Filing Utilities continue to work on the issues raised by FERC in its September 2003 order, the Filing Utilities' Phase 3 proposal, and the remaining complex issues that must be resolved to obtain agreement of the parties and obtain FERC approval of the proposal. Bonneville's current expectations are that RTO West would not begin operating transmission assets until calendar year 2006 or 2007.

In February 2003, two customer groups representing many of Bonneville's Preference Customers filed a petition for review in the United States Court of Appeals for the District of Columbia. This petition for review requests the court to modify or set aside prior FERC rulings relating to the RTO West proposal. While no specific grounds for the review are identified in the petition, Bonneville expects that petitioners will reassert their concerns that FERC has improperly refused to assess the costs and benefits of the RTO West proposal and that Bonneville lacks authority to join RTO West.

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 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 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 Ninth Circuit Court. 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 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 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 customer 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 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 and subjecting Bonneville's transmission operations and assets to FERC regulation. 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 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 United States 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 establish rates that are sufficient 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 establish rates that are sufficient to 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, 2002, Bonneville had repaid \$4.5 billion of principal of the Federal System investment and has \$4.5 billion principal amount outstanding.

Bonneville Borrowing Authority

In February 2003, Congress enacted and the President signed into law a \$700 million increase in Bonneville's authority to borrow from the United States Treasury. The new law increases to \$4.45 billion the aggregate principal amount of bonds Bonneville is authorized to sell to the United States Treasury and to have outstanding at any one time. The new increment of borrowing authority is to be used for Bonneville's transmission capital program and to implement the Administrator's authorities under the Northwest Power Act. The law also restricts the amount of permanent borrowing authority Bonneville may use in fiscal year 2003 to \$531 million. Bonneville believes that this limitation will have no material effect on Bonneville's finances in fiscal year 2003.

Of the \$4.45 billion in borrowing authority that Bonneville has with the United States Treasury, \$2.77 billion of bonds were outstanding as of September 30, 2002. 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, 2002, the interest rates on the outstanding bonds ranged from 3.05% to 8.55% with a weighted average interest rate of approximately 6.01%. 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 original 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. Bonneville met its fiscal year 2002 payment responsibility to the United States Treasury in full and on time. Of Bonneville's payments of \$1.056 billion in fiscal year 2003, approximately \$266 million were for the amortization ahead of schedule of certain outstanding bonds issued by Bonneville to the United States Treasury and certain appropriated repayment obligations. This advance amortization was achieved in accordance with Bonneville's Debt Optimization Proposal through the use of cash flows derived from reduced Net Billed Project debt service in such fiscal year. Such Treasury prepayments were payments in addition to the amounts that United States Treasury repayment criteria applicable to Bonneville ratemaking would cause to be scheduled for payment.

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 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 heading "Statement of Non-Federal Project Debt Service Coverage and United States Treasury Payments" for historical United States Treasury payments.

Direct Funding of Federal System Operations and Maintenance Expense

In 1992, Congress enacted legislation authorizing but not requiring the Corps and the Department of Interior, encompassing both the Bureau and the U.S. Fish and Wildlife Service ("Fish and Wildlife Service") 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 the Department of Interior for operations and maintenance of their respective Federal System hydroelectric facilities as the Corps or the Department of Interior 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. In September 2000, Bonneville and the Fish and Wildlife Service entered into a one-year agreement for direct funding of power related operations and maintenance costs of the Lower Snake River Compensation Plan Program ("Snake River Plan"), a fish and wildlife program funded in part by Bonneville. In January 2001, Bonneville and the Fish and Wildlife Service entered into a five-year agreement for direct funding of power related operations and maintenance costs of the Snake River Plan. Bonneville's expenses for the Corps, Bureau, and the Fish and Wildlife Service in fiscal year 2002 were \$51 million for the Bureau, \$132 million for the Corps, and \$15 million for the Fish and Wildlife Service.

Direct funding differs from historical practice under which (i) the Corps and the Department of Interior 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 the Department of Interior 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 the Department of Interior's Federal System operations and maintenance activities, expenses and budgets because, in general, Bonneville's approval becomes necessary for the Corps and the Department of Interior 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 terms of the direct payment agreements, Bonneville expects to have roughly \$500 to \$800 million in scheduled annual payments to the United States Treasury, exclusive of the Corps' and the Department of Interior's operation and maintenance expenses.

Hedging and Derivative Instrument Activities and Policies

Bonneville's financial 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, interest rate and natural gas price risk can assist in efforts to manage Bonneville's revenues and expenses.

Bonneville is 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, and natural gas, and to a much lesser extent than was the case historically, aluminum. Bonneville desires to manage price and revenue risks resulting from electricity and natural gas volatility, hydro supply uncertainty and interest rate risk.

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, as amended from time to time, to describe the guidelines, controls and management structure when there is a decision to hedge price and revenue risk in financial instruments. 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, and interest rates. From time to time, Bonneville uses or may use financial instruments in the form of Over-the-Counter electricity swap agreements and options, Exchange traded futures contracts to hedge anticipated production and marketing of hydroelectric energy, and interest rate swaps to hedge interest rate positions or to more efficiently manage Bonneville's overall debt portfolio, which includes Bonneville's third party debt service obligations with regard to the Net Billed Bonds. In general, the Policy does not authorize the use of financial instruments for non-hedging purposes, unless such use is expressly authorized under certain procedures set forth in the Policy. In addition the Policy set forth a limited exception for the use of financial instruments relating to interest rate management techniques to manage Bonneville's interest rate costs, including by means of interest rate swaps to effect the synthetic refunding of Bonneville's direct and indirect debt obligations. The Policy does not apply to physical (power) transactions.

In January 2003, Bonneville entered into two floating to fixed interest rate swap agreements with an aggregate notional amount of \$500 million. The swap agreements were entered into in connection with, and are in an aggregate notional principal amount approximately equal to, the principal amount of the 2003 Series C, D and E Bonds (the "Related Bonds") expected to be issued at the same time as the Series 2003-A Bonds and the Series 2003-B Bonds. Pursuant to these swap agreements, Bonneville is required to make fixed rate payments to each of two swap providers and will receive variable rate payments from such swap providers. One of the swaps has a term of ten years and the other has a term of fifteen years. The Related Bonds will be variable rate bonds having final maturities of approximately fifteen years. Under certain circumstances, Bonneville and/or the swap provider may terminate the respective swap agreement, at which time Bonneville may be required to make a payment to the swap provider depending on the mark-to-market value of the swap at termination. Each of the swap providers is currently rated at or above the Aa category by Moody's Investor Services and at or above the AA category by Standard & Poor's Credit Market Services, a Division of The McGraw-Hill Companies Inc.

Historical Federal System Financial Data

Federal System historical financial data for fiscal years 2000 through 2002 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, 2002 are included as Appendix A-1 hereto and Bonneville's unaudited quarterly report for the three months ended December 31, 2002 is included as Appendix A-2 hereto.

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

Fiscal year ending September 30,	2002	2001	2000
Operating Revenues:			
Sales of electric power —			
Sales within the Northwest Region —			
Publicly-owned utilities ⁽¹⁾	\$ 1,797,496	\$ 939,362	\$ 934,270
Aluminum industry	58,454	420,694	363,454
Investor-owned utilities	377,789	700,836	649,449
Other power sales	1,293	972	38,578
Sales outside the Northwest Region ⁽²⁾	<u>638,261</u>	<u>1,084,077</u>	<u>652,221</u>
Total Sales of Electric Power	2,873,293	3,145,940	2,637,972
Transmission and other revenues ⁽³⁾	<u>660,436</u>	<u>1,132,729</u>	<u>402,197</u>
Total Operating Revenues	3,533,729	4,278,669	3,040,169
Operating Expenses:			
Bonneville O&M ⁽⁴⁾	775,077	530,618	506,878
Purchased Power	1,286,867	2,291,961	624,882
Corps, Bureau and Fish & Wildlife O&M ⁽⁵⁾	198,055	184,922	162,621
Non-Federal entities O&M — net billed ⁽⁶⁾	167,026	208,839	193,085
Non-Federal entities O&M — non-net billed ⁽⁷⁾	<u>35,566</u>	<u>30,719</u>	<u>32,942</u>
Total Operation and Maintenance	2,462,591	3,247,059	1,520,408
Net billed debt service	213,919	455,397	535,460
Non-net billed debt service	<u>16,256</u>	<u>21,818</u>	<u>25,139</u>
Non-Federal Projects Debt Service ⁽⁸⁾	230,175	477,215	560,599
Federal Projects Depreciation	335,205	323,314	319,942
Residential Exchange ⁽⁹⁾	<u>143,983</u>	<u>68,082</u>	<u>63,593</u>
Total Operating Expenses	<u>3,171,954</u>	<u>4,115,670</u>	<u>2,464,542</u>
Net Operating Revenues	<u>361,775</u>	<u>162,999</u>	<u>575,627</u>
Interest Expense:			
Appropriated Funds	352,551	317,213	315,826
Long-term debt	151,997	129,159	115,052
Capitalization Adjustment ⁽¹⁰⁾	(67,356)	(68,784)	(67,474)
Allowance for funds used during construction	<u>(57,892)</u>	<u>(45,679)</u>	<u>(28,754)</u>
Net Interest Expense	352,300	331,909	334,650
Cumulative Effect of SFAS 133 ⁽¹¹⁾	<u> </u>	<u>(168,491)</u>	<u> </u>
Net Revenues/(Expenses)	<u>\$ 9,475</u>	<u>\$ (337,401)</u>	<u>\$ 240,977</u>
Total Sales — average megawatts (Net of Residential Exchange Program)	11,225	10,302	11,361

- (1) This customer group includes municipalities, public utility districts and rural electric cooperatives in the Region.
- (2) 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.
- (3) 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. These revenues relate primarily to fish and wildlife credits Bonneville receives to its United States Treasury repayment obligation. See “POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting Bonneville’s Power Business Line — Fish and Wildlife — Federal Repayment Offsets for Certain Fish and Wildlife Costs Borne by Bonneville.” Such credits are provided on the basis of estimates and forecasts and later are adjusted when actual data are available.

- (4) Bonneville operations and maintenance expenses include the costs of Bonneville's transmission system, operation and maintenance program, energy resources, power marketing, and fish and wildlife programs.
- (5) Corps, Bureau and Fish & Wildlife operations and maintenance expenses include the costs for the Corps and Bureau generating facilities included in the Federal System as well as expenses incurred by the U.S. Fish & Wildlife Service in connection with the Federal System.
- (6) 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, the costs of which are net-billed.
- (7) 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. the costs of which are not net-billed.
- (8) 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.
- (9) See "POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting Bonneville's Power Business Line" and "— Residential Exchange Program."
- (10) The capitalization adjustment represents the annual recognition of the reduction in principal realized from refinancing federal appropriations under legislation enacted in 1996.
- (11) On October 1, 2000, the date of adoption by Bonneville of Financial Accounting Standards Board Statement of Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), Bonneville recorded a cumulative-effect adjustment of \$168 million loss to recognize the difference between the carrying values and fair values of derivatives not designated as hedging instruments. The adjustment consisted primarily of transactions known as bookouts that the FASB initially determined should be fair valued in net revenue (expense). While authoritative accounting guidance in this area continued to emerge during fiscal year 2001, Bonneville management elected to apply the most current guidance available related to SFAS 133, as amended.

Management Discussion of Operating Results

Bonneville had positive net revenues of \$9.5 million in fiscal year 2002, an increase of approximately \$347 million over fiscal year 2001 when Bonneville had negative net revenues of approximately \$337 million. Total operating revenues declined by \$745 million, or 17%, from the previous year due to lower market prices for discretionary sales of surplus power and a 94% decline (from \$354 million to \$38 million) in fish credits under section 4(h)(10)(C) of the Northwest Power Act. These lower market prices resulted in a decrease of \$446 million, or 41%, in revenues from sales outside the Northwest. In addition, revenues from aluminum company DSIs decreased by \$362 million, or 86%, largely due to the purchase back by Bonneville of some of its power sales to DSIs and curtailments of purchases by some DSIs. The \$323 million, or 46%, decline in revenues from Regional IOUs in fiscal year 2002 stemmed largely from payments arising under agreements between Bonneville and the Regional IOUs to settle Bonneville's Residential Exchange obligations and the purchase back by Bonneville of some of its power sales to Regional IOUs. This decline in revenues was somewhat mitigated by the amount of revenues from publicly-owned utilities, which in fiscal year 2002 increased by \$858 million, or 91%, due to a substantial rate increase at the beginning of the new rate period (October 1, 2002), and an increase the amount of power Bonneville sold to this customer class. The \$472 million, or 42%, decline over fiscal year 2001 in revenues from transmission and other related services was the result of lower estimated Treasury repayment credits under section 4(h)(10)(C) of the Northwest Power Act as these repayment credits declined by 94% as noted immediately above. Applicable criteria did not permit use of the Contingency Fund whereas \$247 million was drawn from the fund, in the form of United States Treasury repayment credits, during fiscal year 2001. For a description of 4(h)(10)(C) credits and the Contingency Fund see "— Fish and Wildlife — Federal Repayment Offsets for Certain Fish and Wildlife Costs Borne by Bonneville."

Total operating expenses in fiscal year 2002 were approximately \$3.2 billion, a decrease of \$944 million, or 22%, when compared to fiscal year 2001. This was largely due to lower market prices for power purchased by Bonneville. Purchased power expense declined by \$1 billion, or 44%, in 2002, due to a 15% decrease in the amount of power purchased by Bonneville as water conditions returned to average levels from the historical low levels of the prior fiscal year, as well as a decrease in the average cost of purchased power. In addition, net billed debt service decreased by approximately \$242 million, or 53%, due primarily to

the refinancing and restructuring of a portion of the outstanding net billed debt. Non-Federal entities O&M—net billed expense declined by \$42 million primarily due to reduced operating expense related to Columbia Generating Station. However, Bonneville operations and maintenance expenses were up by \$244 million dollars, or 46%, in fiscal year 2002, primarily due to increased budgets for fish and wildlife, resource conservation management and bad debt expense.

For fiscal year 2001, Bonneville had negative net revenues of approximately \$337 million, a substantial decline of approximately \$578 million from net revenues in fiscal year 2000. Total operating revenues increased over fiscal year 2000 by approximately \$1.2 billion, despite a very low water year, primarily due to a tripling in market prices for discretionary power sales from the previous year, and a ten-fold increase in fish credits under the Northwest Power Act, as described below. These extremely high market prices translated into an increase of \$432 million, or 66%, in revenues from sales outside the Region. In addition, Bonneville remarketed power returned by certain aluminum company DSIs and the remarketing of this returned power increased revenues from the aluminum company DSIs by \$57 million, or 16%, in fiscal year 2001. The higher prices for power increased sales revenues from Regional IOUs by \$51 million, or 8%. Conversely, power sales revenues from non-aluminum company DSIs declined by approximately \$38 million, or 97%, due to decreased power sales to these customers. The \$731 million, or 182%, increase over fiscal year 2000 in revenues from transmission and other related services, is due to estimated Treasury repayment credits of \$354 million under Section 4(h)(10)(C) of the Northwest Power Act and to Treasury repayment credits of \$247 million from the Contingency Fund. Total operating expenses increased by approximately \$1.6 billion in fiscal year 2001 over fiscal year 2000. This was in large part due to extremely high market prices for power in the Western markets. Purchased power expenses increased by \$1.67 billion, or 267%, due to a 137% increase in the amount of power purchased by Bonneville in response to low water conditions as well as the aforementioned high market prices at which such purchases were made. In addition, Corps, Bureau and Fish and Wildlife Service operations and maintenance expenses increased by \$22 million in fiscal year 2001 due to, among other factors, an increased maintenance program at the Corps designed to help increase the availability of generation units and an increase in the power purpose's responsibility for certain costs of Grand Coulee Dam. See "BONNEVILLE FINANCIAL OPERATIONS — The Bonneville Fund" in this Official Statement. Non-Federal entities O & M – net-billed expenses increased by \$16 million due to increased operating expenses related to the Columbia Generating Station. However, net-billed debt service decreased by \$80 million, or 15%, due to refinancing and restructuring of a portion of the outstanding net-billed debt.

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,	2002	2001	2000
Total Operating Revenues	\$3,533,729	\$4,278,669	\$3,040,169
Less: Operating Expense ⁽¹⁾	<u>2,408,520</u>	<u>3,130,219</u>	<u>1,421,380</u>
Net Funds Available for Non-Federal Project Debt Service	1,125,209	1,148,450	1,618,789
Less: Total Non-Federal Project Debt Service ⁽²⁾	<u>230,175</u>	<u>477,215</u>	<u>560,599</u>
Revenue Available for Treasury	895,034	671,235	1,058,190
Amount Paid to Treasury:			
Corps and Bureau O&M ⁽³⁾	198,055	184,922	162,621
Net Interest Expense ⁽⁴⁾	352,300	331,909	334,650
Capitalization Adjustment ⁽⁵⁾	67,356	68,784	67,474
Allowance for Funds Used During Construction ^{(4) (6)}	15,061	12,479	8,578
Amortization of Principal	<u>505,012</u>	<u>210,127</u>	<u>289,925</u>
Total Amount Allocated for Payment to Treasury ⁽⁷⁾	1,137,784	808,221	863,248
Revenues Available for Other Purposes ⁽⁸⁾	(242,750)	(136,986)	194,942
Non-Federal Project Debt Service Coverage Ratio ⁽⁹⁾	4.9	2.4	2.9
Non-Federal Project Debt Service Plus Operating Expense Coverage Ratio ⁽¹⁰⁾	1.3	1.2	1.5

- (1) Operating Expenses include the following items from the Federal System Statement of Revenues and Expenses: Bonneville O & M, Purchased Power, Non-Federal entities O & M-net billed, Non-Federal entities O & M non-net-billed, and the Residential Exchange Program. Operating Expenses do not include certain payments to the Corps and Bureau. Treatment of the Corps, Bureau and Fish & Wildlife Service operating expense is described in “— Direct Funding of Federal System Operations and Maintenance Expense.”
- (2) Includes net billed and non-net billed debt service. Non-net billed debt service amounted to \$25.1 million, \$21.8 million and \$16.3 million for fiscal years 2000, 2001 and 2002, respectively.
- (3) Amounts shown are calculated on an accrual basis and include direct operations and maintenance payments to the Corps and Bureau for fiscal years 2000, 2001 and 2002, and to Fish & Wildlife Service for fiscal years 2001 and 2002. See “— Direct Funding of 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 the United States Treasury in fiscal years 2000, 2001 and 2002 were \$732 million, \$729 million and \$1.056 billion, respectively. In fiscal years 2000, 2001 and 2002, respectively, direct payments to the Corps and Bureau for operations and maintenance were included in the amount of (i) \$104 million, \$117 million and \$132

million for the Corps, and (ii) \$46 million, \$55 million and \$51 million for the Bureau. In fiscal years 2001 and 2002, direct payments for Fish & Wildlife Service were \$13 million and \$15 million, respectively. See “— Direct Funding of Federal System Operations and Maintenance Expense.”

- (8) Revenues Available For Other Purposes approximates the change in reserves from year to year. Reserves were \$670 million at the end of fiscal year 1999 and \$188 million at the end of fiscal year 2002.
- (9) The “Non-Federal Debt Service Coverage Ratio” is defined as follows:

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

- (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 ⁽¹⁾
(Actual Dollars in Thousands)

Fiscal years ending September 30,	2002	2001	2000
Operating Revenues from Publicly-Owned Utilities ⁽²⁾	\$1,797,496	\$ 939,362	\$ 934,270
Net Billing Obligations:			
Net Billing Credits	610,180	675,938	642,541
Payments in Lieu of Net Billing ⁽³⁾	<u>(111,329)</u>	<u>57,283</u>	<u>66,992</u>
Net Billing Obligations — Cash	498,851	733,221	709,533
Net Billing Expenditures:			
Net Billed Debt Service	213,919	455,397	535,460
Other Entities O&M — Net Billed	167,026	208,839	193,085
Increase/(Decrease) in Prepaid Expense	<u>117,906</u>	<u>68,985</u>	<u>(19,012)</u> ⁽⁴⁾
Net Billing Expenditures — Accrual	<u>\$ 498,851</u>	<u>\$ 733,221</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 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

Kaiser Aluminum Bankruptcy

Kaiser Aluminum and Chemical, Incorporated (“Kaiser”), a subsidiary of Kaiser Aluminum Corporation, is an aluminum company DSI customer of Bonneville. On February 12, 2002, both Kaiser and its parent corporation Kaiser Aluminum Corporation filed for bankruptcy protection. Bonneville has a contract (the “Kaiser Contract”) to sell Kaiser about 291 megawatts of electric power during the five-year period beginning October 1, 2001. Under an arrangement entered into after Kaiser and Bonneville executed the Kaiser Contract, Kaiser agreed to forgo most of such purchases, and Bonneville agreed to waive the obligation of Kaiser to make most of such purchases, through October 2003. Consequently, since October 1, 2001, Kaiser has been purchasing only about 30 megawatts of power under the Kaiser Contract. Bonneville estimates that it has sold Kaiser between about \$1 million and \$2 million of power and related services for which Bonneville has not yet been paid. Such accounts receivable could be treated as unsecured, pre-petition debts of Kaiser in the bankruptcy proceeding and therefore Bonneville is uncertain whether such debts will be paid. Bonneville has recorded provisions for uncollectible amounts related to such accounts receivable.

In addition, Kaiser’s purchase obligation under the Kaiser Contract is a “take-or-pay” obligation, meaning Kaiser must pay for the power if tendered by Bonneville, regardless of Kaiser’s ability to accept delivery of the power for use at its facilities. The rate under which Kaiser is obligated to make such purchases is the Bonneville Industrial Firm Power (or “IP”) Rate, which is currently about \$34 per megawatt, subject to the various cost recovery rate adjustments described herein. The current IP Rate is above the current West Coast market prices for electric power. Due to these circumstances, Kaiser rejected the Kaiser Contract in the bankruptcy proceeding. The consequence of this rejection is that the “take or pay” obligation that Kaiser owes to Bonneville for future deliveries will be treated as a general unsecured claim. While the mark-to-market figures are subject to change with market volatility, Bonneville and Kaiser have been very close to agreement on what the appropriate calculation should be. A separate issue, however, and one on which there is less agreement is the rate that would be applicable to the Kaiser sales. The current IP rate is subject to rate mechanisms that allow Bonneville to raise rates under certain circumstances. See “POWER BUSINESS LINE — Certain Statutes and Other Matters Affecting Bonneville’s Power Business Line — Power Marketing in the Period After Fiscal Year 2001.”

The United States Department of Justice, acting on behalf of Bonneville, has filed a proof of claim in the amount of \$78 million in this proceeding, reflecting the value of contracts Bonneville has with Kaiser.

CPN Cascade, Inc., formerly d/b/a CE Newberry, Inc. v. Bonneville Power Administration

In October 2002, CPN Cascade, Inc. filed a petition for review in the Ninth Circuit Court. The petition is styled as a precautionary petition for review to comply with the 90-day statute of limitations contained in the Northwest Power Act.

The subject of the petition is a 48-megawatt geothermal power project that CPN has yet to construct, and power from the project that CPN seeks to sell to Bonneville. Bonneville and CPN have an ongoing dispute over a settlement agreement related to the project and Bonneville’s obligations to pay certain funds to CPN Cascade. In July 2002, Bonneville sent a letter to CPN stating that Bonneville believes its obligations under the agreement have been fulfilled or extinguished. CPN disagreed and filed the petition for review alleging that statements made by Bonneville in the July 2002 letter were arbitrary, capricious, an abuse of discretion, and violate the terms of the settlement agreement. If CPN is successful, the court could remand the matter to Bonneville for further consideration.

PacifiCorp v. United States

In September 2002, PacifiCorp, an investor-owned utility, filed an action in the United States District Court for the District of Oregon seeking an order to compel arbitration under the General Transfer Agreement (GTA), a transmission contract between Bonneville and PacifiCorp.

Because of a meter error, PacifiCorp served a Bonneville power load for approximately five months. PacifiCorp is seeking approximately \$11 million in damages for this service. It alleges that it provided the service under the GTA and that the dispute is subject to arbitration under that contract.

In November 2002, Bonneville filed its response to PacifiCorp’s petition. Bonneville denies that this issue arises under the GTA. Bonneville instead asserts that it is an “inadvertent interchange” of energy, and that under procedures of the Western Electricity Coordinating Council, a reliability organization to which Bonneville and PacifiCorp both belong, PacifiCorp is entitled to return of the power, but not to monetary compensation. Bonneville further asserts that even if the issue arises under the GTA, it is not subject to arbitration under the contract’s arbitration clause.

Puget Sound Energy Inc. v. United States

In 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 Ninth Circuit Court. The Claims Court ruled 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's actions in the Ninth Circuit and is therefore time-barred. The court has ruled for Bonneville and has dismissed the case.

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 sought 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 involves actions taken by Bonneville under its governing statutes. It was therefore determined that 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. The Court of Appeals reversed the Claims Court on the jurisdictional issue and remanded the Contract Disputes Act matter to the Claims Court.

As part of filing its claim under the Contract Disputes Act, Burbank, as well as the Cities of Glendale and Pasadena, submitted certified claims for improperly calculating the applicable power rate under their respective Power Sales and Exchange Agreements. In addition, the City of Burbank submitted a separate claim that alleges that Bonneville improperly converted the agreement from the sale mode to the exchange mode. Burbank's claim for improper calculation of the rate has increased from the original claim to approximately \$9 million. The Glendale and Pasadena claims total \$4 million and \$2 million, respectively. Bonneville is currently evaluating the claims.

Residential Exchange Program Litigation

In connection with 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 in the Period After Fiscal Year 2001."

During the same time-frame, Bonneville negotiated certain agreements (the "Residential Exchange Settlement Agreements") 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 Residential Exchange Settlement Agreements 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 Residential Exchange Settlement Agreements. 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 Residential Exchange Settlement Agreements, but allege generally that the RPSAs and Residential Exchange Settlement Agreements 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 Residential Exchange Settlement Agreements, 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 briefing schedules have been vacated, the cases have been stayed, and settlement discussions are underway.

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. Intervenor 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 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.

Bonneville and the petitioners have agreed to a settlement of this litigation. Under the settlement, Bonneville will publish certain clarifications to its 5(b)(9)(c) Policy and the parties have filed a joint motion to dismiss the petition. The parties await a ruling on the joint motion to dismiss.

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 Ninth Circuit Court. The DSIs and M-S-R sought review of Bonneville's August 30, 1999 "Excess Federal Power" 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 asked 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 contractual or statutory authorities.

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.

On July 11, 2002, the Ninth Circuit Court issued its opinion in this case. The court affirmed Bonneville's action, in part, and remanded the case back to Bonneville in part. With respect to the petition for review filed by petitioner M-S-R, the court upheld Bonneville's actions and found that Bonneville reasonably interpreted its statutory authorities and its power sales contract with M-S-R. However, with respect to the petition for review filed by the DSIs, the court held that Bonneville miscalculated amounts of forecasted Excess Federal Power. As a result, the court vacated Bonneville's 1999 and 2000 Excess Federal Power forecasts, and ordered Bonneville to reissue forecasts consistent with the opinion.

In 2002, Bonneville issued new Excess Federal Power forecasts incorporating the court's rationale. While the new forecasts project a larger deficit of Excess Federal Power, the amount of forecasted Excess Federal Power remains a negative number. Thus, the new forecasts do not have a financial impact on Bonneville. The new forecasts have not been challenged.

Pacific Northwest Generating Cooperative v. Bonneville Power Administration

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 Ninth Circuit Court 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. In an order dated January 23, 2001, the court vacated the existing briefing schedule and the PNGC and Puget cases were selected for inclusion in the Ninth Circuit Court's mediation program. The case has been stayed and settlement discussions are underway.

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 gas are a number of capital improvements such as installation of stilling basins and dividers between spillways. Examples 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.

In February 2001, the court issued an opinion and order granting summary judgment in favor of the 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.

In May 2001, the Corps filed a new Record of Consultation and Statement of Decision ("ROCASOD") with the court. As expressed in the ROCASOD, the Corps agreed to consider additional measures in future years to improve water quality. In August 2001, plaintiffs filed an amended complaint challenging the adequacy of the new ROCASOD. Plaintiff's motion included a request for injunctive relief, in addition to a request for remand of the amended ROCASOD to the Corps. The Corps has informed Bonneville that the request for injunctive relief, if successful, could lead to increased funding or program requirements to meet state water quality standards. In November 2002, the district court heard oral arguments on summary judgment motions from plaintiffs and defendants. In January 2003, the court upheld the Corp's ROCASOD and ruled in favor of the Corps on the motions for summary judgment. It is expected that plaintiffs will appeal the ruling.

California Oregon Intertie (COI) Transmission Dispute

In March 2000, the Transmission Agency of Northern California ("TANC"), a joint-powers agency 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. TANC challenged Bonneville's participation in the interconnection of its federal transmission facilities with facilities owned and operated by Sierra Pacific ("Alturas Interconnection"). TANC alleged the interconnection adversely affects its rights under agreements related to the Pacific Northwest-Southwest AC Intertie ("COI Transmission Line"). 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 the basis that the Ninth Circuit Court has exclusive jurisdiction over Bonneville in this matter and other grounds. The other named defendants also moved to dismiss TANC's claims on other grounds. In February 2001, the district court dismissed all claims against Bonneville on a determination that the court lacked jurisdiction to review the claims. The court also dismissed all claims against the other defendants. In March 2001, TANC appealed the district court's decision to the Ninth Circuit Court. The Ninth Circuit Court heard argument on this case in February 2002, and affirmed the dismissal in July 2002. TANC then filed a petition for review by the U.S. Supreme Court. The parties await a ruling by the Supreme Court whether to grant review of the case.

TANC's complaint in the foregoing litigation is similar to another Bonneville 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 in the proceeding, asserting that the interconnection adversely affected reliability of the COI Transmission Line. In March 2001, the Presiding Administrative Law Judge issued an Initial Decision, which substantially supports Bonneville's position. The Initial Decision is on appeal before FERC and the parties await a decision.

Confederated Tribes of the Umatilla Indian Reservation and the Nez Perce Tribe, et. al. v. Bonneville Power Administration

In November 2001, the Sierra Club and other environmental organizations petitioned the Ninth Circuit Court to review Bonneville's decision document of August 2001 that sets forth certain aspects of the implementation of the 2000 Biological Opinion and compliance with other laws. See "— Power Business Line — Certain Statutes and Other Matters Affecting Bonneville's Power Business Line — Fish and Wildlife — 2000 Biological Opinion." A similar petition was filed by the Confederated Tribes of the Umatilla Indian Reservation and the Nez Perce Tribe. The court has consolidated these petitions. Among other things, the challenged decision document provides guidance for operating the Federal System hydroelectric dams in a manner intended to protect listed fish species under the ESA. The decision document also provides certain exceptions to such operations in the event power generation is needed to address emergency electric system needs.

Petitioners allege that Bonneville's decision document does not comply with provisions of the Northwest Power Act directing Bonneville to exercise its fish and wildlife responsibilities in a manner that provides "equitable treatment" for fish and wildlife with other purposes for which the Federal System facilities are managed and operated. Petitioners seek to vacate the

decision document and remand it to Bonneville to make it comply with the Northwest Power Act and other applicable law. Briefing is complete, and the parties await notice of a date for oral argument.

Blachly-Lane Electric Cooperative, et al. v. Bonneville Power Administration

A consortium of publicly-owned utilities, municipalities and cooperatives filed a petition for review in the Ninth Circuit Court in September 2001. The petitioners allege that in a Record of Decision dated June 20, 2001, Bonneville decided to sell more power than is available from the Federal Base System resources, including sales to DSIs, resulting in a shift of an estimated \$550 million per year in power costs to Bonneville's preference customers. The petitioners allege that Bonneville's actions violated public preference provisions of the Northwest Power Act. Briefs have been filed and parties await a date for oral argument.

Southern California Edison v. Bonneville Power Administration

Southern California Edison ("Southern") filed three separate petitions for review against Bonneville in the Ninth Circuit Court. The cases all challenge actions taken by Bonneville regarding the implementation of a 1988 power sales contract between Bonneville and Southern.

In the first petition for review, Southern challenges Bonneville's decision to convert the contract from a sale of power to an exchange of power. In the second petition for review, Southern challenges a Record of Decision issued by Bonneville in its rate adjustment proceeding. Southern alleges that the rate adjustment violates its power sales contract. In the third petition for review, Southern challenges Bonneville's letter to Southern terminating service under its power sales contract due to Southern's nonperformance. All three petitions for review were dismissed by the Ninth Circuit Court for lack of jurisdiction, and were transferred to the U.S. Court of Federal Claims. Subsequently, the cases were dismissed by the U.S. Court of Federal Claims and Southern has filed administrative claims for relief with Bonneville as an apparent predicate to re-filing its claims in the Court of Federal Claims. In March 2003, SCE re-filed litigation in the Court of Federal Claims on the claim that Bonneville breached the contract by converting it from a power sale to a power exchange.

Kevin Bell, et al. v. Bonneville Power Administration

Two petitions for review were filed in the Ninth Circuit Court challenging Bonneville's decisions to execute certain agreements with most of Bonneville's DSIs. These agreements are generally called load reduction or curtailment agreements. The agreements were executed in 2001 to enable Bonneville to reduce its obligations to serve power to these customers, and to buy power back from these customers at below market prices at a time when market prices for power were extremely high. Petitioners allege that Bonneville exceeded its statutory authority and violated ratemaking and resource acquisition provisions of the Northwest Power Act, as well as the National Environmental Policy Act. The case has been briefed, and the parties are waiting for the court to set a date for a hearing and oral argument.

ESA Litigation

National Wildlife Federation v. National Marine Fisheries Service

In a lawsuit filed May 4, 2001, in the United States District Court for the District of Oregon, the National Wildlife Federation and other plaintiffs asked the court: (1) to declare that the 2000 Biological Opinion and incidental take statement are arbitrary and capricious, an abuse of discretion, and otherwise not in accordance with law, and (2) to order NMFS (now known as NOAA Fisheries) to reinstate consultation with the action agencies responsible for operation of the Federal System hydroelectric projects--the Corps, the Bureau, and Bonneville--and to prepare a new biological opinion. Plaintiffs subsequently filed a First Amended Complaint, and the action agencies filed their answer. Several entities have intervened in this lawsuit. The court has scheduled oral argument on motions for summary judgment in April 2003.

Alsea Valley Alliance v. Evans

In September 2001, the United States District Court for the District of Oregon issued an order finding that NMFS (now known as NOAA Fisheries) had exceeded its authority by listing only the wild-salmon portion of the Oregon Coast Coho salmon as endangered or threatened. The court found that because NMFS did not include the entire "distinct population segment" which also includes hatchery fish, it acted arbitrarily and capriciously. As a result, the court delisted the Oregon Coast Coho salmon as endangered or threatened.

After this decision, a number of intervenor environmental groups appealed the decision to the Ninth Circuit Court. These groups successfully stayed the findings of the district court. The effect of the stay is to temporarily re-list the Oregon Coast Coho pending the decision on appeal. In addition to the appeal, NMFS received 14 additional petitions from various interest groups to de-list other salmon populations. NMFS has decided to revisit its Hatchery Listing Policy. NMFS has not yet officially proposed its amended Hatchery Listing Policy, and the parties await a ruling on the appeal from the Ninth Circuit Court.

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 has proposed new power rates for the five years beginning October 1, 2002. Bonneville will propose transmission rates for the two years beginning October 1, 2003. See "POWER BUSINESS LINE — Power Marketing in 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 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 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 and arbitration proceedings, including land, contract, 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 2003 Bonds will be in substantially the forms appended hereto in Appendices C-1, C-2, C-4, C-5, C-7 and C-8. The opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, as to the exclusion of the interest on the Series 2003-A Bonds from the gross income of the owner thereof for federal income tax purposes will be in substantially the form 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 such 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 General Counsel. A copy of the proposed forms of these opinions of Bond Counsel is appended hereto in Appendices C-3, C-6 and C-9.

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.

Certain legal matters, including the enforceability against Bonneville of the Net Billing Agreements and the Assignment Agreements relating to Project 1, Columbia and Project 3, will be passed upon for Bonneville by its 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

Series 2003-A Bonds

In the opinion of Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2003-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 2003-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 2003-A Bonds and the

due authorization and issuance of these Bonds. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in Appendix D hereto.

Series 2003-A Bonds purchased, whether at original issuance or otherwise, for an amount higher 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 and the Code impose 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 2003-A Bonds. Energy Northwest and Bonneville have made certain representations and covenanted to comply with certain restrictions designed to ensure that interest on the Series 2003-A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2003-A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2003-A Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and 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 2003-A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2003-A Bonds.

Certain agreements, requirements and procedures contained or referred to in the Net Billed Resolutions, as applicable, the Tax Matters Certificates to be executed and delivered by Energy Northwest and by Bonneville simultaneously with the issuance of the Series 2003-A Bonds, and other relevant documents may be changed and certain actions (including without limitation defeasance of the 2003-A Bonds) 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 2003-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 2003-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, these 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.

The opinion of Special Tax Counsel is based on current legal authority and represents Special Tax Counsel’s judgment as to the proper treatment of the Series 2003-A Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Special Tax Counsel’s engagement with respect to the Series 2003-A Bonds ends with the issuance of the Series 2003-A Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the tax-exempt status of the Series 2003-A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than Energy Northwest, including Beneficial Owners, will have little if any right to participate in the examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which Energy Northwest or Bonneville legitimately disagree, may not be practical. If such a situation arises, Energy Northwest, Bonneville or Beneficial Owners of the Series 2003-A Bonds may incur significant expense, loss of market value to the Beneficial Owners, or both.

Series 2003-B Bonds

In the opinion of Special Tax Counsel, interest on the Series 2003-B Bonds is not excluded from gross income for federal income tax purposes under Title XIII of the 1986 Act or Section 103 of the Code. Beneficial Owners of the Series 2003-B Bonds should consult their own tax advisors in determining the federal, state, local and other tax consequences of the purchase, ownership and disposition of the Series 2003-B Bonds.

RATINGS

Standard & Poor’s, Moody’s and Fitch have assigned the uninsured 2003 Bonds the ratings of AA-, Aa1 and AA-, respectively. Standard & Poor’s, Moody’s and Fitch have assigned the Insured Bonds the ratings of AAA, Aaa and AAA, 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 2003 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 2003 Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2003-A Bonds and Series 2003-B Bonds from Energy Northwest and to make a bona fide public offering of such Bonds at not in excess of the public offering prices set forth on the inside cover of this Official Statement. Aggregate underwriters' compensation under the bond purchase contract is \$3,461,927.08. 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 2003-A Bonds or Series 2003-B Bonds if any such Bonds are purchased. The 2003 Bonds may be offered and sold to certain dealers, banks and others (including underwriters and other dealers depositing such 2003 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 2003 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 2003 Bonds, for the benefit of holders of the 2003 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 the 2003 Bonds, if material. Energy Northwest Annual Information is to be provided not later than December 31 of each year, commencing December 31, 2003. The Bonneville Annual Information is to be provided not later than March 31 of each year, commencing March 31, 2004. 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."

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 2003 Bonds, the basic agreements securing the 2003 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 any Series of the 2003 Bonds is to be construed as a contract with the holders of such Series of 2003 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/ John F. Cockburn
Chairman, Executive Board

By: /s/ Albert E. Mouncer
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 changes in capitalization and long-term liabilities and of revenues and expenses, of cash flows present fairly, in all material respects, the financial position of the Federal Columbia River Power System (FCRPS) at September 30, 2002 and 2001, the results of its operations, and its cash flows for each of the three years in the period ended September 30, 2002, and the changes in its capitalization and long-term liabilities for each of the two years in the period ended September 30, 2002, 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, 2002 (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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
December 16, 2002

Financial Statements

Statements of Revenues and Expenses

Federal Columbia River Power System

For the years ended Sept. 30 — Thousands of dollars

	2002	2001	2000
Operating Revenues			
Sales	\$ 3,407,404	\$ 3,563,182	\$ 2,903,735
SFAS 133 mark-to-market	38,354	47,877	—
Miscellaneous Revenues	49,571	66,902	103,251
U.S. Treasury Credits for Fish	38,400	600,708	60,000
Total operating revenues	3,533,729	4,278,669	3,066,986
Operating Expenses			
Operations and maintenance	1,319,707	1,023,180	977,439
Purchased power	1,286,867	2,296,076	633,142
Nonfederal projects (Note 4)	230,175	473,100	560,836
Federal projects depreciation	335,205	323,314	319,942
Total operating expenses	3,171,954	4,115,670	2,491,359
Net operating revenues	361,775	162,999	575,627
Interest Expense			
Interest on federal investment:			
Appropriated funds (Note 3)	258,195	248,429	248,352
Long-term debt (Note 2)	151,997	129,159	115,052
Allowance for funds used during construction	(57,892)	(45,679)	(28,754)
Net interest expense	352,300	331,909	334,650
Net revenues (expenses) before cumulative effect of SFAS 133	9,475	(168,910)	240,977
Cumulative effect of SFAS 133	—	(168,491)	—
Net Revenues (Expenses)	9,475	(337,401)	240,977
Accumulated net (expenses) revenues, Oct. 1	(221,151)	132,810	(108,167)
Irrigation Assistance	—	(16,560)	—
Accumulated net (expenses) revenues, Sept. 30	\$ (211,676)	\$ (221,151)	\$ 132,810

The accompanying notes are an integral part of these statements.

Balance Sheets

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

Assets

	2002	2001
Utility Plant (Notes 1 and 3)		
Completed plant	\$ 11,488,047	\$ 11,249,158
Accumulated depreciation	(4,052,117)	(3,817,309)
	7,435,930	7,431,849
Construction work in progress	1,200,179	913,670
Net utility plant	8,636,109	8,345,519
Nonfederal Projects (Note 4)		
Conservation	47,733	50,189
Hydro	167,080	170,730
Nuclear	2,127,907	2,116,473
Terminated hydro facilities	29,555	30,245
Terminated nuclear facilities	3,829,269	3,804,312
Total nonfederal projects	6,201,544	6,171,949
Trojan Decommissioning Cost (Note 5)	73,861	69,221
Conservation , net of accumulated amortization of \$831,631 in 2002 and \$769,221 in 2001 (Notes 1 and 2)	409,571	444,021
Fish and Wildlife , net of accumulated amortization of \$129,207 in 2002 and \$110,954 in 2001 (Notes 1 and 2)	134,204	146,354
Current Assets		
Cash	235,409	667,306
Accounts receivable	299,040	387,805
Materials and supplies, at average cost	85,107	85,222
Prepaid expenses	285,696	187,149
Total current assets	905,252	1,327,482
Other Assets	151,458	265,984
	\$ 16,511,999	\$ 16,770,530

The accompanying notes are an integral part of these statements.

Capitalization and Liabilities

	2002	2001
Capitalization and Long-Term Liabilities		
Accumulated net expenses (Note 1)	\$ (211,676)	\$ (221,151)
Federal appropriations (Note 3)	4,595,915	4,647,017
Capitalization adjustment (Note 3)	2,192,400	2,259,756
Long-term debt (Note 2)	2,563,141	2,582,542
Nonfederal projects debt (Note 4)	5,958,538	5,954,490
Trojan decommissioning reserve (Note 5)	63,861	57,221
Total capitalization and long-term liabilities	15,162,179	15,279,875
Commitments and Contingencies (Notes 5 and 6)		
Current Liabilities		
Current portion of federal appropriations	46,687	23,913
Current portion of long-term debt	207,300	106,000
Current portion of nonfederal projects debt	243,006	217,459
Current portion of Trojan decommissioning reserve	10,000	12,000
Accounts payable and other current liabilities	343,425	510,957
Total current liabilities	850,418	870,329
Deferred Credits (Note 1)	499,402	620,326
	\$16,511,999	\$16,770,530

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
Balance at Sept. 30, 2000	\$ 132,810	\$4,566,011	\$2,513,200	\$6,408,865	\$2,406,847	\$16,027,733
Increase in federal appropriations:						
Construction	—	230,388	—	—	—	230,388
Repayment of federal appropriations:						
Construction	—	(125,469)	—	—	—	(125,469)
Capitalization adjustment amortization	—	—	—	—	(68,784)	(68,784)
Irrigation Assistance	(16,560)	—	—	—	—	(16,560)
Increase in long-term debt	—	—	260,000	—	—	260,000
Repayment of long-term debt	—	—	(84,658)	—	—	(84,658)
Net decrease in nonfederal projects debt	—	—	—	(60,658)	—	(60,658)
Repayment of nonfederal projects debt	—	—	—	(176,258)	—	(176,258)
Trojan decommissioning reserve	—	—	—	—	(9,086)	(9,086)
Net expenses	(337,401)	—	—	—	—	(337,401)
Balance at Sept. 30, 2001	\$ (221,151)	\$4,670,930	\$2,688,542	\$6,171,949	\$2,328,977	\$15,639,247
Increase in federal appropriations:						
Construction	—	168,583	—	—	—	168,583
Repayment of federal appropriations:						
Construction	—	(196,911)	—	—	—	(196,911)
Capitalization adjustment amortization	—	—	—	—	(67,356)	(67,356)
Increase in long-term debt	—	—	390,000	—	—	390,000
Repayment of long-term debt	—	—	(308,101)	—	—	(308,101)
Net increase in nonfederal projects debt	—	—	—	258,775	—	258,775
Repayment of nonfederal projects debt	—	—	—	(229,180)	—	(229,180)
Trojan decommissioning reserve	—	—	—	—	4,640	4,640
Net revenues	9,475	—	—	—	—	9,475
Balance at Sept. 30, 2002	\$ (211,676)	\$4,642,602	\$2,770,441	\$6,201,544	\$2,266,261	\$15,669,172

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

	2002	2001	2000
Cash from Operating Activities			
Net revenues (expenses)	\$ 9,475	\$ (337,401)	\$ 240,977
Expenses (income) not requiring cash:			
Depreciation	254,332	247,247	242,673
Amortization of conservation and fish and wildlife	78,047	76,067	77,269
Amortization of nonfederal projects	229,180	176,258	323,619
Amortization of capitalization adjustment	(67,356)	(68,784)	(67,474)
AFUDC	(57,892)	(45,679)	(28,754)
(Increase) decrease in:			
Accounts receivable	88,765	(31,283)	(155,444)
Materials and supplies	115	(20,930)	6,785
Prepaid expenses	(98,547)	(101,254)	(3,200)
Increase (decrease) in:			
Accounts payable	(167,532)	138,687	100,699
Other	(6,399)	114,060	8,437
	262,188	146,988	745,587
Cash from Investment Activities			
Investment in:			
Utility plant	(487,030)	(399,220)	(310,165)
Conservation	(25,344)	141	—
Fish and wildlife	(6,102)	(16,493)	(13,898)
	(518,476)	(415,572)	(324,063)
Cash from Borrowing and Appropriations			
Increase in federal constructions appropriations	168,583	230,388	129,953
Repayment of federal construction appropriations	(196,911)	(125,469)	(62,425)
Irrigation assistance	—	(16,560)	—
Increase in long-term debt	390,000	260,000	294,300
Repayment of long-term debt	(308,101)	(84,658)	(227,500)
Refinance of long-term debt	—	—	(68,800)
Payment of nonfederal debt	(229,180)	(176,258)	(323,619)
	(175,609)	87,443	(258,091)
(Decrease) increase in cash	(431,897)	(181,141)	163,433
Beginning cash balance	667,306	848,447	685,014
Ending cash balance	\$ 235,409	\$ 667,306	\$ 848,447

The accompanying notes are an integral part of these 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 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.

Standards of Ethical Conduct

As part of the United States federal government, employees of the FCRPS are bound by Standards of Ethical Conduct for Employees of the Executive Branch. The Standards contains 14 general principles that address topics such as placing ethical principles above private gain, not engaging in conflicts of interest, not using public office for private gain, and complying with all applicable governmental

rules and regulations. The Standards document spells out these principles in great detail and includes examples of how to respond in situations where ethical dilemmas arise. All employees of the FCRPS, including executives, are required to receive federal ethics training and sign a document stating they understand the Standards of Ethical Conduct on an annual basis.

Reclassifications

Certain reclassifications were made to the 2000 and 2001 combined financial statements from amounts previously reported to conform to the presentation used in fiscal year 2002. 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 the Pacific Northwest Electric Power Planning and Conservation Act (Act), 16 U.S.C. 839, and a standard set by the National Energy Policy Act of 1992. 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 until the current rate period expires on Sept. 30, 2006, except for certain rate cost recovery adjustment clauses (CRACs). The CRACs are temporary upward adjustments to posted power prices if certain conditions occur. There are three sets of conditions in which rate increases under the CRACs may trigger. The first is the Load-Based CRAC (LB CRAC), which triggers if BPA incurs costs for meeting or reducing loads that were not included in the rate case. The second is the Financial-Based CRAC (FB CRAC), which triggers if the generation function's forecasted

level of accumulated net revenues is below a pre-determined threshold. The third is the Safety-Net CRAC (SN CRAC), which triggers when, after implementation of the LB and FB CRACs, BPA has missed or reasonably expects to miss a payment to the Treasury or another creditor. Of these certain rate adjustment clauses, some are calculated on forward-looking market conditions and adjustments are made after-the-fact when actual conditions are known. These adjustments result in an additional charge or rebate due customers for any excess or shortfall of amounts initially charged to them.

On Oct. 1, 2001, implementation of the LB CRAC caused BPA's rates to increase approximately 46 percent for the first half of fiscal 2002 compared to base rates. The LB CRAC percentage changes every 6 months. The increase was 41 percent for the second half of fiscal 2002. The LB CRAC percentage will be revised for the six-month periods beginning Oct. 1, 2002 and April 1, 2003.

At Sept. 30, 2002, BPA has recognized a liability of \$5.8 million for the LB CRAC period ended March 31, 2002, and a receivable of \$2.3 million for the LB CRAC ended Sept. 30, 2002. The August forecast of the generation function's accumulated net revenues triggered the FB CRAC, and resulted in a one-year rate increase beginning Oct. 1, 2002, of approximately 11 percent for most of the requirement rates on top of the revised levels of the LB CRAC. SN CRAC did not trigger in fiscal 2002.

In addition to the CRACs, BPA established contracts and rates for a "Slice of the System Product." The basic premise

of the product is that a purchaser pays a fixed percent of BPA's power costs in exchange for a fixed percent of generation and capabilities. Settlement of any over or under collection is in the subsequent year. For the fiscal 2002 settlement, BPA has recognized a receivable of \$49 million to be received in fiscal 2003.

FERC granted final approval for proposed Power and Transmission rates on April 4, 1997, for fiscal years 1997 through 2001 (75 FERC 62,010 (1997)).

BPA submitted a separate Transmission and Ancillary Services Rate Filing in 2000 for fiscal years 2002 through 2003, and a Power Rate Filing in 2001 for fiscal years 2002 through 2006. FERC granted final approval of BPA's Transmission and Ancillary Services rates on May 7, 2001, for fiscal years 2002 through 2003, 62 FERC 62,094 (2001). On June 29, 2001, FERC granted final approval for the acceleration of the Ancillary Services and Control Area Services Rate (ACS-02) for Generation Imbalance Service (GIS), 95 FERC 62,286 (2001); and on October 11, 2001, FERC granted final approval for corrections of the ACS-02 rate, 97 FERC 62,020 (2001). FERC granted interim approval for proposed Power rates on Sept. 28, 2001, for fiscal years 2002 through 2006, 96 FERC 61,360 (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.

SFAS 71 Assets

As of Sept. 30 — Thousands of dollars

	2002	2001
Nonfederal projects		
Conservation	\$ 47,733	\$ 50,189
Terminated nuclear facilities	3,829,269	3,804,312
Terminated hydro facilities	29,555	30,245
Trojan decommissioning cost	73,861	69,221
Conservation	409,571	444,021
Fish and wildlife	134,204	146,354
Additional retirement contributions	36,800	68,100
Total	\$ 4,560,993	\$ 4,612,442

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 \$4.6 billion, shown in the table on page 31, reflect a decrease of \$51 million from the prior year. Amortization of these costs aggregating \$293 million in fiscal 2002, \$259 million in 2001 and \$276 million in fiscal 2000 is reflected in the Statements of Revenues and Expenses.

Revenues and Net Revenues

Operating revenues are recorded on the basis of service rendered, which includes estimated unbilled revenues of \$93 million at Sept. 30, 2002, and \$6 million at Sept. 30, 2001. Estimated unbilled revenues are included in accounts receivable in the accompanying Balance Sheets. BPA operates as two segments: The Power Business Line and the Transmission Business Line. The table in Note 7 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 5.

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) constitutes 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 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 6.5 percent in 2002, 2.5 percent to 6.6 percent in 2001 and 2.5 percent to 6.7 percent in 2000). Capitalization rates for other construction approximate the cost of borrowing from the U.S. Treasury (6.0 percent in 2002, 6.5 percent in 2001 and 6.6 percent in 2000).

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. Amortization of capitalized conservation and fish and wildlife costs is computed on the straight-line method based on estimated service lives, which are 10 to 20 years for conservation and 15 years for fish and wildlife.

Fish Credits

The Act obligated the BPA administrator to make expenditures for fish and wildlife protection, mitigation, and enhancement for both power and non-power purposes, on a reimbursement basis. It also specified that consumers of electric power, through their rates for power services "shall bear the costs of measures designed to deal with adverse impacts caused by the development and operation of electric power facilities and programs only." Section 4(h)(10)(C) of the Act was designed to ensure that the costs of mitigating these impacts are properly accounted for among the various purposes of the hydroelectric projects.

BPA, the U.S. Treasury and the Office of Management and Budget agreed to a crediting mechanism against Bonneville's Treasury payments to reimburse BPA for expenditures made on behalf of mitigation for non-power purposes. Under the agreed-upon crediting mechanism, BPA reduces its cash payments to Treasury by an amount equal to the mitigation measures funded on behalf of the non-power purposes. The

credits are used to recoup the amount owed to BPA by the other project purposes. Bonneville has taken this credit since 1995, in amounts that, with the exception of FY 2001, ranged between \$26 million and \$60 million.

IOU Subscription Settlement Agreements and Residential Exchange

As provided for in the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. 839, Section 5(c), BPA entered into residential exchange contracts with most of its electric utility customers. These contracts resulted in payments to the utilities if a utility's average system cost exceeded BPA's priority firm power rate.

Subsequently, contract termination agreements were signed by all actively exchanging Pacific Northwest utilities except Northwestern Energy (formerly the Montana Power Co., which had not been receiving benefits). BPA made payments to settle the utilities' and BPA's rights and obligations under the residential exchange program through June 30, 2001, and in some cases, through June 30, 2011.

In Oct. 2000, BPA's investor-owned utility (IOU) customers signed subscription settlement agreements determining exchange benefits for the period from July 1, 2001 through Sept. 30, 2011. These agreements provide for both sales of power and payments to the IOUs. The table below summarizes future IOU benefits as of Sept. 30, 2002.

Exchange Benefits

Thousands of dollars

IOU Benefits	
2003	\$ 359,850
2004	359,850
2005	359,850
2006	359,850
Total	\$ 1,439,400

Benefits beyond the current rate case period cannot currently be quantified.

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 ended 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 projected over a period of years as shown in the table. The payments, when made, will be directly to the U.S. Treasury.

BPA paid approximately \$55.2 million and \$8.0 million to the U.S. Treasury during fiscal 2002 and 2001, respectively. These amounts were recorded as expense when paid. BPA has accrued \$36.8 million as of Sept. 30, 2002, which represents the additional deferred contribution for fiscal 1998, 1999, 2000, 2001 and 2002. This amount has been recorded as an SFAS 71 asset on the balance sheet for recovery of the costs through rates in the period beginning Oct. 1, 2001. The related liability is included in other current liabilities and deferred credits in the accompanying Balance Sheet. At Sept. 30, 2002, BPA has scheduled additional payments totaling \$136.8 million as follows.

Scheduled Additional CSRS Contributions

Millions of dollars

Scheduled Contributions	
2003	\$ 35.1
2004	30.9
2005	26.5
2006	23.2
2007	21.1
Total	\$ 136.8

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 \$484 million in 2002, \$464 million in 2001 and \$403 million in 2000.

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 \$259 million in 2002, \$61 million in 2001 and \$40 million in 2000.

Concentrations of Credit Risks

General Credit Risk

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. Energy Northwest invests exclusively in U.S. Government securities and agencies. BPA's accounts receivable are concentrated with a diverse group of customers and counterparties who have purchased capacity, energy, or other products and services. These customers are generally large and stable and do not represent a significant concentration of credit risk.

BPA mitigates credit risk by insisting that counterparties and marketers are significant industry companies that are considered financially strong. BPA performs an initial financial review of new counterparties and establishes credit limits based on the results of that review. Reviews and credit limits are updated regularly to reflect the current financial conditions of the company.

In conjunction with the financial reviews, BPA often obtains credit support in the form of parental guarantees and letters of credit to support established credit limits. BPA also utilizes netting agreements to mitigate the credit risk of financial instruments.

Bonneville has open purchase and sales contracts with a diverse group of customers including Enron Power Marketing Inc. (Enron). Enron and its parent company, Enron Corp. filed for bankruptcy protection in December 2001. Due to the nature of the contracts with Enron, management does not consider it necessary to record a provision for loss or for uncollectible amounts as of Sept. 30, 2002, relating to Enron transactions.

Credit Risk from California

California power markets have been in turmoil for several years, having experienced historically high power prices and volatility. Defaults by Pacific Gas & Electric (which filed for bankruptcy protection in April 2001) and Southern California Edison (which has established a creditor payment plan) in payments for energy and transmission to the California Independent System Operator (Cal-ISO) have resulted in concerns by energy suppliers that the Cal-ISO may not be a creditworthy supplier. In addition, the California Power Exchange (Cal-PX) has substantial outstanding payment obligations due from the California investor-owned-utilities for day-ahead power exchanges. The Cal-PX filed for bankruptcy protection in March 2001.

Bonneville entered into certain power sales through the Cal-PX for which Bonneville has not yet been paid. In addition Bonneville sold power and related services to the Cal-ISO for which Bonneville has not yet been paid in full. Bonneville also has a long-term seasonal power exchange agreement with Southern California Edison. Based on management's current evaluation, the amount of ultimate or potential losses is not determinable at this time. However, Bonneville has recorded provisions for uncollectible receivable and potential refund amounts, which in management's best estimate are sufficient to cover potential exposure. Nonetheless, Bonneville is continuing to pursue collection of all amounts due in bankruptcy and other proceedings.

Deferred Credits

Deferred credits consist of \$127 million paid to BPA from participants under the 3rd AC intertie capacity agreement, \$126.4 million in advances from customers for projects which BPA is constructing on their behalf, \$95.2 million in load diversification fees and other settlement payments for long-term agreements paid to BPA from various customers, \$82.3 million current fair market value of purchased and written options and certain trading physical forward sales and purchases, \$23.7 million leasing fees for fiber optic cable, \$23.4 million in deferred CSRS, \$21.1 million in unearned option premium revenue, and \$.3 million in other miscellaneous long-term liabilities.

Deferred 3rd AC intertie capacity payments are recognized as revenue over the estimated 37-year life of the related assets. Advances on projects BPA constructs for customers are either applied against the expenditure 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. 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 ended Sept. 30, 2001, while other settlement agreements extend over varying periods through 2019). Leasing fees for fiber optic cable are recognized over the lease terms extending as far as 2020. The current portion of deferred credits to be recorded as revenue in fiscal 2002 is included in accounts payable and other current liabilities in the Balance Sheet.

Hedging and Derivative Instrument Activities

BPA's hedging policy (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 had no material hedging or financial instruments outstanding as of Sept. 30, 2002.

Historically, BPA has used 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. There were no open or outstanding OTC electricity swap agreements or Exchange traded electricity futures and options at Sept. 30, 2002.

As of and for the years ended Sept. 30, 2002 and 2001, 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 and to take delivery

of power as a result of written put options if exercised. The megawatt-hour quantities that BPA sells and the premiums that BPA collects for the sales of these options are priced on market based information and 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. In addition, BPA may be required to buy power at strike prices above market prices as a result of its written put option obligations.

As of Sept. 30, 2002, there were no written call options outstanding compared to 409,600 megawatt-hours outstanding with an average strike price of \$130.25 per megawatt-hour as of Sept. 30, 2001. As of Sept. 30, 2002, written put options totaling 3,507,600 megawatt-hours were outstanding with an average strike price of \$42.25 per megawatt-hour compared to 10,112,003 megawatt-hours outstanding as of Sept. 30, 2001. These options expire at various times through Dec. 2005. 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.

Financial Instruments

All significant financial instruments of the FCRPS were recognized in the Balance Sheet as of Sept. 30, 2002 and 2001. 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 Statement 133

BPA adopted SFAS 133, "Accounting for Derivative Instrument and Hedging Activities," as amended, on Oct. 1, 2000. SFAS 133 requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 requires that as of the date of initial adoption, the difference between the fair market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate.

It is BPA's policy to document and apply as appropriate the normal purchase and normal sales exception under SFAS 133, as amended by SFAS 138 paragraph 4 (a), and Derivatives Implementation Group issue C15: "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity." For all other non-hedging related derivative transactions BPA applies fair value accounting and records the amounts in the current period Statement of Revenues and Expenses. Bonneville may also elect to use special hedge accounting provisions allowed under SFAS 133 for transactions that meet certain documentation requirements. As of Sept. 30, 2002, BPA had no outstanding transactions accounted for under the special hedge accounting provisions.

On the date of adoption (Oct. 1, 2000), in accordance with the transition provisions of SFAS 133, BPA recorded a cumulative-effect adjustment of \$(168) million in net revenue (expense) to recognize the difference between the carrying values and fair values of derivatives not designated as hedging instruments. The adjustment consisted mainly of transactions known as bookouts that the FASB initially determined should be fair valued in net revenue (expense). While authoritative guidance in this area continued to emerge during fiscal year 2001, BPA management elected to apply the most current guidance available.

On June 29, 2001, the FASB issued definitive guidance on Derivatives Implementation Group issue C15: "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity." Issue C15 provided additional guidance on the classification and application of SFAS 133 relating to purchases and sales of electricity utilizing forward contracts and options including bookout transactions. This guidance became effective as of July 1, 2001. Purchases and sales of forward electricity and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales" under SFAS 133. These transactions are outside of the scope of SFAS 133 and therefore are not required to be marked to fair value in the financial statements. BPA elected this treatment of bookout transactions effective as of Sept. 30, 2001.

For the fiscal year ended Sept. 30, 2002 Statement of Revenues and Expenses BPA recorded \$38.4 million of gains from SFAS 133 fair value application related to certain option

and physical forward sales and purchase transactions. This included a \$61.3 million gain for open option contracts and a \$(22.9) million loss for certain physical forward sales and purchase transactions.

Recent Accounting Pronouncements

In June 2001, FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." Evaluations of SFAS 141 and 142 have been completed and we have determined there is no current effect on FCRPS financial statements.

In June 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. BPA is continuing to determine the impact, if any, of SFAS 143 on BPA's financial statements. If applicable, SFAS 143 will be effective for BPA starting with the fiscal year ending Sept. 30, 2003.

In August 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. An evaluation of SFAS 144 has been completed and we have determined there is no current effect on FCRPS financial statements.

In April 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," and in June 2002, FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit of Disposal Activities." Evaluations of SFAS 145 and 146 have been completed and we have determined there is no current effect on FCRPS financial statements.

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, 2002, \$350 million of

this reserved amount and \$2,420 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, 2002, for similar maturities exceeds carrying value by approximately \$497 million, or 18 percent. The table below reflects the terms and amounts of long-term debt.

U.S. Treasury Bonds

Long-Term Debt (a) — Thousands of dollars

	First Call Date	Maturity Date	Interest Rate	Construction and Fish & Wildlife	Conservation	Cumulative Total
November 1999	none	2002	6.40%	\$ 40,000		\$ 40,000
January 1996	none	2003	5.90%	60,000		100,000
September 1999	none	2003	6.30%	20,000		120,000
April 2000 (b)	none	2003	6.85%	40,000		160,000
July 2000	none	2003	6.95%		\$ 32,000	192,000
August 2000	none	2003	6.85%	15,300		207,300
January 1997	none	2004	6.80%	30,000		237,300
May 1999	none	2004	5.95%	26,200		263,500
September 1999 (b)	none	2004	6.40%	20,000		283,500
July 2000	none	2004	7.00%	50,000		333,500
June 2001 (b)	none	2004	4.75%	50,000		383,500
May 1997	none	2005	6.90%	80,000		463,500
January 2000	none	2005	7.15%	53,500		517,000
September 2000 (b)	none	2005	6.70%	20,000		537,000
January 2001	none	2005	5.65%	20,000		557,000
January 2001	none	2005	5.65%	25,000		582,000
March 2002	none	2005	4.60%	110,000		692,000
March 2002 (b)	none	2005	4.60%	30,000		722,000
June 2002	none	2005	3.75%	60,000		782,000
June 2002	none	2005	3.75%		40,000	822,000
August 1996	none	2006	7.05%	70,000		892,000
September 2000	none	2006	6.75%	40,000		932,000
September 2002	none	2006	3.05%	100,000		1,032,000
September 2002	none	2006	3.05%	30,000		1,062,000
September 2002 (b)	none	2006	3.05%	20,000		1,082,000
August 1997	none	2007	6.65%	111,300		1,193,300
April 1998	none	2008	6.00%	75,300		1,268,600
April 1998 (b)	none	2008	6.00%	25,000		1,293,600
August 1998	none	2008	5.75%	40,000		1,333,600
September 1998	none	2008	5.30%		104,300	1,437,900
July 1989	none	2009	8.55%		40,000	1,477,900
May 1998	none	2009	6.00%	72,700		1,550,600
May 1998	none	2009	6.00%		37,700	1,588,300
January 2001	none	2010	6.05%	30,000		1,618,300
January 2001	none	2010	6.05%	60,000		1,678,300
January 1996	2001	2011	6.70%		30,000	1,708,300
November 1996	2001	2011	6.95%	40,000		1,748,300
May 1998	none	2011	6.20%	40,000		1,788,300
June 2001	none	2011	5.95%	25,000		1,813,300
August 2001	none	2011	5.75%	50,000		1,863,300
January 1998	none	2013	6.10%	60,000		1,923,300
September 1998	none	2013	5.60%		52,800	1,976,100
January 1994	1999	2014	6.75%		13,265	1,989,365
February 1999	none	2014	5.90%	60,000		2,049,365
July 1995	2000	2025	7.70%	34,976		2,084,341
April 1998	2008	2028	6.65%	50,000		2,134,341
August 1998	none	2028	5.85%	106,500		2,240,841
August 1998	none	2028	5.85%	112,300		2,353,141
May 1998	2008	2032	6.70%	98,900		2,452,041
August 1993	1998	2033	6.95%	110,000		2,562,041
October 1993	1998	2033	6.85%	108,400		2,670,441
October 1993	1998	2033	6.85%	50,000		2,720,441
January 1994	1999	2034	7.05%	50,000		2,770,441
				\$ 2,420,376	\$ 350,065	\$ 2,770,441
Less current portion						(207,300)
						\$ 2,563,141

(a) The weighted average interest rate was 6 percent on outstanding long-term debt as of Sept. 30, 2002. 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 (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 Refinancing 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 Refinancing Act.

Amortization of the capitalization adjustment was \$67.4 million for fiscal 2002 and \$68.8 million for 2001, and \$67.5 million for 2000. The weighted-average interest rate was 7.0 percent in 2002, and 6.9 percent in 2001 and 7.1 percent in 2000.

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.

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.

The table below shows the term repayments on the remaining federal appropriations as of Sept. 30, 2002.

Federal Appropriations

Thousands of dollars

Term Repayments	
2003	\$ 46,687
2004	73,484
2005	110,989
2006	68,939
2007	33,694
2008+	4,308,809
Total	\$ 4,642,602

Includes payments on historic replacements but excludes planned future replacements and irrigation assistance.

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, including projects that are not completed and/or not operating. BPA has also acquired all of the output of the 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 \$175 million in fiscal 2002, \$217 million in fiscal 2001 and \$174 million in fiscal 2000 for the projects is included in operations and maintenance in the accompanying Statements of Revenues and Expenses. Debt service for the projects of \$230 million, \$473 million and \$561 million for fiscal 2002, 2001 and 2000, respectively, is reflected as nonfederal projects expense in the accompanying Statements of Revenues and Expenses.

The fair value of all Energy Northwest debt exceeds recorded value by \$458 million or 7.6 percent based on discounting the future cash flows using interest rates for which similar debt could be issued at Sept. 30, 2002. 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, 2002.

Nonfederal Projects

Thousands of dollars

Debt Repayments	
2003	\$ 243,006
2004	280,350
2005	239,048
2006	267,387
2007	291,865
2008+	4,879,888
Total	\$ 6,201,544

5. 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 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. BPA paid irrigation assistance payments of \$25 million and \$17 million for 1997 and 2001 respectively. Future irrigation assistance payments ultimately could total \$733 million and are scheduled over a maximum of 66 years. The May 2000 Interim Cost Reallocation Report prepared by Reclamation resulted in approximately \$77 million of Columbia Basin Project costs being moved from irrigation to commercial power. 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, 2002.

Irrigation Assistance

Thousands of dollars

Distributions	
2003	\$ —
2004	739
2005	—
2006	—
2007	—
2008+	732,195
Total	\$ 732,934

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 \$6.2 million. For the Decontamination Liability, Decommissioning Liability and Excess Property Insurance policy, the maximum assessment is \$12 million. For the Business Interruption and/or Extra Expense Insurance policy, the maximum assessment is \$4.2 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 \$88.1 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 named the Satsop Redevelopment Project. In June 1999, Energy Northwest submitted a site restoration plan to the state of Washington's Energy Facility Site Evaluation Council (EFSEC) that complied with EFSEC's requirement to restore the WNP-1 and WNP-4 sites 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 and WNP-4. BPA is required to fund site restoration for WNP-1. Funding for WNP-4 is uncertain. The cost of complete site restoration for WNP-1 and WNP-4 is estimated to be up to \$60 million and \$40 million respectively. BPA and Energy Northwest have been negotiating a reduced level of site restoration for WNP-1 as well as WNP-4 with EFSEC and the Department of Energy. A tentative conceptual solution involving a reduced level and delay in accomplishing restoration has been reached and is expected to be recommended for management approval in November. The estimated cost for the recommended level of site restoration at WNP-1 and WNP-4 is about \$25 million and \$23 million (2003 dollars) respectively. BPA believes the existing funds plus earnings will be adequate to cover all site restoration costs.

Decommissioning costs for Columbia Generating Station 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 Nuclear Regulatory Commission requirements. Sinking fund requirements for Columbia Generating Station are based on a NRC 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, 2002, 2001 and 2000 were approximately \$4 million per year. The sinking fund balance at Sept. 30, 2002, is \$71 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 \$265 million is based on site-specific studies less actual expenditures to date. As of Sept. 30, 2002, BPA's 30-percent share of this estimated remaining liability is \$74 million which has been recorded net of the decommissioning trust fund balance of \$6 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 2000, 2001 and 2002. For the period 1995 through 2001, funding for the Trojan decommissioning trust fund is being applied directly to the decommissioning expenses. In 2002, the decommissioning trust fund was used to fund a portion of the 2002 Trojan decommissioning expenses. 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 and decommissioning trust fund withdrawals. Decommissioning costs are included in operations and maintenance expense in the accompanying Statements of Revenues and Expenses.

Environmental Cleanup

From time to time, there are sites where BPA, 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 and would be recoverable through future rates.

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 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. Current rates recover the additional costs of the Subscription obligations through 2006. BPA's trading floor enters into sales commitments to sell expected surplus generating capabilities at future dates and purchase commitments to purchase power at future dates when BPA forecasts a shortage of generating capability and prices are favorable. Further, 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.

The table below summarizes future purchase power and sales commitments as of Sept. 30, 2002.

Purchase Power and Sales Commitments

Thousands of dollars

	. Purchase .	. Sales
2003	\$ 1,046,243	\$ 2,122,146
2004	963,168	2,104,685
2005	996,904	2,104,686
2006	939,352	2,111,821
2007	98,823	100,445
2008+	362,570	275,043
Total	\$ 4,407,060	\$ 8,818,826

Augmentation commitments run through the rate case which ends in 2006.

6. Litigation

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.

7. 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 U.S. Treasury, all cash and cash transactions are also centrally managed in the SFAS 131 Segment Reporting table. Unaffiliated revenues 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 \$994 million for fiscal 2002 (\$3,534 million Operating Revenues less \$38 million SFAS 133 mark-to-market, \$38 million U.S. Treasury Credits for Fish, \$1,177 million Operations and Maintenance and \$1,287 million Purchased Power Expenses) as shown in the accompanying Statement of Revenues and Expenses.

Major Customers

During fiscal 2002, 2001 and 2000, 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
2002				
Unaffiliated Revenues	\$ 2,967,075	\$ 566,654	\$ —	\$ 3,533,729
Intersegment Revenues	80,729	153,727	(234,456)	—
Operating Revenues	\$ 3,047,804	\$ 720,381	\$ (234,456)	\$ 3,533,729
Net Operating Margin	\$ 927,061	\$ 355,870	\$ (288,547)	\$ 994,384
2001				
Unaffiliated Revenues	\$ 3,824,658	\$ 454,011	\$ —	\$ 4,278,669
Intersegment Revenues	63,394	192,662	(256,056)	—
Operating Revenues	\$ 3,888,052	\$ 646,673	\$ (256,056)	\$ 4,278,669
Net Operating Margin	\$ 180,790	\$ 363,822	\$ (161,587)	\$ 383,025
2000				
Unaffiliated Revenues	\$ 2,701,373	\$ 365,613	\$ —	\$ 3,066,986
Intersegment Revenues	46,385	212,727	(259,112)	—
Operating Revenues	\$ 2,747,758	\$ 578,340	\$ (259,112)	\$ 3,066,986
Net Operating Margin	\$ 1,307,980	\$ 308,188	\$ (123,224)	\$ 1,492,944

Schedule of Amount and Allocation of Plant Investment

Federal Columbia River Power System

As of Sept. 30, 2002 — 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
Bonneville Power Administration							
Transmission Facilities	\$ 5,482,014	\$ 5,097,741	\$ 384,273	\$ 5,482,014	\$ —	\$ —	\$ —
Bureau of Reclamation							
Boise	118,268	16,576	1,263	17,839	639	65,671	66,310
Columbia Basin	1,903,883	1,215,976	27,777	1,243,753	493,430	143,154	636,584
Green Springs	35,500	11,161	—	11,161	9,934	8,070	18,004
Hungry Horse	148,423	120,731	817	121,548	—	—	—
Minidoka-Palisades	381,854	110,381	54	110,435	386	72,505	72,891
Yakima	227,818	6,160	13	6,173	13,025	127,511	140,536
Total Bureau Projects	2,815,746	1,480,985	29,924	1,510,909	517,414	416,911	934,325
Corps of Engineers							
Albeni Falls	48,141	40,420	3,106	43,526	—	—	—
Bonneville	1,371,207	873,380	93,574	966,954	—	—	—
Chief Joseph	618,659	565,479	13,006	578,485	—	163	163
Cougar	93,683	20,311	31,178	51,489	—	3,288	3,288
Detroit-Big Cliff	69,365	40,998	2,241	43,239	—	5,050	5,050
Dworshak	376,065	314,733	5,172	319,905	—	—	—
Green Peter-Foster	93,617	49,722	3,635	53,357	—	6,210	6,210
Hills Creek	50,242	17,665	892	18,557	—	4,616	4,616
Ice Harbor	212,364	149,316	3,910	153,226	—	—	—
John Day	645,959	477,534	21,094	498,628	—	—	—
Libby	574,639	430,031	2,636	432,667	—	—	—
Little Goose	250,475	207,582	1,431	209,013	—	—	—
Lookout Point-Dexter	107,949	49,603	6,369	55,972	—	1,489	1,489
Lost Creek	149,751	26,978	10	26,988	—	2,186	2,186
Lower Granite	405,213	329,697	2,007	331,704	—	—	—
Lower Monumental	268,538	224,511	1,376	225,887	—	—	—
McNary	366,624	284,030	8,818	292,848	—	—	—
The Dalles	404,420	303,324	51,805	355,129	—	—	—
Lower Snake	260,079	256,065	1,445	257,510	—	—	—
Columbia River Fish Bypass	800,264	247,942	515,454	763,396	—	—	—
Total Corps Projects	7,167,254	4,909,321	769,159	5,678,480	—	23,002	23,002
AFUDC on Direct Funded Projects	16,822	—	16,822	16,822	—	—	—
Irrigation Assistance at 12 Projects having no power generation	201,179	—	—	—	157,144	44,035	201,179
Total Plant Investment	15,683,015	11,488,047	1,200,178	12,688,225	674,558	483,948	1,158,506
Repayment Obligation Retained							
by Columbia Basin Project	4,639	2,836 (a)	—	2,836 (a)	1,803	—	1,803
Investment in Teton Project (b)	79,107	—	7,269	7,269	56,573	3,681	60,254
Total	\$15,766,761	\$11,490,883	\$1,207,447	\$12,698,330	\$732,934	\$487,629	\$1,220,563

(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)						Percent Returnable from Commercial Power Revenues
• Navigation	• Flood Control	• Fish and Wildlife	• Recreation	• Other	•	
Bonneville Power Administration						
Transmission Facilities	\$ —	\$ —	\$ —	\$ —	\$ —	100.00%
Bureau of Reclamation						
Boise	—	—	—	—	34,119	15.62%
Columbia Basin	—	16,590	6,073	172	711	91.24%
Green Springs	—	—	—	—	6,335	59.42%
Hungry Horse	—	26,875	—	—	—	81.89%
Minidoka-Palisades	—	64,404	2,570	10,471	121,083	29.02%
Yakima	—	2,432	50,365	284	28,028	8.43%
Total Bureau Projects	—	110,301	59,008	10,927	190,276	72.04%
Corps of Engineers						
Albeni Falls	180	269	—	4,166	—	90.41%
Bonneville	400,925	—	—	1,266	2,062	70.52%
Chief Joseph	—	—	4,977	6,034	29,000	93.51%
Cougar	548	38,358	—	—	—	54.96%
Detroit-Big Cliff	219	20,857	—	—	—	62.34%
Dworshak	9,618	31,463	—	15,079	—	85.07%
Green Peter-Foster	365	30,322	—	1,693	1,670	56.99%
Hills Creek	630	26,439	—	—	—	36.94%
Ice Harbor	55,623	—	—	3,515	—	72.15%
John Day	90,943	18,025	—	11,954	26,409	77.19%
Libby	—	95,141	876	15,318	30,637	75.29%
Little Goose	34,739	—	—	4,119	2,604	83.45%
Lookout Point-Dexter	745	49,141	—	602	—	51.85%
Lost Creek	—	53,022	24,507	29,418	13,630	18.02%
Lower Granite	52,593	—	—	13,074	7,842	81.86%
Lower Monumental	39,370	—	—	2,864	417	84.12%
McNary	68,856	—	—	4,920	—	79.88%
The Dalles	47,191	—	—	2,078	22	87.81%
Lower Snake	2,569	—	—	—	—	99.01%
Columbia River Fish Bypass	34,230	2,638	—	—	—	95.39%
Total Corps Projects	839,344	365,675	30,360	116,100	114,293	79.23%
AFUDC on Direct Funded Projects	—	—	—	—	—	100.00%
Irrigation Assistance at 12 Projects having no power generation	—	—	—	—	—	78.11%
Total Plant Investment	839,344	475,976	89,368	127,027	304,569	85.21%
Repayment Obligation Retained by Columbia Basin Project	—	—	—	—	—	100.00%
Investment in Teton Project (b)	—	9,151	—	2,433	—	80.70%
Total	\$839,344	\$485,127	\$89,368	\$129,460	\$304,569	85.2219%

QUARTERLY REPORT FOR THE THREE MONTHS ENDED DECEMBER 31, 2002
Federal Columbia River Power System

Comparative Balance Sheets (Unaudited)

(Thousands of Dollars)

	December 31	
	2002	2001
Assets		
Utility Plant		
Completed plant	\$11,549,642	\$11,261,043
Accumulated depreciation	(4,115,225)	(3,877,591)
	7,434,417	7,383,452
Construction work in progress	1,225,365	966,639
Net utility plant	8,659,782	8,350,091
Nonfederal Projects	6,200,082	6,170,380
Trojan Decommissioning Cost	73,861	69,221
Conservation, net of accumulated amortization	402,236	428,878
Fish & Wildlife, net of accumulated amortization	130,326	142,451
Current Assets	1,098,195	1,175,504
Other Assets	157,320	281,727
	\$16,721,802	\$16,618,252
Capitalization and Liabilities		
Accumulated Net Expenses	(\$51,784)	(\$296,848)
Federal Appropriations	4,603,532	4,671,078
Capitalization Adjustment	2,175,474	2,242,917
Long-Term Debt	2,653,141	2,542,542
Nonfederal Projects Debt	5,956,806	5,952,601
Trojan Decommissioning Reserve	63,861	57,221
Current Liabilities	857,737	768,281
Deferred Credits	463,035	680,460
	\$16,721,802	\$16,618,252

The irrigation assistance distribution of \$16,560 for fiscal 2001 is included in accumulated net expenses.

Comparative Statements of Revenues and Expenses (Unaudited)

(Thousands of Dollars)

	Three months ended		Twelve months ended	
	December 31		December 31	
	2002	2001	2002	2001
Operating Revenues:				
Revenues	\$873,723	\$888,685	\$3,392,442	\$3,686,517
SFAS 133 mark-to-market (loss) gain	47,134	(48,066)	133,554	292,531
Other revenues	10,029	6,707	52,893	68,972
U.S. Treasury credits for fish	14,996	20,937	32,459	603,319
Operating Revenues	945,882	868,263	3,611,348	4,651,339
Operating Expenses:				
Operations and maintenance	263,687	263,317	1,320,077	1,074,787
Purchased power	294,294	426,330	1,154,831	2,284,640
Non-Federal projects	55,204	87,014	198,365	401,679
Federal projects depreciation	85,094	80,263	340,036	323,882
Operating Expenses	698,279	856,924	3,013,309	4,084,988
Net operating revenues (expenses)	247,603	11,339	598,039	566,351
Interest Expense	87,712	87,037	352,975	337,487
Net (Expenses) Revenues	\$159,891	(\$75,698)	\$245,064	\$228,864

Derivative Instruments and Hedging Activities

The SFAS 133 mark-to-market (MTM) amount is an "accounting only" (no cash impact) adjustment representing the MTM adjustment required by SFAS 133, as amended, for identified derivative instruments.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Executive Board of Energy Northwest

We have audited the accompanying balance sheet of Energy Northwest and the related individual balance sheets of Energy Northwest's business units and internal service fund as of June 30, 2002, and the related statements of operations and cash flows for the year then ended. Energy Northwest's business units include the Columbia Generating Station, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 3, the Business Development Fund, Grays Harbor Energy Facility and the Nine Canyon Wind Project. These basic financial statements are the responsibility of Energy Northwest's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Energy Northwest and Energy Northwest's business units and internal service fund as of June 30, 2002, 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.

As described in Note A, Energy Northwest adopted the provisions Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and GASB No. 38, Certain Financial Statements Note Disclosures, as of July 1, 2001.

The Management's Discussion and Analysis (MD&A) listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The information in MD&A has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

PricewaterhouseCoopers LLP

Portland, Oregon
September 6, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Energy Northwest is a municipal corporation and joint operating agency of the State of Washington. Each Energy Northwest Business Unit is financed and accounted for separately from all other current or future business assets. The following discussion and analysis is organized by Business Unit. The management discussion and analysis of the financial performance and activity is provided as an introduction and an aid in comparing the basic financial statements for the Fiscal Year ended June 30, 2002, with the basic financial statements for the Fiscal Year ended June 30, 2001. Energy Northwest has adopted accounting policies and principles that are in accordance with accounting principles generally accepted in the United States of America. Energy Northwest applies Generally Accepted Accounting Principles (GAAP) and follows Governmental Accounting Standards Board (GASB) Standards (see Note B to financial statements).

The financial statements include a balance sheet; statement of operations and fund equity; a statement of cash flows; schedules of outstanding long-term debt and debt service requirements; and notes to the financial statements. The balance sheet presents the financial position of each Business Unit based on an accrual basis.

The balance sheet reports information about construction work in progress, amount of resources and obligations, restricted accounts and due to/due from balances (see Note B to financial statements) that reflect what is owed to or by each Business Unit.

The statement of operations and fund equity reports information relating to all expenses, revenues and equity that reflect the results of each Business Unit and its related activities over the course of the Fiscal Year. This information aids in benchmarking activities, conducting comparisons to evaluate progress, and whether the Business Unit has successfully recovered its costs.

The statement of cash flows reflects cash receipts and disbursements resulting from operating, financing and investment activities. The statement provides insight into what generates cash, where the cash comes from, and what it was used for.

The notes to the financial statements present disclosures that provide full understanding of the material presented in the financial statements. This includes, but is not limited to, accounting policies, significant balances and activities, material risks, commitments and obligations, and subsequent events, as applicable.

COLUMBIA GENERATING STATION

The Columbia Generating Station Nuclear Power Plant is owned and operated by Energy Northwest. The Plant is an 1,153 megawatt boiling water nuclear power station located on the United States Department of Energy's Hanford Reservation north of Richland, Washington. Columbia produced 8,925,873 GWhrs of electricity in Fiscal Year 2002, as compared to 7,927,916 GWhrs of electricity in Fiscal Year 2001.

BALANCE SHEET ANALYSIS - Columbia Generating Station is in the middle of its first 2-year refueling and maintenance outage cycle. The last outage was completed on July 2, 2001, with the next outage scheduled for May 2003. Fiscal Year 2002 was a non-refueling outage year. Generation was greater and more fuel was burned during Fiscal Year 2002, resulting in a decrease of Nuclear Fuel inventory by \$9,622,000, from \$102,814,000 as of June 30, 2001, to \$93,192,000 as of June 30, 2002. However, due to moving the fuel casks amortization from the Nuclear Fuel inventory to a liability, Nuclear Fuel inventory increased to \$121,260,000. Construction Work in Progress increased by \$12,584,000, from \$17,771,000 as of June 30, 2001, to \$30,355,000 as of June 30, 2002, mainly due to the Independent Spent Fuel Storage Installation (ISFSI) project along with heightened security improvements. Accounts Payable and Accrued Expenses increased \$24,585,000 from \$40,358,000 as of June 30, 2001, to \$64,943,000 as of June 30, 2002, mainly due to the issuance of \$34,518,000 in Notes Payable to reimburse costs of ISFSI, offset by a decrease in Accounts Payable of \$9,933,000 due to outage costs accrued as of June 30, 2001. Long-Term Debt, including the current portion, has increased \$6,402,000, from \$2,073,684,000 as of June 30, 2001, to \$2,080,086,000 as of June 30, 2002, due to the results of the 2002 A and 2002 B Refunding Bond sales.

STATEMENT OF OPERATIONS ANALYSIS - Columbia Generating Station is a net billed Project. Columbia Generating Station recognizes revenues equal to expense for each period. No net revenue or loss is recognized and no equity is accumulated. The following changes from Fiscal Year 2001 for Net Operating Revenues are: Operating Revenues needed to cover expenditures are down by \$14,157,000, from \$421,152,000 in Fiscal Year 2001, to \$406,995,000 in Fiscal Year 2002. The decrease in operating revenues can be attributed to the following: Operations and Maintenance expenditures were lower by \$27,493,000, from \$144,325,000 in Fiscal Year 2001, to \$116,832,000 in Fiscal Year 2002. This can be attributed to Fiscal Year 2002 being a non-refueling outage year. Greater generation resulted in an increase of Generation Taxes of \$701,000, from \$2,497,000 in Fiscal Year 2001 to \$3,198,000 in Fiscal Year 2002, and Spent Fuel Disposal Fees of \$945,000, from \$7,542,000 in Fiscal Year 2001 to \$8,487,000 in Fiscal Year 2002. Administrative and General costs increased by \$11,631,000, from \$16,125,000 in Fiscal Year 2001 to \$27,756,000 in Fiscal Year 2002, mainly due to increased regulatory fees paid to the Nuclear Regulatory Commission (NRC), Energy Facility Site Evaluation Council (EFSEC), Institute of Nuclear Power Operations (INPO) and Federal Emergency Management

Agency (FEMA). Also, there was an increase in employee incentive payments as a result of plant operation goals achieved. Nuclear Fuel expenditures are down, from \$34,204,000 in Fiscal Year 2001 to \$30,311,000 in Fiscal Year 2002, because of the write off of fuel that was not fully amortized at the time of refueling in Fiscal Year 2001 of \$3,893,000.

Other Income and Expense changes are the net effects on Columbia Debt (see Note E to financial statements). Investment Income was adversely affected by historically low market interest rates resulting in a decline of \$12,103,000, from \$23,643,000 in Fiscal Year 2001 to \$11,540,000 in Fiscal Year 2002 (See Financial Operating Highlights). Yields during the year were the lowest yields on Treasury Securities since the early 1960's. Additionally, results of the 2002-A and 2002-B Refunding Bond issues reduced interest expense and amortization expenditures by \$8,577,000, from \$130,161,000 in Fiscal Year 2001, to \$121,584,000 in Fiscal Year 2002.

PACKWOOD LAKE HYDROELECTRIC PROJECT

The Packwood Lake Hydroelectric Project is owned and operated by Energy Northwest. The Project consists of a dam at Packwood Lake and a powerhouse 1,800 feet below the dam and is located south of Packwood, Washington. Packwood produced 81.6 GWhrs of electricity in Fiscal Year 2002, versus 63.6 GWhrs in Fiscal Year 2001.

BALANCE SHEET ANALYSIS - Current Assets have increased \$969,000, from \$410,000 as of June 30, 2001, to \$1,379,000 as of June 30, 2002, due to increased sales revenue from greater generation and higher rates paid through the power sales contract with the Bonneville Power Administration (BPA). As a result, Packwood accrued \$951,000 in excess cash to be returned to the Packwood Participants in October 2002.

STATEMENT OF OPERATIONS ANALYSIS - The agreement with Packwood Project Participants obligates them to pay annual costs and to receive excess revenues. Accordingly, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized and no equity is accumulated. Revenues increased because of the cost increases detailed below. Operations and maintenance, along with administrative and general expenditures increased \$108,000, from \$1,260,000 in Fiscal Year 2001 to \$1,368,000 in Fiscal Year 2002. This was due to the extended outage to repair tunnel leaks, the significant increase in insurance premiums, and the costs associated with a transformer failure.

Investment income was adversely affected by historically low market interest rates declining \$59,000, from \$95,000 in Fiscal Year 2001 to \$36,000 in Fiscal Year 2002 (See Financial Operating Highlights).

Cash from sales increased in Fiscal Year 2002, because of greater generation and the new power sales contract with BPA at 40mills/kwh (see Note E to financial statements). Negotiations

are underway to sell the power to Benton PUD and Franklin PUD after the scheduled outage in October 2002. This higher rate does not increase revenue because the extra cash is intended to be returned to the Participants.

NUCLEAR PROJECT NO. 1

Nuclear Project No. 1, a 1,250 MWe plant, was placed in extended construction delay status in 1982, when it was 65 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution terminating Nuclear Project No. 1. In Fiscal Year 1999, the assets and liabilities of the 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. Energy Northwest wholly owns Nuclear Project No. 1. Termination expenses and debt service costs comprise the activity of Nuclear Project No. 1.

BALANCE SHEET ANALYSIS - Energy Northwest executed two refunding bond sales during Fiscal Year 2002 to implement Bonneville's Debt Optimization Program (see Note E to financial statements). As a result of these two refunding bond sales, Nuclear Project No. 1's long-term debt was increased by \$49,050,000 from \$2,032,139,000 as of June 30, 2001, to \$2,081,189,000 as of June 30, 2002, resulting from the extension of the average life of the debt and taking advantage of historically low interest rates.

STATEMENT OF OPERATIONS ANALYSIS - Investment Income decreased \$8,045,000, from \$14,714,000 in Fiscal Year 2001 to \$6,669,000 in Fiscal Year 2002, because of historically low market interest rates. Yields during the year were the lowest yields on Treasury Securities since the early 1960's (See Financial Operating Highlights).

NUCLEAR PROJECT NO. 3

Nuclear Project No. 3, a 1,240 MWe plant, was placed in extended construction delay status in 1983, when it was 75 percent complete. On May 13, 1994, Energy Northwest's Board of Directors adopted a resolution recommending the termination of Nuclear Project No. 3. In June 1994, the Nuclear Project No. 3 Owners Committee voted unanimously to terminate Nuclear Project No. 3. Energy Northwest no longer is responsible for any site restoration costs as they were transferred with the assets to the Satsop Redevelopment Project (see Note F to financial statements). The last parcel of land was transferred during this period. The debt service related activities remain and are net-billed.

BALANCE SHEET ANALYSIS - Under Bonneville's Debt Optimization Program (see Note E to financial statements), long-term debt was increased \$29,600,000, from \$1,787,600,000 in Fiscal Year 2001 to \$1,817,200,000 in Fiscal Year 2002, resulting from the extension of the average life of the debt and taking advantage of historically low interest rates. (See Financial Operating

Highlights).

Land recorded at \$127,000 was transferred to the Grays Harbor Energy Facility.

STATEMENT OF OPERATIONS ANALYSIS - Investment Income decreased \$4,289,000 due to historically low market interest rates from \$9,971,000 in Fiscal Year 2001 to \$5,682,000 in Fiscal Year 2002 (See Financial Operating Highlights). Yields during the year were the lowest yields on Treasury Securities since the early 1960's. In addition, Plant Preservation and Termination costs decreased \$1,500,000 due to an IRS arbitrage rebate credit.

BUSINESS DEVELOPMENT FUND

The Business Development Fund (BDF) was created by Executive Board Resolution No. 1006 in April 1997, for the purpose of holding, administering, disbursing, and accounting for Energy Northwest costs and revenues generated from engaging in new energy-related business opportunities.

The BDF is managed as an enterprise fund. Four business sectors have been created within the fund: General Services, Generation, Power Sales, and Professional Services. Each sector may have one or more projects that are managed as unique business ventures. A fifth business sector, Business Unit Support, has been created to capture costs associated with developing projects and infrastructure.

STATEMENT OF OPERATIONS ANALYSIS - Operating Revenues in Fiscal Year 2002 totaled \$6,808,000 as compared to Fiscal Year 2001 revenues of \$5,218,000, an increase of \$1,590,000. Significant growth has been experienced in several of these business programs. Among the major business program contributors to this growth are: Washington Demilitarization Company for management and engineering support by \$528,000, Klickitat Landfill Gas management and support by \$364,000, Nine Canyon Wind Project for construction support by \$178,000, Environmental Services by \$202,000, and Fluor Calibration Services by \$119,000.

Net Revenues for Fiscal Year 2002 showed a \$1,700,000 loss as compared to approximately a \$600,000 loss in Fiscal Year 2001.

Energy Northwest was created to enable its members, Washington public utility districts and municipalities, to build and operate large commercial scale generation projects. With the growing interest in renewable energy sources, Energy Northwest is seeking to meet some of this regional demand with new wind generation projects.

Energy Northwest began the research and investigation of suitable wind power sites. This effort is referred to as Wind Mining and accounted for \$400,000 in expenditures with no revenues in Fiscal Year 2002. These costs are for research and investigation of new potential wind sites and related expenditures that cannot be directly attributable to a current wind project. As a promising site is identified and approved, such as Zintel Canyon, a new project is created and expenditures related to the new wind project are moved out of the Wind Mining Project to the new wind project.

As Energy Northwest develops wind project power purchase agreements, it will seek approval from the purchasers to reimburse a share of the residual Wind Mining Project costs. The Nine Canyon Purchasers Committee agreed to reimburse the BDF Wind Mining Project for 50% of the residual Wind Mining Project accumulated costs per the agreement.

The first wind project is the Nine Canyon Wind Project. Construction began in Fiscal Year 2002. Later, the Energy Northwest Board of Directors approved the Zintel Canyon Wind Project as the next wind development site. During Fiscal Year 2002, the Zintel Canyon Wind Project accounted for a total of \$150,000 in expenditures with no revenues.

Early in Fiscal Year 2003, the Nine Canyon Wind Project's construction was completed and commercial operation was achieved on September 25, 2002. Nine Canyon Wind Project development costs will be reimbursed in Fiscal Year 2003 to the BDF.

Approximately \$140,000 was spent on marketing efforts and an additional \$340,000 over Fiscal Year 2001 levels was spent on developing the organizational infrastructure to support the growth in business programs. Total operating revenues increased 30% in Fiscal Year 2002 and operational business projects returned an 8% margin.

Looking forward, Operating Revenues are expected to grow 40-50% in Fiscal Year 2003. Net revenues are projected to continue to show a loss in the upcoming year as the business invests in the future, through development of potential new wind sites and increased sales and marketing efforts.

The Business Development Fund receives contributions from the Internal Service Fund to cover cash needs during this startup period. Such cash is not expected to be paid back and is shown as contributions.

GRAYS HARBOR ENERGY FACILITY

Becoming the operator of the Grays Harbor Energy Facility is a key component in Energy Northwest's strategic plan to eventually own and operate combined cycle gas turbine power plants. A contract with Duke Energy Grays Harbor, LLC (DEGH), will be the first step toward establishing a credible position in the combustion turbine power generation market. It will provide the basis for Energy Northwest to become a major supplier of operations and maintenance services to other public utilities in the Northwest and to become an owner of gas turbine generating facilities.

STATEMENT OF OPERATIONS ANALYSIS - Non-operating revenues were \$84,000 and \$5,259,000 for Fiscal Year 2001 and Fiscal Year 2002, respectively.

On January 15, 2001, Energy Northwest entered into an agreement to sell the Grays Harbor Energy Facility site to the Duke Energy North America (DENA) affiliate, DEGH. As partial compensation for the sale, Energy Northwest received \$1,200,000 during Fiscal Year 2001 which was recorded as deferred income. The final payment of \$3,800,000 was made to Energy Northwest

in January 2002. Upon receipt of the final payment, Energy Northwest recognized the gross proceeds of \$5,000,000 as revenue. In connection with this sale, BPA was paid \$2,137,000 as reimbursement of costs to develop the site. Additional revenues were recorded for reimbursable costs and services provided to DENA.

The actual sale of the land and assets at the site in Grays Harbor County near Elma, Washington, already has been concluded successfully. This was intended to lead to the construction by DEGH of a 630 megawatt combined cycle 2-on-1 gas turbine power plant at the site to be on-line by late 2003. Under the sale agreement, Energy Northwest was to become the operator of the Grays Harbor Energy Facility. However, due to current energy market conditions, Duke Energy North America has temporarily suspended construction on the Grays Harbor Energy Facility. Duke Energy is determining the appropriate schedule for the project to resume.

NINE CANYON WIND PROJECT

The Nine Canyon Wind Project is owned and operated by Energy Northwest. The Project is located on hills approximately 10 miles southeast of Kennewick, Washington. The Project consists of 37 wind turbines, each with a maximum generating capacity of approximately 1.3 megawatts of electricity, for a total wind project capacity of 48 megawatts. This is enough energy capacity for 15,000 average homes.

Public Utility Districts in the Northwest, whose customers have expressed an interest in purchasing at least a portion of their electricity from green power sources, have purchased the electricity from the Project. The Columbia Generating Station also is a purchaser of a portion of electricity from the Project. Each purchaser has signed a 22-year power purchase agreement with Energy Northwest. Electricity generated by the Project will be connected to the Bonneville Power Administration transmission grid via a substation and transmission lines constructed by the Benton County Public Utility District, and transported to the various purchasers over the Bonneville transmission system.

BALANCE SHEET ANALYSIS - Long-term debt in the form of bonds was sold in the amount of \$70,675,000 in November 2001 to finance the Project. A construction budget of \$59,725,000 was established with the balance of the bond proceeds held in reserves. Construction Work in Progress totaled \$48,387,000 for Fiscal Year 2002 as compared to \$508,000 in Fiscal Year 2001. Construction was completed and the Project was declared to be in commercial operation on September 25, 2002.

INTERNAL SERVICE FUND

The Internal Service Fund (ISF, formerly General Fund) was established in May 1957. The Internal Service Fund provides services to the other funds. This accounts for the central procurement of certain common goods and services for the Business Units on a cost reimbursement basis (see Note A and Note B to the financial statements). This accounts for the performance fees paid by BPA to Energy Northwest for achieving performance goals related to the operation of the Columbia Generating Station.

BALANCE SHEET ANALYSIS - Restricted assets and the offsetting restricted liabilities increased \$10,732,000, from \$16,633,000 in Fiscal Year 2001 to \$27,365,000 in Fiscal Year 2002, mainly due to a \$10,000,000 payment to Energy Northwest from one of its paying agent banks for bearer bonds.

STATEMENT OF OPERATIONS ANALYSIS - The Fiscal Year 2002 Performance Fee was \$5,900,000 versus \$1,100,000 for Fiscal Year 2001. Goals for the fees are based on generation and cost of power of Columbia Generating Station. Generation of 9,262 GWhrs (includes Economic Dispatch Credit) in Fiscal Year 2002 was near the top of the range of the goal for generation and cost of power of 2.06 cents/kWh was better than the highest goal of 2.07 cents/kWh (as compared to 2.61 cents/kWh for Fiscal Year 2001).

BALANCE SHEETS

As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
ASSETS										
UTILITY PLANT (NOTE B)										
In service	\$ 3,419,489	\$ 12,854	\$ -	\$ -	\$ 757	\$ -	\$ -	\$ 3,433,100	\$ 43,547	\$ 3,476,647
Accumulated depreciation	(1,786,935)	(11,722)			(166)			(1,798,823)	(27,591)	(1,826,414)
	1,632,554	1,132	-	-	591	-	-	1,634,277	15,956	1,650,233
Nuclear fuel, net of accumulated amortization	121,260							121,260		121,260
Construction work in progress	30,355						48,387	78,742		78,742
	1,784,169	1,132	-	-	591	-	48,387	1,834,279	15,956	1,850,235
RESTRICTED ASSETS (NOTE B)										
Special funds										
Cash	3	2	5	2			1	13	26,858	26,871
Available-for-sale investments	18,159	288	56,966	14,808			1,013	91,234	245	91,479
Accounts and other receivables	110,140		4,627				16	114,783		114,783
Prepayments and other			1					1	262	263
Due from other business units			400					400		
Due from other funds			1,760					1,760		
Debt service funds										
Cash	24,771	8	8,367	15,712			1	48,859		48,859
Available-for-sale investments	122,107	742	215,017	163,427			9,912	511,205		511,205
Due from other funds	3,588		5,477					9,065		
Other receivables	642		220	460			53	1,375		1,375
	279,410	1,040	292,840	194,409	-	-	10,996	778,695	27,365	794,835
LONG-TERM RECEIVABLES (NOTE B)										
	6,201							6,201		6,201
CURRENT ASSETS										
Cash	754	2	91	182	32	1		1,062	3,964	5,026
Available-for-sale investments	21,852	526	13,517	6,156	174	410	17,839	60,474	15,979	76,453
Accounts and other receivables	2,110	655			454	6	26	3,251	6,668	9,919
Due from Participants	163		1,319	1,314			1	2,797		2,797
Due from other business units	2,435	173		127	636	2,155	3,820	9,346	3,207	
Due from other funds	11,071	23		11,968			70	23,132		
Materials and supplies	72,546							72,546		72,546
Prepayments and other	258				9			267	122	389
Nuclear fuel held for sale			6,035					6,035		6,035
Plant & equipment held for sale			1,414					1,414		1,414
	111,189	1,379	22,376	19,747	1,305	2,572	21,756	180,324	29,940	174,579
DEFERRED CHARGES										
Costs in excess of billings	120,734	2,416	1,880,270	1,639,113				3,642,533		3,642,533
Unamortized debt expense	15,960	3	18,487	12,535			3,545	50,530		50,530
Other deferred charges	1							1		1
	136,695	2,419	1,898,757	1,651,648	-	-	3,545	3,693,064	-	3,693,064
TOTAL ASSETS	\$ 2,317,664	\$ 5,970	\$ 2,213,973	\$ 1,865,804	\$ 1,896	\$ 2,572	\$ 84,684	\$ 6,492,563	\$ 73,261	\$ 6,518,914

* Project recorded on a liquidation basis

See notes to financial statements

BALANCE SHEETS (continued)
As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
FUND EQUITY AND LIABILITIES										
FUND EQUITY	\$ -	\$ -	\$ -	\$ -	\$ 1,411	\$ 1,616	\$ -	\$ 3,027	\$ 5,123	\$ 8,150
LONG-TERM DEBT (NOTE E)										
Revenue bonds payable	2,031,090	4,493	2,120,323	2,031,715			70,675	6,258,296		6,258,296
Unamortized discount on bonds - net	4,527	(11)	22,634	(194,273)			8	(167,115)		(167,115)
Unamortized gain/(loss) on bond refundings/redemptions	(52,311)	37	(61,768)	(20,290)				(134,332)		(134,332)
	1,983,306	4,519	2,081,189	1,817,152	-	-	70,683	5,956,849	-	5,956,849
LIABILITIES-PAYABLE FROM RESTRICTED ASSETS (NOTE B)										
Special funds										
Accounts payable and accrued expenses	110,642		70,528					181,170	26,635	207,805
Due to other funds	14,659	10		11,810			70	26,549		
Other deferred credits					135			135		135
Debt service funds										
Accrued interest payable	10,945	59	52,454	35,151				98,609		98,609
Due to other funds		13		158				171		
	136,246	82	122,982	47,119	135	-	70	306,634	26,635	306,549
OTHER NONCURRENT LIABILITIES	31,813							31,813		31,813
CURRENT LIABILITIES										
Current maturities of long-term debt	96,780	355						97,135		97,135
Accounts payable and accrued expenses	64,943	63	1	270	95	2	13,931	79,305	33,127	112,432
Interest payable	139							139		139
Due to Participants	1,293	951	894	685				3,823		3,823
Due to other business units	3,144		1,670	578	255	127		5,774	7,179	
Due to other funds			7,237					7,237		
	166,299	1,369	9,802	1,533	350	129	13,931	193,413	40,306	213,529
DEFERRED CREDITS										
Advances from Members and others						827		827	1	828
Other deferred credits									1,196	1,196
	-	-	-	-	-	827	-	827	1,197	2,024
COMMITMENTS AND CONTINGENCIES (NOTE F)										
TOTAL LIABILITIES	2,317,664	5,970	2,213,973	1,865,804	485	956	84,684	6,489,536	68,138	6,510,764
TOTAL FUND EQUITY AND LIABILITIES	\$ 2,317,664	\$ 5,970	\$ 2,213,973	\$ 1,865,804	\$ 1,896	\$ 2,572	\$ 84,684	\$ 6,492,563	\$ 73,261	\$ 6,518,914

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

STATEMENTS OF OPERATIONS AND FUND EQUITY

As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	SUBTOTAL	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
OPERATING REVENUES	\$ 406,995	\$ 1,900	\$ -	\$ -	\$ 6,808	\$ -	\$ -	\$ 415,703	\$ 70,431	\$ 421,513
OPERATING EXPENSES										
Services to other business units									63,025	
Nuclear fuel	30,311							30,311		30,311
Spent fuel disposal fee	8,487							8,487		8,487
Decommissioning	16,408							16,408		16,408
Depreciation and amortization	96,171	366			148			96,685	1,569	96,685
Operations and maintenance	116,832	1,232						118,064		118,064
Administrative & general	27,756	136						27,892		27,892
Generation tax	3,198	16						3,214		3,214
New business initiatives					7,739			7,739		7,739
Total operating expenses	299,163	1,750	-	-	7,887	-	-	308,800	64,594	308,800
NET OPERATING REVENUES (EXPENSES)	107,832	150			(1,079)			106,903	5,837	112,713
OTHER INCOME & EXPENSE										
Non-operating revenues			117,179	93,433		5,259		215,871		215,871
Investment income	11,540	36	6,669	5,682	4	36		23,967	82	23,967
Gain on bond redemption		5						5		5
Interest expense and discount amortization	(121,584)	(191)	(118,686)	(99,182)				(339,643)		(339,643)
Plant preservation and termination costs			(5,051)	67				(4,984)		(4,984)
Depreciation and amortization			(31)			(7)		(38)		(38)
Revaluation of site restoration			(74)					(74)		(74)
Other	2,212		(6)		(665)	(3,625)		(2,084)	(109)	(2,084)
NET REVENUES (EXPENSES)	-	-	-	-	(1,740)	1,663	-	(77)	5,810	5,733
Distribution & contributions	-	-	-	-	1,905	-	-	1,905	(1,905)	
Beginning fund equity	-	-	-	-	1,246	(47)	-	1,199	1,218	2,417
ENDING FUND EQUITY	\$ -	\$ -	\$ -	\$ -	\$ 1,411	\$ 1,616	\$ -	\$ 3,027	\$ 5,123	\$ 8,150

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

STATEMENTS OF CASH FLOWS

As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES									
Operating revenue receipts	\$ 230,994	\$ 2,504	\$ -	\$ -	\$ 1,559	\$ -	\$ -	\$ -	\$ 235,057
Cash payments for operating expenses	(180,796)	(1,365)							(182,161)
Non-operating revenue receipts			98,672	65,915		3,622		2,973	171,182
Cash payments for preservation/termination expense			(10,350)	(1,371)					(11,721)
Cash payments for services						(4,933)		12,427	7,494
Cash payments for new business					(1,387)			(1,560)	(2,947)
Net cash provided (used) by operating and other activities	50,198	1,139	88,322	64,544	172	(1,311)	-	13,840	216,904
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Proceeds from bond refundings	292,982		374,699	81,257			66,980		815,918
Refunded bond escrow requirement	(162,532)		(247,266)						(409,798)
Payment for bond issuance and financing costs	(4,823)		(4,645)	(1,023)					(10,491)
Capital and nuclear fuel acquisitions	(19,755)								(19,755)
Interest paid on revenue bonds	(100,289)	(194)	(112,010)	(76,606)			(2,484)		(291,583)
Principal paid on revenue bond maturities	(134,997)	(521)	(84,255)	(70,695)					(290,468)
Interest paid on notes	(291)		(360)	(398)					(1,049)
Notes payable	34,518								34,518
Construction work in progress							(36,239)		(36,239)
Net cash provided (used) by capital and related financing activities	(95,187)	(715)	(73,837)	(67,465)	-	-	28,257	-	(208,947)
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchases of investment securities	(1,125,754)	(5,832)	(937,511)	(665,063)	(1,689)	(6,973)	(204,394)	(211,209)	(3,158,425)
Sales of investment securities	1,178,331	5,376	919,944	676,799	1,545	8,215	175,656	214,467	3,180,333
Interest on investments	13,634	35	9,908	7,010	4	66	483	2,338	33,478
Receipts from sales of plant assets			1,549					58	1,607
Net cash provided (used) by investing activities	66,211	(421)	(6,110)	18,746	(140)	1,308	(28,255)	5,654	56,993
NET INCREASE (DECREASE) IN CASH	21,222	3	8,375	15,825	32	(3)	2	19,494	64,950
CASH AT JUNE 30, 2001	4,306	9	88	71	-	4	-	11,328	15,806
CASH AT JUNE 30, 2002 (NOTE B)	\$ 25,528	\$ 12	\$ 8,463	\$ 15,896	\$ 32	\$ 1	\$ 2	\$ 30,822	\$ 80,756

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

STATEMENTS OF CASH FLOWS (continued)

As of June 30, 2002 (Dollars in Thousands)

	COLUMBIA GENERATING STATION	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO.1 *	NUCLEAR PROJECT NO.3 *	BUSINESS DEVELOPMENT FUND	GRAYS HARBOR ENERGY FACILITY	NINE CANYON WIND PROJECT	INTERNAL SERVICE FUND	2002 COMBINED TOTAL
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES									
Net operating revenues	\$ 107,832	\$ 150	\$ -	\$ -	\$ (1,079)	\$ -	\$ -	\$ -	\$ 106,903
Adjustments to reconcile net operating revenues to cash provided by operating activities:									
Cost incurred in excess of cash	(176,000)	(360)							(176,360)
Depreciation and amortization	124,828	362			43				125,233
Decommissioning	16,408								16,408
Other	2,585				(663)				1,922
Change in operating assets and liabilities:									
Accounts receivable	2,207	(419)			(151)				1,637
Materials and supplies	(5,227)								(5,227)
Prepaid and other assets		1							1
Due from/to other business units, funds and Participants	4,070	1,386			(39)				5,417
Accounts payable	(26,505)	19			2,061				(24,425)
Non-operating revenue receipts			98,672	65,915		3,622		2,973	171,182
Cash payments for preservation/termination expense			(10,350)	(1,371)					(11,721)
Cash payments for services						(4,933)		12,427	7,494
Cash payments for new business								(1,560)	(1,560)
Net cash provided (used) by operating and other activities	\$ 50,198	\$ 1,139	\$ 88,322	\$ 64,544	\$ 172	\$ (1,311)	\$ -	\$ 13,840	\$ 216,904

* Project recorded on a liquidation basis

See notes to financial statements

OUTSTANDING LONG-TERM DEBT
June 30, 2002 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS</u>			
1990A	7.25%	7-1-2006	\$ 2,115
			<u>2,115</u>
1990C	(C)	7-1-2004/2005	18,054
			<u>18,054</u>
1991A	(C)	7-1-2006/2007	10,267
			<u>10,267</u>
1992A	5.9	7-1-2004/2006	12,415
	6.30	7-1-2012	50,000
			<u>62,415</u>
1993A	5.25-6.00	7-1-2003/2010	78,320
	5.75	7-1-2012	10,690
			<u>89,010</u>
1993B	5.40-5.65	7-1-2005/2008	54,725
	5.55	7-1-2010	51,000
			<u>105,725</u>
1994A	4.70-6.00	7-1-2003/2011	503,965
	(C)	7-1-2009	4,776
	5.40	7-1-2012	100,200
			<u>608,941</u>
1996A	5.50-6.00	7-1-2003/2012	196,210
			<u>196,210</u>
1997A	5.10-5.20	7-1-2010/2012	50,355
			<u>50,355</u>
1997B	5.00-5.50	7-1-2003/2011	72,270
			<u>72,270</u>
1998A	5.00-5.75	7-1-2003/2012	223,305
			<u>223,305</u>
2001A	5.00-5.50	7-1-2013/2017	186,600
			<u>186,600</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

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

(E) Auction Rate Certificates will have the stated rate through the first date listed and a variable rate thereafter until the second stated date

OUTSTANDING LONG-TERM DEBT (continued)
June 30, 2002 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT	
<u>COLUMBIA (NUCLEAR PROJECT NO. 2) REFUNDING REVENUE BONDS (continued)</u>				
2001B	5.50	7-1-2009/2018	\$ 48,000	(E)
			<u>48,000</u>	
2002A	5.20-5.75	7-1-2017/2018	157,260	
			<u>157,260</u>	
2002B	5.35-6.00	7-1-2018	123,815	
			<u>123,815</u>	
1997-2A-1	Variable		56,885	
			<u>56,885</u>	
1997-2A-2	Variable		56,880	
			<u>56,880</u>	
<i>Compound interest bonds accretion</i>			59,763	
			<u>59,763</u>	
<i>Revenue bonds payable</i>			\$ 2,127,870	(B)
			<u>2,127,870</u>	
<i>Estimated fair value at June 30, 2002</i>			\$ 2,272,874	(D)
			<u>2,272,874</u>	
<u>PACKWOOD LAKE PROJECT REVENUE BONDS</u>				
1962	3.625%	3-1-2012	\$ 3,613	
			<u>3,613</u>	
1965	3.75	3-1-2012	1,235	
			<u>1,235</u>	
<i>Revenue bonds payable</i>			\$ 4,848	
			<u>4,848</u>	
<i>Estimated fair value at June 30, 2002</i>			\$ 4,936	(D)
			<u>4,936</u>	
<u>NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS</u>				
1989B	7.125%	7-1-2016	\$ 41,070	
			<u>41,070</u>	
1990B	7.25	7-1-2009	3,590	
			<u>3,590</u>	
1990C	7.75	7-1-2003	14,474	
			<u>14,474</u>	
1992A	5.70-6.10	7-1-2002/2006	2,540	
	6.25	7-1-2017	63,420	
			<u>65,960</u>	
1993A	5.30-7.00	7-1-2002/2008	63,079	
	5.70	7-1-2017	176,180	
			<u>239,259</u>	

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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

(E) Auction Rate Certificates will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

OUTSTANDING LONG-TERM DEBT (continued)
June 30, 2002 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS (continued)</u>			
1993B	5.15-7.00	7-1-2002/2010	\$ 53,345
	5.60	7-1-2015	94,635
			<u>147,980</u>
1993C	4.70-5.30	7-1-2002/2010	17,895
	5.375	7-1-2015	75,650
	5.40	7-1-2012	66,400
			<u>159,945</u>
1996A	5.00-6.00	7-1-2002/2012	341,790
			<u>341,790</u>
1996B	5.75-6.00	7-1-2003/2005	29,040
			<u>29,040</u>
1996C	5.00-6.00	7-1-2002/2015	86,955
	5.50	7-1-2017	24,860
			<u>111,815</u>
1997A	6.00	7-1-2006/2008	20,400
			<u>20,400</u>
1997B	5.00-5.125	7-1-2002/2017	250,160
			<u>250,160</u>
1998A	5.00-5.75	7-1-2002/2017	92,125
			<u>92,125</u>
2001A	4.125-5.50	7-1-2002/2013	103,285
			<u>103,285</u>
2001B	5.50	7-1-2008/2017	23,600 (E)
			<u>23,600</u>
2002A	5.50-5.75	7-1-13/2017	248,485
			<u>248,485</u>
2002B	6.00	7-1-2017	101,950
			<u>101,950</u>
1993-1A-1	Variable		53,870
			<u>53,870</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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

(E) Auction Rate Certificates will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

OUTSTANDING LONG-TERM DEBT (continued)
June 30, 2002 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>NUCLEAR PROJECT NO. 1 REFUNDING REVENUE BONDS (continued)</u>			
1993-1A-2	Variable		\$ 53,870
			<u>53,870</u>
1993-1A-3	Variable		17,655
			<u>17,655</u>
<i>Revenue bonds payable</i>			<u>\$ 2,120,323 (A)</u>
<i>Estimated fair value at June 30, 2002</i>			<u>\$ 2,154,241 (D)</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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

(E) Auction Rate Certificates will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

OUTSTANDING LONG-TERM DEBT (continued)
June 30, 2002 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS</u>			
1989A	(C)	7-1-2003/2014	\$ 18,668
			<u>18,668</u>
1989B	(C)	7-1-2004/2014	70,580
	7.125%	7-1-2016	76,145
			<u>146,725</u>
1990B	(C)	7-1-2002/2010	33,299
			<u>33,299</u>
1993B	5.10-7.00	7-1-2002/2009	79,830
	5.625	7-1-2012	14,555
	5.60	7-1-2015	49,095
	5.60	7-1-2017	37,795
	5.70	7-1-2018	20,605
			<u>201,880</u>
1993C	4.70-7.50	7-1-2002/2010	138,405
	5.40	7-1-2012	105,000
	5.375	7-1-2015	188,335
	5.50	7-1-2018	20,805
	(C)	7-1-2013/2018	23,963
			<u>476,508</u>
1996A	5.00-6.00	7-1-2002/2009	31,330
			<u>31,330</u>
1997A	5.00-6.00	7-1-2002/2018	108,670
			<u>108,670</u>
1997B	5.00	7-1-2002	4,075
			<u>4,075</u>
1998A	5.00	7-1-2002/2005	80,330
	5.125	7-1-2018	53,825
			<u>134,155</u>
2001A	5.00-5.50	7-1-2002/2018	205,890
			<u>205,890</u>
2001B	5.00	7-1-2003/2018	5,000 (E)
	5.00	7-1-2004/2018	10,000 (E)
	5.50	7-1-2010/2018	10,675 (E)
			<u>25,675</u>
2002B	6.00	7-1-2016	75,360
			<u>75,360</u>

(A) Includes amounts due July 1, 2002

(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002

(C) Compound Interest Bonds

(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

(E) Auction Rate Certificates will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

OUTSTANDING LONG-TERM DEBT (continued)
June 30, 2002 (Dollars in Thousands)

SERIES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>NUCLEAR PROJECT NO. 3 REFUNDING REVENUE BONDS (continued)</u>			
1993-3A-3	Variable		\$ 23,715
			<u>23,715</u>
1998-3A	Variable		154,730
			<u>154,730</u>
Compound interest bonds accretion			<u>391,035</u>
Revenue bonds payable			\$ 2,031,715 (A)
Estimated fair value at June 30, 2002			<u>\$ 1,916,373 (D)</u>

NINE CANYON WIND PROJECT REVENUE BONDS

2001A	4.00-6.00%	7-1-2004/2023	\$ 50,410
			<u>50,410</u>
2001B	4.30-6.00	7-1-2005/2023	20,265
			<u>20,265</u>
Revenue bonds payable			\$ 70,675
Estimated fair value at June 30, 2002			<u>\$ 77,012 (D)</u>

- (A) Includes amounts due July 1, 2002
(B) Excludes amounts due July 1, 2002, which were paid as of June 30, 2002
(C) Compound Interest Bonds
(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 and these obligations would be settled
(E) Auction Rate Certificates will have the stated rate through the first date listed, and a variable rate thereafter until the second stated date

DEBT SERVICE REQUIREMENTS
As of June 30, 2002 (Dollars in Thousands)

COLUMBIA GENERATING STATION

PACKWOOD LAKE PROJECT

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/2002						
Balance:*	\$ 5,580	\$ 9,507	\$ 15,087	\$ 177	\$ 59	\$ 236
2003	102,580	110,136	212,716	540	171	711
2004	123,424	115,062	238,486	574	151	725
2005	101,885	121,009	222,894	598	130	728
2006	94,046	105,022	199,068	624	108	732
2007	149,406	94,483	243,889	648	85	733
2008-2012	975,511	319,618	1,295,129	1,687	124	1,811
2013-2017	198,860	124,137	322,997			
2018	316,815	17,861	334,676			
<i>Adjustment **</i>	59,763	(59,763)	-			
	\$ 2,127,870	\$ 957,072	\$ 3,084,942	\$ 4,848	\$ 828	\$ 5,676

* 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

NUCLEAR PROJECT NO. 1

NUCLEAR PROJECT NO. 3

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/2002						
Balance:*	\$ 131,376	\$ 50,648	\$ 182,024	\$ 78,757	\$ 41,234	\$ 119,991
2003	46,430	110,781	157,211	79,757	86,282	166,039
2004	78,990	107,153	186,143	62,906	98,004	160,910
2005	56,830	103,512	160,342	64,471	96,721	161,192
2006	91,195	100,398	191,593	65,392	95,226	160,618
2007	64,575	95,993	160,568	60,176	95,694	155,870
2008-2012	457,592	415,213	872,805	375,461	429,497	804,958
2013-2017	1,193,335	219,561	1,412,896	676,294	267,212	943,506
2018				177,466	18,026	195,492
<i>Adjustment **</i>				391,035	(391,035)	-
	\$ 2,120,323	\$ 1,203,259	\$ 3,323,582	\$ 2,031,715	\$ 836,861	\$ 2,868,576

* 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

DEBT SERVICE REQUIREMENTS (continued)
As of June 30, 2002 (Dollars in Thousands)

NINE CANYON WIND PROJECT

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
6/30/2002			
Balance:*	\$ -	\$ -	\$ -
2003	-	3,940	3,940
2004	2,060	3,940	6,000
2005	2,145	3,856	6,001
2006	2,245	3,764	6,009
2007	2,350	3,661	6,011
2008-2012	13,725	16,418	30,143
2013-2017	18,110	12,182	30,292
2018-2022	24,255	6,239	30,494
2023-2024	5,785	347	6,132
Adjustment **			
	\$ 70,675	\$ 54,347	\$ 125,022

* 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 formed in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 2002, its membership consisted of 13 public utility districts and 3 cities, 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 (Columbia), a 1,155 MWe (Design Electric Rating, net) generating plant completed in 1984. Energy Northwest has obtained all permits and licenses required to operate Columbia, including a Nuclear Regulatory Commission (NRC) operating license that expires in December 2023.

Energy Northwest 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. The electric power produced by Packwood is sold to 12 utilities, which pay the costs of Packwood, including the debt service on the Packwood revenue bonds. Currently, negotiations are in process for a new power sales agreement.

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 to terminate or recommend termination of Nuclear Projects Nos. 1 and 3 (see Note F - Nuclear Project No. 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 owned by Energy Northwest.

Each Energy Northwest Business Unit is financed and accounted for separately from all other current or future Business Units.

All electrical energy produced by Energy Northwest net billed Business Units ultimately is delivered to electrical distribution facilities owned and operated by BPA as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electric utility systems throughout the Northwest,

including Participants in Energy Northwest's Business Units, for ultimate distribution to consumers. Participants in Energy Northwest's net billed Business Units consist of 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's Business Units. BPA is obligated by law to establish rates for electric power which will recover the cost of electric energy acquired from Energy Northwest and other sources as well as BPA's other costs. (See Note 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, Nine Canyon Wind Project, and Grays Harbor Energy Facility. The Business Development Fund was established in April 1997, to pursue and develop new energy-related business opportunities.

The Nine Canyon Wind Project was established in January 2001, for the purpose of exploring and establishing a wind energy project. Finalization of the Project agreements was completed during Fiscal Year 2002. Construction was completed September 25, 2002. The turbines are rated at 48 MWe.

On April 25, 2002, Energy Northwest's Executive Board approved a name change from Combustion Turbine Project to Grays Harbor Energy Facility. The Grays Harbor Energy Facility was established in July 1990, to collect advances and contributions to pay the costs of investigating new generating projects, including the feasibility of a combustion turbine near Satsop, Washington. The Project purpose was amended during Fiscal Year 2002 to include the operation and maintenance of a gas fired combustion turbine placed on the Grays Harbor site (owned by Duke Energy Grays Harbor LLC) and included the purchase by Energy Northwest of up to 50MW of power generated by the facility.

The Internal Service Fund (formerly General Fund) was established in May 1957. It currently is used to account for the central procurement of certain common goods and services for the Business Units on a cost reimbursement basis. It also is used to account for the performance fees paid by BPA to Energy Northwest for achieving performance goals related to the operation of Columbia.

The Temporary Diesel Generation Project was established in May 2001 to provide immediate additional electrical generation using temporary diesel generators. Changing circumstances resulted in the stoppage of this Project after initial expenditures but prior to finalizing an order for the diesel generators. The negative equity of the Temporary Diesel Generation Project has been absorbed by the Business Development Fund in Fiscal Year 2002 and therefore no longer reported as a separate Business Unit in Fiscal Year 2002.

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 Federal Energy Regulatory Commission (FERC). Separate funds and books of account are maintained for each Business Unit. Payment of obligations of one Business Unit with funds of another Business Unit is prohibited, and would constitute violation of bond resolution covenants.

Energy Northwest maintains an Internal Service Fund for centralized control and accounting of certain fixed assets such as data processing equipment, and for payment and accounting of internal services, payrolls, benefits, administrative and general expenses, and certain contracted services on a cost reimbursement basis. In addition, it is used to account for performance fees paid by BPA to Energy Northwest for achieving performance goals related to the operation of Columbia. The performance fee is a general asset of Energy Northwest not allocable to other Business Units. Certain assets in the Internal Service Fund also are owned by the Fund and operated for the benefit of other Business Units. Depreciation relating to fixed assets is charged to the appropriate Business Units based upon assets held by each Business Unit.

Liabilities of the Internal Service Fund represent accrued payrolls, vacation pay, employee benefits, and common accounts payable which have been charged directly or indirectly to Business Units and will be funded by the Business Units when paid. Net amounts owed to or receivable from Energy Northwest Business Units are recorded under Current Liabilities - Due to other Business Units, or Current Assets - Due from other Business Units on the Internal Service Fund balance sheet.

The Combined Total column on the financial statements is for presentation only as each Energy Northwest Business Unit is financed and accounted for separately from all other current and future Business Units. The Fiscal Year 2002 Combined Total includes eliminations for transactions between Business Units as required by Statement No. 34 of the Governmental Accounting Standards Board (GASB).

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 "Advance Refundings Resulting in Defeasance of Debt" and No. 23 "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities" conflict with Statement of Financial Accounting Standard (SFAS) No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As such, the guidance

under 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 is in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Certain incurred expenses and revenues are allocated to the Business Units based on specific allocation methods and management considers the allocation methods to be reasonable.

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

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 is to capitalize all costs relating to the Project, including interest expense (net of interest income), and related administrative and general expense.

The utility plant and net assets of Nuclear Projects Nos. 1 and 3 have been reduced to their estimated net realizable values due to their termination. A write-down of Nuclear Projects Nos. 1 and 3 was recorded in Fiscal Year 1995 and is included in Cost in Excess of Billings. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 1 and 3 have been charged to operations. Utility Plant activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Columbia				
Generation	3,418,892	601	(4)	3,419,489
Construction work in progress	17,771	12,584		30,355
Accumulated Depreciation	(1,692,186)	(94,749)		(1,786,935)
Utility Plant, net	1,744,477	(81,564)	(4)	1,662,909
Packwood				
Generation	12,817	37		12,854
Accumulated Depreciation	(11,360)	(362)		(11,722)
Utility Plant, net	1,457	(325)		1,132
Business Development Fund				
General	425	332		757
Accumulated Depreciation	(119)	(47)		(166)
Utility Plant, net	306	285		591
Nine Canyon				
Construction work in progress	508	47,879		48,387
Internal Service Fund				
General	43,348	199		43,547
Accumulated Depreciation	(26,022)	(1,569)		(27,591)
Utility Plant, net	17,326	(1,370)		15,956

Nuclear Fuel

All expenditures related to the purchase of nuclear fuel for Columbia, 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. Columbia accumulated nuclear fuel amortization (the amortization of the cost of nuclear fuel assemblies in the reactor used in the production of energy and in the fuel pool for less than six months per FERC guidelines) is \$80 million as of June 30, 2002.

Energy Northwest has a contract with the United States Department of Energy (DOE) that requires the DOE to accept title and dispose of spent nuclear fuel. 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. The current period operating expense for Columbia includes a \$8.5 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.

Columbia has the capacity to store spent fuel in the spent fuel pool located in the Reactor Building until May 2003. 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. Current period operating costs include \$28.9 million for nuclear fuel and \$1.4 million accrued dry cask storage costs. Appropriate prior period dry storage casks costs were accrued prior to Fiscal Year 2002.

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 UF₆ 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 on the balance sheet of Columbia's nuclear fuel.

Restricted Assets

In accordance with each Project's bond resolutions, related agreements or state law, separate restricted funds have been established for each Business Unit. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance costs, 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.

Accounts and Other Receivables

Accounts and other receivables for the Internal Service Fund include miscellaneous receivables outstanding from other Business Units that have not yet been collected. The amounts due to each Business Unit are reflected in the due to/from other Business Units account.

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 decommissioning 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 most recent report to the NRC on March 23, 2001.

Energy Northwest's current estimate of Columbia's decommissioning costs is approximately \$360 million (in 2001 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 \$56 million (in 2001 dollars).

Both decommissioning and site restoration estimates (in 2001 dollars) are used as the basis for establishing a funding plan that includes escalation and interest earnings until decommissioning activities occur. Payments to the decommissioning and site restoration funds have been made since January 1985. The fair value of cash and investment securities in the decommissioning and site restoration funds as of June 30, 2002, totaled approximately \$68.0 million and \$6.2 million, respectively. Since September 1996, these amounts have been managed by BPA and held in external trust funds in accordance with NRC requirements and site certification agreements.

Energy Northwest's accrued liability for decommissioning and site restoration for Columbia is \$110.1 million as of June 30, 2002. 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. Energy Northwest will adopt SFAS No. 143 "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" during Fiscal Year 2003. This statement addresses accounting standards for recognizing and measuring the liability of an asset retirement obligation and the associated asset retirement cost. (See Note G, New Accounting Pronouncements).

Materials and Supplies

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

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

Financing expenses and bond discounts and premiums 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, 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 and Accrued Expenses

Restricted Liabilities - Internal Service Fund accounts payable and accrued expenses include \$24.6 million for unclaimed bearer bonds. Columbia includes \$110.1 million for decommissioning and site restoration. Nuclear Project No. 1 includes \$59.3 million for its own site restoration and \$9.2 million for Hanford Generating Project site restoration.

Current Liabilities - Internal Service Fund accounts payable and accrued expenses include \$1.2 million for payroll and related

benefits, \$14.4 million for compensated absences, and \$2.7 million for outstanding warrants. Columbia includes accrued expenses of \$1.4 million for fuel casks, \$3.2 million for arbitrage rebate (as defined by the Internal Revenue Service), \$13.9 million for fuel, and \$34.5 million for notes payable for the Independent Spent Fuel Storage Installation. The Nine Canyon Wind Project includes \$5.5 million of accrued substation costs and \$2 million for contract retention.

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 and other receivables, accounts payable and accrued expenses, advances from Members and others, other non-current liabilities and due to/due from Participants, funds, and other Business Units. The fair values of investments (See Note C, Cash and Investments) and revenue bonds payable (See Outstanding Long-Term Debt Schedule) 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 expenses on an accrual basis, and recovers, through various agreements, actual cash requirements for operations and debt service for Columbia, Packwood, Nuclear Project No. 1 and Nuclear Project No. 3. For these Business Units, Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity 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.

Energy Northwest accounts for revenues and expenses on an accrual basis for the remaining Business Units. The difference between cumulative revenues and cumulative expenses is recognized as net revenue or losses and included in fund equity for each period.

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; 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 large 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 Business Unit are separately maintained. Energy Northwest's deposits are insured by federal depository insurance or through the Washington Public Deposit Protection Commission. Energy Northwest bond 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 each individual Energy Northwest Business Unit by safe-keeping agents, custodians, or trustees.

Investments are classified as available-for-sale and are stated at fair value with unrealized gains and losses reported as investment income. Available-for-sale investments at June 30, 2002, are categorized below to give an indication of the types and amounts of investments held by each Business Unit at year-end. (See tables on next pages.)

AVAILABLE-FOR-SALE-INVESTMENTS
(Dollars in Thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Columbia Generating Station				
U.S. Government Securities	\$ 48,938	\$ 1,626	\$ 0	\$ 50,564
U.S. Government Agencies	111,309	249	(4)	111,554
Total	<u>\$ 160,247</u>	<u>\$ 1,875</u>	<u>\$ (4)</u>	<u>\$ 162,118</u>
Packwood Lake				
U.S. Government Securities	\$ 1,556	\$ 0	\$ 0	\$ 1,556
Total	<u>\$ 1,556</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,556</u>
Nuclear Project No. 1				
U.S. Government Securities	\$ 21,464	\$ 335	\$ (1)	\$ 21,798
U.S. Government Agencies	263,711	4	(13)	263,702
Total	<u>\$ 285,175</u>	<u>\$ 339</u>	<u>\$ (14)</u>	<u>\$ 285,500</u>
Nuclear Project No. 3				
U.S. Government Securities	\$ 16,342	\$ 614	\$ 0	\$ 16,956
U.S. Government Agencies	166,851	601	(17)	167,435
Total	<u>\$ 183,193</u>	<u>\$ 1,215</u>	<u>\$ (17)</u>	<u>\$ 184,391</u>
Business Development Fund				
U.S. Government Agencies	\$ 174	\$ 0	\$ 0	\$ 174
Total	<u>\$ 174</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 174</u>
Grays Harbor Energy Facility				
U.S. Government Agencies	\$ 410	\$ 0	\$ 0	\$ 410
Total	<u>\$ 410</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 410</u>
Nine Canyon Wind Project				
U.S. Government Securities	\$ 10,616	\$ 24	\$ (2)	\$ 10,638
U.S. Government Agencies	18,127	0	(1)	18,126
Total	<u>\$ 28,743</u>	<u>\$ 24</u>	<u>\$ (3)</u>	<u>\$ 28,764</u>
Internal Service Fund				
U.S. Government Securities	\$ 4,371	\$ 0	\$ 0	\$ 4,371
U.S. Government Agencies	11,853	0	0	11,853
Total	<u>\$ 16,224</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,224</u>
\$				

AVAILABLE-FOR-SALE-INVESTMENTS (continued)
(Dollars in Thousands)

	<u>< 1 year</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>> 10 years</u>	<u>Total</u>
Columbia Generating Station					
U.S. Government Securities	\$ 9,844	\$ 17,763	\$ 22,957	\$ 0	\$ 50,564
U.S. Government Agencies	106,292	5,262	0	0	111,554
Total	<u>\$ 116,136</u>	<u>\$ 23,025</u>	<u>\$ 22,957</u>	<u>\$ 0</u>	<u>\$ 162,118</u>
Packwood Lake					
U.S. Government Securities	\$ 1,556	\$ 0	\$ 0	\$ 0	\$ 1,556
Total	<u>\$ 1,556</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,556</u>
Nuclear Project No. 1					
U.S. Government Securities	\$ 18,857	\$ 2,941	\$ 0	\$ 0	\$ 21,798
U.S. Government Agencies	263,702	0	0	0	263,702
Total	<u>\$ 282,559</u>	<u>\$ 2,941</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 285,500</u>
Nuclear Project No. 3					
U.S. Government Securities	\$ 3,085	\$ 12,289	\$ 0	\$ 1,582	\$ 16,956
U.S. Government Agencies	146,988	11,740	8,707	0	167,435
Total	<u>\$ 150,073</u>	<u>\$ 24,029</u>	<u>\$ 8,707</u>	<u>\$ 1,582</u>	<u>\$ 184,391</u>
Business Development Fund					
U.S. Government Agencies	\$ 174	\$ 0	\$ 0	\$ 0	\$ 174
Total	<u>\$ 174</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 174</u>
Grays Harbor Energy Facility					
U.S. Government Agencies	\$ 410	\$ 0	\$ 0	\$ 0	\$ 410
Total	<u>\$ 410</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 410</u>
Nine Canyon Wind Project					
U.S. Government Securities	\$ 6,913	\$ 3,725	\$ 0	\$ 0	\$ 10,638
U.S. Government Agencies	18,126	0	0	0	18,126
Total	<u>\$ 25,039</u>	<u>\$ 3,725</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,764</u>
Internal Service Fund					
U.S. Government Securities	\$ 4,371	\$ 0	\$ 0	\$ 0	\$ 4,371
U.S. Government Agencies	11,853	0	0	0	11,853
Total	<u>\$ 16,224</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,224</u>

NOTE D - RETIREMENT BENEFITS

Substantially all Energy Northwest full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, 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 Employees 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, including Energy Northwest. 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 completing 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 age 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. 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, 2002, were:

	PERS Plan 1	PERS Plan 2
Employer	1.77%*	1.77%*
Employee	6.00%	0.88%

* 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
2002	\$ 147,307	\$ 1,238,861
2001	\$ 410,640	\$ 3,100,152
2000	\$ 415,538	\$ 2,929,576

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-one retirees have elected to participate in this insurance. In 1994, Energy Northwest's Executive Board approved provisions which continued the life insurance benefit to retirees at 25 percent of the premium for employees who retire prior to January 1, 1995, and charged the full 100 percent premium to employees who retired after December 31, 1994. The life insurance benefit is equal to the employee's annual rate of salary at retirement for non-bargaining employees retiring prior to January 1, 1995. The cost of coverage for employees who retired after January 1, 1995, is \$2.53 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, 2002, was \$1.196 million for these benefits.

During Fiscal Year 2002, 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 90 percent of all such costs were allocated to Columbia during Fiscal Year 2002.

401(k) Deferred Compensation Plan

Energy Northwest provides a 401(k) Deferred Compensation Plan (the 401(k) Plan). The 401(k) Plan is a defined contribution plan that was established to provide a means for investing savings by employees for retirement purposes. All permanent, full-time employees are eligible to enroll in the Plan. Each participant may elect to contribute pre-tax annual compensation, subject to current Internal Revenue Service limitations. Energy Northwest matches 50% of the portion of the participant's salary deferral amount, which does not exceed 5% of the participant's 401(k) eligible earnings for the 401(k) Plan year. Participants direct the investment of their individual contributions. Participants are immediately vested in their contributions plus actual earnings thereon. During Fiscal Year 2002, Energy Northwest contributed \$1,443,977 in employer matching funds.

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 from the revenues of that Business Unit. All bonds issued under Resolutions Nos. 769, 775, and 640 for Nuclear Projects Nos. 1, 3, and Columbia, respectively, have the same priority of payment within the Business Unit (the "Prior Lien Bonds"). All bonds issued under Resolutions Nos. 835, 838, and 1042 for Nuclear Projects Nos. 1, 3, and Columbia, respectively, are subordinate to the Prior Lien Bonds and have the same subordinated priority of payment within the Business Unit (the "Electric Revenue Bonds").

During the year ended June 30, 2002, Energy Northwest issued, for Nuclear Projects Nos. 1, 3, and Columbia, the Series 2002 A Bonds and the Series 2002 B Bonds. The Series 2002 A Bonds, issued for Nuclear Project No. 1 and Columbia, in the aggregate principal amount of \$405.7 million, are fixed rate bonds with an average coupon interest rate of 5.63%. The Series 2002 A Bonds refunded \$401.8 million of outstanding bonds having an average coupon rate of 6.26%. This transaction resulted in net losses for accounting purposes of \$15.7 million and \$8.3 million for Nuclear Project No. 1 and Columbia, respectively. Remaining debt service on the refunded bonds prior to the refunding was \$333.4 million and \$196.6 million for Nuclear Project No. 1 and Columbia, respectively. The debt service on the Series 2002 A Bonds is \$443.7 million and \$300.3 million for Nuclear Project No. 1 and

Columbia, respectively. Debt service increased for Nuclear Project No. 1 because the average life of the Nuclear Project No. 1 Series 2002 A Bonds was extended closer to the final maturity date of 2017. Columbia's debt service increased because the final maturity date was extended from 2009 for the Columbia refunded bonds to 2018 for the Columbia Series 2002 A Bonds. Net proceeds from the Series 2002 A Bonds were deposited in a separate irrevocable trust for each Project under the control of the trustee/escrow agent bank to provide all required future debt service payments on the refunded bonds until their dates of redemption. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt.

The Series 2002 B Bonds, issued for Nuclear Projects Nos. 1, 3, and Columbia, in the aggregate principal amount of \$301.1 million, also are fixed rate bonds and have an average coupon interest rate of 5.89%. The Series 2002 B Bonds were used to refund \$329.5 million of outstanding bonds, all of which either matured or were called for redemption on July 1, 2002. Net proceeds from the Series 2002 B Bonds were deposited in the Bond Fund Principal Accounts and the Debt Service Accounts for each project under the control of the trustee banks to provide all required remaining deposits for principal payments on the refunded bonds until the maturity date or the date of redemption. Certain of the proceeds from the Series 2002 B Bonds were paid to Citibank, N.A. for repayment of the Promissory Notes drawn upon periodically throughout the previous months of the fiscal year.

In prior fiscal years, Energy Northwest also defeased certain revenue bonds by placing the net proceeds from the refunding bonds in irrevocable trusts to provide for all required future debt service payments on the refunded bonds until their dates of redemption. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements in accordance with GASB Nos. 7 and 23. Including the Fiscal Year 2002 defeasements, approximately \$2,108.5 million, \$1,640.7 million and \$2,068.1 million of defeased bonds were not called or had not matured at June 30, 2002, for Nuclear Projects Nos. 1, 3, and Columbia, respectively.

During the Fiscal Year ended June 30, 2002, Energy Northwest also issued, for the Nine Canyon Wind Project, the Series 2001 A Wind Project Revenue Bonds and the Series 2001 B Wind Project Revenue Bonds. The Series 2001 A Bonds, in the aggregate principal amount of \$50.4 million, are fixed rate bonds with an average coupon interest rate of 5.77%. The Series 2001 A Bonds were issued to finance the costs of acquiring, constructing and installing Turbines Nos. 1 through 28 of the Project and certain transmission interconnection facilities. The Series 2001 B Bonds, in the aggregate principal amount of \$20.3 million, are fixed rate bonds with an average coupon interest rate of 5.77%. The Series 2002 B Bonds were issued to finance the costs of acquiring, constructing and installing Turbines Nos. 29 through 37 of the Project. (See Note A)

Outstanding revenue bonds for the various Business Units as of June 30, 2002, and future debt service requirements for these bonds are presented at the end of the Financial Section of this report.

Energy Northwest expects to continue its "Traditional Refinancing Program" as outlined in the September 2001 Refunding Plan by refinancing higher interest rate outstanding bonds, previously issued for Nuclear Projects Nos. 1, 3, and Columbia, when economically feasible. Additionally, the Bonneville Power Administration requested Energy Northwest to help implement Bonneville's Debt Optimization Program. Subject to the annual approval by Energy Northwest's Executive Board, implementation will require Energy Northwest to issue refunding bonds which will 1) extend the final maturity date of Columbia debt to 2018, and 2) extend the average life of the Nuclear Projects Nos. 1 and 3 debt closer to the final maturity dates of 2017 and 2018, respectively.

The issuance of such refunding bonds will roll out principal maturities scheduled to occur through 2012 and defer principal retirement on Energy Northwest debt to the 2013 to 2018 time frame. Reducing net billing requirements for Energy Northwest will free up cash in the Bonneville Fund to be used to accelerate the retirement of the higher cost Federal debt by Bonneville.

The goals and objectives of the Debt Optimization Program were included in the Energy Northwest Refunding Plan-September 2001 adopted by the Energy Northwest Executive Board.

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 the 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 the 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 or recommending the termination of Nuclear Projects Nos. 1 and 3. The Nuclear Projects Nos. 1 and 3 Project Agreements and the net billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations under the net billing agreements, ended upon termination of the Projects. Energy Northwest entered into an agreement with BPA to provide for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement among Energy Northwest and private companies was terminated in 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 July 31, 2001, for the period beginning July 1, 2001 to October 1, 2002. BPA will pay Energy Northwest 40 mills per kWh in exchange for the Project's total output of electric capacity and energy delivered from the Project. Under the power sale agreement, Energy Northwest is responsible for the cost of transmission to the BPA delivery point. Packwood is now an "endorsed resource" in BPA's environmental foundation pool. 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 their retirement in accordance with provisions of the bond resolutions.

NOTE F - COMMITMENTS AND CONTINGENCIES

Nuclear Project No. 1 Termination

Since the Nuclear Project No.1 termination, Energy Northwest has been planning for the demolition of Nuclear Project No. 1 and restoration of the site, recognizing the fact that there is no market for the sale of the Project in its entirety and to date, no viable alternative use has been found. The final level of demolition and restoration will be in accordance with agreements discussed below.

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. The SRP also agreed to assume regulatory responsibility for site restoration. Therefore, Energy Northwest is no longer responsible to the State of Washington and the Washington Energy Facility Site Evaluation Council (EFSEC) for any site restoration costs, with respect to Nuclear Project No. 3 and Nuclear Project No. 5.

Nuclear Projects Nos. 1 and 4 Site Restoration

Site restoration requirements for Nuclear Projects Nos. 1 and 4 are governed by site certification agreements between Energy Northwest and the State of Washington and regulations adopted by the EFSEC, and a lease agreement with the United States Department of Energy (DOE). Energy Northwest submitted a site restoration plan for Nuclear Projects Nos. 1 and 4 to EFSEC on March 8, 1995, which complied with EFSEC requirements to remove the assets and restore the sites by demolition, burial, entombment, or other techniques such that the sites pose minimal hazard to the public. EFSEC approved Energy Northwest's site restoration plan on June 12, 1995. In its approval, EFSEC recognized that there is uncertainty associated with Energy Northwest's proposed plan. Accordingly, EFSEC's conditional approval provides for additional reviews once the details of the plan are finalized. A new plan with additional details is being prepared for expected submittal within Fiscal Year 2003.

Based on current estimates for site restoration, Energy Northwest has accrued liabilities of \$59.3 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 \$41.3 million. Nuclear Project No. 1 has not accrued any costs for Nuclear Project No. 4.

Business Development Fund Interest in Northwest Open Access Network

The Business Development Fund is a member of the Northwest Open Access Network ("NoaNet"). Members formed NoaNet pursuant to an Interlocal Cooperation Agreement for the development and efficient use of a communication network in conjunction with BPA for use by the members and others.

The Business Development Fund has a 7.38% interest in NoaNet with an additional 25% step-up possible for a maximum of 9.23%. In July 2001, NoaNet issued \$27 million of bonds. The members are obligated to pay the principal and interest on the bonds when due, in the event and to the extent that NoaNet's Gross Revenue (after payment of costs of Maintenance and Operation) is insufficient for this purpose. The maximum principal share (with step-up) that the Business Development Fund could be required to pay is \$2,490,800. In Fiscal Year 2002, the Business Development Fund contributed \$146,000 to NoaNet. This equity contribution was reduced to zero at year-end because NoaNet had a negative net equity position of \$9.2 million as of June 30, 2002.

Future equity contributions, if any, will be treated the same until NoaNet has a positive equity position.

Other Litigation and Commitments

Energy Northwest is involved in various claims, legal actions and contractual commitments and in certain claims and contracts arising in the normal course of business. Although some suits, claims and commitments are significant in amount, final disposition is not determinable. In the opinion of management, the outcome of such litigation, claims or commitments will not have a material adverse effect on the financial positions of the Business Units or Energy Northwest as a whole. The future annual cost of the Business Units, however, may either be increased or decreased as a result of the outcome of these matters.

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 \$9.45 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 105) 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 \$2.25 billion. The deductible for this coverage is \$5 million per occurrence.

NOTE G - NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2001, Energy Northwest, adopted the provisions of GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended by GASB Nos. 37 and 38. The statement establishes new requirements for the basic financial statements and requires supplementary information (RSI) for general purpose governments consisting primarily of a management's discussion and analysis section preceding the basic financial statements. In addition, the statement requires that the statement of cash flows be prepared using the direct method. Adoption of this statement did not have a material impact on the financial position, results of operations or cash flows of Energy Northwest.

The FASB has recently issued SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets," which is effective for fiscal years beginning after June 15, 2002. As required, Energy Northwest will adopt this Statement during its Fiscal Year 2003. The impact of adopting this statement has not yet been determined. This Statement requires an entity to recognize the fair value of a liability for an asset retirement obligation (ARO), such as nuclear decommissioning and site restoration liabilities, in the period in which it is incurred, rather than using a cost-accumulation approach. Asset retirement costs will be capitalized as part of the cost of the related long-lived asset, then allocated to depreciation expense over the life of that asset. The fair value of the liability will be discounted initially, then accreted with a charge to expense based on the risk-free interest rate in effect at the time of initial recognition. Upon adoption of the Statement, an entity will use a cumulative-effect approach to recognize transition amounts for any existing ARO liabilities, asset retirement costs, and accumulated depreciation.

**Upon delivery of the Project 1 Series 2003-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 2003-A (the "Project 1 Series 2003-A Bonds"). The Project 1 Series 2003-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 2003-A" (the "Supplemental Resolution") adopted by the Executive Board pursuant to the Electric Bond Resolution on March __, 2003. 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 Project 1 Series 2003-A Bonds are initially dated the date of delivery and 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 Project 1 Series 2003-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 Project 1 Series 2003-A Bonds rank junior as to security and payment to bonds issued and outstanding under the Prior Lien Resolution. The Project 1 Series 2003-A Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Project 1 Series 2003-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 Project 1 Series 2003-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 Project 1 Series 2003-A Bonds and (iii) a resolution, adopted by Energy Northwest on March __, 2003 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Project 1 Series 2003-A Bonds and the execution and delivery of: a Contract of Purchase, dated March __, 2003 (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 Project 1 Series 2003-A Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Project 1 Series 2003-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 Project 1 Series 2003-A Bonds and apply the proceeds of the Project 1 Series 2003-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 Project 1 Series 2003-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 Project 1 Series 2003-A Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Project 1 Series 2003-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 Project 1 Series 2003-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 Project 1 Series 2003-A Bond.

Very truly yours,

**Upon delivery of the Project 1 Series 2003-B 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 2003-B (the "Project 1 Series 2003-B Bonds"). The Project 1 Series 2003-B 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 2003-B" (the "Supplemental Resolution") adopted by the Executive Board pursuant to the Electric Bond Resolution on March __, 2003. 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 Project 1 Series 2003-B Bonds are initially dated the date of delivery and 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 Project 1 Series 2003-B 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 Project 1 Series 2003-B Bonds rank junior as to security and payment to bonds issued and outstanding under the Prior Lien Resolution. The Project 1 Series 2003-B Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Project 1 Series 2003-B 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 Project 1 Series 2003-B 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 Project 1 Series 2003-B Bonds and (iii) a resolution, adopted by Energy Northwest on March __, 2003 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Project 1 Series 2003-B Bonds and the execution and delivery of: a Contract of Purchase, dated March __, 2003 (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 Project 1 Series 2003-B Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Project 1 Series 2003-B 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 Project 1 Series 2003-B Bonds and apply the proceeds of the Project 1 Series 2003-B 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 Project 1 Series 2003-B 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 Project 1 Series 2003-B Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Project 1 Series 2003-B 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 Project 1 Series 2003-B 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 Project 1 Series 2003-B Bond.

Very truly yours,

**Upon delivery of the Project 1 2003 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 2003-A, in the aggregate principal amount of \$ _____ (the "Project 1 Series 2003-A Bonds") and Project No. 1 Refunding Electric Revenue Bonds, Series 2003-B, in the aggregate principal amount of \$ _____ (the "Project 1 Series 2003-B Bonds" and together with the Project 1 Series 2003-A Bonds, the "Project 1 2003 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 Project 1 2003 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) Resolutions Nos. ____ and ___, entitled "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Project No. 1 Refunding Electric Revenue Bonds, Series 2003-A" and "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Project No. 1 Refunding Electric Revenue Bonds, Series 2003-B," respectively, adopted by the Executive Board on March __, 2003 (together, the "Supplemental Resolutions"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Resolution or the Supplemental Resolutions, as applicable.

In connection with the issuance of the Project 1 2003 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 Resolutions;
- (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 or Vice Chairman of the Executive Board, dated the date hereof, certifying that, except as described in the Official Statement for the Project 1 2003 Bonds, dated _____, 2003, (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 Project 1 2003 Bonds, dated _____, 2003, (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 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 or Vice 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 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 Columbia Series 2003-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 2003-A (the "Columbia Series 2003-A Bonds"). The Columbia Series 2003-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 2003-A" (the "Supplemental Resolution") adopted by Energy Northwest pursuant to the Electric Bond Resolution on March __, 2003. 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 Columbia Series 2003-A Bonds are initially dated the date of delivery and 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 Columbia Series 2003-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 Columbia Series 2003-A Bonds rank junior as to security and payment to bonds heretofore or hereafter issued and outstanding under the Prior Lien Resolution. The Columbia Series 2003-A Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Columbia Series 2003-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 Columbia Series 2003-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 Columbia Series 2003-A Bonds and (iii) a resolution, adopted by Energy Northwest on March __, 2003 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Columbia Series 2003-A Bonds and the execution and delivery of: a Contract of Purchase, dated March __, 2003 (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 Columbia Series 2003-A Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Columbia Series 2003-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 Columbia Series 2003-A Bonds and apply the proceeds of the Columbia Series 2003-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 Columbia Series 2003-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 Columbia Series 2003-A Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Columbia Series 2003-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 Columbia Series 2003-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 Columbia Series 2003-A Bond.

Very truly yours,

**Upon delivery of the Columbia Series 2003-B 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 2003-B (the "Columbia Series 2003-B Bonds"). The Columbia Series 2003-B 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 2003-B" (the "Supplemental Resolution") adopted by Energy Northwest pursuant to the Electric Bond Resolution on March __, 2003. 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 Columbia Series 2003-B Bonds are initially dated the date of delivery and 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 Columbia Series 2003-B 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 Columbia Series 2003-B Bonds rank junior as to security and payment to bonds heretofore or hereafter issued and outstanding under the Prior Lien Resolution. The Columbia Series 2003-B Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Columbia Series 2003-B 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 Columbia Series 2003-B 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 Columbia Series 2003-B Bonds and (iii) a resolution, adopted by Energy Northwest on March __, 2003 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Columbia Series 2003-B Bonds and the execution and delivery of: a Contract of Purchase, dated March __, 2003 (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 Columbia Series 2003-B Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Columbia Series 2003-B 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 Columbia Series 2003-B Bonds and apply the proceeds of the Columbia Series 2003-B 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 Columbia Series 2003-B 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 Columbia Series 2003-B Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Columbia Series 2003-B 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 Columbia Series 2003-B 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 Columbia Series 2003-B Bond.

Very truly yours,

**Upon delivery of the Columbia 2003 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 2003-A, in the aggregate principal amount of \$ _____ (the "Columbia Series 2003-A Bonds") and Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-B, in the aggregate principal amount of \$ _____ (the "Columbia Series 2003-B Bonds" and together with the Columbia Series 2003-A Bonds, the "Columbia 2003 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 Columbia 2003 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) Resolutions Nos. ____ and ____, entitled "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-A" and "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-B," respectively, adopted by the Executive Board on March __, 2003 (together, the "Supplemental Resolutions"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Resolution or the Supplemental Resolutions, as applicable.

In connection with the issuance of the Columbia 2003 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 Resolutions;
- (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 or Vice 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 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 or Vice 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 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 Project 3 Series 2003-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 2003-A (the "Project 3 Series 2003-A Bonds"). The Project 3 Series 2003-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 2003-A" (the "Supplemental Resolution") adopted by the Executive Board pursuant to the Electric Bond Resolution on March __, 2003. 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 Project 3 Series 2003-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 Project 3 Series 2003-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 Project 3 Series 2003-A Bonds rank junior as to security and payment to bonds issued and outstanding under the Prior Lien Resolution. The Project 3 Series 2003-A Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Project 3 Series 2003-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 Project 3 Series 2003-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 Project 3 Series 2003-A Bonds and (iii) a resolution, adopted by Energy Northwest on March __, 2003 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Project 3 Series 2003-A Bonds and the execution and delivery of: a Contract of Purchase, dated March __, 2003 (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 Project 3 Series 2003-A Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Series 2003-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 Project 3 Series 2003-A Bonds and apply the proceeds of the Project 3 Series 2003-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 Project 3 Series 2003-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 Project 3 Series 2003-A Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Project 3 Series 2003-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 Project 3 Series 2003-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 Project 3 Series 2003-A Bond.

Very truly yours,

**Upon delivery of the Project 3 Series 2003-B 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 2003-B (the "Project 3 Series 2003-B Bonds"). The Project 3 Series 2003-B 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 Electric Revenue Bonds, Series 2003-B" (the "Supplemental Resolution") adopted by the Executive Board pursuant to the Electric Bond Resolution on March __, 2003. 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 Project 3 Series 2003-B 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 Project 3 Series 2003-B 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 Project 3 Series 2003-B Bonds rank junior as to security and payment to bonds issued and outstanding under the Prior Lien Resolution. The Project 3 Series 2003-B Bonds rank equally as to security and payment with all other Parity Debt.

In connection with the issuance of the Project 3 Series 2003-B 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 Project 3 Series 2003-B 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 Project 3 Series 2003-B Bonds and (iii) a resolution, adopted by Energy Northwest on March __, 2003 (the "Electric Bond Sale Resolution"), authorizing, among other things, the sale of the Project 3 Series 2003-B Bonds and the execution and delivery of: a Contract of Purchase, dated March __, 2003 (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 Project 3 Series 2003-B Bonds as we deemed necessary or advisable; and
- (e) The lowest sequentially numbered and executed Series 2003-B 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 Project 3 Series 2003-B Bonds and apply the proceeds of the Project 3 Series 2003-B 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 Project 3 Series 2003-B 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 Project 3 Series 2003-B Bonds are payable solely from the revenues and other amounts pledged to such payment under the Electric Bond Resolutions. The Project 3 Series 2003-B 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 Project 3 Series 2003-B 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 Project 3 Series 2003-B Bond.

Very truly yours,

**Upon delivery of the Project 3 2003 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 2003-A, in the aggregate principal amount of \$_____ (the "Project 3 Series 2003-A Bonds") and Project No. 3 Refunding Electric Revenue Bonds, Series 2003-B, in the aggregate principal amount of \$_____ (the "Project 3 Series 2003-B Bonds" and together with the Project 3 Series 2003-A Bonds, the "Project 3 2003 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 Project 3 2003 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) Resolutions Nos. ____ and ____ entitled "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Project No. 3 Refunding Electric Revenue Bonds, Series 2003-A" and "A Supplemental Resolution Providing for the Issuance of the Energy Northwest Project No. 3 Refunding Electric Revenue Bonds, Series 2003-B," adopted by the Executive Board on March __, 2003 (together, the "Supplemental Resolutions"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Resolution or the Supplemental Resolutions, as applicable.

In connection with the issuance of the Project 3 2003 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, except as described in the Official Statement for the Project 3 2003 Bonds, dated _____, 2003, (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 Project 3 2003 Bonds, dated _____, 2003, (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 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 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 2003 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 2003-A
\$ _____ Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-A
\$ _____ Project No. 3 Refunding Electric Revenue Bonds, Series 2003-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 2003-A (the "Project 1 2003-A Bonds"), \$ _____ aggregate principal amount of Columbia Generating Station Refunding Electric Revenue Bonds, Series 2003-A (the "Columbia 2003-A Bonds") and \$ _____ aggregate principal amount of Project No. 3 Refunding Electric Revenue Bonds, Series 2003-A (the "Project 3 2003-A Bonds and together with the Project 1 2003-A Bonds and the Columbia 2003-A Bonds, the "Series 2003-A Bonds"). The Project 1 2003-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 _____, 2003 (the "Project 1 Resolution"). The Columbia 2003-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 _____, 2003 (the "Columbia Resolution"). The Project 3 2003-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 _____, 2003 (the "Project 3 Resolution and together with the Project 1 Resolution and the Columbia Resolution, the "Resolution"). The Series 2003-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 2003-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 2003-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 2003-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 2003-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 2003-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 _____, 2003, relating to the Series 2003-A Bonds or other offering material relating to the Series 2003-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 2003-A Bonds and the due authorization and issuance of the Series 2003-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 2003-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 2003-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.

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 2003-A Bonds.

Faithfully yours,

**ENERGY NORTHWEST
PARTICIPANT UTILITY SHARE
FISCAL YEAR 2003 BUDGETS**

Participant Utility	Project 1 Share	Columbia Share	Project 3 Share
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	14.305	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	0.232	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

Participant Utility	Project 1 Share	Columbia Share	Project 3 Share
* Public Utility District No. 1 of Ferry County, Washington	0.105	0.171	0.091
City of Fircrest, Washington			
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	1.274	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	0.257	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

Participant Utility	Project 1 Share	Columbia Share	Project 3 Share
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
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	0.323	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.

SUMMARY OF CERTAIN PROVISIONS OF RELATED CONTRACTS

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 heading “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 Station. 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 heading “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. Since that time, Energy Northwest has sold a portion of the Project 3 site to the Satsop Redevelopment Project and the balance of the site to Duke Energy Grays Harbor LLC. See "ENERGY NORTHWEST — Project 1", "— Project 3" and "— Other Activities" 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 Amending 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 Project 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.

**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 Credit Markets Services (“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 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 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,” the 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 and designated 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 of 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 Resolution Nos. 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 Funds; 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 adopted by the Executive Board of Energy Northwest on March 9, 2001, 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 the 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 1990A 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 1990A 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, the 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 Credit Markets Services; 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 Credit Markets Services; 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 Executive Board 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 (1) 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. U.S. Bank 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 25, 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 said 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 $66\frac{2}{3}\%$ in principal amount of the Prior Lien Bonds issued pursuant to such Resolution then outstanding and with the consent of the holders of $66\frac{2}{3}\%$ 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 or of 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 2003 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 2003 Bonds will not receive certificates representing their interests in the 2003 Bonds purchased, except as described below.

The Depository Trust Company, New York, New York, (“DTC”) will act as securities depository for the 2003 Bonds. The 2003 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 2003 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 post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as 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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission.

Purchases of 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such 2003 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2003 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 2003 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 2003 Bonds, except in the event that use of the book-entry system for the 2003 Bonds is discontinued.

To facilitate subsequent transfers, all 2003 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 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2003 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 2003 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2003 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2003 Bonds may wish to ascertain that the nominee holding the 2003 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the 2003 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 any other DTC nominee) will consent or vote with respect to the 2003 Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. 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 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2003 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 Energy Northwest or the Trustee 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, the Trustee, or Energy Northwest, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Energy Northwest or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2003 Bonds at any time by giving reasonable notice to Energy Northwest or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, such 2003 Bond certificates are required to be printed and delivered.

Energy Northwest may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2003 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 Energy Northwest believes to be reliable, but Energy Northwest takes no responsibility for the accuracy thereof.

SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT

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 2003 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 2003 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 2003 Bonds in the following tables under the heading "ENERGY NORTHWEST": "Energy Northwest Revenue Bonds Outstanding as of March 1, 2003" under the subheading "— Energy Northwest Indebtedness" and "Statement of Operations" under the subheading "— The Columbia Generating Station-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.

"Trustee" shall mean BNY Western Trust Company, as trustee for the 2003 Bonds.

"Underwriters" shall mean the underwriter or underwriters that have contracted to purchase the 2003 Bonds from Energy Northwest upon initial issuance.

Bonneville will undertake for the benefit of the holders of the 2003 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, 2003, 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 2003 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, 2003, 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 2003-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 2003 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 2003 Bonds; (7) modifications to the rights of holders of the 2003 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2003 Bonds; and (11) rating changes. In addition, Energy Northwest will undertake, for the benefit of the holders of the 2003 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 2003 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 Resolutions relating to the 2003 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 GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary

SPECIMEN

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at [INSERT NAME OF TRUSTEE OR PAYING AGENT, INCLUDING CITY, STATE].

The Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF TRUSTEE OR PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean: [INSERT LEGAL TITLE OF BONDS, CENTERED AS FOLLOWS:]

[\$ PAR AMOUNT]
[ISSUER]
[DESCRIPTION OF BONDS]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

MBIA INSURANCE CORPORATION

PAYMENTS UNDER THE POLICY

A. In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Obligations, the Paying Agent has not received sufficient moneys to pay all principal of and interest on the Obligations due on the second following or following, as the case may be, Business Day, the Paying Agent shall immediately notify the Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

B. If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent shall so notify the Insurer or its designee.

C. In addition, if the Paying Agent has notice that any Bondholder has been required to disgorge payments of principal or interest on the Obligation to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Paying Agent shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

D. The Paying Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Obligations as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Obligations, the Paying Agent shall (a) execute and deliver to U.S. Bank Trust National Association, or its successors under the Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer; (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

2. If and to the extent of a deficiency in amounts required to pay principal of the Obligations, the Paying Agent shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Obligation surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Holders.

E. Payments with respect to claims for interest on and principal of Obligations disbursed by the Paying Agent from proceeds of the Policy shall not be considered to discharge the obligation of the Issuer with respect to such Obligations, and the Insurer shall become the owner of such unpaid Obligation and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

F. Irrespective of whether any such assignment is executed and delivered, the Issuer and the Paying Agent hereby agree for the benefit of the Insurer that:

1. They recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Paying Agent), on account of principal of or interest on the Obligations, the Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the Issuer, with interest thereon as provided and solely from the sources stated in this Indenture and the Obligations; and

2. They will accordingly pay to the Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this Indenture and the Obligation, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Obligations to Holders, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

G. In connection with the issuance of additional Obligations, the Issuer shall deliver to the Insurer a copy of the disclosure document, if any, circulated with respect to such additional Obligations.

H. Copies of any amendments made to the documents executed in connection with the issuance of the Obligations which are consented to by the Insurer shall be sent to Standard & Poor's Corporation.

I. The Insurer shall receive notice of the resignation or removal of the Paying Agent and the appointment of a successor thereto.

J. The Insurer shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the Issuer's audited financial statements and Annual Budget.

Notices: Any notice that is required to be given to a holder of the Obligation or to the Paying Agent pursuant to the Indenture shall also be provided to the Insurer. All notices required to be given to the Insurer under the Indenture shall be in writing and shall be sent by registered or certified mail addressed to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504 Attention: Surveillance.

K. The Issuer/Obligor agrees to reimburse the Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by the Insurer in connection with (i) the enforcement by the Insurer of the Issuer's/Obligor's obligations, or the preservation or defense of any rights of the Insurer, under this Resolution/Indenture and any other document executed in connection with the issuance of the Obligations, and (ii) any consent, amendment, waiver or other action with respect to the Resolution/Indenture or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Insurer reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: []

Policy No: []

BONDS: []

Effective Date: []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, 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 XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and 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 XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to 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", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "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 XLCA 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.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA 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 XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

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, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN

Name:

Title:

SPECIMEN

Name:

Title: