



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

October 10, 2002

Dear Public Power Leader:

Over the past few months, Energy Northwest has acted to help the Bonneville Power Administration and all utilities in the Pacific Northwest address the current financial emergency in the region. I'd like to share some of those actions with you.

- Over the past year, we have refinanced bonds to provide cash for Bonneville through the Debt Optimization Program. By deferring payment on Energy Northwest bond principal, we have been able to provide Bonneville with \$262 million. In keeping with our agreement, Bonneville used those funds to pay off higher-interest Treasury bonds, resulting in savings to the region.
- This process provides the region with an average annual interest savings of \$20 million per year, for the life of the program. If we continue using this program, we could defer about \$3 billion in net billing revenue requirements over the next 10 years.
- In addition to the interest savings, this program gives Bonneville the ability to borrow more money from the Treasury for improvements to infrastructure.
- The condenser at Columbia Generating Station is nearly 20 years old and needs work. This is common at nuclear plants. With careful consideration for safety and risk, we have decided to wait until after this current rate case period to fix the condenser. This will result in a savings of \$35 million.
- We have offered a fuel-purchasing plan that will delay actual cash output for fuel during the current rate case period. This will save the region about \$41 million.
- Reducing our budget in other areas will pay for on-site spent fuel storage costs and upgrades to security. Those costs are approximately \$5.7 million in this year's budget.
- We have agreed to reduce our budget forecasts by an additional \$5 million each year for the next three years.
- In the past, Columbia's capital projects expenses have been paid for through rates. We have proposed a different plan to Bonneville that will provide some relief during this rate case period. We have offered to take on additional long-term debt to pay for current major projects. If this plan is accepted, it will result in a savings of \$38 million in the current rate case period. Over the last two fiscal years, we have funded \$35 million in capital projects using this strategy.
- We already have acted on most of the recommendations made by the customer group through the Public Power Council.

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Our Executive Board will soon finish an assessment of our plant's performance in comparison with the best plants in the nation. The results will be printed in a report that will be completed by December.

If you would like a copy of the final Report, please contact Shirley Reese, our Manager of Communications & Industry Affairs. Her phone number is (509) 372-5702. Or you can reach her by email at sareese@energy-northwest.com.

As well run as Columbia is, the Executive Board understands that we must keep future plant costs and the cost of power as low as possible. Cutting costs hasn't been easy, and it won't be in the future. Management and the Executive Board have determined these reductions will present some risk to the material condition of the plant. That said, we never would risk the safety of the plant or the public.

However, if we operate with our primary focus on keeping costs down, we realize it could put the material condition of the plant at risk. Should such a situation arise, we will do the right thing by shifting our focus. Our primary goal is to ensure the health and safety of the public and our employees and to ensure the plant runs efficiently and reliably.

To meet those goals, our senior management team will continuously review Columbia's budget and operations looking for ways to lower expenses and increase generation.

It's been said Columbia Generating Station is a relatively expensive resource, when compared to most of the region's hydroelectric dams. We agree. The hydro system uses gravity, and gravity is free. Columbia Generating Station never was intended to be as inexpensive to operate as a hydro project. It was designed to complement the hydro system and to serve our region when the dams couldn't.

Eighteen months ago, when the region faced a serious water shortfall, Columbia ran, consistently and reliably, making sure our electricity needs were met. And in Fiscal Year 2002, Columbia had a record year for generation, providing more than 9 million megawatt-hours of electricity for the region.

This 1,150-megawatt plant has been providing power for the region since 1984 and is in excellent physical condition due to a set of rigorous and demanding maintenance criterion based on the licensing requirements of the Nuclear Regulatory Commission.

We are the stewards of a valuable regional asset. We have stepped forward to make necessary cost cuts in the face of the region's current financial emergency. For that, we are proud.

Respectfully,



J.V. Parrish
Chief Executive Officer

ENERGY NORTHWEST

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

Mr. Paul Norman, Senior Vice President
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208

Dear Mr. Norman:

Subject: Energy Northwest/Columbia Generating Station

Energy Northwest is committed to supporting the region by maintaining reliable and least cost energy supply to the region. Our financial forecasts have always strived to maintain a balance between cost and reliability while meeting the operational needs of the FCRPS.

Energy Northwest has reviewed the cost and cash flow projections for Columbia Generating Station used by Bonneville in the latest rate case. By taking some increased risk to the future reliability and costs, we have identified two significant opportunities to reduce cash requirements through fiscal year 2006. These opportunities involve reducing our inventory levels for nuclear fuel and remove condenser tube replacement currently planned for FY05. These actions will result in a cash requirement reduction of approximately \$76 million.

Energy Northwest will continue to strive to be in the top tier of nuclear plant operators – both in cost and operational performance. This means we will continually strive to find reductions in our annual costs without harming future cost effectiveness and reliability. It is not in the best interest of the region to make short-term reductions that have a negative impact on future operations. We will never take any action or make a cost decision that will compromise nuclear safety.

Over the years our financial staffs have worked together to reduce the cost of Energy Northwest debt while integrating the resulting structure into the BPA Federal debt portfolio. One of the tools used was a variable rate program which has yielded \$63 million net benefit when compared to the average fixed rate debt for the 8 ½ years the program has been in effect. We believe considerable savings in interest costs for the Federal debt can be achieved by taking some variable rate interest risk. A prudent 10% exposure to variable rate financing could result in considerable savings. For example, \$750 million of variable rate exposure with a 200 basis point savings would yield \$15 million a year. I urge BPA to consider this option.

Energy Northwest remains committed to maintaining a safe, cost effective and reliable generating facility and to provide public power benefit to the region.

Respectfully,



J. V. Parrish
Chief Executive Officer