



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

FINANCE

November 8, 2001

In reply refer to: DFW

Energy Northwest
P.O. Box 968
Richland, Washington 99352

Dear Members of the Energy Northwest Executive Board:

As promised in our letter to you last October, Bonneville Power Administration (BPA) is providing this update on the progress of the Debt Optimization Program (Program). As you are aware, BPA has had a particularly challenging year in its efforts to keep costs and rates as low as possible in the face of low water conditions in the Columbia River basin, increasingly volatile wholesale electricity prices, and an uncertain regulatory framework for the west coast electricity market. At the same time, BPA is addressing renewed responsibilities to maintain the reliability and capability of the Federal hydroelectric and transmission system with an expanded capital spending program to enhance that infrastructure. However, this capital spending must be budgeted within the context of a fixed borrowing limit from the U.S. Treasury. The Program is a key initiative toward reducing BPA's costs and toward managing BPA's access to capital funding and assuring BPA's ability to meet its responsibilities. We are pleased and appreciative that the Program has been able to move forward expeditiously and in a manner consistent with the objectives for the Program and with the commitments BPA made to the Executive Board regarding our debt management actions under the Program.

The success of the Program in achieving its objectives depends both on the successful extension of certain Energy Northwest debt and on the disciplined application by BPA of the proceeds from that action to amortize more Federal debt than would otherwise be scheduled for amortization. As the attached table shows, BPA experienced reduced debt service on Energy Northwest debt of \$97.3 million this past year from refunded Energy Northwest bonds. This amount was applied to additional Federal amortization of U.S. Treasury bonds for BPA fiscal year 2001, which ended September 30, 2001. BPA also continued to structure newly issued Treasury bonds in a manner consistent with the objectives of the Program.

BPA appreciates the spirit of collaboration and timeliness with which the Executive Board has acted with respect to the Program. Our joint efforts will assure the best result for the ratepayers of the Pacific Northwest. I look forward to our respective finance staffs continuing exploration of debt management strategies within the agreed upon parameters of the overall Program that

will allow us to take advantage of the synergies between BPA's Federal debt and Energy Northwest's municipal debt. I am confident that our endeavors will be successful in the long-term.

Thank you for your continued attention to the Program and your overall support for our combined efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Wright". The signature is written in a cursive, slightly slanted style.

Stephen J. Wright
Acting Administrator and Chief Executive Officer

Enclosure

WHAT WE HAVE ACHIEVED SO FAR

(Dollars in millions)

Cash Flow from ENW Management Actions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
2001-A Refi (Goldman)			51.1	31.1						13.7	14.5	36.4	38.4	185
2001-B Refi (Palne)		97.3												97.3
Surety Bonds	37.6													37.6
Res Free-Ups(1998)	11.5													11.5
Res Free-Ups(2001-A)			8.8											8.8
Res Free-Ups(2001-B)			1.5											1.5
Selective Redemption(2000)	9.5													9.5
Other (FY 99)	26.9													26.9
Total Cash Flow	85.5	97.3	61.4	31.1	0	0	0	0	0	0	13.7	14.5	36.4	378

BPA's Use of "Freed up" Cash Flow

	2000	2001
Total Cash Flow from ENW Management Actions	85.5	97.3
Scheduled Amortization	205	113
Total Amortization	290	210
Difference	85.5	97.3