

MOSSES ADAMS

**WESTERN GENERATION AGENCY
INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 5
FINANCIAL STATEMENTS	
Balance sheets	6 - 7
Statements of revenues, expenses and changes in net deficit	8
Statements of cash flows	9 - 10
Notes to financial statements	11 - 21
SUPPLEMENTAL INFORMATION	
Long-term bonded debt and interest payment requirements (including current portion)	22
AUDIT COMMENTS	
Report of independent certified public accountants on Western Generation Agency's compliance and certain items based on an audit of financial statements performed in accordance with Oregon Auditing Standards	23 - 24

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Western Generation Agency

We have audited the accompanying balance sheets of Western Generation Agency (the Agency) as of December 31, 2008 and 2007 and the related statements of revenues, expenses and changes in net deficit and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information following the financial statements and notes to financial statements is provided for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Moss Adams LLP
Portland, Oregon
March 18, 2009


Trent Martin
A Partner of Moss Adams LLP

WESTERN GENERATION AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is presented to provide an overview of Western Generation Agency's (Agency) financial activities for the years ended December 31, 2008 and 2007. This supplementary information should be read in conjunction with the Agency's financial statements.

Western Generation Agency was created in 1993 pursuant to an Intergovernmental Agency Agreement between Eugene Water & Electric Board (EWEB) and Clatskanie People's Utility District (CPUD) for the purpose to construct, own and operate an electric generation plant; the Wauna Cogeneration Project (Project). The Project is located at the Wauna Mill (Mill) which is owned and operated by Georgia Pacific Corporation. The Agency is governed by a Board of Directors comprised of six appointed members, three each from both EWEB and CPUD, and as a separate legal entity, has no other association with either entity regarding financial reporting requirements. The Agency sells the energy from its generation to Bonneville Power Administration for a predetermined price.

Financial Summary and Analysis

During 2008, the Agency's power sales decreased by \$550,891 (or 5.6%). Overall, the Agency experienced a decrease in net income of \$1.5 million in 2008. The primary factors influencing these results include:

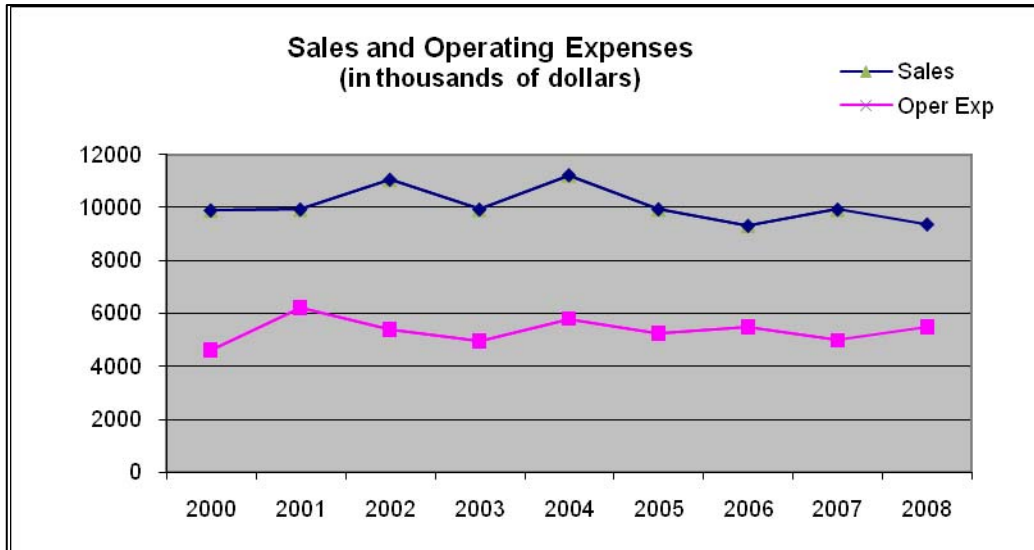
- Decrease in production revenue over prior year of approximately \$550,000,
- Increase in current year maintenance expense due to scheduled maintenance for 2008 of approximately \$850,000,
- Additional swings in expenses and interest income netting to a \$100,000 decrease,
- Reduction in steam efficiency payments of approximately \$250,000
- Increase in distributions to members of \$400,000

Selected Financial Data

<i>(in thousands of dollars)</i>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Power sales	\$ 9,371	\$ 9,922	\$ 9,932
Operating expenses	5,489	4,990	5,244
Operating income	3,882	4,932	4,688
Income	453	1,950	189
Total assets	48,848	52,259	55,591
Total liabilities	53,729	57,592	50,655
Total net assets (deficit)	(4,881)	(5,333)	4,936

**WESTERN GENERATION AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Power Sales and Operating Expenses



Capital Asset and Long-Term Debt Activity

The plant in service as of December 31, 2008, 2007 and 2006 consisted of the following:

<i>(in thousands of dollars)</i>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Buildings	\$ 10,797	\$ 10,797	\$ 10,797
Equipment	<u>56,553</u>	<u>56,553</u>	<u>56,553</u>
Total plant in service	<u>\$ 67,350</u>	<u>\$ 67,350</u>	<u>\$ 67,350</u>

The Agency had not invested in any additions to plant in 2008, 2007, or 2006, therefore plant values are consistent with previous years. Utility plant net of depreciation was \$33 million, \$35.7 million and \$38.4 million at December 31, 2008, 2007 and 2006, respectively. This represents a decrease of \$2.7 million (or 6.6%) each year relating to depreciation.

**WESTERN GENERATION AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Total liabilities as of December 31, 2008, 2007 and 2006 consisted of the following:

<i>(in thousands of dollars)</i>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total current liabilities	\$ 4,923	\$ 4,665	\$ 4,831
Total long-term debt	<u>48,806</u>	<u>52,927</u>	<u>45,824</u>
Total liabilities	<u>\$ 53,729</u>	<u>\$ 57,592</u>	<u>\$ 50,655</u>

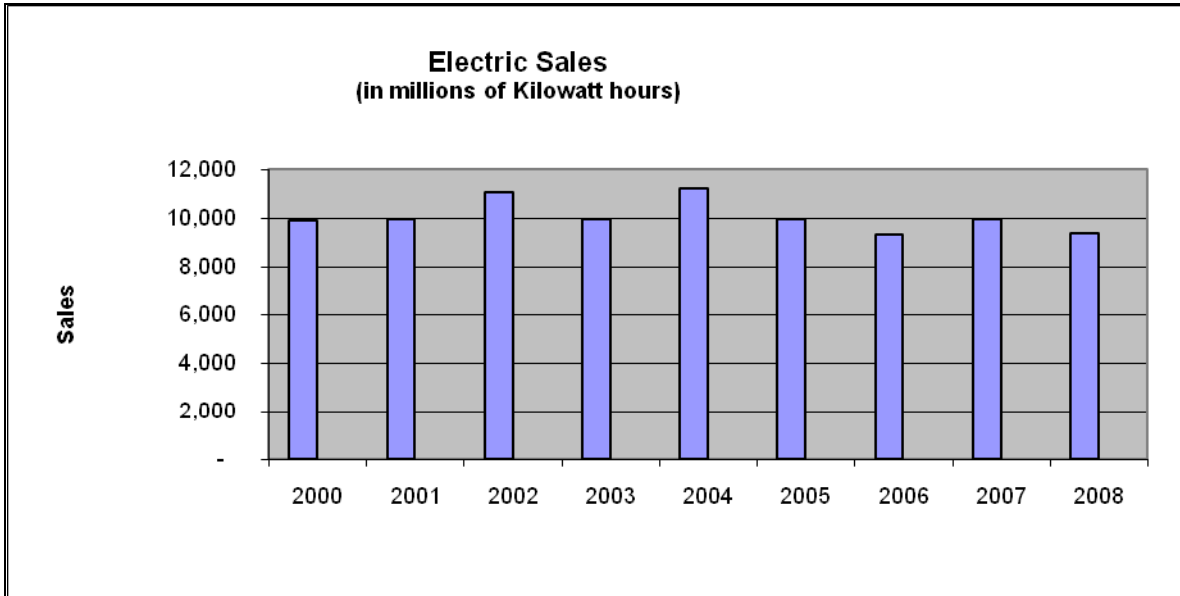
At year-end, the Agency had \$48.8 million in long-term debt outstanding as compared to \$52.9 million for 2007 and \$45.8 million for 2006.

On October 26, 2006, the Agency refunded the 1994 Series A and Series B bonds with a new bond issuance. At this time the Agency also issued additional bonds to pay off a major portion of the equity contribution from EWEB. These additional bonds are called the "Series C bonds." The Series C bonds are considered "Turbo" bonds and have a fixed debt service schedule as with the other bond issues. However, if earnings from the Agency are in excess of \$400,000, on a semi-annual basis, the remaining earnings are used to payoff the Series C bonds. Therefore, in years where excess funds are available to payoff the Series C bonds, the trustee will transfer the excess funds to the Subordinate lien account to annually payoff bonds. The debt service schedule for the Series C bonds will then be recalculated. When the Series C bonds are paid in full, the remaining EWEB equity (\$2,150,987) plus accrued dividends and interest will be paid as earnings are available.

Fuel Supply

The Agency uses high-pressure steam from the Mill to produce electricity and redelivers low-pressure steam to the Mill. A portion of that steam is produced using pulp/paper waste. Generation output for the month of June 2008 decreased substantially from the budgeted amount due to the shutdown of the turbine for major maintenance. Actual production for 2008 was 164,032 MWhrs which was 3.2% less than the budgeted generation of 169,416 MWhrs.

Generating Output



Economic Factors

In 2009, generation levels of electricity are budgeted to be approximately 169,416 MWhrs or about 3.2% more than the 2008 results. The 2009 budget amount is equal to the budget amount for production in 2008. There is no major maintenance scheduled for 2009. The Agency expects the Mill to operate the various paper machines in their current configuration through 2009.

Summary

The management of the Agency is responsible for preparing the information in this management's discussion and analysis, financial statements and notes to financial statements. The financial statements are prepared according to accounting principles generally accepted in the United States of America, and they fairly portray the Agency's financial position and operating results. The notes to the financial statements are an integral part of the basic financial statements and provide additional information.

**WESTERN GENERATION AGENCY
BALANCE SHEETS**

ASSETS

	DECEMBER 31,	
	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,857,958	\$ 1,218,208
Receivables	906,655	1,779,435
Prepayments and other current assets	<u>141,838</u>	<u>173,243</u>
Total current assets	<u>2,906,451</u>	<u>3,170,886</u>
RESTRICTED CASH AND INVESTMENTS		
Investments for debt service - restricted	5,723,155	4,565,406
Debt service reserve - Series A and B	4,815,250	5,704,012
Maintenance fund	<u>471,833</u>	<u>1,001,031</u>
Total restricted cash and investments	<u>11,010,238</u>	<u>11,270,449</u>
PLANT IN SERVICE		
Plant in service	67,350,057	67,350,057
Less accumulated depreciation	<u>(34,303,602)</u>	<u>(31,609,602)</u>
Net plant in service	<u>33,046,455</u>	<u>35,740,455</u>
UNAMORTIZED BOND COSTS, net of accumulated amortization	<u>1,885,448</u>	<u>2,076,654</u>
Total assets	<u><u>\$ 48,848,592</u></u>	<u><u>\$ 52,258,444</u></u>

**WESTERN GENERATION AGENCY
BALANCE SHEETS**

LIABILITIES AND NET ASSETS

	DECEMBER 31,	
	2008	2007
CURRENT LIABILITIES		
Accounts payable	\$ 361,141	\$ 271,843
Accrued interest	1,312,366	1,392,339
Preferred equity dividend payable	369,876	200,484
Bonds payable, current portion	2,880,000	2,800,000
Total current liabilities	4,923,383	4,664,666
LONG-TERM DEBT, net of current portion	48,805,835	52,927,150
Total liabilities	53,729,218	57,591,816
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(16,753,932)	(17,910,041)
Restricted for		
Debt service and reserve	9,226,039	8,877,079
Maintenance	471,833	1,001,031
Unrestricted	2,175,434	2,698,559
Total net assets (deficit)	(4,880,626)	(5,333,372)
Total liabilities and net assets	\$ 48,848,592	\$ 52,258,444

WESTERN GENERATION AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET DEFICIT

	<u>YEAR ENDED DECEMBER 31,</u>	
	<u>2008</u>	<u>2007</u>
POWER SALES	<u>\$ 9,371,123</u>	<u>\$ 9,922,014</u>
OPERATING EXPENSES		
Production	2,018,165	1,285,118
Administrative and general	495,916	487,452
Depreciation	2,694,000	2,694,000
Steam efficiency payment	<u>281,123</u>	<u>523,831</u>
Total operating expenses	<u>5,489,204</u>	<u>4,990,401</u>
OPERATING INCOME	<u>3,881,919</u>	<u>4,931,613</u>
INTEREST ON INVESTMENTS	<u>278,263</u>	<u>511,143</u>
OTHER EXPENSE		
Interest expense and related amortization	<u>2,718,143</u>	<u>2,917,894</u>
DISTRIBUTIONS AND DIVIDENDS		
Preferred equity dividend	189,293	175,229
Distributions to members	<u>800,000</u>	<u>400,000</u>
Total distributions and dividends	<u>989,293</u>	<u>575,229</u>
NET INCOME	452,746	1,949,633
NET DEFICIT, beginning of year	<u>(5,333,372)</u>	<u>(7,283,005)</u>
NET DEFICIT, end of year	<u><u>\$ (4,880,626)</u></u>	<u><u>\$ (5,333,372)</u></u>

**WESTERN GENERATION AGENCY
STATEMENTS OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Bonneville Power Administration	\$ 10,235,140	\$ 10,083,174
Payments to Georgia Pacific	(1,466,120)	(2,259,505)
Payments for administrative and general costs	(1,208,382)	(633,620)
Net cash from operating activities	7,560,638	7,190,049
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(11,906,397)	(9,001,750)
Proceeds from investments	17,733,100	7,318,358
Interest received on investments	287,026	505,285
Net cash from investing activities	6,113,729	(1,178,107)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond principal payments	(3,995,000)	(105,000)
Interest payments	(2,673,125)	(1,888,128)
Equity distributions	(800,000)	(400,000)
Net cash from capital and related financing activities	(7,468,125)	(2,393,128)
CHANGE IN CASH AND CASH EQUIVALENTS	6,206,242	3,618,814
CASH AND CASH EQUIVALENTS, beginning of year	3,880,954	262,140
CASH AND CASH EQUIVALENTS, end of year	\$ 10,087,196	\$ 3,880,954
RECONCILIATION TO BALANCE SHEET		
Cash and cash equivalents	\$ 1,857,958	\$ 1,218,208
Restricted cash equivalents	8,229,238	2,662,746
	\$ 10,087,196	\$ 3,880,954

See accompanying notes.

**WESTERN GENERATION AGENCY
STATEMENTS OF CASH FLOWS**

	<u>YEAR ENDED DECEMBER 31,</u>	
	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 3,881,919	\$ 4,931,613
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation on utility plant	2,694,000	2,694,000
(Increase) decrease in assets		
Receivables	864,016	161,160
Prepayments and other current assets	31,405	2,311
Increase (decrease) in liabilities		
Accounts payable	89,298	(599,035)
	<u>89,298</u>	<u>(599,035)</u>
Net cash from operating activities	<u>\$ 7,560,638</u>	<u>\$ 7,190,049</u>

**WESTERN GENERATION AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Organization

Western Generation Agency (Agency) was created pursuant to an Intergovernmental Agency Agreement, dated October 13, 1993, between Eugene Water & Electric Board (EWEB) and Clatskanie People's Utility District (CPUD) for the purpose to construct, own and operate an electric generation plant, the Wauna Cogeneration Project (Project).

The Agency has no employees. EWEB and CPUD will continue to provide or cause to be provided such technical, general and administrative services as the Agency may reasonably require.

The Project is comprised of both a Steam Turbine Generator (STG), with a nameplate rating of 36 megawatts (MW) capable of producing an average 26 MW of energy, and a Fluidized Bed Boiler (FBB). The FBB is utilized in the production of steam that is supplied to the STG. The steam production is accomplished by burning solid waste fuel generated by the existing pulp/paper manufacturing facility owned by Georgia Pacific, located in Wauna, Oregon.

The Agency is governed by a Board of Directors which is comprised of three appointed members from both EWEB and CPUD, and as a separate legal entity has no other association with either entity regarding financial reporting requirements.

Note 2 - Summary of Significant Accounting Policies

Method of accounting - The Agency maintains its accounting records in accordance with accounting principles generally accepted in the United States of America for governmental proprietary funds. The Agency applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements or opinions conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, the Agency has elected to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash equivalents - The Agency considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**WESTERN GENERATION AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue recognition and receivables - The Agency recognizes revenue from power sales to Bonneville Power Administration (BPA) based on the metered amount of kilowatt hours (Kwh) provided to BPA each month at the contract rate, pursuant to the Power Purchase Agreement (the Agreement) between the Department of Energy (through BPA) and the Agency (See Note 7). Sales under the Agreement are judged collectible by the Agency, therefore, no reduction to revenues or income is provided.

In accordance with the Bond Indenture (Indenture), project revenues, including interest, received are restricted, to be placed in the revenue fund. The monies in the revenue fund are disbursed first to the operating fund for the budgeted monthly operating costs. Thereafter, monies from the revenue fund are used per the terms of the Indenture for the various fund types.

Plant in service - Plant facilities are recorded at original cost (See Note 4). Costs include labor, materials and related indirect costs, such as engineering, design and allowance for funds used during construction. The cost of additions, renewals and betterments is capitalized. Routine repairs and replacements will be charged to operating expenses when incurred. Depreciation is computed using the straight-line method over the length of the Agreement (25 years), which is considered the useful life of the plant.

Asset retirement obligation - Upon termination of the Agency's Lease Agreement (See Note 7), at Georgia Pacific's discretion, the Agency could be requested to surrender possession of its facility or remove it from Georgia Pacific's premises and restore the land; however, alternatives are provided in the Lease Agreement, which provide a number of possible outcomes in the Agency's favor. In the Agency's judgment, the outcomes with the highest likelihood of coming to pass diminish the asset retirement obligation to immaterial levels.

Net assets - Consist of the following components:

- **Invested in capital assets, net of related debt** - This component of net assets consists of (a) capital assets, (b) net of accumulated depreciation and outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.
- **Unrestricted** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Note 2 - Summary of Significant Accounting Policies (Continued)

Unamortized bond costs, premiums and loss on refundings - Costs associated with obtaining Project financing and premiums are capitalized and amortized over the term of the Indenture. Losses on refunding of bond issuances are amortized over the new or old bonds, whichever period is shorter.

Major customer - The Agency has entered into a Power Purchase Agreement with the Department of Energy, acting by and through BPA, to provide power to BPA for 20 years. The contract states that the Agency is not to provide more than 236,000 MWh (megawatt hours) during a year. This agreement was effective April 6, 1996, the date of substantial completion and commencement of operations. All power sales in 2008 and 2007 were to BPA.

Income taxes – The Agency is not subject to income taxes as it is a governmental agency.

Fair value of financial instruments - The carrying amounts of current assets, including restricted cash and investments, and current liabilities approximate fair value due to the short-term maturity of those instruments. The fair value of the Agency's investments and debt are estimated based on the quoted market prices for the same or similar issues.

Note 3 - Cash and Investments

The Agency maintains cash and investments in several accounts in accordance with bond resolutions or designations by the Agency. In accordance with the Indenture, the Agency can invest in obligations of the U.S. Treasury, other U.S. agencies, New Housing Authority bonds, direct and general obligations of any state, collateralized certificates of deposit, repurchase agreements, reverse repurchase agreements, prime commercial paper rated at least P-1 by Moody's or at least A-1 by Standard & Poor's, mortgage-backed bonds and collateralized mortgage obligations, if such bonds or obligations are rated in one of the two highest ratings categories of either Moody's or Standard & Poor's, and the Oregon State Treasurer's Local Government Investment Pool (LGIP), as provided by Oregon Revised Statutes (ORS) 294. Descriptions of these fund account types are as follows:

- **Debt Service Reserve Funds** - Monies required to be set aside to meet debt service needs in the event revenue is insufficient
- **Investments for Debt Service** - Amounts required under the Indenture for the payment of principal and interest of the 2006 Series A, B and C Revenue Bonds and any amounts accumulated for the redemption of the bonds
- **Maintenance Fund** - Consists of amounts required to be set aside to fund major repairs and/or major maintenance, absent a deficiency in the Debt Service Fund or Debt Service Reserve Funds

**WESTERN GENERATION AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 3 - Cash and Investments (Continued)

Deposits with financial institutions are comprised of discount notes and money market accounts. \$250,000 was covered by federal depository insurance. The full amount is collateralized with securities held by the pledging financial institution but not in the Agency's name.

As of December 31, 2008:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash and money market accounts	\$ 10,087,196	NA	78.4%
Federal Home Loan Bank Discount Notes	2,330,000	0.005	18.1%
Federal Home Loan Mortgage Corp Discount Notes	451,000	0.005	3.5%
	\$ 12,868,196		100.0%

As of December 31, 2007:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash and money market accounts	\$ 3,880,954	NA	31.1%
Federal Home Loan Bank Discount Notes	1,404,000	0.083	11.2%
Federal Home Loan Mortgage Corp Discount Notes	7,203,703	0.005	57.7%
	\$ 12,488,657		100.0%

The "weighted average maturity in years" calculation assumes that all investments are held until maturity.

Custodial credit risk is that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the aforementioned cash and investments are held in the Agency's name by a third-party custodian.

**WESTERN GENERATION AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 3 - Cash and Investments (Continued)

	2008		
	Restricted Cash and Investments	Cash and Cash Equivalents	Total
Wells Fargo Government Money Market Fund	\$ 8,229,238	\$ 1,857,958	\$ 10,087,196
Federal Home Loan Bank Discount Notes	2,330,000	-	2,330,000
Federal Home Loan Mortgage Corp Discount Notes	451,000	-	451,000
	\$ 11,010,238	\$ 1,857,958	\$ 12,868,196
Debt service reserve - Series A & B	\$ 4,815,250		
Maintenance fund	471,833		
Investments for debt service	5,723,155		
	\$ 11,010,238		
	2007		
	Restricted Cash and Investments	Cash and Cash Equivalents	Total
Wells Fargo Government Money Market Fund	\$ 2,662,746	\$ 1,218,208	\$ 3,880,954
Federal Home Loan Bank Discount Notes	1,404,000	-	1,404,000
Federal Home Loan Mortgage Corp Discount Notes	7,203,703	-	7,203,703
	\$ 11,270,449	\$ 1,218,208	\$ 12,488,657
Debt service reserve - Series A & B	\$ 5,704,012		
Maintenance fund	1,001,031		
Investments for debt service	4,565,406		
	\$ 11,270,449		

**WESTERN GENERATION AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Plant in Service

	Balance at December 31, 2007	Additions	Retirements	Balance at December 31, 2008
Fluidized bed boiler				
Buildings	\$ 8,202,497	\$ -	\$ -	\$ 8,202,497
Equipment	29,097,226	-	-	29,097,226
Total fluidized bed boiler	<u>37,299,723</u>	<u>-</u>	<u>-</u>	<u>37,299,723</u>
Steam turbine				
Buildings	2,594,912	-	-	2,594,912
Equipment	27,455,422	-	-	27,455,422
Total steam turbine	<u>30,050,334</u>	<u>-</u>	<u>-</u>	<u>30,050,334</u>
Total plant in service	67,350,057	-	-	67,350,057
Accumulated depreciation	<u>(31,609,602)</u>	<u>(2,694,000)</u>	<u>-</u>	<u>(34,303,602)</u>
Net plant in service	<u>\$ 35,740,455</u>	<u>\$ (2,694,000)</u>	<u>\$ -</u>	<u>\$ 33,046,455</u>

Note 5 - Long-Term Debt

In October 2006, the Agency issued \$55,565,000 of non-recourse Cogeneration Project Revenue Bonds, 2006 Series A, B and C (Bonds) dated October 1, 2006. Series A bonds yield between 4.15% and 4.58% with final maturities from 2016 through 2021. Series B bonds yield between 4.45% and 4.63% with final maturities from 2013 through 2016. Series C bonds yield 5.00% with final maturity in 2021. The Bonds were issued to refund the Agency's 1994 Cogeneration Project Revenue Bonds, Series A and B and to pay EWEB a portion of outstanding preferred equity (See Note 6). The Bonds are non-recourse and are special, limited obligations of the Agency, and are collateralized solely by a pledge and assignment of the trust estate under the Indenture. The ability of the Agency to pay related principal and interest payments associated with the Bonds is contingent upon successful operation of the Project. A special redemption clause requires that excess amounts in the General Fund be transferred to the Redemption Account for the Series C bonds. Special redemption of the Series C bonds is mandatory if, but only if and only to the extent, funds are available to be transferred to the Redemption Account for such purposes. On January 2, 2008, the Agency redeemed \$1,195,000 of the Series C bonds as outlined in the official statement. The bonds were called at a redemption price equal to 100 percent of the principal amount plus interest accrued and unpaid through the date of redemption.

**WESTERN GENERATION AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 5 - Long-Term Debt (Continued)

The following is a summary of long-term debt transactions:

Cogeneration Project Revenue Bonds	Principal			Outstanding December 31, 2008
	Outstanding January 1, 2008	Issued	Matured During Year	
2006 Series A, interest rates ranging from 4.15% to 4.58%; original issue of \$20,575,000; maturing through 2021	\$ 20,575,000	\$ -	\$ -	\$ 20,575,000
2006 Series B, interest rates ranging from 4.45% to 4.63%; original issue of \$23,390,000; maturing through 2016	23,390,000	-	2,215,000	21,175,000
2006 Series C, interest rate of 5.0%, original issue of \$11,600,000; maturing through 2021	11,495,000	-	1,780,000	9,715,000
	55,460,000	\$ -	\$ 3,995,000	51,465,000
Unamortized premium	1,437,011			1,300,707
Unamortized loss on refunding	(1,169,861)			(1,079,872)
Total debt	55,727,150			51,685,835
Less: Current portion	2,800,000			2,880,000
Long-term debt	\$ 52,927,150			\$ 48,805,835

The future annual requirements for bond payments, principal and interest, are as follows:

	Series 2006A		Series 2006B		Series 2006C	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ -	\$ 1,028,750	\$ 2,330,000	\$ 1,000,500	\$ 550,000	\$ 433,875
2010	-	1,028,750	2,500,000	879,750	575,000	370,000
2011	-	1,028,750	2,690,000	750,000	605,000	345,375
2012	-	1,028,750	2,885,000	610,625	635,000	319,500
2013	-	1,028,750	2,855,000	467,125	665,000	292,375
2014-2018	9,355,000	4,462,125	7,915,000	480,625	3,865,000	1,005,750
2019-2021	11,220,000	865,750	-	-	2,820,000	180,000
	\$ 20,575,000	\$ 10,471,625	\$ 21,175,000	\$ 4,188,625	\$ 9,715,000	\$ 2,946,875

**WESTERN GENERATION AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 5 - Long-Term Debt (Continued)

The carrying amount and fair value of the bonds outstanding as of December 31, 2008 are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
2006 Series A, B and C	<u>\$ 51,685,835</u>	<u>\$ 42,240,992</u>

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Agency must comply. The principal and interest requirements are reflected in the supplementary schedule, "Long-Term Bonded Debt and Interest Payment Requirements (Including Current Portion)." To comply with sinking fund deposit requirements, the Agency deposits monthly one-twelfth of the annual deposit requirement with the trustee, less accumulated interest. The interest payments are made semi-annually on January 1 and July 1, and principal payments on January 1.

Note 6 - Related Party Transactions

Eugene Water & Electric Board - EWEB, pursuant to the Intergovernmental Agency Agreement and an agreement between EWEB and the Agency (Equity Contribution Agreement), contributed equity during the construction of the Project in the amount of \$15.1 million. Pursuant to the Indenture of Trust, EWEB's equity contribution will be repaid from the revenue of the Project, including a preferred dividend at 7.875% per annum, compounded semi-annually, with unpaid interest amounts accruing interest at 7.875%, subject to the flow of funds as outlined in the Indenture, and payable over the life of an Agreement with EWEB (25 years).

**WESTERN GENERATION AGENCY
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Related Party Transactions (Continued)

The equity accounts for Clatskanie and EWEB are as follows:

	<u>Eugene Water & Electric Board</u>		<u>Clatskanie People's Utility District</u>	<u>Totals</u>
	<u>Preferred Equity</u>	<u>Capital</u>	<u>Capital</u>	
BALANCE, December 31, 2006	\$ 2,150,987	\$ (4,716,996)	\$ (4,716,996)	\$ (7,283,005)
Preferred equity distributions	-	-	-	-
Other equity distributions	-	(200,000)	(200,000)	(400,000)
Income allocated to partners	-	1,174,816	1,174,817	2,349,633
	<u>2,150,987</u>	<u>(3,742,180)</u>	<u>(3,742,179)</u>	<u>(5,333,372)</u>
BALANCE, December 31, 2007	2,150,987	(3,742,180)	(3,742,179)	(5,333,372)
Preferred equity distributions	-	-	-	-
Other equity distributions	-	(400,000)	(400,000)	(800,000)
Income allocated to partners	-	626,373	626,373	1,252,746
	<u>-</u>	<u>626,373</u>	<u>626,373</u>	<u>1,252,746</u>
BALANCE, December 31, 2008	<u>\$ 2,150,987</u>	<u>\$ (3,515,807)</u>	<u>\$ (3,515,806)</u>	<u>\$ (4,880,626)</u>

Georgia Pacific - Georgia Pacific owns and operates an existing pulp and paper manufacturing facility located in Wauna, Oregon.

Georgia Pacific has entered into agreements with the Agency (the Project Agreements), whereby Georgia Pacific is supplying steam to the STG for a period of 25 years beginning April 6, 1996 (Fuel Supply and Steam Sale Agreement). Georgia Pacific is leasing the site to the Agency on which the STG and FBB are located, and is providing FBB operating labor as well as maintaining the FBB at no expense to the Agency for a period of 25 years (Lease Agreement) (See Note 7).

During 2008 and 2007, the Agency incurred expenses payable to Georgia Pacific for operating and maintaining the STG and for supplying steam. Payments for steam, Steam Efficiency Payments, are on a predetermined dollars-per-MMBtu basis in accordance with the Fuel Supply and Steam Sale Agreement. The full amount of Production and Steam Efficiency Payments listed on the statements of revenues, expenses, and changes in net assets were billed to the Agency by Georgia Pacific.

WESTERN GENERATION AGENCY NOTES TO FINANCIAL STATEMENTS

Note 7 - Commitments

The Agency has entered into a series of agreements to facilitate development, construction and operation of the Project. These agreements are as follows:

Indenture of trust - The Agency has pledged all of its rights, title and interest in the Project, including all leasehold improvements, all Project revenue and Project agreements to the BNY Western Trust Company (Trustee).

The Trustee's responsibilities include managing all investments of the Agency in accordance with the terms of the Indenture, and the disbursement of funds during and after construction of the Project in accordance with the terms of the Indenture.

Lease agreement - The lease agreement between the Agency and Georgia Pacific is for the lease of the site, adjacent to the Wauna Pulp and Paper Mill, where the Project is located. The lease term runs from December 31, 1996 for a period of 25 years. The lease payment represents all insurance, taxes, assessments and fees relating to the leased land and is the obligation of the Agency. Upon termination of the lease, the Agency may be required, at the sole discretion of Georgia Pacific, to restore the land to its original condition. Additionally, during the term of the lease, the lease requires Georgia Pacific to operate the FBB and to supply fuel to the FBB at no cost to the Agency.

Fuel Supply and Steam Sale Agreement - The Agreement between the Agency and Georgia Pacific is for a term of 25 years through July 1, 2021. The Agreement requires Georgia Pacific to supply steam to the STG in sufficient quantities that allow the STG to generate electric energy and to be compensated for the supply of steam as indicated in the Agreement. The Agreement also allows for compensation to be paid to Georgia Pacific for certain costs of fuel and electricity supplied for the generation of steam to be supplied to the STG, as indicated in the Agreement. This obligation to furnish steam to the STG is conditioned upon the continued operation of the Wauna Mill. Pursuant to the Steam Sales Agreement, Georgia Pacific is only obligated to provide any amount of steam necessary to meet the then-current steam requirements of the Wauna Mill, if any.

Note 7 - Commitments (Continued)

Power Purchase Agreements - The Power Purchase Agreement between the Agency and EWEB will remain in effect for a period of 25 years from the Commercial Operation Date of the Project. Commercial operations commenced on April 6, 1996. The agreement requires EWEB to purchase Project output in an amount not to exceed 231,637 MWh annually. In the event Project output exceeds this amount, EWEB will notify the Agency of the prevailing fair market price for such excess output and, if the Agency agrees to accept the prevailing fair market price or if the parties agree to another price, EWEB may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can elect not to generate the excess output.

EWEB has agreed to suspend its Power Purchase Agreement in favor of a Power Purchase Agreement between the Agency and the BPA. The BPA Power Purchase Agreement will be in effect for a period of 20 years from the Commercial Operation Date of the Project. The BPA agreement requires the purchase of Project output not to exceed 236,000 MWh annually. In the event Project output exceeds this amount, the Agency will notify the BPA of the expected excess output and a proposed price, not to exceed the agreed upon price of the BPA's annual purchase commitment. If the Agency and the BPA agree upon the proposed price or another price, the BPA may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can sell the excess output to EWEB under a transmission agreement with the BPA.

SUPPLEMENTAL INFORMATION

**WESTERN GENERATION AGENCY
LONG-TERM BONDED DEBT AND INTEREST PAYMENT
REQUIREMENTS (INCLUDING CURRENT PORTION)
YEAR ENDED DECEMBER 31, 2008**

	Series A		Series B		Series C		Totals		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Totals
2009	\$ -	\$ 1,028,750	\$ 2,330,000	\$ 1,000,500	\$ 550,000	\$ 433,875	\$ 2,880,000	\$ 2,463,125	\$ 5,343,125
2010	-	1,028,750	2,500,000	879,750	575,000	370,000	3,075,000	2,278,500	5,353,500
2011	-	1,028,750	2,690,000	750,000	605,000	345,375	3,295,000	2,124,125	5,419,125
2012	-	1,028,750	2,885,000	610,625	635,000	319,500	3,520,000	1,958,875	5,478,875
2013	-	1,028,750	2,855,000	467,125	665,000	292,375	3,520,000	1,788,250	5,308,250
2014	-	1,028,750	3,305,000	313,125	700,000	263,875	4,005,000	1,605,750	5,610,750
2015	-	1,028,750	3,565,000	141,375	735,000	234,000	4,300,000	1,404,125	5,704,125
2016	2,785,000	959,125	1,045,000	26,125	770,000	202,750	4,600,000	1,188,000	5,788,000
2017	3,385,000	804,875	-	-	810,000	169,875	4,195,000	974,750	5,169,750
2018	3,185,000	640,625	-	-	850,000	135,250	4,035,000	775,875	4,810,875
2019	3,500,000	473,500	-	-	895,000	98,875	4,395,000	572,375	4,967,375
2020	3,735,000	292,625	-	-	940,000	60,625	4,675,000	353,250	5,028,250
2021	3,985,000	99,625	-	-	985,000	20,500	4,970,000	120,125	5,090,125
2022	-	-	-	-	-	-	-	-	-
	20,575,000	10,471,625	21,175,000	4,188,625	9,715,000	2,946,875	51,465,000	17,607,125	69,072,125
Less current	-	1,028,750	2,330,000	1,000,500	550,000	433,875	2,880,000	2,463,125	5,343,125
	<u>\$ 20,575,000</u>	<u>\$ 9,442,875</u>	<u>\$ 18,845,000</u>	<u>\$ 3,188,125</u>	<u>\$ 9,165,000</u>	<u>\$ 2,513,000</u>	<u>\$ 48,585,000</u>	<u>\$ 15,144,000</u>	<u>\$ 63,729,000</u>

AUDIT COMMENTS

(DISCLOSURES AND COMMENTS REQUIRED BY STATE REGULATIONS)

Oregon Administrative Rules 162-10-050 through 162-10-320, the *Minimum Standards for Audits of Oregon Municipal Corporations* prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
WESTERN GENERATION AGENCY'S COMPLIANCE AND CERTAIN ITEMS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH OREGON AUDITING STANDARDS**

To the Board of Directors
Western Generation Agency

We have audited the accompanying financial statements of Western Generation Agency (Agency) as of and for the year ended December 31, 2008 and have issued our report thereon dated March 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal controls that might be a significant deficiency or material weaknesses. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. All other matters are listed in our Letter of Required Communications dated March 18, 2009.

This report is intended for the information and use of management, Board of Directors and the Secretary of State, Division of Audits, of the State of Oregon. However, this report is a matter of public record and its distribution is not limited.



Moss Adams LLP
March 18, 2009



Trent Martin
A Partner of Moss Adams LLP