

---

# **WESTERN GENERATION AGENCY**

**Wauna Cogeneration Project**

**Third Quarter Financial Statements – September 30, 2007**

WESTERN GENERATION AGENCY  
WAUNA COGENERATION PROJECT

FINANCIAL STATEMENTS

---

The following financial statements represent the financial position of the Western Generation Agency (the "Agency") as of September 30, 2007, and the changes in its financial position and its cash flows for the three months and nine months then ended.

The Western Generation Agency has implemented a system of internal accounting procedures and controls to meet its responsibility for the integrity and objectivity of its financial statements related to the Wauna Cogeneration Project (the "Project"). The following financial statements have been prepared in conformity to generally accepted accounting principles for utilities and reflect, in the opinion of the Agency, a fair statement of the Agency's financial condition through the third quarter of 2007.

*Debbie Throop*

---

Debbie Throop, Treasurer  
Western Generation Agency  
November 27, 2007

**WESTERN GENERATION AGENCY  
BALANCE SHEETS  
SEPTEMBER 30, 2007 and 2006**

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>	<u>DIFFERENCE</u>
<i>CURRENT ASSETS</i>			
Cash and Cash Equivalents	\$ 4,009,910.44	\$ 1,627,327.11	\$ 2,382,583.33
Receivable	680,857.92	649,170.57	31,687.35
Prepaid Expenses	133,904.97	121,325.99	12,578.98
Investments for Debt Service-Restricted	1,868,347.71	2,508,610.40	(640,262.69)
EWEB Equity Return Fund-Restricted	-	1,174,218.41	(1,174,218.41)
Preliminary Investigation	-	273,605.70	(273,605.70)
<b>TOTAL CURRENT ASSETS</b>	<b>6,693,021.04</b>	<b>6,354,258.18</b>	<b>338,762.86</b>
<i>RESTRICTED CASH AND INVESTMENTS</i>			
Debt Service Reserve -Series A and B	4,965,173.00	5,534,138.88	(568,965.88)
Debt Service Reserve -Series C	492,156.68	-	492,156.68
Maintenance Fund	560,265.27	927,912.51	(367,647.24)
<b>TOTAL RESTRICTED CASH AND INVESTMENTS</b>	<b>6,017,594.95</b>	<b>6,462,051.39</b>	<b>(444,456.44)</b>
<i>PROPERTY, PLANT &amp; EQUIPMENT</i>			
Plant in Service	67,350,057.09	67,350,057.09	-
LESS: Accumulative Depreciation	(30,936,102.00)	(28,242,102.00)	(2,694,000.00)
<b>TOTAL PROPERTY, PLANT &amp; EQUIPMENT</b>	<b>36,413,955.09</b>	<b>39,107,955.09</b>	<b>(2,694,000.00)</b>
<i>UNAMORTIZED BOND COSTS, NET</i>	2,124,457.59	665,772.12	1,458,685.47
<b>TOTAL ASSETS</b>	<b>\$ 51,249,028.67</b>	<b>\$ 52,590,036.78</b>	<b>\$ (1,341,008.11)</b>
<u>LIABILITIES &amp; NET ASSETS</u>			
<i>CURRENT LIABILITIES</i>			
Accounts Payable	\$ 592,860.29	\$ 583,840.74	\$ 9,019.55
Accrued Property Taxes	47,335.11	46,436.76	898.35
Accrued Interest	696,784.95	921,037.35	(224,252.40)
Preferred Dividend Payable	158,136.08	758,248.80	(600,112.72)
Bonds Payable, Current Portion	2,800,000.00	2,200,000.00	600,000.00
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,295,116.43</b>	<b>4,509,563.65</b>	<b>(214,447.22)</b>
<i>LONG TERM DEBT</i>	52,938,728.11	43,678,567.88	9,260,160.23
<b>TOTAL LIABILITIES</b>	<b>57,233,844.54</b>	<b>48,188,131.53</b>	<b>9,045,713.01</b>
<i>NET ASSETS</i>			
Invested in Capital Assets, Net of Related Debt	(19,324,773.02)	(6,770,612.79)	(12,554,160.23)
Restricted For:			
Debt Service	7,325,677.39	8,042,749.28	(717,071.89)
Major Maintenance	560,265.27	927,912.51	(367,647.24)
Equity Return - EWEB	-	1,174,218.41	(1,174,218.41)
Unrestricted	5,454,014.49	1,027,637.84	4,426,376.65
<b>TOTAL NET ASSETS</b>	<b>(5,984,815.87)</b>	<b>4,401,905.25</b>	<b>(10,386,721.12)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 51,249,028.67</b>	<b>\$ 52,590,036.78</b>	<b>\$ (1,341,008.11)</b>

**WESTERN GENERATION AGENCY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007**  
**AND NINE MONTHS ENDED SEPTEMBER 30, 2006**

	<u>2007</u> <u>3RD QTR AMOUNT</u>	<u>2007</u> <u>Y-T-D AMOUNT</u>	<u>2006</u> <u>Y-T-D AMOUNT</u>	<u>Y-T-D</u> <u>DIFFERENCE</u>
<b><u>OPERATING REVENUES</u></b>				
Power Sales	\$ 1,443,812.00	\$ 6,879,764.27	\$ 6,632,027.39	\$ 247,736.88
<b><u>OPERATING EXPENSES</u></b>				
Operators Fee and Other Production Expense	30,672.00	92,016.00	88,479.00	3,537.00
Fuel Expense	-	144,416.00	146,372.00	(1,956.00)
Electricity Expense	242,629.00	728,995.00	720,056.00	8,939.00
Administrative Expense	6,952.04	28,936.82	48,315.10	(19,378.28)
Professional Services	-	6,073.70	6,217.22	(143.52)
Insurance Expense	56,435.03	183,180.51	171,966.75	11,213.76
General Expense	-	17,796.00	19,240.00	(1,444.00)
Depreciation Expense	673,500.00	2,020,500.00	2,020,500.00	-
Property Taxes Expense	47,335.11	142,005.32	139,310.23	2,695.09
Steam Efficiency Payment	75,921.25	291,773.25	471,847.30	(180,074.05)
<b>TOTAL OPERATING EXPENSES</b>	<u>1,133,444.43</u>	<u>3,655,692.60</u>	<u>3,832,303.60</u>	<u>(176,611.00)</u>
<b>INCOME FROM OPERATIONS</b>	<u>310,367.57</u>	<u>3,224,071.67</u>	<u>2,799,723.79</u>	<u>424,347.88</u>
<b><u>OTHER INCOME</u></b>				
Investment Earnings	157,689.30	393,113.44	362,727.87	30,385.57
<b><u>OTHER EXPENSES</u></b>				
Interest Expense and Related Amortization	729,473.25	2,188,419.89	2,648,083.48	(459,663.59)
Interest Expense on Cumulative Preferred Dividend	2,303.82	3,535.02	76,956.09	(73,421.07)
<b>TOTAL OTHER EXPENSES</b>	<u>731,777.07</u>	<u>2,191,954.91</u>	<u>2,725,039.57</u>	<u>(502,699.09)</u>
<b>NET INCOME (LOSS) BEFORE CUMULATIVE PREFERRED DIVIDEND</b>	(263,720.20)	1,425,230.20	437,412.09	987,818.11
Cumulative Preferred Dividend	42,347.52	127,042.56	758,248.80	(631,206.24)
<b>NET INCOME (LOSS)</b>	<u>\$ (306,067.72)</u>	<u>1,298,187.64</u>	<u>(320,836.71)</u>	<u>1,619,024.35</u>
<b>Total Net Assets at beginning of Year</b>		(7,283,003.51)	4,936,030.79	(12,219,034.30)
Distributions		-	-	-
Preferred Equity Distributions		-	(213,288.83)	213,288.83
<b>TOTAL NET ASSETS</b>		<u>\$ (5,984,815.87)</u>	<u>\$ 4,401,905.25</u>	<u>\$ (10,386,721.12)</u>

**WESTERN GENERATION AGENCY  
STATEMENTS OF CHANGES IN FUND NET ASSETS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007  
AND THE YEAR ENDED DECEMBER 31, 2006**

	<u>Eugene Water &amp; Electric Board</u>		<u>Clatskanie People's Utility District Capital</u>	<u>Totals</u>
	<u>Preferred Equity</u>	<u>Capital</u>		
Balance as of December 31, 2005	\$ 12,517,581.91	\$ (3,790,775.56)	\$ (3,790,775.56)	\$ 4,936,030.79
Preferred Equity Distributions	(10,366,596.97)	-	-	(10,366,596.97)
Partners Distributions	-	(200,000.00)	(200,000.00)	(400,000.00)
Income	-	(726,218.67)	(726,218.67)	(1,452,437.33)
Balance as of December 31, 2006	2,150,984.94	(4,716,994.23)	(4,716,994.23)	(7,283,003.51)
Preferred Equity Distributions	-	-	-	-
Partners Distributions	-	-	-	-
Income	-	649,093.82	649,093.82	1,298,187.64
Balance at September 30, 2007	<u>\$ 2,150,984.94</u>	<u>\$ (4,067,900.41)</u>	<u>\$ (4,067,900.41)</u>	<u>\$ (5,984,815.87)</u>

**WESTERN GENERATION AGENCY  
STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<u>Cash Flows from Operating Activities</u>		
Receipts from BPA	\$ 8,167,003.90	\$ 7,797,754.81
Payments to Georgia Pacific	(965,427.00)	(1,204,509.70)
Payment for Administrative and General Cost	(858,798.13)	(473,139.17)
Net cash provided by operating activities	<u>6,342,778.77</u>	<u>6,120,105.94</u>
<u>Cash Flows from Investing Activities</u>		
Net Redemption of Investments	(961,632.19)	705,604.60
Interest Received on Investments	359,752.44	360,562.87
Net cash provided by (used in) investing activities	<u>(601,879.75)</u>	<u>1,066,167.47</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Interest Payments on Bonds	(1,888,128.47)	(3,448,825.00)
Bond Principal Payments	(105,000.00)	(2,000,000.00)
Preferred Equity Dividends and Interest	-	(568,111.17)
Preferred Equity Distribution	-	(213,288.83)
Partners Distribution	-	-
Net cash used in capital and related financing	<u>(1,993,128.47)</u>	<u>(6,230,225.00)</u>
Net increase in cash and cash equivalents	3,747,770.55	956,048.41
Cash and cash equivalents at beginning of period	262,139.89	671,278.70
Cash and cash equivalents at end of period	<u>\$ 4,009,910.44</u>	<u>\$ 1,627,327.11</u>
Reconciliation of operating income to net cash provided by operating activities:		
Net Operating Revenue	\$ 3,224,071.67	\$ 2,799,723.79
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,020,500.00	2,020,500.00
(Increase) decrease in assets:		
Receivable	1,287,239.63	1,165,727.42
Prepayments and current assets	41,649.22	5,538.40
Increase (decrease) in liabilities:		
Accounts Payable	(278,016.86)	82,179.57
Property Tax	47,335.11	46,436.76
Net cash provided by operating activities	<u>\$ 6,342,778.77</u>	<u>\$ 6,120,105.94</u>

# **WESTERN GENERATION AGENCY**

## ***WAUNA COGENERATION PROJECT***

---

---

### ***Management Discussion of Operations***

---

**July 1, 2007 to September 30, 2007**

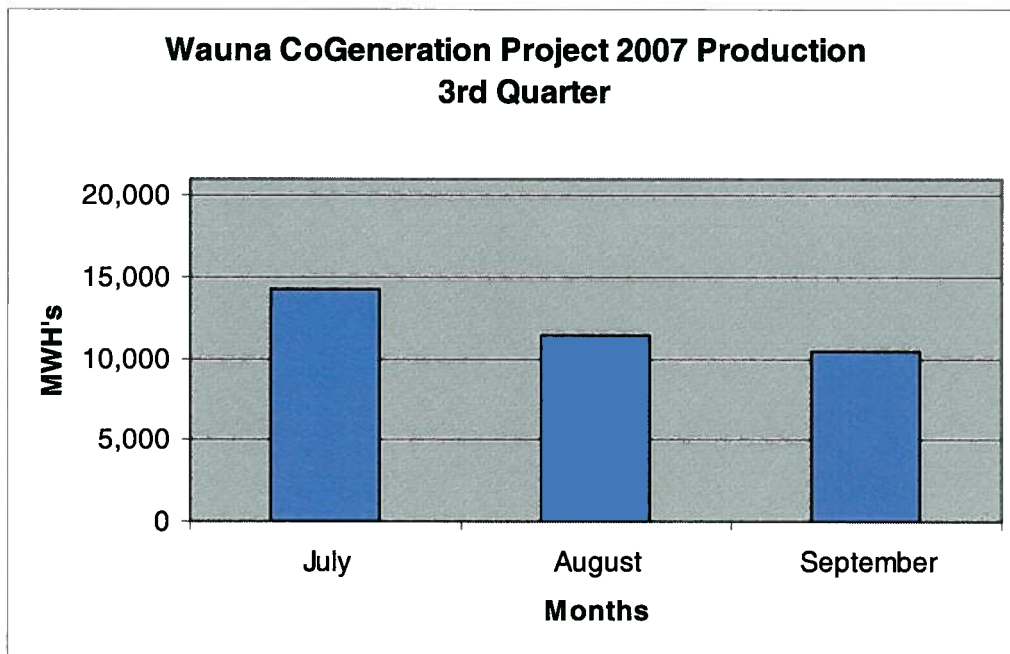
**WESTERN GENERATION AGENCY  
WAUNA COGENERATION PROJECT**

**MANAGEMENT DISCUSSION OF OPERATIONS**

---

The following discussion will provide an overview of the operation of the Wauna Cogeneration Project (Project) between July 1, 2007 and September 30, 2007.

**Steam Turbine Generator.** The Project continued to operate through the third quarter of 2007. Bonneville Power Administration (Bonneville) did not displace the Project at any time during this quarter.



The Project produced and Bonneville purchased 36,157 Megawatt hours (MWhrs) of electricity in the third quarter. Second quarter production during 2006 was 26,400 MWhrs (low due to forced outage and resultant inspection and repair). Looking back to third quarter 2005, production was 41,652 MWhrs.

The drop in production is due to Georgia-Pacific's (GP) decision to shutdown and mothball Paper Machine No. 4 last August, which has resulted in a reduced total mill steam demand. However GP is currently finishing construction on a new through-air-dried (TAD) paper machine. Total GP investment for the machine, building and related equipment is nearly \$200 million. Steam load for this machine (tentatively labeled Paper Machine No. 7) is expected to be less than that required to operate the mothballed No. 4 machine. Startup of the new machine is expected by the end of the 4<sup>th</sup> quarter, 2007.

Availability for the quarter was 99.5 %. In comparison, the North American Reliability Council (NERC) reports an average availability of 90.80 % for similar operating steam turbine-generators.

***Fluidized Bed Boiler (FBB).*** The fluidized bed boiler continues to operate successfully. Under the terms of the Project agreements, all operation and maintenance expenses for the boiler are the responsibility of Georgia Pacific.

***Future Expected Operation.*** The turbine generator is expected to run continuously through the fourth quarter of 2007.