REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

WESTERN GENERATION AGENCY

December 31, 2017 and 2016

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Report of Independent Auditors

To the Board of Directors
Western Generation Agency

Report on Financial Statements

We have audited the accompanying financial statements of Western Generation Agency (the Agency), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Generation Agency as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards of Auditors of Oregon Municipal Corporations, we have issued our report dated February 22, 2018, on our consideration of the Agency's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Julie Desimone

Julie Desimone, Partner for Moss Adams LLP
Portland, Oregon
February 22, 2018

This discussion and analysis is presented to provide an overview of Western Generation Agency's (Agency) financial activities for the years ended December 31, 2017, 2016, and 2015. 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), at the Wauna Mill (Mill) currently 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 currently sells the energy from its generation to EWEB for a predetermined price.

Financial Summary and Analysis

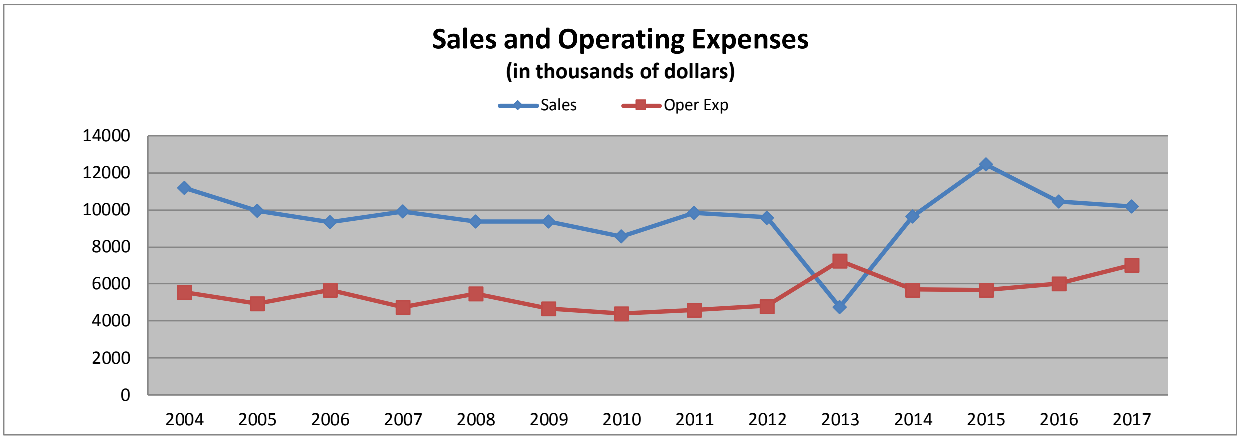
During 2017, the Agency's power sales increased by 4%. The increase in power sales were a result of a small increase in production levels compared to the prior year. Overall, the Agency experienced a net decrease in income of approximately $245,000 for the current year. The primary factors influencing these results include:

- Increase in operating expenses of $1 million due to slightly higher production and maintenance expense totalling approximately $805,000.

Selected Financial Data

(in thousands of dollars)	2017	2016	2015
Power sales	$ 10,171	$ 9,824	$ 10,438
Insurance reimbursement for outage	-	-	2,003
Operating expenses	7,036	6,023	5,658
Operating income	3,135	3,801	6,783
Income (not including distributions to members)	2,339	2,584	5,435
Total assets and deferred outflows	21,409	26,034	31,232
Total liabilities	15,492	21,166	27,809
Net position			
Net investment in capital assets	(5,705)	(6,425)	(9,606)
Restricted	7,791	9,204	8,850
Unrestricted	3,831	2,089	4,178
Total net position	5,917	4,868	3,423
Total liabilities and net position	21,409	26,034	31,232

Power Sales and Operating Expenses



Capital Asset and Long-Term Debt Activity

Utility plant as of December 31, 2017, 2016, and 2015 consisted of the following:

(in thousands of dollars)	2017	2016	2015
Buildings	$ 10,797	$ 10,797	$ 10,797
Equipment	56,553	56,553	56,553
Total utility plant	$ 67,350	$ 67,350	$ 67,350

The Agency had not invested in any additions to plant in 2017, 2016, or 2015; therefore, plant values are consistent with previous years. Utility plant net of depreciation was $9.2 million, $12.0 million, and $14.8 million at the end of those years, respectively.

Total liabilities as of December 31, 2017, 2016, and 2015 consisted of the following:

(in thousands of dollars)	2017	2016	2015
Total current liabilities	$ 4,064	$ 6,483	$ 6,017
Preferred dividend payable, non-current	-	-	1,555
Total long-term debt	11,428	14,682	20,237
Total liabilities	$ 15,492	$ 21,165	$ 27,809

At year-end, the Agency had $11.4 million in long-term debt outstanding as compared to $14.7 million for 2016 and $20.2 million for 2015.

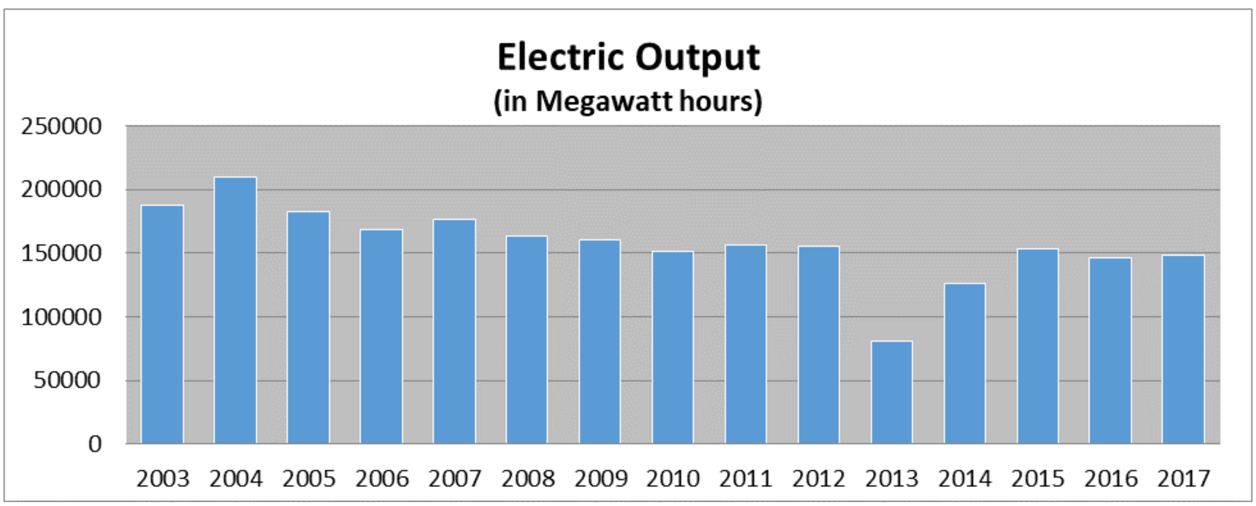
On October 26, 2006, the Agency refunded the 1994 Series A and Series B bonds with a new bond issuance. At the same time, the Agency issued additional bonds to pay off a major portion of the equity contribution from EWEB. The additional bonds were called the "Series C bonds." The Series C bonds were considered "Turbo" bonds and had a fixed debt service schedule as with the other bond issues. However, when the earnings from the Agency were in excess of $400,000, on a semi-annual basis, the remaining earnings were used to pay-off the Series C bonds. In July of 2016, the final outstanding bonds were paid in full from the excess earnings.

When the Series C bonds were fully refunded in July 2016, the remaining EWEB equity of $2,150,987 plus accrued interest was to be amortized over the same period as the remaining bond issues, ending with a final payment on January 1, 2021. In addition, any remaining earnings available after the semi-annual distributions to the members are to be used to pay down the preferred equity.

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. Actual production for 2017 was 148,613 MWh or 1.2% more than 2016 production. Actual production for 2016 was 146,848 MWh or 4.6% less than 2015 production.

Generating Output



Economic Factors

In 2018, generation levels of electricity are budgeted to be 147,000 MWh. This is a slight decrease in the amount of production as compared to the prior year's budget. The 2018 production budget amount includes a scheduled Mill shutdown during the month of May which will result in less steam to the turbine, but normal production levels are anticipated for the rest of the year. The Agency expects the Mill to generally continue operation of the various paper machines in their current configuration.

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 had agreed to suspend its Power Purchase Agreement in favor of a Power Purchase Agreement between the Agency and the Bonneville Power Administration (BPA). The BPA Power Purchase Agreement was in effect for a period of 20 years from the Commercial Operation Date of the Project until it expired on April 5, 2016, at which time EWEB began purchasing the entire output.

Lease Agreement

The Agency leases the land from the Mill on which the Fluidized Bed Boiler (FBB) and steam turbine reside. This lease is scheduled to expire in 2021, at which time the Bonds are scheduled to be paid in full. The lease agreement contains an option for the Mill to buy the electric generation plant at the end of the lease term.

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.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2017	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	$ 1,880,082	$ 805,308
Accounts receivable	1,148,966	1,797,725
Interest receivable	1,664	918
Prepayments and other current assets	198,738	200,464
Total current assets	3,229,450	2,804,415
RESTRICTED CASH AND CASH EQUIVALENTS		
Investments for debt service	3,545,125	3,829,750
Debt service reserve – Series A	4,184,250	4,184,250
EWEB preferred equity reserve	257,300	1,508,387
Maintenance fund	164,772	580,000
Total restricted cash and cash equivalents	8,151,447	10,102,387
UTILITY PLANT		
Utility plant	67,350,057	67,350,057
Less accumulated depreciation	(58,172,402)	(55,348,202)
Net utility plant	9,177,655	12,001,855
OTHER NONCURRENT ASSETS		
Regulatory asset – unamortized bond issue costs	212,953	283,937
Regulatory asset – major maintenance costs	367,865	481,049
Total other noncurrent assets	580,818	764,986
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on bond refunding	269,968	359,957
Total assets and deferred outflows of resources	$ 21,409,338	$ 26,033,600

See accompanying notes.

LIABILITIES AND NET POSITION

	December 31, 2017	December 31, 2016
CURRENT LIABILITIES		
Accounts payable	$ 463,661	$ 475,500
Accrued interest	360,125	898,052
Preferred dividend payable	55,309	1,724,994
Bonds payable, current portion	3,185,000	3,385,000
Total current liabilities	4,064,095	6,483,546
LONG-TERM DEBT, net of current portion	11,427,949	14,682,265
Total liabilities	15,492,044	21,165,811
NET POSITION		
Net investment in capital assets	(5,705,262)	(6,425,367)
Restricted for		
Debt service and reserve	7,369,250	7,115,948
EWEB preferred equity reserve	257,300	1,508,387
Maintenance	164,772	580,000
Unrestricted	3,831,234	2,088,821
Total net position	5,917,294	4,867,789
Total liabilities and net position	$ 21,409,338	$ 26,033,600

See accompanying notes.

	Years Ended December 31, 2017	2016
POWER SALES	$ 10,171,078	$ 9,824,391
OPERATING EXPENSES		
Production	3,178,528	1,955,651
Administrative and general	592,118	536,495
Depreciation	2,824,200	2,824,200
Steam efficiency payment	441,154	706,904
Total operating expenses	7,036,000	6,023,250
OPERATING INCOME	3,135,078	3,801,141
INTEREST ON INVESTMENTS	15,787	10,397
OTHER EXPENSE		
Interest expense and related amortization	811,907	1,227,773
DISTRIBUTIONS AND DIVIDENDS		
Preferred equity dividend	184,857	338,605
Distributions to members	1,104,596	800,000
Total distributions and dividends	1,289,453	1,138,605
CHANGE IN NET POSITION	1,049,505	1,445,160
NET POSITION, beginning of year	4,867,789	3,422,629
NET POSITION, end of year	$ 5,917,294	$ 4,867,789

Western Generation Agency
Statements of Cash Flows

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Bonneville Power Administration and EWEB	$ 10,783,837	$ 9,062,472
Payments to Georgia Pacific	(3,373,855)	(2,514,211)
Payments for administrative and general costs	(698,874)	(625,081)
Net cash from operating activities	6,711,108	5,923,180
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	15,041	9,706
Net cash from investing activities	15,041	9,706
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond principal payments	(3,385,000)	(6,295,000)
Interest payments	(804,876)	(1,101,416)
Preferred equity interest payments	(2,307,843)	(382,254)
Preferred equity distributions	(597,322)	-
Equity distributions	(507,274)	(800,000)
Net cash from capital and related financing activities	(7,602,315)	(8,578,670)
CHANGE IN CASH AND CASH EQUIVALENTS	(876,166)	(2,645,784)
CASH AND CASH EQUIVALENTS, beginning of year	10,907,695	13,553,479
CASH AND CASH EQUIVALENTS, end of year	$ 10,031,529	$ 10,907,695
RECONCILIATION TO BALANCE SHEET		
Cash and cash equivalents	$ 1,880,082	$ 805,308
Restricted cash equivalents	8,151,447	10,102,387
	$ 10,031,529	$ 10,907,695

See accompanying notes.

	Years Ended December 31, 2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 3,135,078	$ 3,801,141
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation on utility plant	2,824,200	2,824,200
Amortization of regulatory asset – major maintenance costs	113,184	113,184
(Increase) decrease in assets		
Accounts receivable	648,759	(735,419)
Prepayments and other current assets	1,726	(2,160)
Increase (decrease) in liabilities		
Accounts payable	(11,839)	(77,766)
Net cash from operating activities	$ 6,711,108	$ 5,923,180

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Organization

Western Generation Agency (the 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 Project is dependent on steam production from the Georgia Pacific manufacturing facility.

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. The Agency has no component units and is not a part of a reporting entity of any other government.

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.

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 and restricted cash and cash equivalents

The Agency considers all highly-liquid investments with original maturities of three months or less when purchased to be cash equivalents (see Note 2). Restricted cash and cash equivalents are related to the bond funds, EWEB's preferred equity, and the maintenance fund.

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue recognition and receivables
The Agency recognizes revenue from power sales to EWEB based on the metered amount of kilowatt hours (Kwh) provided to EWEB each month at the contract rate, pursuant to the Power Purchase Agreement (the Agreement) between EWEB and the Agency. Prior to April 5, 2016, EWEB had agreed to suspend its Power Purchase Agreement in favor of a Power Purchase Agreement between the Agency and the Bonneville Power Administration (BPA). The BPA Power Purchase Agreement was in effect for a period of 20 years from the Commercial Operation Date of the Project until it expired on April 5, 2016. Sales under the Agreements are judged fully collectible by the Agency, therefore, no allowance for doubtful accounts is considered necessary.

In accordance with the Bond Indenture (Indenture), project revenues received, including interest, are restricted and are 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.

Utility plant
Plant facilities are recorded at original cost (see Note 3). 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 are 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 6), 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.

Regulatory assets
The Agency has established regulatory assets for the following items:

- **Unamortized bond issue costs** – Unamortized bond issue costs represent the remaining expense related to various debt issuances. The asset is amortized over the duration of the related debt and recognition of these costs is included in the fixed-contract prices.

- **Major maintenance costs** – Major maintenance costs represent the costs incurred to replace the control board for the Project. The asset is amortized over the remaining life of the lease with Georgia Pacific.

Note 1 – Summary of Significant Accounting Policies (continued)

Net position
Consists of the following components:

- **Net investment in capital assets** – This component of net position consists of (a) capital assets, net of accumulated depreciation, and (b) outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted** – This component consists of net position 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 position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Unamortized bond premiums and loss on refunding
Premiums are capitalized and amortized over the term of the Indenture. Losses on refunding of bond issuances are amortized over the life of the new or old bonds, whichever period is shorter. The unamortized loss on refunding is reported as a deferred outflow of resources on the statements of net position.

Major customer
The Agency has entered into a Power Purchase Agreement with EWEB, to provide power for 25 years from the Commercial Operation Date of the Project. The contract states that the Agency is not to provide more than 231,637 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 2017 were to EWEB. Power sales in 2016 were to EWEB and Bonneville Power Administration (see Note 6).

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

Note 2 – 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** – 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 Revenue Bond and any amounts accumulated for the redemption of the bond.

- **EWEB preferred equity reserve** – Consists of amounts required to be set aside to pay the EWEB preferred equity and accrued interest (see Note 5).

- **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 Reserve or Investments for Debt Service.

Deposits with financial institutions are comprised of 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, 2017:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash and money market accounts	$ 10,031,529	0.00	100.0%

As of December 31, 2016:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash and money market accounts	$ 10,907,695	0.00	100.0%

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

Note 2 – Cash and Investments (continued)

Custodial credit risk is the risk 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.

	2017		
	Restricted Cash and Cash Equivalents	Cash and Cash Equivalents	Total
US Bank Government Money Market Account	$ 8,151,447	$ 1,880,082	$ 10,031,529
	$ 8,151,447	$ 1,880,082	$ 10,031,529
Debt service reserve – Series A & B	$ 4,184,250		
Maintenance fund	164,772		
EWEB preferred equity	257,300		
Investments for debt service	3,545,125		
	$ 8,151,447		

	2016		
	Restricted Cash and Cash Equivalents	Cash and Cash Equivalents	Total
US Bank Government Money Market Account	$ 10,102,387	$ 805,308	$ 10,907,695
	$ 10,102,387	$ 805,308	$ 10,907,695
Debt service reserve – Series A & B	$ 4,184,250		
Maintenance fund	580,000		
EWEB preferred equity	1,508,387		
Investments for debt service	3,829,750		
	$ 10,102,387		

Note 3 – Utility Plant

	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
Fluidized bed boiler				
Buildings	$ 8,202,497	$ -	$ -	$ 8,202,497
Equipment	29,097,226	-	-	29,097,226
Total fluidized bed boiler	37,299,723	-	-	37,299,723
Steam turbine				
Buildings	2,594,912	-	-	2,594,912
Equipment	27,455,422	-	-	27,455,422
Total steam turbine	30,050,334	-	-	30,050,334
Total utility plant	67,350,057	-	-	67,350,057
Accumulated depreciation	(55,348,202)	(2,824,200)	-	(58,172,402)
Net utility plant	$ 12,001,855	$ (2,824,200)	$ -	$ 9,177,655

	Balance at December 31, 2015	Additions	Retirements	Balance at December 31, 2016
Fluidized bed boiler				
Buildings	$ 8,202,497	$ -	$ -	$ 8,202,497
Equipment	29,097,226	-	-	29,097,226
Total fluidized bed boiler	37,299,723	-	-	37,299,723
Steam turbine				
Buildings	2,594,912	-	-	2,594,912
Equipment	27,455,422	-	-	27,455,422
Total steam turbine	30,050,334	-	-	30,050,334
Total plant in service	67,350,057	-	-	67,350,057
Accumulated depreciation	(52,524,002)	(2,824,200)	-	(55,348,202)
Net plant in service	$ 14,826,055	$ (2,824,200)	$ -	$ 12,001,855

Note 4 – 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 2008 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 5). 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. In July of 2016, the Agency redeemed all remaining Series B and C bonds.

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

	Principal			
Cogeneration Project Revenue Bonds	Outstanding January 1, 2017	Issued	Matured During Year	Outstanding December 31, 2017
2006 Series A, interest rates ranging from 4.15% to 4.58%; original issue of $20,575,000; maturing through 2021	$ 17,790,000	$ -	$ 3,385,000	$ 14,405,000
	17,790,000	$ -	$ 3,385,000	14,405,000
Unamortized premium	277,265			207,949
Total debt	18,067,265			14,612,949
Less: current portion	3,385,000			3,185,000
Long-term debt	$ 14,682,265			$ 11,427,949

Note 4 – Long-Term Debt (continued)

	Principal			
Cogeneration Project Revenue Bonds	Outstanding January 1, 2016	Issued	Matured During Year	Outstanding December 31, 2016
2006 Series A, interest rates ranging from 4.15% to 4.58%; original issue of $20,575,000; maturing through 2021	$ 20,575,000	$ -	$ 2,785,000	$ 17,790,000
2006 Series B, interest rates ranging from 4.45% to 4.63%; original issue of $23,390,000; maturing through 2016	1,045,000	-	1,045,000	-
2006 Series C, interest rate of 5.0%; original issue of $11,600,000; maturing through 2021	2,465,000	-	2,465,000	-
	24,085,000	$ -	$ 6,295,000	17,790,000
Unamortized premium	346,581			277,265
Total debt	24,431,581			18,067,265
Less: current portion	4,195,000			3,385,000
Long-term debt	$ 20,236,581			$ 14,682,265

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

	Series 2006A	
	Principal	Interest
2018	$ 3,185,000	$ 640,625
2019	3,500,000	473,500
2020	3,735,000	292,625
2021	3,985,000	99,625
	$ 14,405,000	$ 1,506,375

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Agency must comply. The interest payments are made semi-annually on January 1 and July 1, and principal payments on January 1.

Note 5 – 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. In 2006, $12.1 million of this equity was repaid when the Agency refinanced its bonds. 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).

During the year ended December 31, 2016 the Series C bonds were fully refunded, thus the remaining EWEB equity of $2,150,987 plus accrued interest is to be amortized over the same period as the remaining bond issue, ending with a final payment on January 1, 2021. In addition, any remaining earnings available after the distribution to the members on a semi-annual basis will be used to pay down the equity. A total of $597,322 of preferred equity principal was paid to EWEB during the year ended December 31, 2017. No preferred equity principal payments were made during the year ended December 31, 2016. In addition, $2,307,843 and $382,254 in preferred equity interest was paid to EWEB during the year ended December 31, 2017 and 2016, respectively.

The equity accounts for CPUD and EWEB are as follows:

	Eugene Water & Electric Board		Clatskanie People's Utility District	
	Preferred Equity	Capital	Capital	Totals
BALANCE, December 31, 2015	$ 2,150,987	$ 635,821	$ 635,821	$ 3,422,629
Income allocated to partners*	-	1,122,580	1,122,580	2,245,160
Other equity distributions	-	(400,000)	(400,000)	(800,000)
BALANCE, December 31, 2016	2,150,987	1,358,401	1,358,401	4,867,789
Income allocated to partners*		1,077,051	1,077,051	2,154,101
Other equity distributions	(597,322)	(253,637)	(253,637)	(1,104,596)
BALANCE, December 31, 2017	$ 1,553,665	$ 2,181,815	$ 2,181,815	$ 5,917,294

* Income allocated to partners is the change in net position and preferred equity distribution.

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.

Note 5 – Related Party Transactions (continued)

During 2017 and 2016, 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 Steam Efficiency Payments listed on the statements of revenues, expenses, and changes in net position were billed to the Agency by Georgia Pacific. Payments of $441,154 and $706,904 were made for the year ended December 31, 2017 and 2016, respectively.

Note 6 – 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 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 6 – 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 had 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 was 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. The Power Purchase Agreement expired April 5, 2016, at which time EWEB began purchasing Project output.

Independent Auditor's Comments

Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Oregon Audit Standards*

To the Board of Directors
Western Generation Agency

We have audited the accompanying financial statements of Western Generation Agency (the Agency) as of and for the year ended December 31, 2017 and have issued our report thereon dated February 22, 2018. 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 Auditors 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 from material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from 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) 162-010-000 to 162-010-330, 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.

The results of our tests disclosed no matters of noncompliance with those provisions that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Agency'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 Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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 by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

This report is intended solely for the information and use of the Agency's management, the Board of Directors, and the Secretary of State, Division of Audits of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.

Julie Desimone, Partner for Moss Adams LLP
Portland, Oregon
February 22, 2018

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