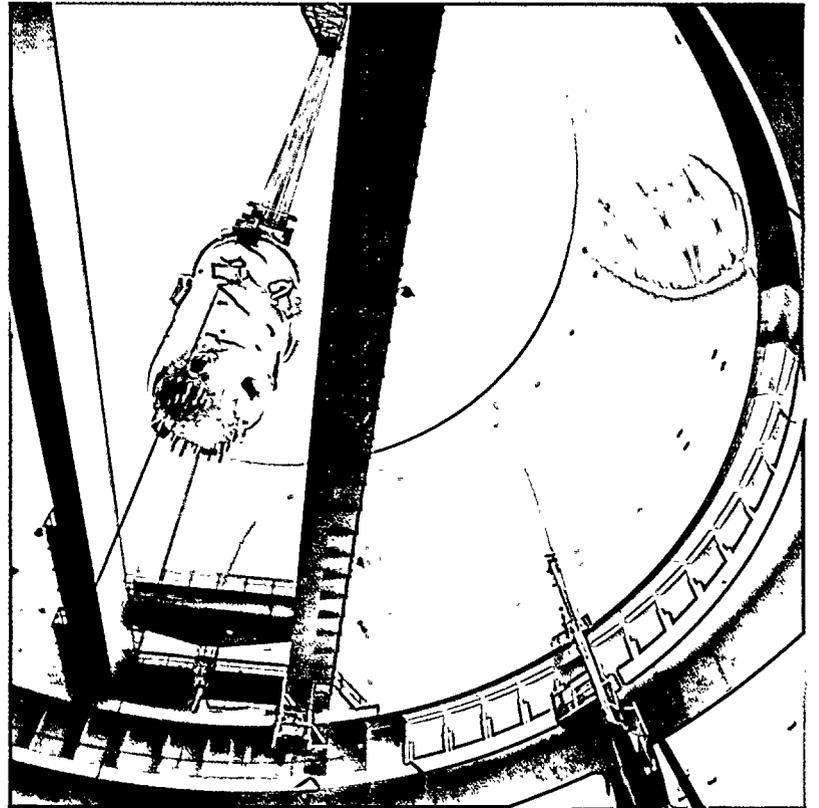


SEPTEMBER 27, 1981

QUARTERLY REPORT



WASHINGTON PUBLIC POWER
SUPPLY SYSTEM

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WASHINGTON PUBLIC POWER
SUPPLY SYSTEM

3040 GEORGE WASHINGTON WAY
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QUARTERLY REPORT

Copies of the Supply System Annual Report and additional copies of this report may be obtained by writing to:

Public Affairs & Information
Washington Public Power Supply System
P.O. Box 966, Richland, Washington 99352

**BALANCE
SHEETS
(Unaudited)**

SEPTEMBER 27, 1981

Current Assets—Operating Fund	\$6,770	\$39,868	\$8,208	\$54,846
Restricted Assets:				
Special Funds	3,665	1,051,366		1,055,031
Debt Service Funds	4,966	797,759		802,725
	<u>8,631</u>	<u>1,849,125</u>		<u>1,857,756</u>
Utility Plant Equipment:				
In-Service (net)	41,892	8,874	4,960	55,726
Construction Work in Progress		5,742,511		5,742,511
	<u>41,892</u>	<u>5,751,385</u>	<u>4,960</u>	<u>5,798,237</u>
Other Assets & Deferred Charges	4,515	23,835	870	29,220
	<u>\$61,808</u>	<u>\$7,664,213</u>	<u>\$14,038</u>	<u>\$7,740,059</u>
LIABILITIES				
Current Liabilities—Operating Fund	\$3,155	\$33,868	\$8,020	\$45,043
Liabilities—Payable from Restricted Assets:				
Special Funds	885	391,512		392,397
Debt Service Funds	407	158,393		158,800
	<u>1,292</u>	<u>549,905</u>		<u>551,197</u>
Long-Term Debt	53,916	6,628,973		6,682,889
Other Liabilities & Deferred Credits	3,445	451,467	6,018	460,930
	<u>\$61,808</u>	<u>\$7,664,213</u>	<u>\$14,038</u>	<u>\$7,740,059</u>

**STATEMENTS
OF SOURCE
AND USE
OF FUNDS
(Unaudited)**

**FISCAL THREE
MONTHS ENDED
SEPTEMBER 27, 1981**

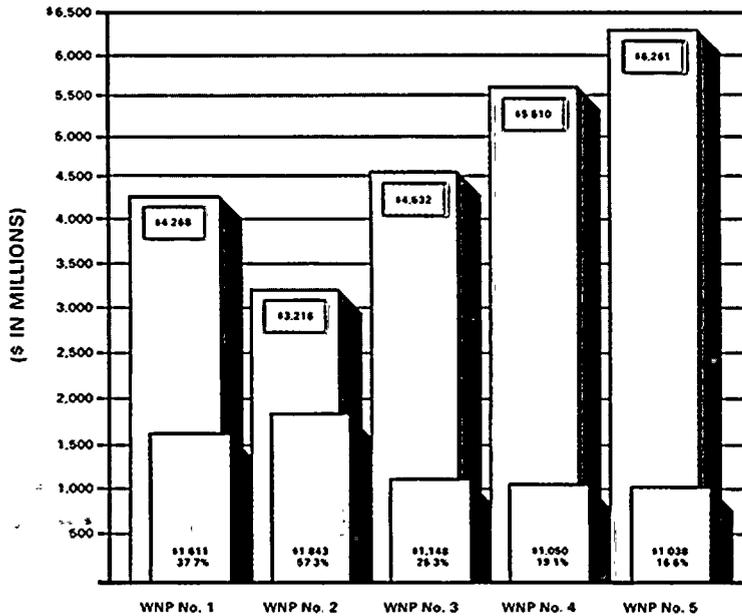
(\$ IN THOUSANDS)	Operating Projects Hanford & Packwood	Construction Nuclear Projects Nos. 1, 2, 3 & 4/5	Internal Service Fund	Combined
SOURCE OF FUNDS				
Operating Receipts	\$13,182			\$13,182
Collections Under Net Billing		\$53,802		53,802
Bond Proceeds		666,958		666,958
Interest Income	542	37,673		38,215
Charged to Joint Owners		33,501		33,501
Decrease in Restricted Funds	2,437	59,471		61,908
Net Change in Operating Fund	(320)	422	(42)	60
Other	2		295	297
	<u>\$15,843</u>	<u>\$851,827</u>	<u>\$253</u>	<u>\$867,923</u>
USE OF FUNDS				
Operating Expenses	\$11,990			\$11,990
Construction Costs		\$366,498		366,498
Interest Expense	468	119,940		120,408
Nuclear Fuel		18,350		18,350
Financing Expense		345		345
Increase in Restricted Funds	243	342,961		343,204
Revaluation of Investments	182	(718)		(536)
Other	2,960	4,451	\$253	7,664
	<u>\$15,843</u>	<u>\$851,827</u>	<u>\$253</u>	<u>\$867,923</u>

The Washington Public Power Supply System was organized in 1957 as a municipal corporation and joint operating agency of the State of Washington. Its membership consists of 19 public utility districts and 4 municipalities which own and operate electric systems within the State of Washington. It is empowered to acquire, construct and operate facilities for the generation and transmission of electric power and energy.

PROJECT COSTS

WNP Nos. 1-5

□ TOTAL FUNDING REQUIREMENTS 1982 BUDGET
□ CUMULATIVE COSTS

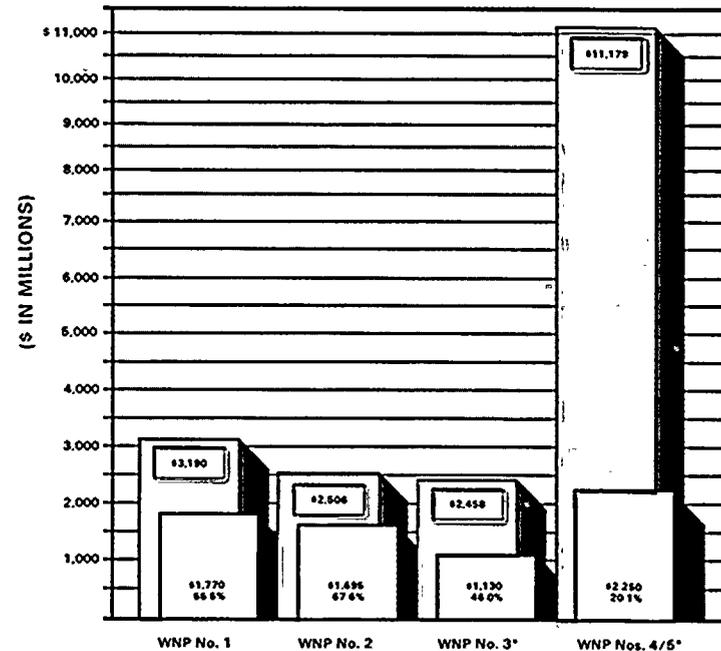


FUNDING REQUIREMENTS

WNP Nos. 1-5

□ SUPPLY SYSTEM FUNDING REQUIREMENTS 1982 BUDGET
□ FUNDED TO-DATE

*SUPPLY SYSTEM OWNERSHIP SHARE: WNP No. 3, 70%
WNP No. 5, 90%



STATUS OF CONSTRUCTION

	Plant Size (MWe)	Date of Scheduled Commercial Operation*	% Construction Completed	
			Quarter Ended Sept. 27, 1981	Cumulative Sept. 27, 1981
Nuclear Project No. 1	1250	June 1986	5.5	46.9
Nuclear Project No. 2	1100	February 1984	.	.
Nuclear Project No. 3	1240	December 1986	4.8	36.8
Nuclear Project No. 4	1250	June 1987	1.0	24.0
Nuclear Project No. 5	1240	December 1987	.9	15.8

*WNP-2 is in the system's completion phase—the last 15% of the project.

SUMMARY

(\$ IN THOUSANDS)

ASSETS

Operating Projects Hanford & Packwood	Construction Nuclear Projects Nos. 1, 2, 3 & 4/5	Internal Service Fund	Combined
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Managing Director's Comments

WNP-4/5 MOTHBALL DECISION

On September 18, the Governors' Blue Ribbon Panel released the results of its study on WNP-4 and 5. Their recommendation, which the Board of Directors adopted at its October 23 meeting, puts the projects in a preservation mode until at least June 30, 1983. By the end of this period, the WNP-4 and 5 study mandated by the Washington State Legislature will have been completed. Also, the Regional Power Council will have finished its plan and will be in a position to consider whether or not to recommend Bonneville's acquisition of power from WNP-4 and 5.

The plan to preserve the projects involves participation by the 88 participants in the projects, three investor-owned utilities and the region's direct service industries. The participants agreed to pay \$91 million of the \$150 million cost to defer construction as well as 100 percent of the interest during construction beginning March 1, 1983. The three investor owned utilities—Puget Sound Power & Light, Washington Water Power Co. and Pacific Power & Light Co.—agreed to pay \$29.5 million. The remaining \$29.5 million will come from the region's direct service industries.

The immediate and orderly shutdown of Projects 4 and 5 is being implemented. In addition, the Supply System has taken the following steps to preserve the assets of the projects at the least possible cost:

- Ordered a two-month hiring freeze, except for jobs critical to the completion of WNP-1, 2 and 3.
- Implemented a reduction in force of approximately 344 Supply System employees. This reduction will cut the Supply System's salary cost by nearly \$9 million annually.
- Directed a re-evaluation of impact payments to school districts based on construction of three plants rather than five.

These steps reflect the transformation of an organization constructing five nuclear power generating plants to one that is now constructing three.

Both the region and the Supply System have demonstrated their commitment to providing for the energy needs of the Northwest. In a sense, the \$150 million needed to preserve WNP-4 and 5 is similar to an insurance premium—one that guarantees that the assets are there if needed in the future. The agreement to preserve WNP-4 and 5 puts those units in the background for the time being. It also allows the Supply System to move aggressively ahead with construction of its other three projects.

FINANCIAL

In the first quarter, Supply System operating receipts totaled \$66,984,000. Operating plant receipts were \$12,898,000 for the Hanford Generating Project and \$284,000 for the Packwood Lake Hydroelectric Project. Net billing receipts from the participants in Nuclear Projects 1 and 2 were \$53,802,000.

During the quarter, the Supply System's single largest bond sale was completed. The net proceeds of the \$750 million are expected to provide enough funds to continue construction of WNP-1, 2 and 3 through early 1982. The bonds sold at an average interest rate of about 14.5 percent. The funds have been apportioned as follows: WNP-1, \$315 million; WNP-2, \$210 million; and WNP-3, \$225 million. It was the first negotiated sale since the Washington State Legislature passed a law to allow that financing option. Prior to that, the Supply System was compelled to offer bonds on a competitive bid basis before a sale could be negotiated.

In July, the Board of Directors approved a \$23.8 billion construction budget which covered the total estimated costs for completing all five projects during the next six years. It was the first construction budget prepared under the new Supply System management philosophy—one which uses a zero-based budgeting concept.

CONTRACTS

Bechtel Power Corporation was selected as the System's Completion Contractor at WNP-2 in late August. The project is about 86 percent complete and is scheduled for fuel loading in September 1983. New legislation adopted by the Washington State Legislature earlier this year allows the Supply System to negotiate a "systems completion contract" once a project is 80 percent complete. This enables the Supply System to consolidate the finishing work under one contractor.

In September, a contract including an incentive clause, which could mean up to \$45 million in profits, was signed with Ebasco Services, Incorporated. Ebasco will be paid that sum only if it finishes WNP-3 and 5 at least 10 months ahead of schedule. It represents a potential savings of up to \$1 billion for the ratepayers, since the projects would produce revenues during those 10 months and avoid additional construction and financing costs. The previous Ebasco contract was essentially a cost-plus arrangement that required negotiations for any change—a process that added cost and delays to the projects.

CONSTRUCTION/OPERATIONS

The three vital components of the nuclear steam supply system for WNP-3 were installed in late August—a week ahead of schedules set more than a year ago. The productivity at the project was a record 1.6 percent in August, with a total for the quarter of 4.3 percent.

Construction progress is also ahead of schedule at WNP-1 with construction progress at 1.8 percent in August, and a total of 5.5 percent for the quarter. Work is nearing completion on the containment dome.

At WNP-2, a week-long inspection by the Nuclear Regulatory Commission in September indicated no violations. It included examination of management programs including project controls, quality assurance, design and construction.

A draft environmental impact report on WNP-2, completed this summer, stated "operation of the nuclear plant would have no adverse social or economic effect on Hanford or the surrounding communities." The final environmental report will be published in December and a safety evaluation will be issued in March 1982.

Following the recommendation by the Board of Directors to preserve WNP-4 and 5 for two to two-and-one-half years, the Supply System organized a team to direct the orderly and immediate shutdown of the plants. At WNP-4, the craft work force is below 50, with activities geared toward auditing and securing contractors' documentation, disposing of contractors' inventories and maintaining equipment and buildings. Similar activities are taking place at WNP-5, where critical construction is continuing to natural stopping points so that the project can be preserved for future use.

The Hanford Generating Project returned to service August 1 after its scheduled summer outage. From August 1 to August 20, operation was intermittent. Full generation was reattained August 24 and the project continued operating without interruption in September for a total of 619,880,000 kWh.

The Packwood Lake Hydroelectric Project netted a total of 19,470,500 kWh this quarter. About 430 hours of down time were scheduled due to decreased stream flow into the lake.

MANAGEMENT

In September, the Supply System's top management was realigned to include 12 rather than 15 directors.

Safety and Security is the new corporate unit responsible for all health, safety and security, environmental programs and regulatory matters related to licensing by the Nuclear Regulatory Commission. Its director is John W. Shannon, previously manager of Safety and Security.

Former administrative director Dwight R. Frindt is the new director of Business Programs. Added to his directorate are management policy and systems, contracts and materials management and internal auditing.

The Supply System recently initiated a program to reduce the 1982 administrative and general expenditures by 25 percent. The Supply System staff was also reduced by 12½ percent. These decisions have been difficult, but were deemed necessary to fulfill our commitment to complete WNP-1, 2 and 3 within their projected cost estimates.

