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DENTON, H.R. Office of Nuclear Reactor Regulation, Director.

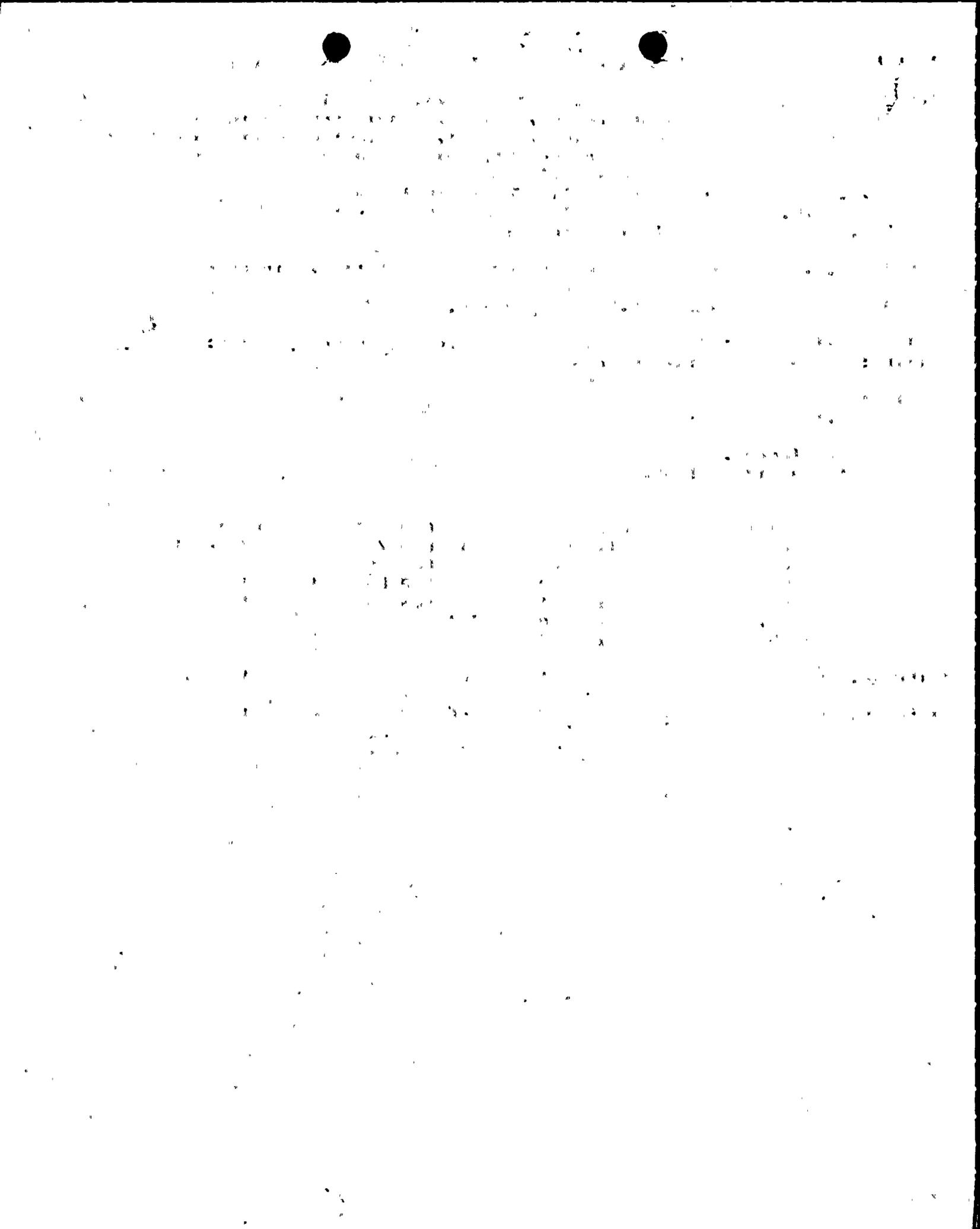
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Washington Public Power Supply System

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Docket Nos: 50-460 - G01-85-0040
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50-508 - G03-85-092

February 22, 1985

Mr. Harold R. Denton, Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dear Mr. Denton:

Subject: NUCLEAR PROJECTS NO. 1, 2, AND 3
ANNUAL FINANCIAL REPORT

Enclosed for your information, as required by 10CFR50.71, are three (3) copies of the Washington Public Power Supply System 1984 Annual Report. The financial statements of the Supply System's Nuclear Projects are not certified by our auditor, Ernst and Whinney, in view of certain facts discussed in the Annual Report, with which the Nuclear Regulatory Commission is already familiar.

Very truly yours,



G. C. Sorensen, Manager
Regulatory Programs

GCS/kr

Enclosures: (3) As stated

cc: R. Auluck, NRC
T. Kenyon, NRC
B. Singh, NRC
N. Reynolds, Bishop, Liberman, Cook, Purcell & Reynolds

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1/2

1984 Annual Report

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On the cover:

Spinning turbines are the pulse of a power plant. It doesn't matter if they are turned by force of falling water or high-pressure steam. Their mission is the same: to harness energy to generate electricity. The Supply System's new corporate logo boldly represents the turbine's inherent motion and unity. It also symbolizes a dynamic, forward-looking organization striving to meet a single challenge—to produce electricity for the Northwest efficiently and economically.

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Columbia power legacy

The early leaders of the Supply System envisioned the Columbia River as the source of their future power generation. Even though the dams they sought to build across it did not materialize, two major thermal power resources were successfully built near its shores. Their combined capacity is equal to one third of the Columbia's largest dam, Grand Coulee. The most recent, an 1100-megawatt nuclear power plant, began operation in 1984 and is licensed to produce power for the next 40 years.

Successful operation of Plant 2 has cleared away at least one issue that has plagued the Supply System in recent years—its management no longer has to prove that it is capable of completing a major nuclear plant.

The Supply System has the expertise to do the same job at its two unfinished nuclear power projects—WNP-1 and 3. The question of when they will be able to restart work revolves around a separate issue—the need for power in the Northwest.

In November 1984, the Bonneville Power Administration determined it would not include construction costs

for these two plants in its current rate proposal. (The proposal will take effect July 1, 1985, and remain in effect for 27 months.) Only preservation costs were included because "power from the plants will not be needed as soon as had been expected and prudent financing is not expected to be available during the rate period," according to BPA.

For planning purposes, the Executive Board and BPA have been assuming that construction at Project 3 would resume in July 1985 and at Project 1 in July 1986. The current BPA decision makes likely a further delay of about two years from these dates.

Given BPA's position, the Executive Board's task is to review all Supply System recommendations and budgets for the two plants. This investigation should help us decide on a sensible and cost-effective program of activities which preserves the plants themselves and provides for efficient restart.

It's important to remember that Plants 1, 2 and 3 are not speculative enterprises, but are included as potentially essential facilities by the Northwest Power Planning Council in its 20-year energy plan for the region. Along with the preservation programs at WNP-1 and 3, we have further protected all three plants by adopting assignment agreements with BPA. These new contractual agreements are designed to assign to BPA any interest in project capability that may revert to the Supply System. Such a reversion would occur, for example, in the event of an adverse ruling on the validity of the net-billing agreements by the U.S. Court of Appeals for the Ninth Circuit.

C.M. Halvorson—
*The chairman's analysis
of the past year*

In Fiscal Year 1984, legal actions occupied much of the Executive Board's attention and time. The Supply System in this fiscal year copied, collected, and shipped more than five million pages of documents for the various parties in the securities lawsuit stemming from the default last year on WNP-4/5 bonds. And this was just one of several important lawsuits involving the unavoidable terminations or construction delays at our plants. Yet it is worth noting that there was some good news concerning litigation in 1984. The Supply System settled two important suits involving uranium suppliers, putting those issues behind us. We are also on the offensive in a number of important areas and have filed multi-million dollar suits against various contractors for faulty work and alleged price fixing or bid rigging.

From the Executive Board's perspective, 1984 was our smoothest year since the concept of a board made up of governor appointees, individuals appointed by the Board of Directors, and public utility members chosen by the Board was introduced in 1981. Our committees are attuned to and review thoroughly all aspects of the Supply System—from auditing practices to preservation programs to operations. These committee meetings are open to the public, so that everyone can witness the level of scrutiny we demand.



Carl M. Halvorson, the head of a major Northwest construction firm, has led the Supply System's Executive Board since December 1982.

We are confident that the Supply System is managed more consistently than ever before. It has been dealt some devastating blows in recent years, but 1984 gave it a much-needed success in the commercial operation of Plant 2.

Carl M. Halvorson
Chairman, Executive Board

Reorganization of our management functions and consolidation of operations, technical training and performance evaluation under the Power Generation Directorate brought excellent results in more efficient operations.

In addition, security programs, industrial safety, radiological programs, modifications and upgrades and emergency planning and environmental programs were consolidated under the Support Services Directorate.

These organizational changes were part of a carefully planned strategy to have in place the best management possible for

the operation of our plants.

Bringing Plant 2 to commercial operation was our brightest spot in 1984. Achieving its operational status was a priority in all of our lives. However, there were a number of other areas in which Supply System

employees turned in outstanding performances. These included:

- our engineering staff which had the skill level and commitment to do an outstanding job in support of all three of our operating projects.

- our financial/budgeting systems which provided excellent management tools.

- our quality assurance programs which were not only effective, but considered by others as models for the industry.

- our contract management program which provided a controlled service that met test after test of compliance with state laws.

- our communications to employees and the public which were judged very effective in fostering an open and accessible policy on our actions.

There are many more examples. None of them happened overnight or by edict.

By the same token, we don't expect Plant 2 to run perfectly from the word "go." We realize there will be some adjustments during the next year as are required with any facility as complex as Plant 2. But our aim is to handle these "shakedown" tasks with the least amount of disruption possible. The Supply System's corporate goals and objectives for fiscal year 1985 call for us to strive for a standard of excellence that will place the Supply System among the leaders in the nuclear power generating industry.

*D.W. Mazur—
Striving for excellence
in 1985*

We have both the human and financial resources that we need to meet these goals. We are confident that once Plant 2 goes through this period of initial commercial operation, it will be as reliable as our other two operating plants—both of which turned in excellent performances in 1984.

We have a challenge in FY 1985 to maintain the Hanford Generating Project's 100 percent availability record so that it can generate electricity whenever adequate steam is produced by the government's N Reactor. And, we want to use all the available water at the Packwood Lake Hydroelectric Project to generate electricity there. Both of these plants are off to a good start in FY 1985 with operating costs below budget.

While most of the staff's efforts in the coming year will be concentrated on operating the Supply System's three generating projects, we will still maintain the capability to complete WNP-1 and 3. Planning for the future of our two remaining projects is one of our most difficult challenges since there is no real experience base to guide us. However, our preservation programs for WNP-1 and 3 are very effective and are providing excellent assurance that the region's \$4.5-billion investment is being protected.

In summary, 1984 was successful for the Supply System by any measurement standard used. We completed a transition phase from



In May 1984, the American Society of Mechanical Engineers selected Donald W. Mazur as a recipient of its national award for "outstanding leadership."

predominantly construction-based activities to an operational base with a strong sense of purpose and conviction. And we were successful. People—good people—were the key to our accomplishments and are the basis for our continued expectations for high performance.

D.W. Mazur
Managing Director



On crisp, cold fall mornings, water vapor rises from the warmer waters of the Columbia River. Three miles west, six cooling towers are also releasing water vapor into the air.

That vapor is silent evidence that there is a new power resource producing kilowatts by the Columbia. It's Plant 2, Washington state's first commercial nuclear power plant.

Plant 2 had some troubled episodes during its early history, but it showed what a quality plant it had become

in 1984—when it turned in one of the better performances in the nuclear power industry. The 1100-megawatt plant went through

its power-ascension program in less time than the industry average. The thousands of people who built it and the hundreds who now operate it celebrated on May 27, 1984, when Plant 2's first kilowatt hours of electricity were transmitted on Bonneville Power Administration power lines.

Its importance to the region was underscored on September 22 when the plant was officially dedicated. Washington state's governor, the U.S.

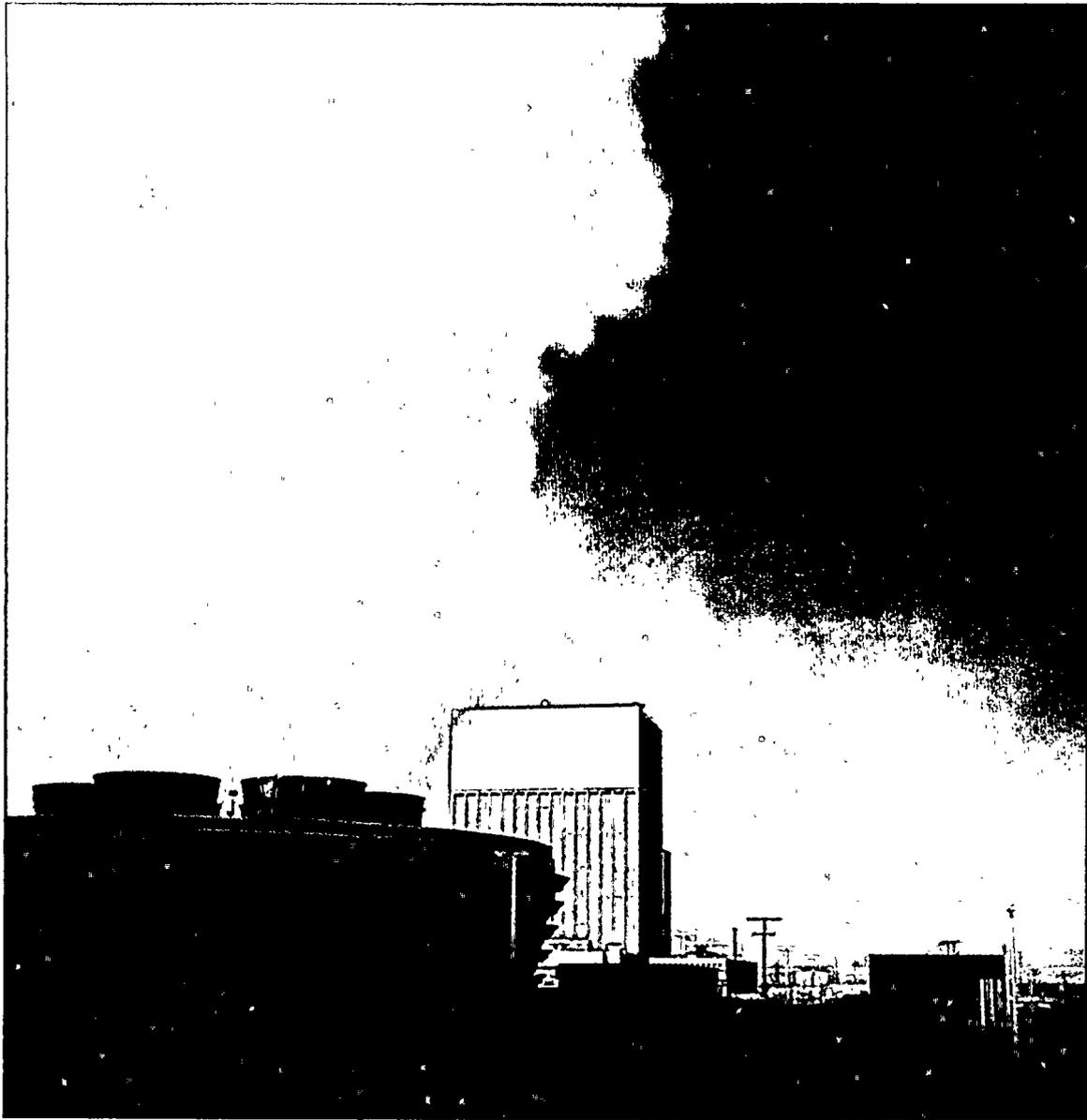
Department of Energy deputy secretary, the BPA administrator, a U.S. senator and congressman, state legislators, labor leaders and representatives of industry gathered to mark the historic occasion. They pointed out that Plant 2 provides Northwest energy users with another thermal power plant—one that functions equally well in drought years as well as years in which the region enjoys abundant water supplies.

Not only will Plant 2 provide enough electricity to meet the needs of a city with 500,000 people, but also it strives to be a good neighbor to the rural farms that border its site, the nearby Tri-Cities and other eastern Washington communities. In all phases of Plant 2—from its initial siting to its recent power-producing status—concern for the environment and the public's health and safety has been paramount.

The people who operate its controls are among the most thoroughly tested in commercial nuclear power plant history. The water used for Plant 2's steam is more pure than spring water. Its uranium fuel is so perfect that it can't even have a pinhole-sized flaw. And each and every one of the plant's 101 systems has undergone rigorous tests, met strict Nuclear Regulatory Commission guidelines, and complied with all the Supply System's own demanding quality-control standards.

No rare plants or animals were threatened when Plant 2 was built. The reminders of former civilizations were carefully protected. And the river—the mighty Columbia—flows freely with virtually no disruption from its nearby power resource.

Nuclear Plant 2— A new Columbia region power producer



Up and running

Plant 2 takes its place beside the Centralia coal plant in Washington, the Trojan nuclear plant and Boardman coal plant in Oregon, and the Colstrip coal plants in Montana as part of a new generation of thermal power plants in the Pacific Northwest.

P

people of early civilizations who traveled by the Columbia River knew the value of steam to cleanse their bodies and cook their food. Their method of producing it was to heat the flat river rocks and then throw water upon them.

Centuries later, steam is still being produced along the Columbia River as a byproduct of the government's N Reactor. And in an indirect way, it is still needed to cleanse people and cook

their food. That's because the steam is used by the Hanford Generating Project to create electricity—more than 60 billion

kilowatt hours since the plant began producing power in 1966.

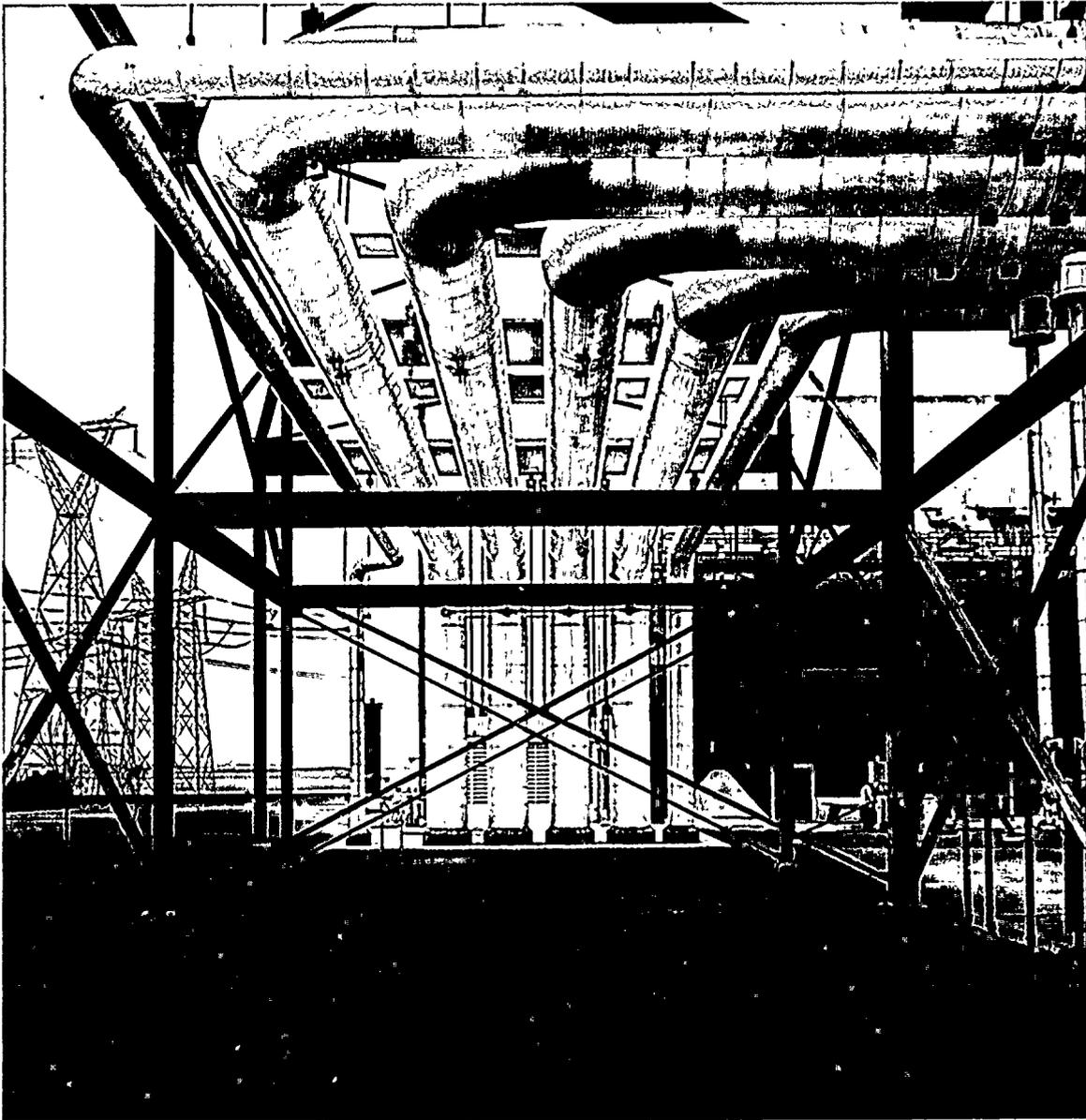
The Hanford Generating Project is one of the five leading nuclear electric power producers in the nation. And yet, many Northwesterners who routinely use its electricity are unaware of this major power producer.

One reason the plant is taken for granted is that it runs so smoothly. Part of its excellent record can be attributed to the immaculate condition of its buildings and machinery. In fact, the plant is kept so meticulously clean that it was 18 years old before its floors ever needed repainting. In Fiscal Year 1984, it produced more than three billion kilowatt hours of electricity at a cost of 1.44 cents per kilowatt hour. It was available to produce electricity 100 percent of the time that steam was available from the adjacent N Reactor. (In FY 1984, the Department of Energy's N Reactor was in operation about 48 percent of the time.)

Originally, half of the plant's power was designated for use by public utilities and the other half sold to private, investor-owned utilities. However, in April 1984, two of its five investor-owned utilities chose to withdraw offers to purchase power under an extended agreement. Washington Water Power Company of Spokane and Portland General Electric Company of Portland, Oregon, had a combined share of 22 percent of the 860-megawatt capacity of the steam-electric generating plant. Their shares of power revert to BPA and are treated as additional energy available for BPA's customers.

The Supply System's current agreement with DOE provides for continuation of dual-purpose operation of the reactor through 1993. Steam that might have been dissipated into the environment will continue to be used to drive the turbines at the Hanford Generating Project and to create electricity for people of the Northwest.

HGP— Power production tops 60 billion kWh



Where's the steam?

You can't see steam at the Supply System's Hanford Generating Project because it is being used to generate electricity.

In 1984, the plant used byproduct steam from the federal government's adjacent N Reactor to produce more than three billion kilowatt hours of electricity.

T

he Packwood Lake Hydroelectric Project may not be a crucial part of the Northwest's energy supply, but it was this 27-megawatt plant that put the Supply System on the power-producing map 20 years ago.

Almost immediately after being formed in 1957, the original Supply System Board began investigating potential sites for its first generating project. The Board's first choice was a site on the Columbia River, about eight miles north of Richland,

Washington.

However, this "Ben Franklin Dam" failed to materialize because of the Department of Interior's

objections to its possible effects on fish and wildlife.

Next, the Board considered Wells Dam—midway between Rocky Reach and Chief Joseph dams—near Wenatchee, Washington. However, people living near the site were opposed to the Douglas County Public Utility District giving up its right to build that dam. Their sentiments prevailed.

The Supply System's quest for a generating project continued. Success finally came with the selection of a site for a hydroelectric plant at Packwood Lake.

The Packwood Lake area, about 20 miles southeast of Mt. Rainier, was known to pioneers as a spawning ground so fertile that in the spring the fish obscured the creek bed in places. In fact, it was those early settlers who built the first known dams there—not to generate electricity, but to catch large quantities of fish to smoke for the long, snowpacked winters.

The idea of using Packwood Lake water to generate power was first explored in 1907. A temporary power plant was built in 1910 but later abandoned. A half century later, the Supply System began its power plant construction. The project, which was financed by bond issues totaling \$13.7 million, began operating in June 1964.

As of its 20th anniversary, it had produced nearly two billion kilowatt hours of electricity. For Fiscal Year 1984, the Packwood plant produced about 101 million kilowatt hours of electricity at a cost of about 1 cent a kilowatt hour.

Originally criticized for being too small and too expensive, the Packwood project has proven a boon for the public utilities that originally agreed to purchase its power. Through a complex exchange agreement with BPA, participating utilities pay the prevailing BPA wholesale rate (about 2.2¢/kilowatt hour) for the Packwood power. However, they receive a rebate if operating costs are less. Under this arrangement, the Supply System refunded the 12 participating utilities almost \$2 million for Fiscal Year 1984.

Packwood— Two decades of power performance



Hidden power plant

The Packwood Lake Hydroelectric Project is an example of how a power plant and nature can coexist in harmony. Since most of the project's structures are underground, the beauty of the Cascade Mountain setting is retained.

SUPPLY SYSTEM BOARDS

As of June 30, 1984

Executive Board

Robert E. Berney
Professor of Economics
Washington State University

Donald R. Clayhold (Secretary)
Assistant Manager and Chief Engineer
Benton County PUD

Cornelius R. Duffie
Consultant

Carl M. Halvorson (Chairman)
President
HalvorsonMason Corporation

Ronald D. Mayo
Mayo Associates

Robert C. Olsen
Commissioner
Mason County PUD*

Paul J. Nolan
Director Light Division
Tacoma Department of Public Utilities

Howard B. Richman
Commissioner
Cowlitz County PUD*

Sydney Steinborn
Consulting Engineer

Frank N. Ward (Vice Chairman)
Commissioner
Klickitat County PUD

Louis H. Winnard
Senior Management Consultant

Executive Board Committees listed on page 36.

Board of Directors

Lane A. Bray
City of Richland

Thomas R. Casey
Grays Harbor County PUD

Vera Claussen (Secretary)
Grant County PUD

Donald R. Clayhold
Benton County PUD

Kenneth R. Cochrane (Vice President)
Franklin County PUD

Raymond E. Colbert
Okanogan County PUD

Lawrence Haas
Clallam County PUD*

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Howard B. Richman (President)
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Elmer E. Roloff
Pacific County PUD

Paul L. Runyan (Assistant Secretary)
Clark County PUD

Roger C. Sparks
Kittitas County PUD

Frank N. Ward
Klickitat County PUD

* Withdrew before November 30, 1984

FINANCIAL SECTION

Even though the Supply System did not go to the market for any project financing in Fiscal Year 1984, it still was earning a return on the funds available for investment. It invested an average of \$858.7 million daily and achieved a rate of return of 9.68 percent—producing net earnings of \$83.2 million for the fiscal year.

The Supply System, in accordance with state statutes and bond resolutions, must follow strict guidelines for the investments of funds. No investments in stocks, commercial paper, real estate, gold or silver are permitted. Monies are invested in government and federal agency fixed-income securities, banker's acceptances and time certificates of deposit.

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REPORT OF INDEPENDENT ACCOUNTANTS

Executive Board
Washington Public Power Supply System
Richland, Washington

We have examined the individual financial statements, as listed in the financial statements section of the table of contents, of Washington Public Power Supply System's Hanford Generating Project, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 2, Nuclear Project No. 3, Nuclear Projects No.'s 4 and 5, and the Internal Service Fund for the year ended June 30, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note E to the financial statements, Washington Public Power Supply System Projects No.'s 1 and 3 are negotiating with their contractors and suppliers to settle contract claims associated with extended construction delays of those projects. Due to the preliminary status of the settlement process, the ultimate amounts of such costs are not fully determinable at the present time.

As discussed in Note E to the financial statements, Washington Public Power Supply System Projects No.'s 4 and 5 are currently unable to meet Nuclear Projects No.'s 4 and 5 debts as they become due. Creditors may, through legal process, seek to reach assets or funds held by other projects of the Supply System or the revenues pledged thereto. Bond counsel to the Supply System indicated that the creditors of Nuclear Projects No.'s 4 and 5 will not be able to realize upon the assets of Projects No.'s 1, 2, and 3 necessary for the purposes of such projects or the Supply System or upon revenues pledged to or funds held in trust for the holders of bonds issued by the Supply System to finance the construction of Supply System Nuclear Projects No.'s 1, 2, and 3, except to the extent they might obtain rights through a valid exercise of the sovereign police power of the State of Washington, or of the constitutional powers of the United States of America, or by a voluntary bankruptcy of the Supply System. Bond counsel's opinion is limited to assets of the projects located within the State of Washington, or as to which a court would apply the law of the State of Washington. Bond counsel is not able to determine at this time how a court of a state other than the State of Washington would treat assets of the projects located outside the State of Washington, if such court were to apply the law of a state other than the State of Washington. See Note E to the financial statements as to the ability of creditors of Nuclear Projects No.'s 4 and 5 to realize upon the assets of the Packwood Lake Hydroelectric Project and the Hanford Generating Project and the related revenues or funds.

As discussed in Note E to the financial statements, Washington Public Power Supply System Projects No.'s 1 and 3 are involved in disputes concerning costs shared with Washington Public Power Supply System Projects No.'s 4 and 5. Additionally, Nuclear Project No. 3 is involved in disputes due to the extended construction delay of that project. Due to the preliminary status of these disputes, the ultimate amount of additional costs, if any, to be borne by Projects No.'s 1 and 3 are not determinable at the present time.

As also discussed in Note E to the financial statements, Washington Public Power Supply System is a party to litigation in which the Springfield ratepayers are challenging the decision of the U.S. District Court for Oregon, rendered on May 16, 1983, that all parties to the net-billing agreements had authority to enter into them. This decision has been appealed. Supply System counsel cannot predict the outcome of this litigation. During August 1984, agreements between Bonneville Power Administration and the Washington Public Power Supply System were executed providing for the assignment of project capability (assignment agreements) of Nuclear

Projects No.'s 1 and 2 and 70 percent of Nuclear Project No. 3 to Bonneville Power Administration. Under these agreements, the Washington Public Power Supply System has assigned to Bonneville all rights and interests in the Supply System's ownership share of project capability that the Supply System now has or hereafter may obtain if the courts determine that the net-billing agreements are invalid and project participants are not obligated to pay for any interest in project capability. Bonneville would pay directly to the Supply System the amounts that would have been payable under the net-billing agreements for such project capability. The validity of the assignment agreements may be challenged in the courts.

As explained in Note D, participants' agreements pertaining to Washington Public Power Supply System Nuclear Projects No.'s 4 and 5 have been held to be invalid. Therefore, the Supply System is unable to recover the costs of Nuclear Projects No.'s 4 and 5 from the participants and has reduced such costs to their estimated recoverable values in the accompanying balance sheets as of June 30, 1984. The ultimate recovery of such estimated amounts cannot presently be determined. In addition, as further discussed in Note D, accrued liabilities have been reflected in the accompanying balance sheets for estimated contract settlement and termination costs. Due to the preliminary nature of the settlement process, the ultimate amounts owing to creditors are not fully determinable at the present time. In addition, as explained in Note E, there are various other matters of litigation for which the outcome is not presently known.

In view of the significance of the matters discussed in the preceding paragraphs, we are unable to express, and we do not express, an opinion on the financial statements of the Supply System's Hanford Generating Project, Nuclear Project No. 1, Nuclear Project No. 2, Nuclear Project No. 3, Nuclear Projects No.'s 4 and 5, and the Internal Service Fund referred to above.

In our opinion, the financial statements present fairly the financial position of Washington Public Power Supply System's Packwood Lake Hydroelectric Project at June 30, 1984, and the results of operations and changes in financial position of the Packwood Lake Hydroelectric Project for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous year.

Ernst & Whinney

Seattle, Washington

September 14, 1984, except as to the second paragraph of Note D as to which the date is November 6, 1984, and as to Note E, the second paragraph of Nuclear Projects No.'s 1 and 3 Construction Delay, the date is November 1, 1984, and the fifth paragraph of Shared Costs, the date is November 23, 1984.

BALANCE SHEETS

Assets

as of June 30, 1984
(\$ in thousands)

	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 2	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECT NO.'S 4/5	INTERNAL SERVICE FUND
Current Assets—							
Operating Fund							
Cash and investments	\$12,955	\$ 1,583	\$ 5,739	\$ 22,518	\$ 18,538	\$	\$12,045
Accounts receivable		583	18		145		904
Prepaid and other	934	11		1,202			2,476
Due from other projects and internal service fund	184		2,480	6,605			
Due from other funds	1,483	55	25,880	24,922	21,155		
	<u>15,556</u>	<u>2,232</u>	<u>34,117</u>	<u>55,247</u>	<u>39,838</u>		<u>15,425</u>
Restricted Assets Notes B and C							
Special funds (primarily for construction)							
Cash and investments	3,444	289	174,631	27,741	31,840	10,111	
Receivable from joint owners and other assets			566		15,049	3,366	
Due from other projects and internal service fund			9,786		2,447	16,474	
Due from other funds—net				282	30,477		
	<u>3,444</u>	<u>289</u>	<u>184,983</u>	<u>28,023</u>	<u>79,813</u>	<u>29,951</u>	
Revenue fund cash						109 *	
Chemical Bank fund accounts						37,796 *	
Debt service funds cash and investments	7,350	681	221,137	110,351	171,040	80,239 *	
	<u>10,794</u>	<u>970</u>	<u>406,120</u>	<u>138,374</u>	<u>250,853</u>	<u>148,095</u>	
Utility Plant and Equipment							
<i>Note B</i>							
In service	67,628	12,372	10,910	21,622			12,639
Improvements to U.S. government facilities	14,654						
Less allowance for depreciation and amortization	(54,335)	(5,288)		(2,915)			(5,612)
	<u>27,947</u>	<u>7,084</u>	<u>10,910</u>	<u>18,707</u>			<u>7,027</u>
Construction work in progress ...			2,201,738	3,077,020	2,334,571		
Cost related to construction and termination of nuclear power plants						2,531,089	
Nuclear fuel and prepaid enrichment services			261,325	85,628	50,947		
Buildings and equipment—net ...						893	
Less amount charged to joint owners					(596,850)	(89,480)	
Less allowance for estimated unrecoverable cost						(2,426,352)	
	<u>27,947</u>	<u>7,084</u>	<u>2,473,973</u>	<u>3,181,355</u>	<u>1,788,668</u>	<u>16,150</u>	<u>7,027</u>
Other Assets and Deferred Charges							
Unbilled reimbursable costs		2,852					
Unamortized debt expense	125	23	3,596	3,549	2,612		20
Total Assets	<u>\$54,422</u>	<u>\$13,161</u>	<u>\$2,917,806</u>	<u>\$3,378,525</u>	<u>\$2,081,971</u>	<u>\$ 164,245</u>	<u>\$22,472</u>

* Assets under the control of Chemical Bank

Liabilities

as of June 30, 1984
(\$ in thousands)

	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 2	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECT NO.'S 4/5	INTERNAL SERVICE FUND
Current Liabilities—							
Operating Fund							
Accounts payable and accrued expenses	\$ 9,576	\$ 2,117	\$ 31,117	\$ 51,640	\$ 36,838	\$	\$ 7,948
Due to other projects and internal service fund	2,480			607			5,122
	<u>12,056</u>	<u>2,117</u>	<u>31,117</u>	<u>52,247</u>	<u>36,838</u>		<u>13,070</u>
Liabilities—Payable from Restricted Assets Notes B and C							
Special funds (primarily for construction)							
Accounts payable and accrued expenses			18,306		32,197	40,761	
Amounts withheld from contractors			11,726		10,832	10,526	
Due to other projects and internal service fund					16,048	8,272	
Due to other funds—net	944	9	23,025	24,741	17,736		
	<u>944</u>	<u>9</u>	<u>53,057</u>	<u>24,741</u>	<u>76,813</u>	<u>59,559</u>	
Debt service funds							
Accrued bond and note interest payable	398	132	104,358		82,895	212,562	
Due to other funds—net	540	47	2,856	181	3,419		
	<u>938</u>	<u>179</u>	<u>107,214</u>	<u>181</u>	<u>86,314</u>	<u>212,562</u>	
Chemical Bank fund accounts							
Accounts payable and accrued expenses						611	
	<u>1,882</u>	<u>188</u>	<u>160,271</u>	<u>24,922</u>	<u>163,127</u>	<u>272,732</u>	
Debt in Default, Currently Payable							
Revenue bonds payable						2,250,000	
Subordinated revenue notes						67,865	
						<u>2,317,865</u>	
Long-Term Debt Note C							
Revenue bonds payable	37,205	10,841	2,143,445	2,298,920	1,598,320		
Less unamortized discount on bonds—net	(687)	(90)	(54,185)	(71,852)	(39,667)		
	<u>36,518</u>	<u>10,751</u>	<u>2,089,260</u>	<u>2,227,068</u>	<u>1,558,653</u>		
Other Liabilities and Deferred Credits							
Unearned revenue	992		634,158	1,031,040	323,353		
Deferred gain on redemption of revenue bonds	1,574	105					
Due to other projects				43,248			5,508
Advances and other	1,400		3,000				3,894
	<u>3,966</u>	<u>105</u>	<u>637,158</u>	<u>1,074,288</u>	<u>323,353</u>		<u>9,402</u>
Total Liabilities	<u>54,422</u>	<u>13,161</u>	<u>2,917,806</u>	<u>3,378,525</u>	<u>2,081,971</u>	<u>2,590,597</u>	<u>9,402</u>
Deficiency in assets						<u>(2,426,352)</u>	
Total Liabilities and Deficiency in Assets	<u>\$54,422</u>	<u>\$13,161</u>	<u>\$2,917,806</u>	<u>\$3,378,525</u>	<u>\$2,081,971</u>	<u>\$ 164,245</u>	<u>\$22,472</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

Nuclear Projects No.'s 1 through 5 (Non-operating Projects)

as of June 30, 1984
(\$ in thousands)

	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 2	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NO.'S 4 & 5
Source of Funds				
Collected under net billing.....	\$229,226	\$407,089	\$180,781	
Interest income.....	34,118	21,428	17,692	9,234
Charged to joint owners.....			37,819	(5,351)
Net decrease in restricted funds.....		35,398	47,062	111,433
Received from sale of fuel.....	26,153	4,219		
Decrease in amount due participants.....	1,624	1,602	14,146	
Reduction in accrual due to settlement of uranium supplier litigation.....	13,407			45,985
Asset sales.....				7,903
Other.....				854
Total Source of Funds.....	\$304,528	\$469,736	\$297,500	\$170,058
Use of Funds				
Construction costs.....	\$ 63,409	\$224,197	\$124,313	(32,484)
Interest expense.....	208,717	217,020	165,791	198,134
Nuclear fuel.....	4,199	8,944	2,163	
Financing, trustee and paying agent expenses.....	483	699	398	4,408
Bonds redeemed.....	4,045	15,940	1,680	
Revaluation of investments.....	3,977	2,936	3,155	
Net transfers to Hanford Generating Project.....	2,484			
Net increase in restricted funds.....	17,214			
Total Use of Funds.....	\$304,528	\$469,736	\$297,500	\$170,058

Hanford and Packwood Projects (Operating Projects)

as of June 30, 1984
(\$ in thousands)

	HANFORD GENERATING PROJECT	PACKWOOD PROJECT
Source of Funds		
Operations		
Net revenue.....	\$ -0-	\$ -0-
Items not affecting working capital:		
Depreciation and amortization.....	2,316	258
Decrease in costs reimbursable from power purchasers.....	1,452	113
Less gain on redemption of revenue bonds.....	(129)	(206)
Total from Operations.....	3,639	165
Total Source of Funds.....	\$3,639	\$165
Use of Funds		
Net improvements.....	\$ 533	1
Cost of revenue bonds purchased and retired.....	3,010	165
Increase in restricted assets.....	96	(1)
	3,639	165
Changes in working capital		
Cash and investments.....	\$6,070	321
Receivables and other.....	(180)	414
Payables and other.....	(5,890)	(735)
Net increase in working capital.....	-0-	-0-
Total Use of Funds.....	\$3,639	\$165

STATEMENT OF OPERATIONS

Hanford and Packwood Projects

as of June 30, 1984

(\$ in thousands)

	HANFORD GENERATING PROJECT	PACKWOOD PROJECT
Operating Revenues	\$44,322	\$864
Operating Expenses		
Reactor availability	43,174	
Depreciation and amortization	2,249	254
Power production and transmission	1,763	376
Maintenance	1,084	149
Administrative and general	751	77
	<u>49,021</u>	<u>856</u>
Net operating revenue (loss)	<u>(4,699)</u>	<u>8</u>
Other Income and Expense		
Proceeds from settlement of litigation	4,014	
Interest and other income	1,962	400
Interest expense and discount amortization	<u>(1,277)</u>	<u>(408)</u>
Net Revenue	<u>\$ -0-</u>	<u>\$ -0-</u>

OUTSTANDING GOVERNMENT BONDS

(\$ in thousands)

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1984
Hanford Generating Project							
Revenue Bonds.....	1963	5-8-63	3.26%	(A)	2.90—3.10%	9-1-84/1986	\$ 9,620
(includes \$4,220,000 due within one year at June 30, 1984)				98	3.25	9-1-1996	27,585
							<u>\$ 37,205</u>
Packwood Lake Hydroelectric Project							
Revenue Bonds.....	1962	3-20-62	3.66	99.425	3.625	3-1-2012	\$ 8,216
(includes \$170,000 due within one year at June 30, 1984)	1965	11-4-65	3.76	100.5	3.75	3-1-2012	2,625
							<u>\$ 10,841</u>
Nuclear Project No. 1							
Revenue Bonds.....	1975	9-18-75	7.73	(A)	5.75—7.40	7-1-84/2000	\$ 38,900
(includes \$1,200,000 due July 1, 1984)				100	7.70	7-1-2010	58,300
				100	7.75	7-1-2017	74,700
							<u>171,900</u>
Revenue Bonds.....	1976A	2-4-76	6.84	(A)	6.00—6.25	7-1-84/1998	33,190
(includes \$1,415,000 due July 1, 1984)				100	6.90	7-1-2010	66,485
				100	7.00	7-1-2017	76,495
							<u>176,170</u>
Revenue Bonds.....	1976B	8-31-76	6.37	(A)	5.00—5.90	7-1-84/1998	37,200
(includes \$1,685,000 due July 1, 1984)				100	6.50	7-1-2010	66,940
				99.50	6.50	7-1-2017	71,235
							<u>175,375</u>
Revenue Bonds.....	1978A	3-21-78	5.69	(A)	5.00—5.50	7-1-84/2002	64,270
(includes \$2,100,000 due July 1, 1984)				100	5.80	7-1-2010	50,920
				100	5.875	7-1-2017	64,810
							<u>180,000</u>
Revenue Bonds.....	1978B	12-5-78	6.61	(A)	5.50—6.00	7-1-84/1998	38,355
(includes \$1,675,000 due July 1, 1984)				100	6.35	7-1-2003	22,305
				100	6.60	7-1-2009	38,190
				99.50	6.80	7-1-2017	81,150
							<u>180,000</u>
Revenue Bonds.....	1979	6-19-79	6.64	(A)	6.00	7-1-84/1998	29,385
(includes \$1,170,000 due July 1, 1984)				100	6.40	7-1-2003	18,560
				100	6.70	7-1-2009	32,370
				100	6.80	7-1-2017	69,685
							<u>150,000</u>
Revenue Bonds.....	1980A	8-5-80	8.87	(A)	7.00—10.00	7-1-86/1995	55,500
				100	9.00	7-1-2002	37,000
				100	9.20	7-1-2005	16,950
				99.00	9.25	7-1-2013	70,550
				(A)	7.75	7-1-2017	30,000
							<u>210,000</u>
Revenue Bonds.....	1981A	4-13-81	11.30	(A)	11.30—13.00	7-1-96/2003	28,580
				100	11.625	7-1-2012	91,420
							<u>120,000</u>
Revenue Bonds.....	1981B	4-13-81	11.30	(A)	10.00	7-1-2016	40,000
Revenue Bonds.....	1981C	4-13-81	10.29	100	10.25	7-1-2015	40,000
Revenue Bonds.....	1981D	9-4-81	14.78	100	14.375	7-1-2001	20,000
				57.895	8.25	7-1-2003	30,000
				100	15.00	7-1-2017	265,000
							<u>315,000</u>

(A) Various prices

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1984
Revenue Bonds.....	1982A	2-11-82	14.79%	100 100 99.25	10.50—13.75% 14.50 14.75	7-1-88/1996 7-1-2002 7-1-2017	29,355 50,645 305,000 <u>385,000</u> <u>\$2,143,445</u>
Nuclear Project No. 2							
Revenue Bonds.....	1973	6-26-73	5.66	(A) 100	5.00—5.10 5.70	7-1-87/1991 7-1-2012	\$ 13,600 <u>124,400</u> <u>138,000</u>
Revenue Bonds.....	1974	7-23-74	7.21	(A) 100 100	6.50—6.90 7.00 7.375	7-1-87/1994 7-1-1999 7-1-2012	18,000 15,000 37,000 <u>70,000</u>
Revenue Bonds..... (excludes \$2,500,000 due July 1, 1984)	1974A	11-26-74	7.67	(A) 100 100	7.20 7.40 7.75	7-1-84/1994 7-1-1999 7-1-2012	20,500 15,500 78,000 <u>113,500</u>
Revenue Bonds..... (excludes \$3,500,000 due July 1, 1984)	1975A	3-6-75	6.71	(A) 100 100	6.60 6.60 6.875	7-1-84/1994 7-1-1999 7-1-2012	22,500 15,000 78,000 <u>115,500</u>
Revenue Bonds..... (excludes \$1,030,000 due July 1, 1984)	1976	6-3-76	6.63	(A) 99.25 100	5.40—6.25 6.625 6.75	7-1-84/1998 7-1-2006 7-1-2012	25,050 42,300 49,860 <u>117,210</u>
Revenue Bonds..... (excludes \$2,820,000 due July 1, 1984)	1976A	11-18-76	5.87	(A) 100 99.50	5.50—5.875 6.00 6.00	7-1-84/2002 7-1-2007 7-1-2012	86,090 44,815 60,990 <u>191,895</u>
Revenue Bonds..... (excludes \$2,025,000 due July 1, 1984)	1978	7-11-78	6.71	(A) 100 100	5.50—6.60 6.80 6.875	7-1-84/2000 7-1-2006 7-1-2012	62,620 45,520 66,230 <u>174,370</u>
Revenue Bonds..... (excludes \$2,355,000 due July 1, 1984)	1979	3-13-79	6.49	(A) 100 100	5.50—6.00 6.40 6.75	7-1-84/1999 7-1-2004 7-1-2012	56,225 33,490 83,605 <u>173,320</u>
Revenue Bonds..... (excludes \$1,710,000 due July 1, 1984)	1979A	10-17-79	7.69	(A) 100 100	6.40—7.30 7.60 7.75	7-1-84/1999 7-1-2004 7-1-2012	40,075 23,050 57,000 <u>120,125</u>
Revenue Bonds.....	1980	10-21-80	9.36	(A) 100 100 (A) (A)	8.90—10.90 9.30 9.60 9.25 8.25	7-1-86/1997 7-1-2001 7-1-2006 7-1-2001 7-1-2012	35,230 23,735 46,070 75,045 19,920 <u>200,000</u>
Revenue Bonds.....	1981A	9-4-81	12.44	100 57.895 99 100	14.375 8.25 14.50 13.25	7-1-2001 7-1-2003 7-1-2006 7-1-2012	30,000 100,000 30,000 50,000 <u>210,000</u>

(A) Various prices

OUTSTANDING LONG-TERM DEBT

(continued)

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1984
Revenue Bonds.....	1982A	2-11-82	14.76%	100 100 99.25	9.50—13.75% 14.50 14.75	7-1-86/1996 7-1-2002 7-1-2012	33,335 51,665 <u>215,000</u> 300,000
Revenue Bonds.....	1982B	5-20-82	13.82	100 100	9.00—13.00 13.875	7-1-86/1996 7-1-2012	39,400 <u>139,320</u> 178,720
Revenue Bonds.....	1982C	5-20-82	13.89	100 100	13.50 13.875	7-1-2002 7-1-2012	56,960 <u>139,320</u> <u>196,280</u> <u>\$2,298,920</u>
Nuclear Project No. 3							
Revenue Bonds..... (includes \$965,000 due July 1, 1984)	1975	12-3-75	7.87	(A) 100 100	5.40—7.25 7.875 7.875	7-1-84/1998 7-1-2010 7-1-2018	\$ 25,245 52,695 <u>71,160</u> 149,100
Revenue Bonds..... (includes \$820,000 due July 1, 1984)	1976	4-13-76	6.48	(A) 99.625 100	5.50—6.00 6.50 6.60	7-1-84/1998 7-1-2010 7-1-2018	18,825 <u>35,100</u> <u>45,295</u> 99,220
Revenue Bonds.....	1977	9-12-77	5.71	(A) 99.50 99.50	5.00—5.30 5.70 5.80	7-1-85/2000 7-1-2009 7-1-2018	59,305 <u>63,535</u> <u>107,160</u> 230,000
Revenue Bonds.....	1978	9-12-78	6.27	(A) 100 99	5.90—6.00 6.375 6.40	7-1-85/2004 7-1-2010 7-1-2018	66,385 <u>42,985</u> <u>90,630</u> 200,000
Revenue Bonds.....	1981A	2-11-81	10.80	(A) 100 99.50 88.50 88.50	9.50—12.50 11.125 11.125 9.75 9.75	7-1-87/2001 7-1-2005 7-1-2010 7-1-2017 7-1-2018	64,375 <u>40,535</u> <u>80,310</u> <u>18,950</u> <u>20,830</u> 225,000
Revenue Bonds.....	1981B	9-4-81	14.80	57.895 99 100	8.25 14.50 15.00	7-1-2003 7-1-2006 7-1-2018	20,000 <u>20,000</u> <u>185,000</u> 225,000
Revenue Bonds.....	1982A	2-11-82	14.83	100 100 99.25	10.50—13.75 14.50 14.75	7-1-88/1996 7-1-2002 7-1-2018	6,055 <u>10,445</u> <u>148,500</u> 165,000
Revenue Bonds.....	1982B	5-20-82	13.95	100 99.50	10.50—13.00 13.875	7-1-88/1996 7-1-2018	9,195 <u>280,925</u> 290,120
Revenue Bonds.....	1982C	5-20-82	13.63	100	13.50	7-1-2002	<u>14,880</u> <u>\$1,598,320</u>

(A) Various prices

Note A—Organization

The Washington Public Power Supply System was organized in 1957 as a municipal corporation and joint operating agency of the State of Washington. It is empowered to acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 1984, its membership consisted of 19 public utility districts and four municipalities that own and operate electric systems within the State of Washington. During the period July through November 1984, five public utility districts withdrew from membership, reducing total membership from 23 to 18. These actions do not affect the rights and obligations of those utilities and the Supply System under the various contracts executed between the utilities and the Supply System relating to Nuclear Projects No.'s 1, 2, 3, 4, 5, the Hanford Generating Project or the Packwood Lake Hydroelectric Project.

The Supply System constructed and is now operating the Packwood Lake Hydroelectric Project and the Hanford Generating Project and has one nuclear electric generating plant currently in the final test and startup phase and scheduled for commercial operation in 1984 (Nuclear Project No. 2). The Supply System's Nuclear Project No. 1 is in the third year of an extended construction delay; Nuclear Project No. 3 is in the second year of an extended construction delay; and Nuclear Projects No.'s 4 and 5 were terminated on January 22, 1982.

Nuclear Projects No.'s 1, 2 and 4 are wholly owned by the Supply System. Nuclear Project No. 3 is jointly owned by the Supply System (70 percent) and four investor-owned utilities (30 percent). Nuclear Project No. 5 is jointly owned by the Supply System (90 percent) and one investor-owned utility (10 percent). Each joint owner is responsible for its own financing costs and share of the costs of construction, operation and termination and is entitled to its ownership share of the projects' operating capability.

The Supply System is currently unable to obtain additional financing through the sale of bonds in public markets due to substantial pending litigation. Therefore, construction completion costs for Nuclear

Project No. 2 and project maintenance costs for the Supply System's 70 percent share of Nuclear Project No. 3 have been funded by BPA through project participants under net-billing agreements since September 1983 and May 1984, respectively.

In accordance with the covenants of the bond resolutions, the Supply System is authorized to recover its cost of operation and debt service over the life of the plant or bonds outstanding. Accordingly, the Supply System realizes no income or loss and equity is not accumulated.

Note B—Summary of Significant Accounting Policies

The Supply System has adopted accounting policies and practices that are in accordance with generally accepted accounting principles applicable to the utility industry. Separate books of account are maintained for each project except for Nuclear Projects No.'s 4 and 5, which are accounted for as a single entity. In addition, the Supply System maintains an internal service fund for payment and accounting of payrolls, administrative and general expenses, and certain common goods and services procured for the projects on a cost-reimbursable basis.

Restricted Funds

In accordance with project bond resolutions and certain related agreements, separate restricted funds must be established for each of the projects. The assets held in these funds are restricted for specific uses including construction, termination, debt service and other special reserve requirements. Restricted funds are identified on the balance sheet as Special Funds, Revenue Fund Cash (Nuclear Projects No.'s 4 and 5), Chemical Bank Fund Accounts, and Debt Service Funds.

Cash and investments in the Operating Fund of Nuclear Project No. 2 and in Special Funds of Nuclear Projects No.'s 1, 3, 4 and 5 include \$36,246,212 retained in escrow for contractors as of June 30, 1984.

Current Assets and Current Liabilities

Assets and liabilities shown as current in the accom-

(continued)

panying balance sheets exclude current maturities on revenue bonds and accrued interest because debt service funds are provided for their payment.

Investments

Investments include time certificates of deposit and United States government and government agencies securities. Investments are stated at cost or amortized cost as appropriate and include accrued interest.

Investments held in the Bond Fund Reserve Accounts (included in Debt Service Funds) and Reserve and Contingency Funds (included in Special Funds) are stated at the lower of amortized cost or market as provided by their respective bond resolutions.

The market value of investments (including accrued interest) approximates the carrying value.

Income Earned on Investments

Income earned on investments includes gains and losses from the sale of investments. Income earned on investments held by Nuclear Projects No.'s 1, 2 and 3 is recorded as a reduction in construction costs. Income earned on investments held by operating projects accrues to the benefit of the applicable project's Operating Fund. Income earned on Nuclear Projects No.'s 4 and 5 is recorded as a reduction of the Cost Related to Construction and Termination of Nuclear Power Plants.

Capitalization of Construction Costs and Expenses

During the construction, construction delay phase, or termination phase of a project, the Supply System will capitalize all costs of the project including general, administrative, interest, certain depreciation and other expenses.

Overhead expenses of the Supply System are allocated from the Internal Service Fund to the various projects primarily on the basis of direct salary cost or direct usage.

Utility Plant and Equipment— Depreciation and Amortization

Buildings and equipment are being depreciated by the straight-line method over their estimated useful lives to the project.

Improvements to U.S. government-owned facilities are being amortized over the period covered by the contract for dual-purpose operation of the Department of Energy's (DOE) New Production Reactor.

Debt Discount, Premium and Expenses

Debt discount, premium, or expenses relating to issuing revenue bonds are amortized by the straight-line method over the terms of the respective issues. For terminated projects, such costs are combined with Cost Related to Construction and Termination of Nuclear Power Plants.

Revenues

Participant purchasers of power are contractually obligated to pay project annual costs including debt service (excluding depreciation and amortization). The Supply System records these reimbursable annual costs as operating revenues for the Packwood and Hanford Generating projects. In addition to recovering project annual costs, each year the Supply System records as revenue an amount equal to the provisions for depreciation and amortization, less the recorded gains on bond redemption. This accounting policy is used to spread such revenues equally over the full term of the bonds.

For the Packwood and Hanford Generating projects, cumulative reimbursable annual costs, less payments by member purchasers for bond redemption and operating costs, are reflected as Unbilled Reimbursable Costs or Unearned Revenues, as appropriate, in the accompanying balance sheets. For projects under construction, payments received under net-billing for debt service and completion of construction are shown as Unearned Revenue in the accompanying balance sheets. Such unearned revenue will be recognized as revenue when the plants are operational.

Cost Related to Construction and Termination of Nuclear Power Plants

For Projects No.'s 4 and 5, the costs of construction through January 22, 1982, the date of termination, and the costs of termination and other related costs subsequent to that date are shown at their estimated net recoverable value in the accompanying balance sheets as of June 30, 1984, based on Supply System

staff estimates. The amount (\$2,426,352,404) estimated for unrecoverable costs, to reduce the costs incurred to net recoverable value, has been reflected as Deficiency in Assets in the accompanying balance sheets.

Retirement Plan

The Supply System participates in the Washington State Public Employees' Retirement System that provides retirement benefits to eligible employees. The cost of the plan to the Supply System is determined by the retirement system's board. The actuarially computed value of pension benefits exceeds the fund assets for the retirement system. However, because the retirement system is a multi-employer system, the amount of such excess, if any, that relates to the Supply System is not available. The Supply System's required contribution was \$4,377,309 during the period ended June 30, 1984.

Note C—Long-Term Debt

Except for Nuclear Projects No.'s 4 and 5, which were financed together as one utility system, all Supply System projects are financed separately. The revenue bonds issued for each project are payable solely from the revenues of that project.

Outstanding revenue bonds of the various projects as of June 30, 1984, are presented on pages 20 through 22.

Security—Agreements and Contracts

The United States DOE, acting by and through the Bonneville Power Administration (BPA), has acquired the entire capability of the Hanford Generating Project and the Supply System's ownership share of the projects' capability of Nuclear Projects No.'s 1, 2 and 3 from its statutory preference customers and, in addition, with respect to Project No. 1, five of its private utility customers. Each of these customers has, in turn, purchased such capability from the Supply System, all under the net-billing and exchange agreements. BPA is obligated to pay the participants, and the participants are obligated to pay the Supply System, their pro rata share of the total annual costs of the projects, including debt service on the bonds,

whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output. See Note E for a discussion of Hanford Generating Project and its relationship to Nuclear Project No. 1.

The Supply System's Packwood Project revenue bonds are secured by power sales contracts between the Supply System and each of its 12-member purchasers. Pursuant to these agreements, member purchasers pay for their percentage allocation of power specified therein at rates sufficient to operate and maintain the project, and pay debt service on the bonds. Such payments continue until the bonds are paid or provision is made for their payment or retirement.

In connection with the issuance of the generating facilities revenue bonds for Nuclear Projects No.'s 4 and 5, the Supply System pledged the revenues to be derived under participants' agreements with 88 utilities operating principally in the Pacific Northwest. The participants' agreements provided that each participant pay its respective share of annual costs, including debt service on the bonds, whether or not the projects were completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output. Payments from the participants for Nuclear Projects No.'s 4 and 5 termination costs and debt service were due beginning on January 25, 1983. Payments due under the participants' agreements have not been forthcoming and an event of default, as defined in the bond resolution, occurred on July 22, 1983, and is continuing. On August 18, 1983, Chemical Bank (Projects No.'s 4 and 5 bond fund trustee) declared the principal of all Nuclear Projects No.'s 4 and 5 revenue bonds and accrued interest due and payable immediately. See Note D for a discussion of the termination of Nuclear Projects No.'s 4 and 5, related challenges to the participants' agreements and default on the bonds.

In connection with the issuance of the Nuclear Projects No.'s 4 and 5 subordinated revenue notes (\$60,000,000 due July 1, 1984, and \$7,865,502 due June 30, 1983), the Supply System pledged to set

(continued)

aside money for payment of such obligations from funds to be accumulated in the Revenue Fund. Payments under the participants' agreements to be accumulated in the Revenue Fund were not made and therefore the subordinated revenue notes were not paid. See Note D for a discussion of default on Nuclear Projects No.'s 4 and 5 subordinated revenue notes.

Note D—Termination of Nuclear Projects No.'s 4 and 5 and Default Under Bond Resolution

On January 22, 1982, the Supply System's Nuclear Projects No.'s 4 and 5 were terminated. Construction was 24 and 16 percent complete, respectively, at the termination date. The Supply System's current estimate of termination costs (\$40,029,622), including costs of contract settlements and other termination costs, has been accrued as Accounts Payable and Accrued Expenses in the accompanying balance sheets. Although management of the Supply System is satisfied that its estimates are reasonable, the final settlement for termination costs and the cost of decommissioning the projects cannot be determined at this time. Certain physical assets of Projects No.'s 4 and 5 are being maintained for a period to maximize their sales value upon disposal.

The participants' agreements (discussed in Note C under Security) provide that each participant pay its respective share of the debt service on the bonds and termination costs beginning January 25, 1983. Payments due under the participants' agreements were not made pending a judicial determination concerning the participants' authority and obligation to pay. On June 15, 1983, and again on November 6, 1984, the Washington State Supreme Court ruled that Washington municipal utilities did not have statutory authority to enter into the participants' agreements and, thus, that those agreements were invalid as to the cities and public utility districts of the State of Washington, which collectively hold approximately 68 percent of the participants' shares of Nuclear Projects No.'s 4 and 5. In addition, on November 6, 1984, the Washington State Supreme Court also ruled

that because of the invalidity of the participants' agreements entered into by the Washington municipal utilities, all of the remaining participants' agreements are unenforceable as well. It is anticipated that the review of these rulings will be sought in the United States Supreme Court.

Since the participants' agreements were ruled invalid, payments due under the agreements (\$62,438,000 as of June 30, 1983) were not made and there was a deficiency in the Bond Fund Interest Account of \$29,685,399 as of June 30, 1983. On July 1, 1983, the Supply System transferred \$10,029,746 from the Reserve and Contingency Fund to Chemical Bank for credit to the Bond Fund Interest Account. Also, on that date, Chemical Bank transferred \$19,654,653 from the Bond Fund Reserve Account to the Bond Fund Interest Account to cover the remaining deficiency in the Bond Fund Interest Account. These transfers (together with funds held in the Bond Fund Interest Account as of June 30, 1983) permitted Chemical Bank to transfer \$93,952,219 from the Bond Fund Interest Account to the paying agents to pay the July 1, 1983, coupon interest payment on the bonds. In addition, on July 1, 1983, Chemical Bank transferred a security with a book value of \$8,823,598 from the Bond Fund Reserve Account to a newly established Trustee Legal Fee Escrow Account. The purpose of this transfer was to set aside funds to pay for Chemical Bank's legal fees as well as a portion of the Supply System legal fees. A deficiency continues to exist in the Reserve and Contingency Fund and Bond Fund Interest and Reserve Accounts (which is also a default under provisions of Nuclear Projects No.'s 4 and 5 bond resolution).

On July 22, 1983, the Supply System acknowledged that it could not meet all Nuclear Projects No.'s 4 and 5 obligations as they became due. This admission represented an event of default under the Nuclear Projects No.'s 4 and 5 bond resolution. A deficiency in the bond fund also existed at this time. As required under Section 11.3 of the bond resolution, Chemical Bank demanded that remaining funds in the Construction Fund (\$23,193,264), Construction Trust Account (\$723,256) and Operating Fund (\$1,648,568) be transferred to it to the credit of the

Washington Public Power Supply System Section 11.3 Account. This transfer was made on July 25, 1983. Under Section 11.4 of the Nuclear Projects No.'s 4 and 5 bond resolution, Chemical Bank, as bond fund trustee, or a duly constituted bondholders' committee is entitled, to the extent permitted by law, to take possession of the business and properties of Nuclear Projects No.'s 4 and 5. At present, the Supply System is continuing to manage the contract termination and asset disposal activities. However, Chemical Bank disburses the funds for payment of Nuclear Projects No.'s 4 and 5 termination activities in accordance with the payment priorities established in the bond resolution. Since total obligations currently exceed available cash and revenues, certain lower priority obligations (as defined in the bond resolution) are not being paid.

On August 18, 1983, Chemical Bank declared the principal of all Nuclear Projects No.'s 4 and 5 revenue bonds and interest accrued thereon to be due and payable immediately.

Since the participants' agreements have been held to be invalid, the assets of Nuclear Projects No.'s 4 and 5 have been reduced to their estimated net recoverable value resulting in a deficiency in assets. Such recoverable value is based on Supply System staff estimates. However, the ultimate recoverability cannot presently be determined. Chemical Bank and the Supply System are attempting to recover amounts that will permit the Supply System to pay principal and interest on the bonds.

In August 1983, Chemical Bank filed a lawsuit in U.S. District Court, Western District of Washington, which is now pending against the Supply System, all participants in Nuclear Projects No.'s 4 and 5, Supply System member utilities and directors, BPA and other individuals. The lawsuit alleges violations of federal and state securities statutes, fraud, misrepresentation, bad faith, negligence, and unjust enrichment, and seeks money damages, rescission and restitution. This suit is currently in the discovery phase, with depositions scheduled to begin in January 1985. Trial will take place at some point thereafter. Pursuant to state law and resolutions of

the Supply System's Executive Board, the Supply System has agreed to indemnify its directors for certain of the acts which have been alleged in the complaint. The Supply System is obligated for associated costs (including legal defense costs) to the extent such costs are not covered by directors' and officers' insurance.

In addition, numerous lawsuits have been filed against the Supply System and numerous other individuals and entities by individuals purporting to represent classes of bondholders. The lawsuits allege violations of federal and state securities statutes, negligent misrepresentation, common law fraud and deceit, gross negligence, and breach of contract, and seek monetary damages for losses allegedly sustained by the purported classes. These cases have been consolidated in U.S. District Court, Western District of Washington, for pretrial purposes, and are all in the discovery phase of litigation. In addition, one lawsuit, Haberman versus Washington Public Power Supply System, has recently been filed by certain bondholders in King County Superior Court, asserting claims substantially similar to those alleged in the other class actions. The Supply System has not yet responded to the allegations in the complaint filed in this lawsuit, and no discovery has yet taken place.

The cases described in the preceding two paragraphs seek to recover the bondholders' investment in the amount of \$2.25 billion, plus interest, costs, attorneys' fees and damages.

The Supply System cannot predict the outcome of the above litigation.

Note E—Commitments and Contingencies

Hanford Generating Project and its Relationship to Nuclear Project No. 1

The DOE owns and operates the New Production Reactor. This reactor provides by-product steam to the Hanford Generating Project. The Supply System's current agreement with the DOE provides for the continuation of this dual-purpose operation of the

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reactor through June 1993. In accordance with certain related agreements, the operating costs of the project will be offset by payments from certain public and private utilities in return for the power generated.

It was initially intended that Nuclear Project No. 1 be constructed next to the Hanford Generating Project and provide the energy source to operate the project when the DOE ceased operation of the New Production Reactor. To allow for construction of Nuclear Project No. 1, it would have been necessary to shut down the Hanford Generating Project on October 31, 1977. Because studies at that time indicated that generating resources in the Pacific Northwest would be inadequate in the late 1970s and early 1980s, the Supply System and BPA determined that the Hanford Generating Project should be kept available for power production. Therefore, the Nuclear Project No. 1 net-billing, exchange and project agreements were amended to provide for the separation of Nuclear Project No. 1 from the Hanford Generating Project and to provide that Hanford Generating Project costs, to the extent not otherwise provided for, be treated as Nuclear Project No. 1 costs having a first claim on the revenues of that project.

The amended agreements provide for the payment of all debt service costs, net of investment income, of the Hanford Generating Project by Nuclear Project No. 1 participants, beginning July 1, 1980, regardless of continued operation of the reactor. If the reactor ceases operations, revenues to the Hanford Generating Project arising from the aforementioned payments will nevertheless be recorded each year thereafter in amounts that will result in full realization of the carrying value of the plant.

The U.S. government has an option to acquire ownership of the Hanford Generating Project upon obtaining congressional approval. If the government exercises its option, it must assume all rights and obligations of the project, including the obligation to pay all revenue bonds.

Under the Hanford Generating Project agreements, 69 public participants were entitled to 50 percent of

the output of the project and five investor-owned utilities were entitled to 50 percent. All power was exchanged to BPA for firm power. During the period July 1, 1983, to March 31, 1984, three of the five investor-owned utilities withdrew their offer to purchase their entitlement to output from the Hanford Generating Project. The power from the plant is currently being distributed by BPA on the basis of 72 percent to public participants and 28 percent to the remaining two investor-owned utilities.

Nuclear Projects No.'s 1 and 3— Construction Delay

On April 29, 1982, the Supply System, upon the recommendation of BPA, approved the implementation of an extended construction delay of Nuclear Project No. 1; and on July 8, 1983, the Supply System, also based on BPA's recommendation, approved the implementation of an extended construction delay of Nuclear Project No. 3. During the construction delay, plant assets will be preserved and existing project licenses will be maintained. For financial planning purposes, restart of construction for Nuclear Projects No.'s 1 and 3 previously had been scheduled for July 1986 and July 1985, respectively.

On November 1, 1984, BPA released a study report of Nuclear Projects No.'s 1 and 3 construction schedules and financing assumptions which included the following recommendations:

1. BPA should not include funds for construction for Nuclear Projects No.'s 1 and 3 in its fiscal years 1986 and 1987 budget or in its rate case for the period extending from July 1, 1985, to September 30, 1987.
2. Because of the wide range of potential preservation cost estimates (about \$24 million to \$80 million per year for both plants) and in order to avoid overcollection of such costs through BPA rates, BPA should use a midrange estimate of potential preservation costs in its rates and budgets. The Supply System Adjustment Clause proposed in BPA's Initial Rate Proposal is suffi-

ciently broad to cover any adjustment needed to reflect new estimates as preservation costs are reviewed, refined and approved through the Supply System budgeting process.

3. BPA should work with the Supply System, the other Nuclear Project No. 3 owners, the Northwest Power Planning Council, and other appropriate parties in defining and perfecting preservation plans and restart assumptions.
4. BPA should perform periodic reviews of Nuclear Projects No.'s 1 and 3 consistent with BPA resource planning and budgeting to assure scheduling is consistent with regional resource requirements.

The Supply System is unable to predict at this time when construction will resume.

The Supply System's current estimates of costs to settle terminated and delayed contracts for Nuclear Projects No.'s 1 and 3 are \$5,683,000 and \$5,782,000 respectively, and have been accrued as Accounts Payable and Accrued Expenses in the accompanying balance sheets. Although management of the Supply System is satisfied that its estimates are reasonable, the final settlement costs cannot be determined at this time.

The obligations of BPA and the participants in the projects under the net-billing agreements are not affected by the construction delay. See "Shared Costs" for a discussion of the investor-owned utilities' challenge to the ownership agreement and BPA concerning the Nuclear Project No. 3 construction delay.

Nuclear Projects No.'s 4 and 5 Subordinated Revenue Notes

In conjunction with the mothballing of Nuclear Projects No.'s 4 and 5, certain project participants, investor-owned utilities and industrial customers of BPA agreed to loan Nuclear Projects No.'s 4 and 5 funds to underwrite a program to preserve the assets of those projects. These loans, called bridge loans,

were evidenced by \$60,000,000 in subordinated revenue notes, bearing a stated maturity date of July 1, 1984, and bearing interest to due date at a rate of 15 percent.

Subsequently, when a decision was made to terminate Nuclear Projects No.'s 4 and 5, a number of project participants agreed to loan Nuclear Projects No.'s 4 and 5 funds designed to assist in avoiding an uncontrolled termination of the projects. These loans, called termination loans, were evidenced by \$7,865,502 in subordinated revenue notes bearing a stated maturity date of June 30, 1983, and bearing interest to due date at a rate of 15 percent.

Because Nuclear Projects No.'s 4 and 5 have not been in possession of sufficient funds to underwrite payment of the subordinated revenue notes, they have not been redeemed. Certain participants and investor-owned utilities have filed lawsuits against the Supply System for payment of the notes. Fifteen such lawsuits have been commenced, with Chemical Bank named as co-defendant in several of them. Two cases are in the pretrial phase. In all of the other cases summary judgment has been rendered against the Supply System and final judgments have been entered. In certain cases the judgments state that the Supply System's obligation to pay the notes is not restricted to the funds of Nuclear Projects No.'s 4 and 5. All of the decided cases have been or will be appealed and most probably will be heard by the Washington State Supreme Court during the January 1985 term.

Although the note payments are, by the terms of the loan agreements, repayable only from those special funds created to support the notes, these cases may result in attempts to satisfy the judgments on the notes from other Supply System funds and assets.

Nuclear Project No. 5 Ownership Agreement

Under the terms of the ownership agreement with Pacific Power and Light Company (Pacific), Pacific is obligated to fund its respective ownership share of termination costs beginning January 25, 1983, and continuing until all costs of termination have been

NOTES TO FINANCIAL STATEMENTS

(continued)

paid. Any funds received from the sale of plant assets reduce Pacific's obligation for termination costs.

Pacific has stated to the Supply System that it considers the failure of the Supply System to obtain necessary financing for Project No. 5 to be a breach of the Project No. 5 ownership agreement and has reserved its rights to pursue appropriate remedies with respect to such breach. It is the position of the Supply System that the termination of Project No. 5 does not constitute a breach of the Project No. 5 ownership agreement and that Pacific is responsible under the Project No. 5 ownership agreement for payment of its 10 percent share of the costs of termination of such project.

On June 16, 1983, Pacific advised the Supply System that due to the Washington Supreme Court ruling that certain participants' agreements were invalid (as described in Note D) and other related actions by the Supply System, Pacific would no longer fund 10 percent of the Nuclear Project No. 5 termination costs. Pacific also advised that it would not make further termination cost payments until the Supply System adequately assures that it can re-establish and maintain controlled termination of the project in accordance with the agreements. The Supply System is currently working with Pacific to resolve this matter and resume payments. As stated above, it is the Supply System's position that Pacific is responsible for its 10 percent share of termination costs. Until Pacific resumes payments, the Supply System is withholding Pacific's 10 percent share of revenue received from Nuclear Project No. 5 asset sales. As of June 30, 1984, Pacific's 10 percent share of Nuclear Project No. 5 accrued termination costs was \$2,149,736. Of this amount, \$423,285 is currently due and has been presented to Pacific for payment. The remaining amount represents the Supply System's estimate of future termination costs.

Pacific has made payments under the Nuclear Project No. 5 ownership agreement pursuant to reservations of rights to its potential claim to sue the Supply System for damages for failure to complete the project. Pacific's claim would presumably be about

\$150,000,000, its investment in the project. Such a claim could be a general claim against the assets of the Supply System.

Inter-Project Claims and Claims Against General Assets

As discussed above, Nuclear Projects No.'s 4 and 5 are currently unable to meet Nuclear Projects No.'s 4 and 5 debts as they become due. Creditors of particular projects and other creditors (including claimants in tort, contract, under the securities laws or other actions) may attempt to obtain payment from all projects and/or from the general assets of the Supply System. Such creditors include those described in the notes to the financial statements and others who may in the future assert claims against the Supply System and/or its projects.

In a September 12, 1984, opinion, bond counsel reaffirmed to the Supply System that neither the holders of bonds issued to finance the construction of Nuclear Projects No.'s 4 and 5, nor creditors of the Supply System whose claims arose from furnishing goods or services with respect to Nuclear Projects No.'s 4 and 5, will be able to realize upon the assets of Supply System Nuclear Projects No.'s 1, 2 and 3 necessary for the purposes of such projects or the Supply System, or upon revenues pledged to or funds held in trust for the holders of bonds issued by the Supply System to finance the construction of Supply System Nuclear Projects No.'s 1, 2, and 3, except to the extent they might obtain rights through a valid exercise of the sovereign police power of the State of Washington or of the constitutional powers of the United States of America, or by a voluntary bankruptcy of the Supply System. Bond counsel's opinion as to the assets of Supply System Nuclear Projects No.'s 1, 2 and 3 is limited to those assets within the State of Washington, or as to which a court would apply the law of the State of Washington, and the opinion excludes assets that are not necessary for the purposes of Supply System Nuclear Projects No.'s 1, 2 and 3 or the Supply System. Bond counsel is not able to determine at this time how a court of a state other than the State of Washington would treat assets of Supply System

Nuclear Projects No.'s 1, 2 and 3 located outside the State of Washington, if such court were to apply the law of a state other than the State of Washington.

Bond counsel has not investigated the issues discussed above with respect to the Packwood or Hanford Generating projects. However, they believe that upon full investigation the same opinion could be rendered with respect to assets of the Packwood and Hanford Generating projects and revenues pledged to or funds held in trust for the holders of bonds issued by the Supply System to finance the construction of such projects.

Shared Costs

The termination of Nuclear Projects No.'s 4 and 5 creates an uncertainty as to how certain common services and facilities are to be shared with Nuclear Projects No.'s 1 and 3, respectively. In August 1982, the participants of Nuclear Projects No.'s 4 and 5 presented a claim to Projects No.'s 1 and 3 to reimburse Projects No.'s 4 and 5 for a portion of the costs of shared services and facilities paid by the projects before July 1, 1981. The claim requested immediate payment of \$75,000,000 and \$86,000,000 plus interest from Projects No.'s 1 and 3, respectively, plus amounts that may be determined in the future. The claim is based on a method of calculating shared costs that is different from the method adopted by the Supply System.

The Supply System has reviewed the application of its cost-sharing policy from inception of the projects to determine if costs were allocated properly. As of June 30, 1984, about \$17,000,000 plus interest is due Nuclear Project No. 5 from Nuclear Project No. 3, about \$8,200,000 plus interest is due Nuclear Project No. 1 from Nuclear Project No. 4, and about \$163,000 plus interest is due Nuclear Project No. 4 from Nuclear Project No. 2 for shared costs. These amounts (excluding accrued interest) have been recorded in the accompanying balance sheets as of June 30, 1984. The results of the aforementioned review are subject to audit by BPA and the investor-owned utilities in Nuclear Projects No.'s 3 and 5. Because of the preliminary nature of the

aforementioned findings, the uncertainty over the shared cost policies adopted by the Supply System, and since the matter of the proper allocation of shared costs is currently in litigation, as described below, the ultimate allocation of shared costs is uncertain.

On October 26, 1982, the Supply System filed a legal action against BPA, the four investor-owned utilities who are joint owners of Project No. 3, the participants of Nuclear Projects No.'s 4 and 5, (the court has since allowed Chemical Bank to intervene in this suit) and the construction fund trustee for Nuclear Project No. 1 seeking a judicial determination of past and future shared costs among Nuclear Projects No.'s 1 and 4 and Nuclear Projects No.'s 3 and 5. (The court has since restructured the case wherein BPA is now the plaintiff and the Supply System and other aforementioned parties are defendants.) Although the lawsuit does not specify the amounts of money that the parties believe should be reallocated, the method used to calculate the aforementioned claim is an issue in the lawsuit.

The four investor-owned utilities who own 30 percent of Nuclear Project No. 3 have filed counter claims and cross-claims against BPA, the Supply System, and Nuclear Project No. 3 participants arising out of the extended construction delay at Nuclear Project No. 3. Included are claims for injunctive relief, damages, rescission of the Nuclear Project No. 3 ownership agreement, and recovery of the total amount of payments made under the agreement to date.

On November 23, 1984, the Court ruled that: (a) the Nuclear Project No. 3 agreements require net billing of the Supply System's 70 percent ownership share of construction costs in the event the Supply System is unable to finance, (b) the investor owned utilities are third-party beneficiaries of the project and net-billing agreements, (c) the Supply System and BPA breached the Nuclear Project No. 3 Agreement by their actions in slowing construction of the project, and (d) any damages that can be proven to have resulted from the Supply System/BPA breach of the agreements

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cannot be net-billed to the Nuclear Project No. 3 Participants. The issue of whether the breaches by the Supply System and BPA are material was reserved for trial. The Court gave the parties until March 29, 1985, to complete discovery and file any dispositive motions on the materiality issues. Absent any motions, the matter will be set for trial shortly thereafter.

If the investor-owned utilities were to prevail in their request for an order granting a right to rescind the ownership agreement and a right to recover payments made thereunder, the Supply System could face a material loss contingency, plus possible termination of the project. It is not possible at this time to predict the size of the material loss contingencies for the Supply System relating to damage claims or restitution of payments made, given the uncertainties surrounding the restart and completion of the project.

Net-Billing Agreements

On November 15, 1982, the City of Springfield, Oregon, filed a complaint against the Supply System, BPA, the investor-owned utilities in Nuclear Project No. 3, and all other parties to the net-billing agreements pertaining to Supply System Nuclear Projects No.'s 1, 2 and 3. The complaint alleged that the Lane County Circuit Court's decision in *DeFazio versus Washington Public Power Supply System* had created controversy and uncertainty about the contractual obligations of Oregon public participants and their authority under Oregon law to enter into the net-billing agreements. It also alleged that members of Oregon public utility boards are exposed to personal liability for any payments of public money not authorized by law. The complaint sought a declaratory judgment that it and other Oregon public participants had legal authority to enter into the net-billing agreements, or if they did not, that BPA is liable to make contract payments. In their responses to the complaint, BPA and the Supply System asked for a declaration that all signatories to the net-billing agreements had legal authority to enter into them. Springfield ratepayers who were parties to *DeFazio* intervened in the action, claiming that the plaintiff

did not have authority to enter into the net-billing agreements under Oregon law.

The parties to the net-billing agreements are BPA, the Supply System, and the participants. The agreements provide that BPA is obligated to pay the participants, and the participants are obligated to pay the Supply System, their pro rata shares of the total annual costs of the projects, including debt service on the bonds, whether or not the projects are completed, operable, or operating, and notwithstanding the suspension, reduction, or curtailment of the projects' output. However, the agreements also provide that they shall not be binding on any of the aforementioned parties if they are not binding on all the parties.

On May 16, 1983, the U.S. District Court for Oregon entered a judgment declaring that all parties to the net-billing agreements had legal authority to enter into them. Its decision was appealed by the ratepayers to the Ninth Circuit Court of Appeals in July 1983, and was argued before the Court on May 10, 1984. The Court has not yet made a decision on this matter. Supply System counsel cannot predict the outcome of the appeal.

During August 1984, agreements between BPA and the Supply System were executed providing for the assignment of project capability (assignment agreements) of Nuclear Projects No.'s 1 and 2 and 70 percent of Nuclear Project No. 3 to BPA. Under these agreements, the Supply System has assigned to BPA all rights and interests in the Supply System's ownership share of project capability that the Supply System now has or hereafter may obtain if the courts determine that the net-billing agreements are invalid and project participants are not obligated to pay for any interest in project capability. Bonneville would pay directly to the Supply System the amounts that would have been payable under the net-billing agreements for such project capability. The validity of the assignment agreements may be challenged in the courts.

If a final judicial determination were rendered that the net-billing agreements are not enforceable against

the parties and that the assignment agreements are not valid, such determination would result in default on Nuclear Projects No.'s 1, 2 and 3, and would have a material adverse impact on the financial condition of the Supply System.

Uranium Supplier Litigation

In November 1981, the Supply System filed an antitrust suit against Western Nuclear, a uranium supplier, and others. Western Nuclear filed a counterclaim for breach of contract against the Supply System. On July 26, 1983, Western Nuclear was granted a summary judgment against the Supply System for \$53,626,000 plus interest, and thereafter Western Nuclear commenced efforts to satisfy the judgment principally against assets of Nuclear Project No. 1. The Supply System appealed the judgment to the United States Court of Appeals for the Ninth Circuit, and the Court granted a stay of enforcement of the judgment pending resolution of the appeal. The appeal was argued in October 1983.

As a result of negotiations between Western Nuclear and the Supply System, this litigation was settled in April 1984. Under the settlement agreement, the Supply System paid Western Nuclear \$25 million to satisfy the claim for breach of contract, and the antitrust suit against Western Nuclear was cancelled. The payment was charged to Nuclear Project No. 1 and was funded by BPA. The 1983 judgment amount of \$53,626,000 had previously been recorded as an accrued cost to Nuclear Projects No.'s 1, 4 and 5.

In September 1984, as a result of negotiations, the remainder of the claims in this lawsuit were settled with the remaining defendants. Under the settlement agreement, these defendants paid certain sums to the Supply System and the Supply System dismissed the lawsuit.

In August 1983, Kerr-McGee filed a suit against the Supply System for anticipatory breach of a 1976 uranium conversion services contract relating to Nuclear Projects No.'s 1, 2 and 3. The complaint sought \$14 million in damages. As a result of negotiations, this suit was settled during March 1984, and

the Supply System agreed to pay Kerr-McGee \$8.9 million. The settlement payment for Nuclear Project No. 2 was funded by BPA; the payment for Nuclear Project No. 3 was funded 70 percent by BPA and 30 percent by four investor-owned utilities owning 30 percent of the project. The payment for Nuclear Project No. 1 was funded from the Construction Fund, composed of remaining bond proceeds.

Hanford Generating Project Litigation

During October 1983, the Court of Appeals ruled for the Supply System in a lengthy lawsuit against Arkwright-Boston Manufacturer's Mutual Insurance Company for damage caused to Hanford Generating Project turbine blades in 1974. The United States District Court had issued judgement for the Supply System in April 1982 and the decision had been appealed by Arkwright-Boston. The total award to the Supply System of \$4,014,457 was received during January 1984.

Securities and Exchange Commission Investigation

On January 12, 1984, the Supply System was advised that the Securities and Exchange Commission had started a formal investigation into the circumstances surrounding the default on Nuclear Projects No.'s 4 and 5 revenue bonds. The investigation is in its initial stages, and it is too early to predict what further action the commission may take.

Other Litigation and Commitments

The Supply System is involved in various claims, legal actions and contractual commitments not mentioned above as both a plaintiff and a defendant and in certain claims and contracts arising in the normal course of business for a large construction program. Although some suits, claims and commitments are significant in amount, final disposition is not determinable. In the opinion of management, the outcome of any such litigation, claims or commitments will not have a material adverse effect on the financial positions of the projects. The estimated cost of the projects may either be increased or decreased as a result of the outcome of these matters.

STATEMENT OF DEBT SERVICE REQUIREMENTS

(\$ in thousands)

FISCAL YEAR	Hanford Generating Project			Packwood Lake Hydroelectric Project			Nuclear Project No. 1		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL*
1985	\$ 3,125	\$ 1,114	\$ 4,239	\$ 170	\$ 396	\$ 566	\$ 9,785	\$ 208,211	\$ 217,996
1986	3,240	1,014	4,254	175	390	565	14,855	207,674	222,529
1987	3,255	913	4,168	180	384	564	15,470	206,652	222,122
1988	3,360	806	4,166	190	377	567	18,055	205,729	223,784
1989	3,485	693	4,178	195	370	565	18,970	204,564	223,534
1990	3,455	580	4,035	265	363	628	21,465	203,320	224,785
1991	5,065	425	5,490	275	353	628	62,560	201,877	264,437
1992	5,585	246	5,831	290	343	633	23,755	196,226	219,981
1993	5,835	58	5,893	300	333	633	25,560	194,547	220,107
1994	800	4	804	315	322	637	26,985	192,684	219,669
1995				330	310	640	28,550	190,667	219,217
1996				340	298	638	30,745	188,480	219,225
1997				360	286	646	38,080	185,949	224,029
1998				380	272	652	41,565	182,462	224,027
1999				400	259	659	45,455	178,573	224,028
2000				465	244	709	49,465	174,563	224,028
2001				490	227	717	53,920	170,104	224,024
2002				515	209	724	58,885	165,142	224,027
2003				540	190	730	51,135	159,602	210,737
2004				565	171	736	55,430	155,305	210,735
2005				590	150	740	60,600	150,137	210,737
2006				615	128	743	66,320	144,415	210,735
2007				640	106	746	72,665	138,071	210,736
2008				665	83	748	79,705	131,031	210,736
2009				690	58	748	87,525	123,213	210,738
2010				656	33	689	96,220	114,518	210,738
2011				150	9	159	105,855	104,883	210,738
2012				95	4	99	116,610	94,129	210,739
2013							118,635	82,105	200,740
2014							127,155	69,605	196,760
2015							142,820	55,476	198,296
2016							175,395	39,441	214,836
2017							194,005	20,831	214,836
2018									
	<u>\$37,205</u>	<u>\$5,853</u>	<u>\$43,058</u>	<u>\$10,841</u>	<u>\$6,668</u>	<u>\$17,509</u>	<u>\$2,134,200</u>	<u>\$5,040,186</u>	<u>\$7,174,386</u>

* Excludes payments of bond principal and interest made on July 1, 1984

FISCAL YEAR	Nuclear Project No. 2			Nuclear Project No. 3			Nuclear Projects No.'s 4/5		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL*	PRINCIPAL	INTEREST	TOTAL
1985	\$ 16,925	\$ 216,048	\$ 232,973	\$ 6,175	\$ 165,692	\$ 171,867	\$2,317,865		\$2,317,865
1986	23,295	215,015	238,310	6,530	165,357	171,887			
1987	24,925	213,399	238,324	8,925	165,001	173,926			
1988	26,645	211,686	238,331	10,555	164,368	174,923			
1989	28,510	209,818	238,328	11,315	163,579	174,894			
1990	30,555	207,778	238,333	12,145	162,761	174,906			
1991	82,800	205,539	288,339	13,050	161,901	174,951			
1992	35,260	196,455	231,715	14,045	160,961	175,006			
1993	37,980	193,758	231,738	15,125	159,932	175,057			
1994	40,950	190,820	231,770	16,310	158,798	175,108			
1995	44,225	187,602	231,827	17,615	157,546	175,161			
1996	47,825	184,053	231,878	19,045	156,163	175,208			
1997	65,575	180,144	245,719	22,595	154,637	177,232			
1998	71,955	173,774	245,729	24,605	152,628	177,233			
1999	79,330	166,666	245,996	26,810	150,427	177,237			
2000	85,795	159,947	245,742	29,020	148,218	177,238			
2001	93,290	152,468	245,758	31,475	145,773	177,248			
2002	101,635	144,141	245,776	34,180	143,068	177,248			
2003	93,055	134,854	227,909	37,095	140,057	177,152			
2004	97,375	127,046	224,421	42,730	136,746	179,476			
2005	106,765	117,655	224,420	45,995	132,503	178,498			
2006	117,225	107,196	224,421	49,615	127,908	177,523			
2007	122,655	95,576	218,231	49,675	122,946	172,621			
2008	134,755	83,566	218,321	54,485	118,136	172,621			
2009	148,200	70,217	218,417	59,810	112,810	172,620			
2010	163,170	55,365	218,535	65,710	106,909	172,619			
2011	179,835	38,822	218,657	72,265	100,355	172,620			
2012	198,410	20,380	218,790	80,365	92,250	172,615			
2013				89,490	83,126	172,616			
2014				99,770	72,846	172,616			
2015				111,370	61,252	172,622			
2016				124,455	48,165	172,620			
2017				139,235	33,382	172,617			
2018				154,950	17,665	172,615			
	<u>\$2,298,920</u>	<u>\$4,259,788</u>	<u>\$6,558,708</u>	<u>\$1,596,535</u>	<u>\$4,343,866</u>	<u>\$5,940,401</u>	<u>\$2,317,865</u>		<u>\$2,317,865</u>

Refer to Note D—
Termination of Nuclear Projects
No.'s 4 and 5 and Default Under
Bond Resolution, page 26,
and Note E—
Commitments and Contingencies,
page 27.

EXECUTIVE BOARD COMMITTEES

As of June 30, 1984

Administrative (Performance) Audit Committee

Functions as the prime working interface between the Executive Board and the Administrative Auditor.

Sydney Steinborn*
Frank N. Ward
Carl M. Halvorson (Ex Officio)

Administrative and Public Responsibility Committee

Responsible for personnel matters and matters relating to administration of the Supply System and its relations with the general public, other public agencies and other outside entities.

Paul J. Nolan,*
Robert E. Berney
Neil R. Duffie
Robert C. Olsen
Sydney Steinborn
Carl M. Halvorson (Ex Officio)
Frank N. Ward (Ex Officio)

Audit, Legal and Finance Committee

Responsible for review and oversight of Supply System activities relating to its financial needs, financial management system, finance and investment policies, budget and budget amendments, financial and fiscal auditing activities, real estate activities, insurance activities and legal strategies and policies.

Louis H. Winnard*
Robert E. Berney
Donald R. Clayhold
Ronald D. Mayo
Paul J. Nolan
Carl M. Halvorson (Ex Officio)
Frank N. Ward (Ex Officio)

Construction Committee

Responsible for review and oversight activities of construction of Supply System projects such as budgets, schedules, contracts and change orders, safety, licensing, planning, contracting methods, and design and field engineering.

Neil R. Duffie*
Donald R. Clayhold
Robert C. Olsen
Howard B. Richman
Sydney Steinborn
Carl M. Halvorson (Ex Officio)
Frank N. Ward (Ex Officio)

Operations Committee

Responsible for reviewing activities related directly to the operation of the Supply System power plants such as licensing, safety, operating schedules and plans, and contracts.

Howard B. Richman*
Ronald D. Mayo
Louis H. Winnard
Carl M. Halvorson (Ex Officio)
Frank N. Ward (Ex Officio)

On October 12, 1984, the Board of Directors elected Raymond E. Colbert of Okanogan PUD and Lois Powell of Grays Harbor County PUD to fill vacancies on the Executive Board. They replaced Robert C. Olsen and Howard B. Richman, who both resigned their positions after their respective PUDs withdrew membership in the Supply System.

* chairman of committee