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WASHINGTON PUBLIC POWER SUPPLY SYSTEM

P.O. Box 968 • 3000 George Washington Way • Richland, Washington 99352

Docket No. 50-397 GO2-91-007
Docket No. 50-460 GO1-91-0003
Docket No. 50-508 GO3-91-005

January 15, 1991

U. S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, D. C. 20555

Subject: **SUBMITTAL OF ANNUAL FINANCIAL REPORT - WNP-2 NPF-21, WNP-1 AND WNP-3**

Enclosed are three copies of the Washington Public Power Supply System's 1990 Annual Financial Report for WNP-1, WNP-2 and WNP-3. These reports are being submitted in compliance with 10CFR50.71.

G. C. Sorensen, Manager
Regulatory Programs (280)

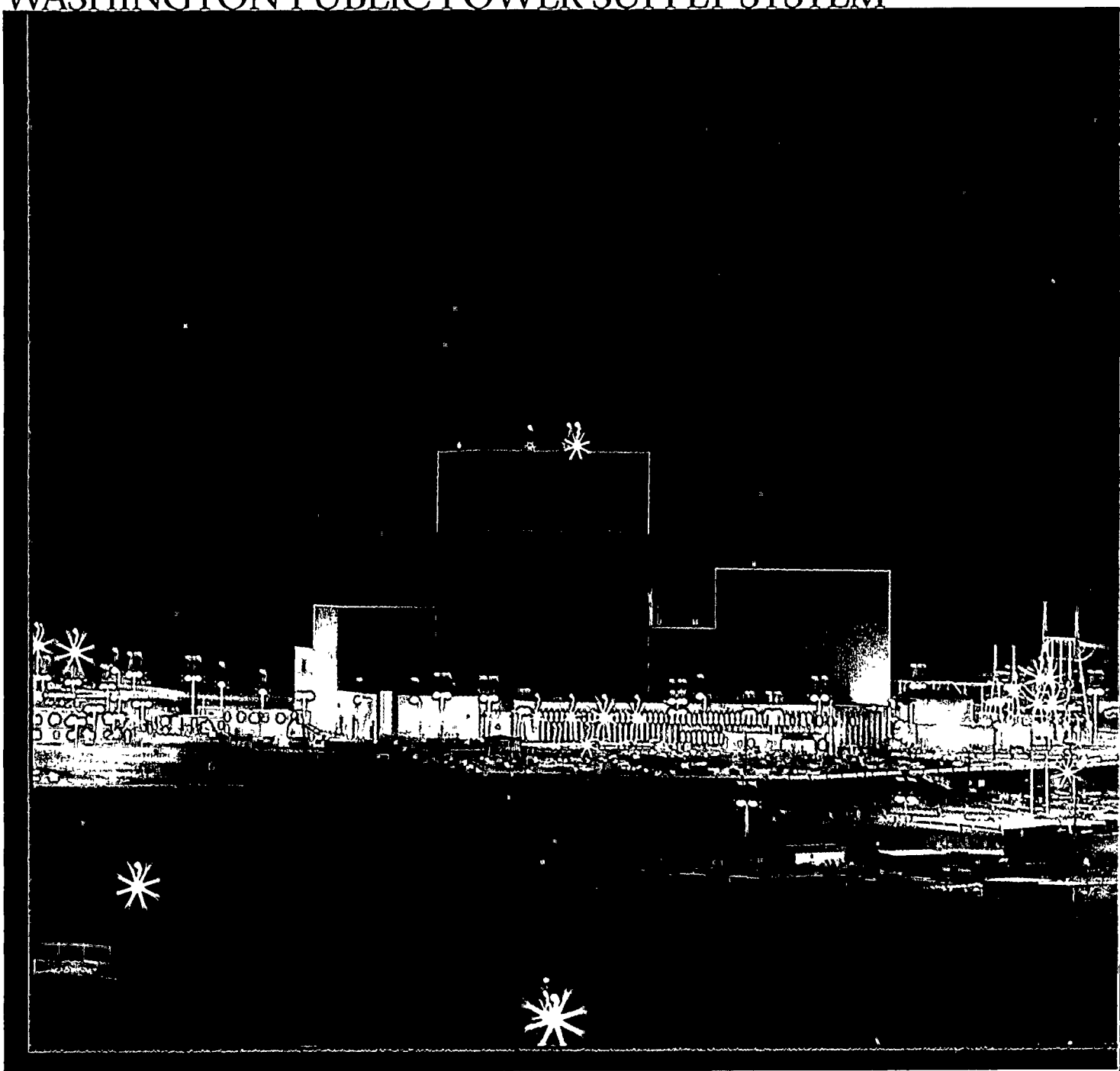
GCS:lg

cc: R. G. Bailey, Puget Sound Power & Light (w/o att)
W. L. Bryan, Washington Water Power (w/o att)
R. E. Dyer, Portland General Electric (w/o att)
P. L. Eng, NRC/NRR (w/att)
T. A. Lockhart, Pacific Power & Light (w/o att)
J. B. Martin, NRC Region V (w/att)
M. M. Mendonca, NRC/NRR (w/att)
N. S. Reynolds, Winston & Strawn (w/att)
R. C. Sorensen, NRC Resident Inspector (w/att)
R. M. Taylor, Ebasco (Elma)(w/o att)
J. Zeller, EFSEC (w/att)
Ebasco-New York (w/o att)

M004
Ltr/Encl.
1/3

1990 ANNUAL REPORT

WASHINGTON PUBLIC POWER SUPPLY SYSTEM



Near the close of the fiscal year, Deputy Managing Director Jack Shannon retired from 16 years service to the Supply System. Jack's contributions will be remembered by many and his loyalty and dedication to the Supply System will be missed.

The Financial Information section of this Annual Report is printed on recycled fiber.

FINANCIAL AND OPERATING HIGHLIGHTS

For the year ended June 30, 1990 Dollars in millions

	FY 1990		FY 1989	
	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT
OPERATING STATISTICS				
Power generation costs *	$449.0	$ 1.2	$452.6	$ 1.2
Net generation (millions of kWh)	6496	102	6034	91
Cost in mills/kWh	69.1	11.5	75.0	12.6
Plant availability	71.0%	100%	66.5%	100%
Plant capacity	67.7%	42.4%	62.9%	37.7%

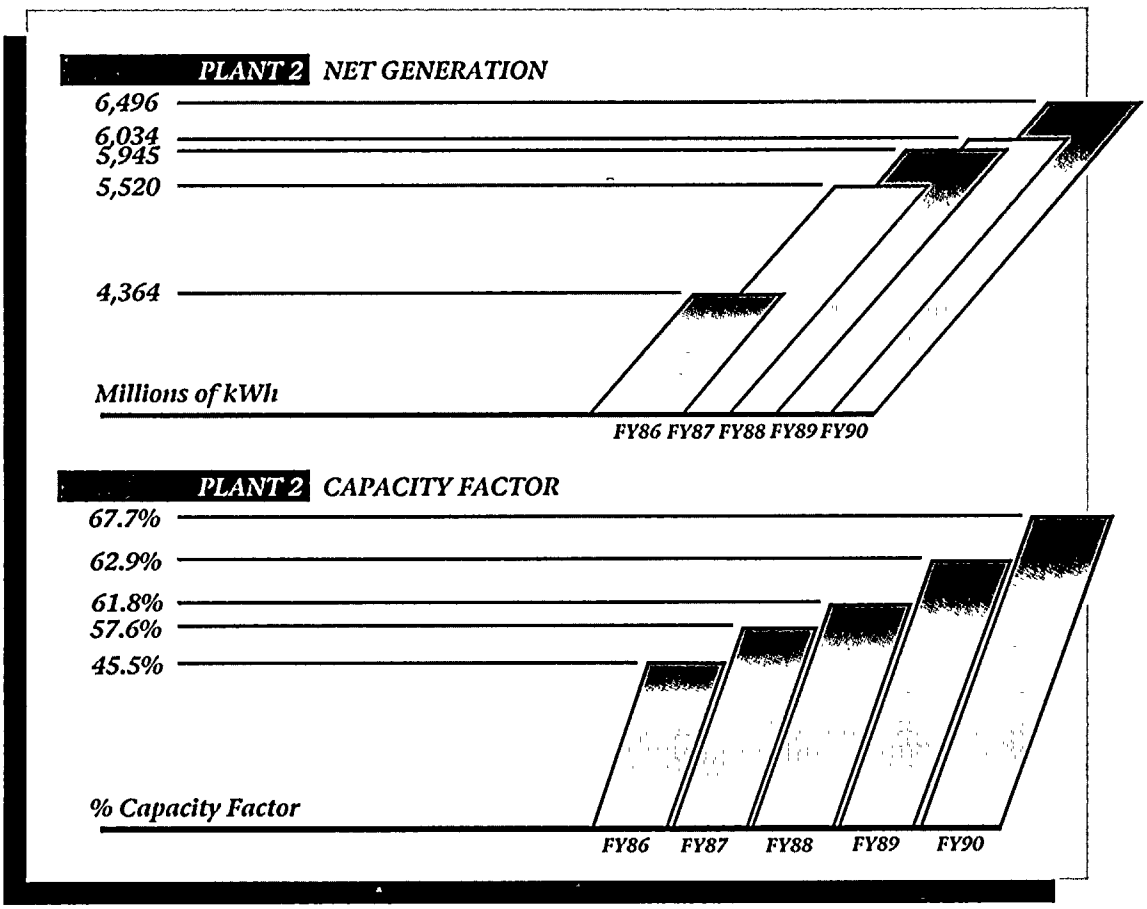
* Excludes litigation related costs and extraordinary items.

OUTSTANDING DEBT

	June 30, 1990	June 30, 1989
Total outstanding principal (excluding WNP - 4/5)	$6,592.0	$5,845.5
Average coupon*	7.68%	9.88%

* Compound interest bonds excluded from average coupon calculation.

As of November 15, 1990, outstanding principal totalled $6,780,839,449, with an average coupon rate of 6.81%. Increased principal resulted from advanced refunding of high-interest Supply System bonds.



A FRUITION OF PROGRAMS

Carl M. Halvorson
Executive Board Chairman

This year has seen the fruition of last year's turnaround programs. The Supply System at that time was in a position to re-enter the bond market after an absence of about eight years. The objective was to refinance billions of dollars of high-interest debt accumulated in the late 1970s and early 1980s. With the sale of about four billion dollars in new bonds, we have now refinanced all debt with interest rates of nine percent and higher. This created net present value savings of nearly one billion dollars, thereby reducing Bonneville Power Administration's future debt service by about 80 million dollars on average per year.

Corollary to this effort, our bond ratings were initially established at AA-/A/AA- by the three agencies who rate municipal bonds. Indications of the bond market's regained confidence in the Supply System and BPA were later evident when, concurrent with our third and fourth bond sales, our ratings were upgraded to AA.

The positive results of the refinancing program were made possible by praiseworthy efforts of our staff and BPA staff working jointly and cooperatively with the Executive Board, underwriters, bond counsels and financial advisors to maximize regional ratepayers' savings.

During the past decade, the region was fortunate to have a surplus of electrical generating supply. Gradually over that period, the surplus has been eroded by increases in population and electrical use. We are now at a position of "resource balance," with future growth rates estimated at between one-and-one-half to two percent per year.

This brings increased attention to WNP-1 and -3, on which construction was delayed eight years ago at completion points of 65 percent and 75 percent, respectively. The Northwest Power Planning Council has determined that future decisions on completion of these facilities will be based on objective comparisons with other options that have potential for meeting future Northwest electrical needs.

The cooperation and support of various regional entities was heartening throughout both our refinancing effort and the regional planning process. The Participants' Review Board, representing all participants in Nuclear Projects 1, 2 and 3, the Public Power Council, with technical representatives from all public utilities, and the Pacific Northwest Utilities Conference Committee, with representatives from all of BPA's customer groups, were key entities that contributed to favorable outcomes in both areas. I look forward to the continued involvement of these groups in major issues that affect the Supply System.

The region's existing resource base is the great hydroelectric system extending throughout the Columbia and Snake River basins, supported significantly by our Plant 2 and the Trojan nuclear power plant. These resources are all integrated by a major transmission grid extending throughout the region. Regional hydroelectric generating facilities are experiencing increased pressures from potentially endangered salmon species and possible climatic changes occurring as a result of global warming. Increasing population growth in areas already experiencing voltage instability is also a reality.

As these various pressures develop, the Supply System will be in a position to play a significant role. ◘

A NEW DECADE OF STRENGTH

Donald W. Mazur
Managing Director

The Supply System's progress during this first year of a new decade continues to demonstrate the strength and competence of our staff and organization. We are well positioned for the 1990s and I am excited about the possibilities for serving our customers and the sense of accomplishment we can anticipate.

Returning to the municipal bond market to refinance $2.9 billion in high-interest debt was one of our most visible accomplishments. We teamed with the Bonneville Power Administration to develop a plan and followed through with a series of six bond sales to reduce debt service on outstanding bonds sold to finance construction of Nuclear Projects 1, 2 and 3.

Our financial advisors and underwriters were "first class" and helped develop excellent investor acceptance of Supply System bonds. We benefited from improved market interest rates and our continued effort to provide the market with needed information. The results through November 1990 shaped our offerings for a successful refinancing of $2.9 billion of bonds previously issued. The cumulative nominal savings were in excess of $1.1 billion.

For the fifth consecutive year, nuclear operations at Plant 2 were highlighted by significant improvements and increased power production. Net electrical generation has steadily increased since the plant began operating in 1984, with a 7.7 percent increase this year alone. Recognizing that limits exist, there is still room for improvement and we are dedicated to achieving it.

Exemplary staff performance was a common characteristic of our many successes this past year. Records set at Plant 2 during its fifth operating cycle are evidence of the high degree of dedication, skill, and commitment to quality displayed by our operations and support staff. Highlights included a record 203-day operating run, exceeding the previous plant record of 133 continuous days set in 1987; a record production of 6.5 billion net kilowatt-hours of electricity, and achievement of a 67.7 percent capacity factor. These are significant accomplishments for a relatively new operating plant and have contributed to our improving assessments from the Nuclear Regulatory Commission and the Institute of Nuclear Power Operations, an industry peer group.

Operations at the Packwood Lake Hydroelectric Project were equally outstanding during the fiscal year when, for the first time in a decade, generation at the facility exceeded 100 million kilowatt-hours. Additionally, Packwood returned nearly $1.7 million to project investors this year — the second highest annual return in more than 25 years of operation.

Continued progress will require that we persistently seek the best from our organization. This involves striving for greater productivity and exercising careful control of expenses to keep the cost of our product, electricity, as low as possible over time.

This fiscal year we also made several changes, including management additions and emphasis on two new program areas: information management and megawatt enhancement. These changes have helped focus responsibility, and strengthened the organization and the way we do business.

Greater employee participation in overall Supply System decision-making and emphasis on quality improvement has also improved the way we do business. We have made a major commitment to seeing that all 1,600 Supply System employees are provided with the tools, skills and opportunities to incorporate quality in every facet of their work. With these and other basic techniques, such as establishing Quality Action Teams, we'll continue to build on our commitment to quality and work toward consistent top performance.

Our vision for the future and how we as an organization can best contribute to the region are key to the Supply System's success throughout the 1990s. Recognizing that it's not just the Plant, it's our People, gives us a good start on the path to that vision. ■

MISSION STATEMENT

EXECUTIVE BOARD

The Washington Public Power Supply System is a joint operating agency formed under the laws of the State of Washington dedicated to serving its members and Public Power. The Supply System undertakes projects, as authorized by its members, to provide a safe, reliable and cost-effective electric power supply. The Supply System conducts its activities consistent with its agreements with and dedication to the Bonneville Power Administration and power purchasers in a manner that is in the best interest of all ratepayers affected by the Supply System and its projects.

EXECUTIVE BOARD

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(Chairman)
President
Halvorson Mason Corp.
Portland

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(Assistant Secretary)
Commissioner
Grant County PUD

KENNETH COCHRANE
Commissioner
Franklin County PUD

JOHN F. COCKBURN
Investor/Consultant
Seattle

SAM J. FARMER
Consultant
Battelle Memorial Institute
Seattle

RAY FOLEEN
(Secretary)
Consultant
Portland

PARKER L. KNIGHT
Commissioner
Skamania County PUD

PAUL J. NOLAN
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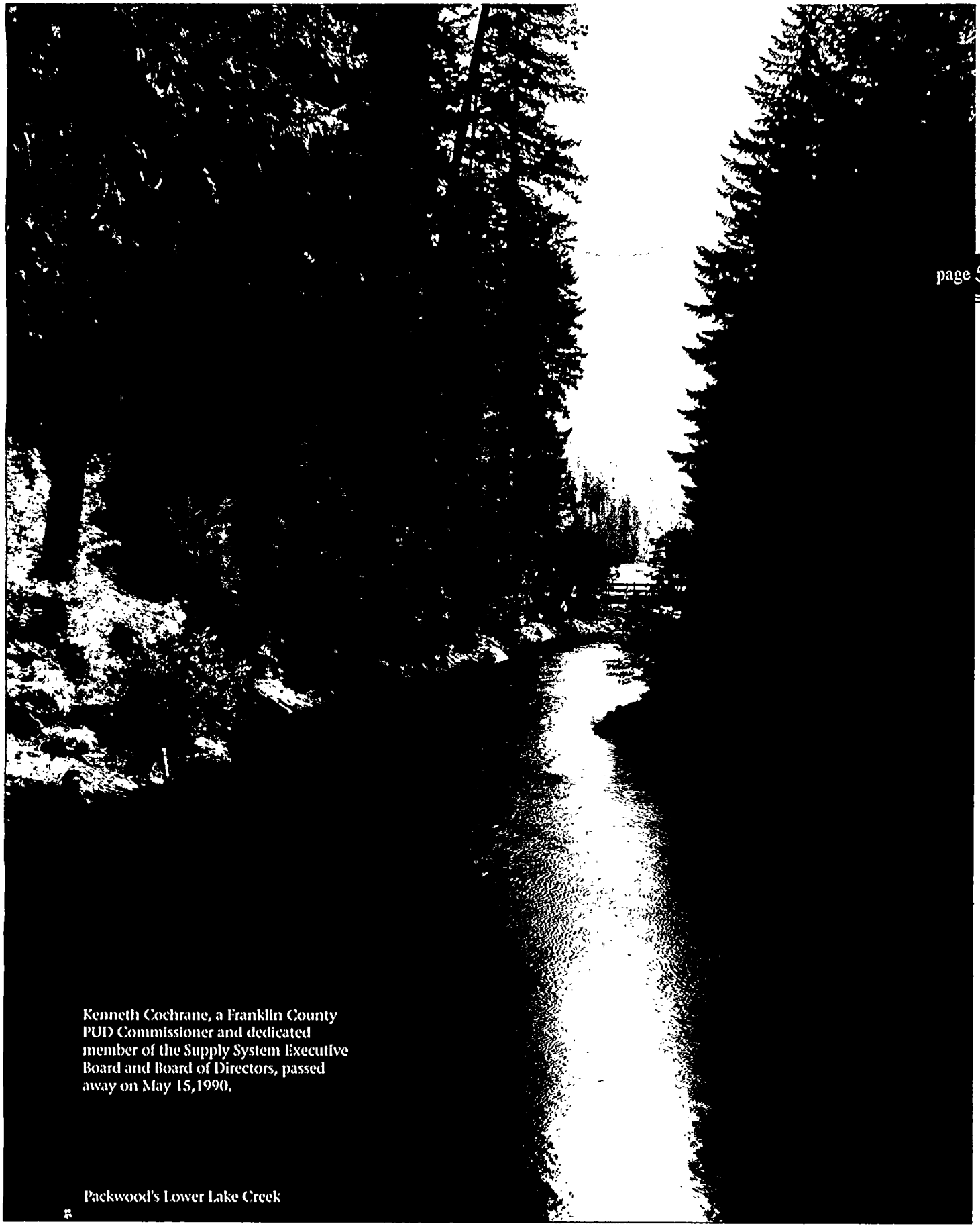
Attorney
Tacoma

WILLIAM D. SCOTT
Commissioner
Chelan County PUD

SYDNEY STEINBORN
Consulting Engineer
Seattle

FRANK N. WARD
Commissioner
Kilckitat County PUD

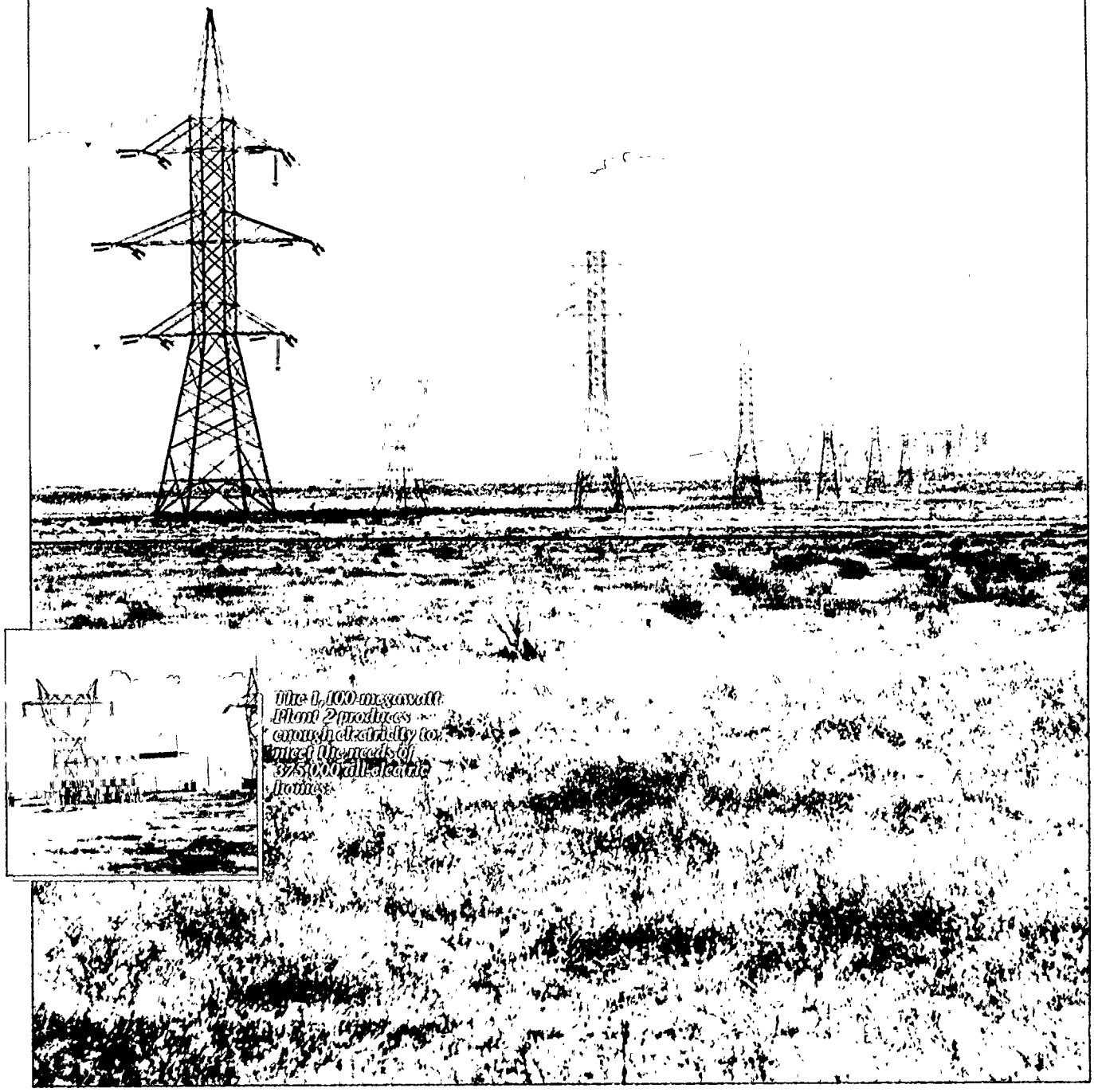


Kenneth Cochrane, a Franklin County PUD Commissioner and dedicated member of the Supply System Executive Board and Board of Directors, passed away on May 15,1990.

Packwood's Lower Lake Creek

FISCAL YEAR 1980

A YEAR OF PERFORMANCE



The 1,100-megawatt Plant 2 produces enough electricity to meet the needs of 375,000 all-electric homes.

As the operator of electrical generating facilities in the Pacific Northwest, the Supply System is well in tune with the region's increasing demand for low-cost electricity and is helping to meet that demand through safe, reliable and cost-effective operation of its power plants.

The Supply System's commitment to helping the Bonneville Power Administration maintain the region's low-cost electric rates is demonstrated through efficient management and sound operation of its Nuclear Power Plant 2 and the Packwood Lake Hydroelectric Project.

Increased net electrical generation by both facilities is among the most notable achievements during fiscal year 1990. A record 6.5 billion kilowatt-hours of electricity generated by Plant 2 exceeded the steadily increasing generation records set during the five previous years of operation. Packwood's generation of 102 million kilowatt-hours of electricity this year marked the first time in a decade that the project surpassed 100 million kilowatt-hours. Together, these increases have significantly contributed to maintaining the cost per kilowatt-hour of electricity at a fairly constant rate.

The achievement of a 67.7 percent capacity factor and a record 203-day operating run at Plant 2 this year are also signs that the various initiatives and improvements put into place are having a positive effect. The Supply System's objective is to build on these successes and continue a trend of operational improvements.

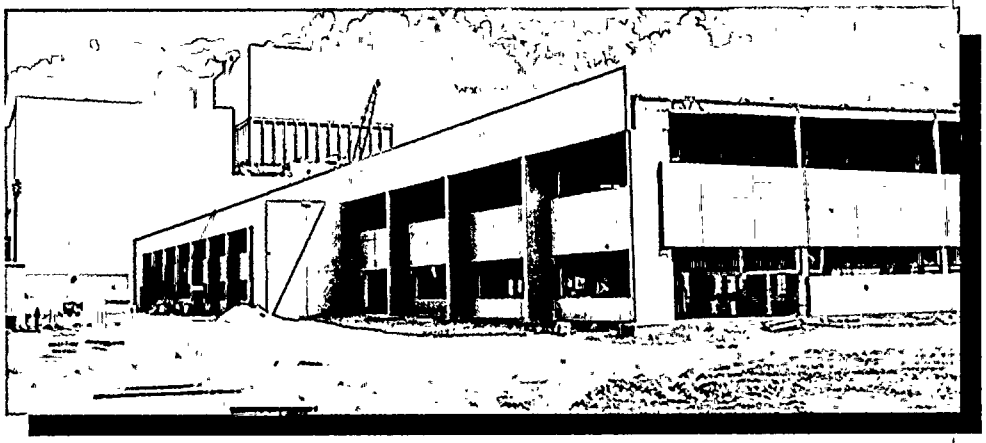
Much attention is also being devoted to increasing Plant 2's electrical output. Plans are under way to replace the plant's three low-pressure turbine rotors, reduce house loads, and make other plant modifications and improvements that will yield increased electrical output. Collectively, there are approximately 150 megawatts of additional electricity that Plant 2 can economically generate. The Supply System's dedication to increased megawatt output, while remaining within the current operating and maintenance budgets, will be a positive step in helping BPA meet regional load demands.

The Supply System is working closely with its Executive Board members on other capital improvement initiatives as well. Construction of a new Plant Engineering Center to support Plant 2 operations remained on schedule and within budget during the fiscal year. Plans are to move engineering and technical staffs into the facility following the scheduled 1991 maintenance and refueling outage.

Acquisition of a new Plant 2 control room simulator, designed and constructed to better meet reactor operator training and licensing requirements, will be delayed until late 1991 because of contractor-specific problems. With approval from the Nuclear Regulatory Commission, the existing simulator will be used until that time without impairing Plant 2's training and licensing programs.

The long-range benefit of these and other improvements being initiated by the Supply System is safe and economic production of needed electricity for the Pacific Northwest.

The success of Plant 2 operations is attributed in part to the ability to detect potential problems and make improvements that lead to the increased safety and reliability of the plant. With a less than 50-day outage in sight this year, problems with one of the plant's diesel-generators forced the plant into an extended annual maintenance and refueling outage to make necessary repairs. Involving outside experts and an out-of-town repair shop, our crews worked day and night to ready the diesel-generator for operation. The hard work and cooperation of those involved in the repair work again demonstrated a staff committed to operating a safe and reliable nuclear power plant in a very responsive way. Photo at left of main generator maintenance.



The new two-story Plant Engineering Center will house about 470 Plant 2 staff in 100,000 square feet of office space. The facility will replace temporary office buildings remaining from construction days.

FISCAL YEAR 1990 SAFEGUARDING OPERATIONS

Packwood Lake

In keeping with the ongoing emphasis on operational safety within the nuclear industry, safety at the Supply System remains a top priority and the basis for several programs designed to protect its employees and the public. The Supply System recognizes safety as an essential factor in maintaining excellent operational performance of its generating facilities, and communicates the importance of working safely through the organization's mission statement and goals and objectives.

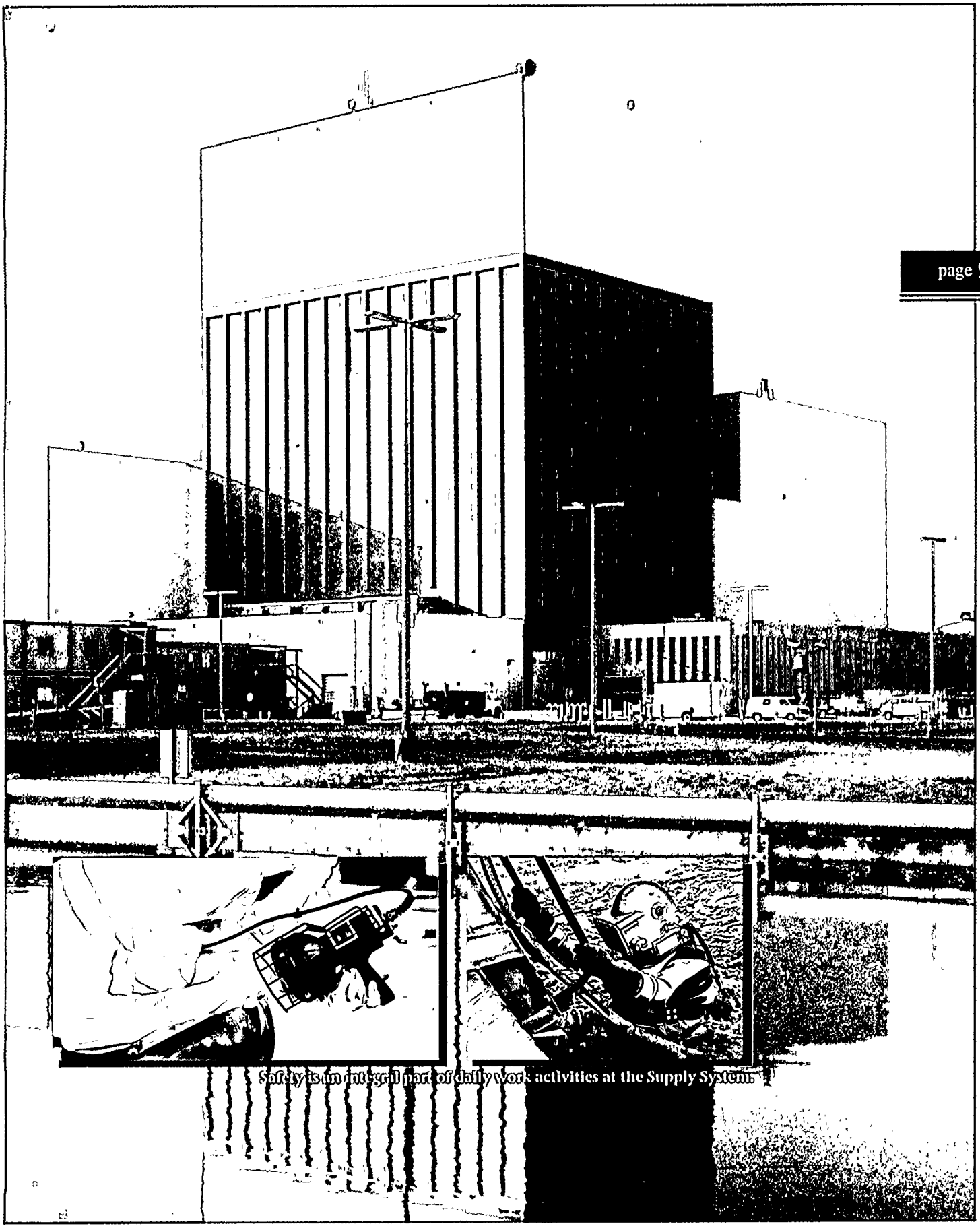
The number of recordable injuries and rate of lost-time accidents are two key indicators used to measure safety performance. During the past five years, the number of recordable injuries at the Supply System has decreased by nearly one half — a noteworthy improvement attributed to an increasing sense of safety awareness among employees. The FY 1990 recordable injury rate of 2.3 or less was met with a 1.73 rate for the year. However, the lost-time injury rate of 0.5 was not achieved by a slight margin. Through increased emphasis on training, communications, and management involvement, the Supply System is continuing to work toward improved safety performance.

The end of FY 1990 coincided with the achievement of another safety goal for the Supply System and its staff of 1,600. For the first time, Supply System employees worked one million hours without a lost-time accident -- a milestone involving total commitment on the part of every employee. We are concentrating on maintaining this commitment, to the benefit of employees and the Supply System.

Additional safeguards were incorporated into the Supply System's existing Fitness-for-Duty program this year with the initiation of random chemical testing for employees with unescorted access to Plant 2 and certain emergency response personnel. Chemical testing at the Supply System was previously restricted to employment candidates, for-cause testing of present employees, and for specific employees participating in a Fitness-for-Duty agreement. While the change was made to comply with a new Nuclear Regulatory Commission requirement for all nuclear utilities, the Supply System recognizes the value of the program in assuring its employees and the public that Plant 2 operates in a drug and alcohol-free environment.

Protecting the health and safety of employees and the public is also the focus of emergency preparedness activities at the Supply System. Each year, representatives from local, state and federal agencies join Supply System emergency response workers in drills and a federally-evaluated exercise designed to test the effectiveness of procedures for handling an emergency at Plant 2. The emergency response team demonstrated its abilities in three drills and one full-scale exercise during FY 1990, an increase of two drills compared to prior years. Frequent practice helps maintain the high level of competency demonstrated by the team in assuring public health and safety in the event of an emergency situation.

The full-scale emergency exercise conducted each year is a requirement for maintaining a license to operate commercial nuclear power plants and is evaluated by the Nuclear Regulatory Commission and the Federal Emergency Management Agency. Representatives from the two regulating agencies this year noted that emergency workers conducted their duties competently and all involved agencies worked together as an effective emergency response team.



Safety is an integral part of daily work activities at the Supply System.

IT'S NOT JUST THE PLANT IT'S THE PEOPLE

Lee Oxsan, the Supply System's newest deputy managing director, has been instrumental in planning almost many improvements and successes both in Plant Operations and throughout the organization.

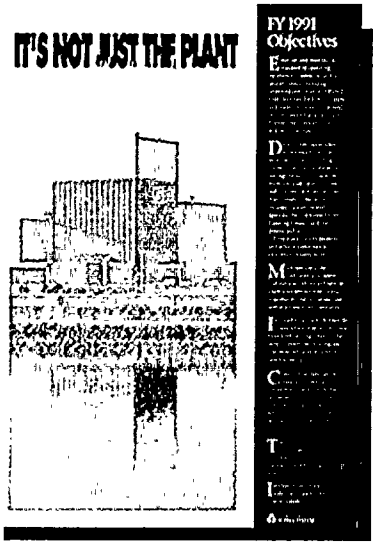
The Supply System views its people as the key to unlocking opportunities and meeting the many challenges experienced by an operator of electrical generating facilities. To best use the individual skills and talents of our employees and to help create a work environment that fosters employee commitment and top work performance, the Supply System has devoted many resources to an organization-wide Quality Improvement effort.

The Quality Advantage training completed by employees and the Quality Management Skills learned by managers and supervisors laid the framework for Quality Improvement. The training introduced the tools and skills necessary to begin improving the way we do business and emphasized the importance of good customer/supplier relationships. Whether it is individuals working one-on-one, or groups working together on a project, there is evidence that the concepts learned in the training are being applied throughout the Supply System.

These concepts have also begun to have a positive impact on the way the Supply System works with its member utilities, project participants and other public power entities. Frequent interaction with these groups, both by Supply System staff, Board of Directors, and Executive Board members, provides many good opportunities for strengthening working relationships.

The success of Quality Improvement at the Supply System to date has added incentive to explore other potential applications that can improve the way we do business. The formation of several new Quality Action Teams, based on the success of early teams, is one example of how Quality Improvement is flourishing. The knowledge and expertise of individual employees, coupled with training on problem-solving techniques, is making a positive difference in finding solutions to challenges in the workplace.

Efforts undertaken by Quality Action Teams range from seeking improvements in broad areas such as organization-wide communications and accountability, to the more specific challenge of improving the coordination of work activities and reduction of equipment problems on Plant 2's refueling level during the annual maintenance and refueling outage. Through dedicated team members and total management support, Quality Action Teams continue to help align Quality Improvement processes with Supply System performance needs.



The important role of each employee in helping to meet Supply System's Goals and Objectives is highlighted in a poster listing the names of all employees.

Supply System employees visit the Plant 2 control room simulator during the second annual Employees' Fair. Employees take pride in establishing booths and displays to share their work with other employees.

The joint Supply System/ Bonneville Power Administration refinancing effort is a prime example of teamwork at its best. Financial experts from both staffs worked closely with financial advisors, underwriters and bond counsels to accomplish the successful refinancing of approximately $2.9 billion in high-interest debt. Through six bond sales completed in November 1990, the region has realized a net present value debt service savings of $990 million.

One of the major, ongoing efforts initiated and continued throughout the refinancing program has been working with the national bond rating services to communicate economic vitality in the region, BPA's enhanced financial flexibility, and lower fixed costs to the federal system. The resulting improvement in bond ratings and excellent investor acceptance of the bonds were evidence of the solid program developed by a team of dedicated and highly qualified professionals.

BOARD OF DIRECTORS

Don Carter
Energy Services Director
City of Richland

Vera Claussen (Secretary)
Commissioner
Grant County PUD

Donald R. Clayhold
Manager
Benton County PUD

Edward E. Coates
Director
Department of Public Utilities
City of Tacoma

Kenneth Cochrane
Commissioner
Franklin County PUD

Randall W. Hardy
Superintendent
Seattle City Light

Parker L. Knight (Vice President)
Commissioner
Skamania County PUD

William G. Kuehne
Commissioner
Ferry County PUD

James G. Rowland
Commissioner
Okanogan County PUD

William D. Scott
Commissioner
Chelan County PUD

Roger C. Sparks (President)
Commissioner
Kittitas County PUD

Arne Torget (Assistant Secretary)
Commissioner
Wahkiakum County PUD

Frank N. Ward
Commissioner
Klickitat County PUD

Grays Harbor County PUD resigned its membership in the Supply System in Sept. 1989.

EXECUTIVE BOARD COMMITTEES

Administrative and Public Responsibility Committee

Vera Claussen, Chairman
Sam J. Farmer
Ray Foleen
Paul J. Nolan
Carl M. Halvorson, Ex Officio

Audit, Legal and Finance Committee

Sam J. Farmer, Chairman
Vera Claussen
John F. Cockburn
Paul J. Nolan
William D. Scott
Carl M. Halvorson, Ex Officio

Administrative (Performance) Audit Committee

Frank N. Ward, Chairman
Kenneth Cochrane
Ray Foleen
Parker L. Knight
Carl M. Halvorson, Ex Officio

Construction Committee

Sydney Steinborn, Chairman
Kenneth Cochrane
Ray Foleen
William D. Scott
Carl M. Halvorson, Ex Officio

Operations Committee

Parker L. Knight, Chairman
John F. Cockburn
Sydney Steinborn
Frank N. Ward
Carl M. Halvorson, Ex Officio

1990 ANNUAL REPORT

FINANCIAL INFORMATION

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

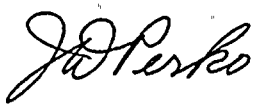
The management of the Supply System is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis, and include amounts that are based on management's best estimates and judgments.

The financial statements have been audited by Deloitte & Touche, the Supply System's independent auditors. Management has made available to Deloitte & Touche all financial records and related data, and believes that all representations made to Deloitte & Touche during its audit were valid and appropriate.

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures.

The Supply System maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, Deloitte & Touche has considered the internal control structure in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and Deloitte & Touche concerning the system of internal control and has taken appropriate action to respond to the recommendations. Management believes that as of June 30, 1990, the system of internal control is adequate.

D. W. Mazur
Managing Director



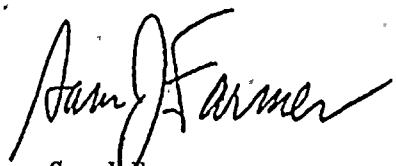
J. D. Perko
Chief Financial Officer

AUDIT, LEGAL AND FINANCE COMMITTEE CHAIRMAN'S LETTER

The Executive Board's Audit, Legal and Finance Committee is composed of five independent directors. Members of the Committee are Sam J. Farmer, Chairman; Vera Claussen; Paul J. Nolan; William D. Scott; John F. Cockburn; and Carl M. Halvorson, Ex Officio. The Committee held twelve meetings during the fiscal year ended June 30, 1990.

The Committee oversees the Supply System's financial reporting process on behalf of the Executive Board. In fulfilling its responsibility, the Committee recommended to the Executive Board the selection of the Supply System's independent auditors, discussed with the internal auditor and the independent auditors the overall scope and specific plans for their respective audits, and reviewed the Supply System's financial statements and the adequacy of the Supply System's internal controls.

The Committee met regularly with the Supply System's internal auditor and independent auditors to discuss the results of their examinations, their evaluations of the Supply System's internal controls, and the overall quality of the Supply System's financial reporting. The meetings were designed to facilitate any private communication with the Committee desired by the internal auditor or independent auditors.



Sam J. Farmer
Chairman, Audit, Legal and Finance Committee

INDEPENDENT AUDITORS' REPORT

Executive Board
Washington Public Power Supply System
Richland, Washington

We have audited the accompanying individual balance sheets of Washington Public Power Supply System's (the Supply System) Nuclear Project No. 2, Packwood Lake Hydroelectric Project, Hanford Generating Project, Nuclear Project No. 1, Nuclear Project No. 3, and Nuclear Projects Nos. 4 and 5 as of June 30, 1990, and the related statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Supply System's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Supply System's individual projects at June 30, 1990, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note E to the financial statements, Nuclear Projects Nos. 1 and 3 are involved in disputes concerning costs shared with Nuclear Projects Nos. 4 and 5. The ultimate amount of additional costs, if any, to be borne by Nuclear Projects Nos. 1 and 3 due to this matter is presently indeterminable. As further discussed in Note D to the financial statements, creditors of Nuclear Projects Nos. 4 and 5 are attempting to obtain payment from assets or funds held by other projects of the Supply System or the revenues pledged thereto. Supply System management is of the opinion that creditor claims can only be realized from the assets, funds, or revenues of the projects to which such claims relate. If it is found that creditors are not limited to payment of their claims from the project to which such claims relate, it may have an impact on the individual projects of the Supply System in amounts which are presently indeterminable.

The Supply System adopted Statement No. 9 of the Governmental Accounting Standards Board, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, for the year ended June 30, 1990, which is a change in presentation from the statement of changes in financial position presented in the prior year.

Deloitte & Touche

Seattle, Washington
September 7, 1990 (except for
Cost Sharing Litigation in Note E
for which the date is October 11, 1990)

BALANCE SHEETS

As of June 30, 1990 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5*
ASSETS						
UTILITY PLANT (NOTE B)						
In service	$3,320,882	$12,414	$67,619	$ 12,054	$ 1,710	
Improvements to U.S. government facilities			22,922			
Allowance for depreciation and amortization	(599,206)	(7,209)	(74,958)	(3,192)	(1,093)	
	2,721,676	5,205	15,583	8,862	617	
Nuclear fuel	170,890			257,683	34,835	
Allowance for amortization	(88,040)					
	82,850			257,683	34,835	
Construction work in progress	23,944			2,246,010	1,828,523	
Terminated projects - net realizable value						$ 3,973
	2,828,470	5,205	15,583	2,512,555	1,863,975	3,973
RESTRICTED ASSETS (NOTE B)						
Special funds						
Cash	14	4	6	425	1,203	356
Investments	38,720	296	3,398	124,762	20,427	5,898
Accounts receivable				5,536	6,616	585
Due from other projects				8,189	251	18,689
Prepayments and other				58	57	17
	38,734	300	3,404	138,970	28,554	25,545
Debt service funds						
Cash	10	26	12	489	46	22
Investments	157,914	623	8,635	248,272	163,499	63,419
	196,658	949	12,051	387,731	192,099	88,986
CURRENT ASSETS						
Cash	1,003	18	4	39	59	
Investments	30,560	1,484	2,891	20,059	77,220	
Accounts receivable	1,630	307		4		
Due from other projects	56			2,206		
Due from other funds	26,627	45	1,337	30,562	18,285	
Materials and supplies	33,486	1	375			
Prepayments and other	2,108	3	4			
	95,470	1,858	4,611	52,870	95,564	
DEFERRED CHARGES						
Costs in excess of billings		2,936				
Unamortized regulatory studies	1,433					
Unamortized debt expense	18,677	15	26	22,543	22,692	
	20,110	2,951	26	22,543	22,692	
TOTAL ASSETS	$3,140,708	$10,963	$32,271	$2,975,699	$2,174,330	$92,959

* Supply System's ownership share (Note A)

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5*
LIABILITIES						
DEFICIENCY IN ASSETS						$(3,690,399)
BILLINGS IN EXCESS OF COSTS	$ 785,038		$10,571	$ 575,673	$ 211,569	
LONG-TERM DEBT (NOTE C)						
Revenue bonds payable	2,309,415	$ 9,041	17,105	2,341,650	1,914,822	
Unamortized discount on bonds - net	(43,326)	(58)	(142)	(52,176)	(49,620)	
	2,266,089	8,983	16,963	2,289,474	1,865,202	
DEBT IN DEFAULT, CURRENTLY PAYABLE (NOTE D)						
Revenue bonds payable						2,250,000
Subordinated revenue notes						66,201
						2,316,201
LIABILITIES - PAYABLE FROM RESTRICTED ASSETS (NOTE B)						
Special funds						
Accounts payable and accrued expenses	11,645			3,911	3,114	25,322
Due to other projects					18,523	8,038
Due to other funds	23,902	20	903	18,849	3,539	
	35,547	20	903	22,760	25,176	33,360
Debt service funds						
Accrued interest payable	1,172	110	185	76,048	54,133	1,429,501
Accounts payable						4,296
Due to other funds	2,725	25	434	11,713	14,746	
	39,444	155	1,522	110,521	94,055	1,467,157
CURRENT LIABILITIES						
Accounts payable and accrued expenses	46,001	57	43	31		
Due to participants	3,573	1,680	207		3,504	
Due to other projects	563	6	2,261			
	50,137	1,743	2,511	31	3,504	
DEFERRED CREDITS						
Deferred gain on redemption of revenue bonds		82	704			
COMMITMENTS AND CONTINGENCIES (NOTE E)						
TOTAL LIABILITIES	$3,140,708	$10,963	$32,271	$2,975,699	$2,174,330	$ 92,959

STATEMENTS OF OPERATIONS

For the year ended June 30, 1990 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NOS. 4/5
OPERATING REVENUES	$ 561,398	$1,173				
OPERATING EXPENSES						
Nuclear fuel	26,429					
Fuel disposal fee	6,521					
Decommissioning	2,566					
Depreciation and amortization	103,618	428				
Operations and maintenance	102,617	484				
Administrative & general	32,316	110				
Taxes	2,432	7				
Total operating expenses	276,499	1,029				
NET OPERATING REVENUES	284,899	144				
OTHER INCOME & EXPENSE						
Non-operating revenues			$2,067	$ 360,080	$ 348,077	$ 5,090
Investment income	18,890	203	1,164	26,048	15,976	5,881
Interest expense and discount amortization	(191,424)	(347)	(683)	(153,683)	(97,293)	(229,014)
Depreciation and maintenance			(2,820)			
Termination and asset disposition expenses						(6,963)
Decrease in recoverable value estimates						(1,087)
Other	(7,035)		272			2,964
NET REVENUES BEFORE EXTRAORDINARY ITEM	105,330	0	0	232,445	266,760	(223,129)
EXTRAORDINARY ITEM						
Loss on bond refunding (Note C)	(105,330)			(232,445)	(266,760)	
NET REVENUES	$ 0	$ 0	$ 0	$ 0	$ 0	$(223,129)

STATEMENTS OF CASH FLOWS

For the year ended June 30, 1990 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NOS. 4/5
CASH FLOWS FROM OPERATING ACTIVITIES						
Net operating revenues	$ 284,899	$ 144				
Adjustments to reconcile net operating revenues to cash provided by operating activities:						
Amortized revenues	(211,232)	1,476				
Depreciation and amortization	130,047	428				
Decommissioning	2,566					
Change in operating assets and liabilities:						
Accounts receivable	1,000					
Materials and supplies	(2,874)					
Prepaid and other assets	(332)	(1)				
Due from/to other projects, funds and participants	(214)	(1,277)				
Accounts payable	8,287	11				
Non-operating revenue receipts			$ 6,372			$ 8,731
Cash payments for non-operating expenses			(353)	$ (5,625)		(6,567)
Distributions of operating surplus			(1,989)	1,680		
Other	(6,834)					
Net cash provided/(used) by operating activities	205,313	781	4,030	(3,945)		2,164
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from bond refundings	604,858			1,107,062	$1,221,759	
Refunded bonds escrow requirement	(568,920)			(1,060,396)	(1,142,838)	
Bond issuance costs paid	(8,635)			(18,026)	(21,604)	
Contributions for construction, preservation and termination	56,576			186,756	118,219	
Cash payments for preservation and termination				(5,720)	(6,149)	
Capital and nuclear fuel acquisitions	(51,115)	(3)				
Interest paid on revenue bonds	(189,257)	(346)	(556)	(181,306)	(122,622)	
Principal paid on revenue bond maturities	(2,900)	(303)		(18,970)	(11,315)	
Net cash provided/(used) by capital and related financing activities	(159,393)	(652)	(556)	9,400	35,450	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	(1,022,436)	(9,813)	(30,028)	(1,013,199)	(817,425)	(300,514)
Sales of investment securities	958,047	9,518	25,824	982,647	765,700	292,891
Interest on investments	17,867	149	741	24,853	15,601	5,374
Net cash provided/(used) by investing activities	(46,522)	(146)	(3,463)	(5,699)	(36,124)	(2,249)
NET INCREASE/(DECREASE) IN CASH	(602)	(17)	11	(244)	(674)	(85)
CASH AT JUNE 30, 1989	1,629	65	11	1,197	1,982	463
CASH AT JUNE 30, 1990 (NOTE B)	$ 1,027	$ 48	$ 22	$ 953	$ 1,308	$ 378

OUTSTANDING LONG-TERM DEBT

As of June 30, 1990 *Dollars in thousands*

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REVENUE BONDS						
1973	6-26-73	5.65%	100	5.10%	7-1-1991	$ 3,000
			100	5.70	7-1-2012	124,400
						127,400
1974	7-23-74	7.21	(B)	6.80-6.90	7-1-91/1994	10,000
			100	7.00	7-1-1999	15,000
			100	7.375	7-1-2012	37,000
						62,000
1974A	11-26-74	7.67	(B)	7.20	7-1-91/1994	8,800
			100	7.40	7-1-1999	15,000
			100	7.75	7-1-2012	78,000
						101,800
1975A	3-6-75	6.88	(B)	6.60	7-1-91/1994	8,100
			100	6.60	7-1-1999	15,000
			100	6.875	7-1-2012	78,000
						101,100
1976	6-3-76	6.63	100	5.80-6.25	7-1-91/1998	16,955
			99.25	6.625	7-1-2006	42,300
			100	6.75	7-1-2012	49,860
						109,115
1976A	11-18-76	5.86	(B)	5.50-5.875	7-1-91/2002	66,050
			100	6.00	7-1-2007	44,815
			99.50	6.00	7-1-2012	60,990
						171,855
1978	7-11-78	6.71	100	5.70-6.60	7-1-91/2000	46,660
			100	6.80	7-1-2006	45,520
			100	6.875	7-1-2012	66,230
						158,410
1979	3-13-79	6.49	(B)	5.50-6.00	7-1-91/1999	39,075
			100	6.40	7-1-2004	33,490
			100	6.75	7-1-2012	83,605
						156,170
1979A	10-17-79	7.69	(B)	6.80-7.30	7-1-91/1999	27,715
			100	7.60	7-1-2004	23,050
			100	7.75	7-1-2012	57,000
						107,765

(A) Based on original issue
(B) Various prices
(C) Excludes amounts due July 1, 1990
(D) Includes amounts due July 1,1990
(E) Compound interest bonds

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REVENUE BONDS (Continued)						
1980	10-21-80	9.63%	118.13	10.90%	7-1-1991	$ 2,660
						2,660
1981A	9-4-81	14.67	100	14.375	7-1-2001	30,000
			59.958	8.25	7-1-2003	100,000
						130,000
1982A	2-11-82	15.04	100	12.00-13.75	7-1-91/1996	23,295
			100	14.50	7-1-2002	51,665
			99.25	14.75	7-1-2012	159,100
						234,060
1982B	5-20-82	13.92	100	12.00-13.00	7-1-91/1996	27,115
						27,115
1982C	5-20-82	14.11	100	13.50	7-1-2002	56,960
			100	13.875	7-1-2012	139,320
						196,280
1990A	3-15-90	7.77	99.75	7.25	7-1-2003	73,705
			98.50	7.50	7-1-2004	61,510
			97.125	7.25	7-1-2006	35,790
			98.75	7.625	7-1-2008	62,215
			96.125	7.375	7-1-2012	189,625
						422,845
1990B	6-7-90	7.69	94.135	7.00	7-1-2012	200,840
						200,840
						$2,309,415 (C)
PACKWOOD LAKE PROJECT REVENUE BONDS						
1962	3-20-62	3.66	99.425	3.625	3-1-2012	6,861
1965	11-4-65	3.76	100.50	3.75	3-1-2012	2,180
						$9,041
HANFORD GENERATING PROJECT REVENUE BONDS						
1963	5-8-63	3.26	98	3.25	9-1-1996	17,105
						$17,105

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 1 REVENUE BONDS						
1975	9-18-75	7.73%	(B)	6.75-7.40%	7-1-90/2000	$ 30,200
			100	7.70	7-1-2010	58,300
			100	7.75	7-1-2017	74,700
						163,200
1976A	2-4-76	6.84	(B)	6.00-6.25	7-1-90/1998	23,415
			100	6.90	7-1-2010	66,485
			100	7.00	7-1-2017	76,495
						166,395
1976B	8-31-76	6.37	100	5.20-5.90	7-1-90/1998	25,790
			100	6.50	7-1-2010	66,940
			99.50	6.50	7-1-2017	71,235
						163,965
1978A	3-21-78	5.69	(B)	5.00-5.50	7-1-90/2002	49,850
			100	5.80	7-1-2010	50,920
			100	5.875	7-1-2017	64,810
						165,580
1978B	12-5-78	6.61	(B)	5.50-6.00	7-1-90/1998	26,745
			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
						168,390
1979	6-19-79	6.64	(B)	6.00	7-1-90/1998	21,020
			100	6.40	7-1-2003	18,560
			100	6.70	7-1-2009	32,370
			100	6.80	7-1-2017	69,685
						141,635
1980A	8-5-80	9.15	100	7.10-8.25	7-1-90/1995	37,500
						37,500
1981D	9-4-81	15.42	100	14.375	7-1-2001	20,000
			60.077	8.25	7-1-2003	30,000
			100	15.00	7-1-2017	60,940
						110,940

(A) Based on original issue
(B) Various prices
(C) Excludes amounts due July 1, 1990
(D) Includes amounts due July 1,1990
(E) Compound interest bonds

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 1 REVENUE BONDS (Continued)						
1982A	2-11-82	15.13%	100	11.50-13.75%	7-1-90/1996	$ 25,255
			100	14.50	7-1-2002	50,645
						75,900
1989A	9-14-89	7.76	100	6.25-7.30	7-1-90/2002	35,375
			98.185	7.00	7-1-2004	27,385
			99.017	7.50	7-1-2007	62,105
			97.759	7.50	7-1-2015	295,575
			82.083	6.00	7-1-2017	95,110
						515,550
1989B	12-7-89	7.44	100	6.70-7.25	7-1-96/2003	31,095
			98.375	7.00	7-1-2005	2,100
			100	7.40	7-1-2009	5,180
			97.25	7.25	7-1-2015	50,040
			98.533	7.125	7-1-2016	41,070
						129,485
1990A	3-15-90	7.73	(B)	6.30-7.60	7-1-92/2005	72,705
			92.75	7.00	7-1-2011	56,770
			81.75	6.00	7-1-2017	55,635
						185,110
1990B	6-7-90	7.75	(B)	7.00-7.20	7-1-99/2003	24,495
			97.979	7.25	7-1-2009	72,770
			98.913	7.25	7-1-2012	56,000
			98.50	7.75	7-1-2017	164,735
						318,000
						$2,341,650 (D)
NUCLEAR PROJECT NO. 3 REVENUE BONDS						
1975	12-3-75	7.87	100	6.45-7.25	7-1-90/1998	18,245
			100	7.875	7-1-2010	52,695
			99.25	7.875	7-1-2018	71,160
						142,100
1976	4-13-76	6.48	(B)	5.50-6.00	7-1-90/1998	13,175
			99.625	6.50	7-1-2010	35,100
			100	6.60	7-1-2018	45,295
						93,570

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 3 REVENUE BONDS *(Continued)*						
1977	7-12-77	5.71%	(B)	5.00-5.50%	7-1-90/2000	$ 45,125
			99.50	5.70	7-1-2009	63,535
			99.50	5.80	7-1-2018	107,160
						215,820
1978	9-12-78	6.27	(B)	5.90-6.00	7-1-90/2004	56,800
			100	6.375	7-1-2010	42,985
			99	6.40	7-1-2018	90,630
						190,415
1981A	2-11-81	11.18	102.62	9.50	7-1-90	2,695
						2,695
1982A	2-11-82	15.22	100	11.50	7-1-90	500
						500
1982B	5-20-82	14.24	100	11.50	7-1-90	775
						775
1989A	9-14-89	7.43	100	6.25-7.30	7-1-90/2002	34,320
			(B)	(E)	7-1-2003/2014	19,684
			98.533	7.25	7-1-2016	98,340
			84.75	6.00	7-1-2018	54,570
						206,914
1989B	12-7-89	7.39	100	6.40-7.15	7-1-93/2001	84,480
			(B)	(E)	7-1-2004/2014	74,013
			98.375	7.00	7-1-2005	85,690
			100	7.40	7-1-2009	29,235
			97.25	7.25	7-1-2015	226,230
			98.533	7.125	7-1-2016	76,145
			79.755	5.50	7-1-2017	62,560
			79.525	5.50	7-1-2018	65,905
						704,258
1990B	6-7-90	7.57	(B)	6.30-7.25	7-1-91/2000	154,680
			(B)	(E)	7-1-2001/2010	39,290
			98.923	7.375	7-1-2004	55,920
			98	7.50	7-1-2018	107,885
						357,775
						$1,914,822 (D)

(A) Based on original issue
(B) Various prices
(C) Excludes amounts due July 1, 1990
(D) Includes amounts due July 1,1990
(E) Compound interest bonds

DEBT-SERVICE REQUIREMENTS
TRANSFERS TO BOND FUND ACCOUNTS

As of June 30, 1990 Dollars in thousands

FISCAL YEAR	NUCLEAR PROJECT NO. 2* PRINCIPAL	NUCLEAR PROJECT NO. 2* INTEREST	NUCLEAR PROJECT NO. 2* TOTAL	PACKWOOD LAKE PROJECT* PRINCIPAL	PACKWOOD LAKE PROJECT* INTEREST	PACKWOOD LAKE PROJECT* TOTAL	HANFORD GENERATING PROJECT* PRINCIPAL	HANFORD GENERATING PROJECT* INTEREST	HANFORD GENERATING PROJECT* TOTAL
1991	$ 12,784	$ 195,073	$ 207,857	$ 83	$ 331	$ 414	$ 5,318	$424	$ 5,742
1992	32,345	192,614	224,959	293	327	620	5,793	246	6,039
1993	34,780	190,211	224,991	305	316	621	1,639	58	1,697
1994	37,445	187,569	225,014	320	305	625	134	4	138
1995	40,375	184,663	225,038	333	293	626			
1996	43,595	181,457	225,052	347	281	628			
1997	60,930	177,924	238,854	367	269	636			
1998	66,845	171,972	238,817	387	255	642			
1999	73,705	165,339	239,044	422	241	663			
2000	79,610	159,144	238,754	473	226	699			
2001	90,435	152,239	242,674	498	208	706			
2002	94,120	144,269	238,389	523	190	713			
2003	151,230	135,704	286,934	548	171	719			
2004	148,395	124,353	272,748	573	151	724			
2005	83,740	112,802	196,542	599	130	729			
2006	136,595	105,829	242,424	623	108	731			
2007	139,215	94,814	234,029	648	86	734			
2008	150,935	82,993	233,928	674	62	736			
2009	164,180	70,052	234,232	572	37	609			
2010	177,500	55,928	233,428	274	16	290			
2011	170,955	40,489	211,444	122	6	128			
2012	299,685	25,151	324,836	43	2	45			
2013									
2014									
2015									
2016									
2017									
2018									
	$2,289,399	$2,950,589	$5,239,988	$9,027	$4,011	$13,038	$12,884	$732	$13,616

* Excludes amounts remaining in Bond Fund accounts as of June 30, 1990 to be used to satisfy fiscal year 1991 sinking fund requirements.

DEBT-SERVICE REQUIREMENTS
TRANSFERS TO BOND FUND ACCOUNTS

As of June 30, 1990 Dollars in thousands

FISCAL YEAR	NUCLEAR PROJECT NO. 1** PRINCIPAL	INTEREST	TOTAL	NUCLEAR PROJECT NO. 3** PRINCIPAL	INTEREST	TOTAL	NUCLEAR PROJECTS NOS. 4/5*** PRINCIPAL	INTEREST	TOTAL
1991	$ 24,455	$ 166,817	$ 191,272	$ 17,995	$ 118,605	$ 136,600	$2,250,000	$1,315,329	$3,565,329
1992	26,905	171,378	198,283	25,715	118,100	143,815			
1993	28,910	169,495	198,405	30,745	116,517	147,262			
1994	30,560	167,412	197,972	32,720	114,592	147,312			
1995	32,365	165,154	197,519	34,875	112,495	147,370			
1996	35,705	162,705	198,410	40,505	110,230	150,735			
1997	39,925	160,061	199,986	29,395	107,560	136,955			
1998	42,590	156,645	199,235	27,310	105,633	132,943			
1999	58,315	152,894	211,209	61,215	103,839	165,054			
2000	62,795	148,199	210,994	65,910	99,605	165,515			
2001	68,160	143,039	211,199	64,265	101,617	165,882			
2002	67,525	137,322	204,847	68,247	97,898	166,145			
2003	59,040	131,449	190,489	70,247	96,428	166,675			
2004	70,615	127,299	197,914	53,836	108,279	162,115			
2005	62,820	122,295	185,115	54,771	106,649	161,420			
2006	80,155	117,755	197,910	55,647	104,797	160,444			
2007	85,920	111,990	197,910	50,611	104,928	155,539			
2008	92,115	105,795	197,910	52,296	103,248	155,544			
2009	98,775	99,137	197,912	54,233	101,306	155,539			
2010	105,940	91,977	197,917	56,382	99,155	155,537			
2011	130,545	84,287	214,832	74,894	88,011	162,905			
2012	140,100	74,725	214,825	88,817	83,785	172,602			
2013	150,285	64,540	214,825	94,118	78,494	172,612			
2014	161,640	53,182	214,822	99,835	72,768	172,603			
2015	174,330	40,495	214,825	133,705	38,903	172,608			
2016	187,320	27,503	214,823	143,140	29,467	172,607			
2017	200,590	14,238	214,828	153,150	19,459	172,609			
2018				162,580	10,025	172,605			
	$2,318,400	$3,167,788	$5,486,188	$1,897,159	$2,552,393	$4,449,552	$2,250,000	$1,315,329	$3,565,329

** Excludes payments of bond fund principal and interest made on July 1, 1990, and amounts remaining in Bond Fund accounts as of June 30, 1990 to be used to satisfy fiscal year 1991 sinking fund requirements.

*** Excludes principal and interest on subordinated revenue notes; refer to Note D - Nuclear Projects Nos. 4 and 5 Termination, Bond Default and Litigation, and Note E - Commitments and Contingencies.

Note A–General

ORGANIZATION

The Washington Public Power Supply System (Supply System), a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 1990, its membership consisted of 10 public utility districts and the cities of Richland, Seattle, and Tacoma. All members own and operate electric systems within the State of Washington. The Supply System has no taxing authority.

SUPPLY SYSTEM PROJECTS

The Supply System operates Nuclear Project No. 2, a 1,100 MWe generating plant completed in 1984, and the Packwood Lake Hydroelectric Project (Packwood), a 27.5 MWe plant completed in 1964.

The Hanford Generating Project (HGP), a 860 MWe plant which used by-product steam from the Department of Energy's dual-purpose New Production Reactor (N-Reactor), was completed in 1966 and operated through 1986. In January 1987, the N-Reactor was shut down for safety improvements. In October 1989, the Department of Energy placed the N-Reactor in dry lay-up status for an undetermined length of time, eliminating HGP's present energy source.

Nuclear Project No. 1, a 1,250 MWe plant, is 65 percent complete and is in the ninth year of a construction delay. Nuclear Project No. 3, a 1,240 MWe plant, is 75 percent complete and is in the eighth year of a construction delay. Nuclear Project No. 1 is wholly owned by the Supply System. Nuclear Project No. 3 is jointly owned, 70 percent by the Supply System and 30 percent by four investor-owned utilities (Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company).

Nuclear Projects Nos. 4 and 5 were terminated on January 22, 1982 and are currently in an asset sales phase. The asset sales program was completed in August 1990. Nuclear Project No. 4 is wholly owned by the Supply System. Nuclear Project No. 5 is jointly owned, 90 percent by the Supply System and 10 percent by Pacific Power & Light Company.

Each Supply System project is financed and accounted for as a utility system separate from all other current or future projects with the exception of Nuclear Projects Nos. 4 and 5 which are treated as one utility system.

More than 100 Northwest utilities have purchased all of the project capability of Nuclear Projects Nos. 1, 2 and the Supply System's 70 percent ownership share of Nuclear Project No. 3. Pursuant to the terms of their purchase agreements, they are obligated to pay the annual costs of each project, including debt service, whether or not the project is completed, operable or operating and notwithstanding the suspension, reduction or curtailment of project output. These project participants have resold such capability to the Bonneville Power Administration (BPA) and in return BPA is obligated to pay annual costs of these projects, including debt service, by a procedure referred to as net-billing. Under net-billing, project participants pay the Supply System their respective shares of annual costs and BPA pays project participants identical amounts by reducing amounts due to BPA by participants under power sales agreements.

Eighty-eight project participants in Nuclear Projects Nos. 4 and 5 were originally obligated by contract to pay annual costs of Nuclear Projects Nos. 4 and 5, including debt service, whether or not the projects were completed. However, these contracts have been declared invalid. BPA has no obligation with respect to annual costs of Nuclear Projects Nos. 4 and 5.

All electrical energy produced by Supply System projects is delivered to electrical distribution facilities owned and operated by BPA as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electrical utility systems throughout the Northwest, including participants in Supply System projects, for ultimate distribution to consumers. BPA is obligated by law to establish rates for electric power which will recover the cost of acquisition (including all payments under net-billing agreements), and its other costs.

Note B–Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The Supply System has adopted accounting policies and practices that are in accordance with generally accepted accounting principles applicable to governmental utilities. Accounts are maintained in accordance with the uniform system of accounts of the Federal Energy Regulatory Commission. Separate funds and books of account are maintained for each utility system. Payment of obligations of one utility system with funds of another utility system

is prohibited, and would constitute a violation of bond resolution covenants.

UTILITY PLANT

Utility plant is stated at original cost, and is depreciated by the straight-line method over the estimated useful lives of the various classes of plant in service. Improvements to U.S. government-owned facilities are amortized over the period covered by the contract for dual-purpose operation of the U.S. Department of Energy's N-Reactor.

During the normal construction phase of a project, the Supply System's policy is to capitalize all costs relating to the project, including interest expense (net of interest income), and administrative and general expense.

The Supply System discontinued capitalizing interest expense (net) applicable to Nuclear Projects Nos. 1 and 3 effective July 1, 1984 because of the extended delay of these projects. The interest expense, which is funded by payments under net-billing agreements, will not be capitalized during the delay period.

The asset values of Nuclear Projects Nos. 4 and 5 have been reduced to estimated net realizable values, which are based on Supply System staff estimates. Interest expense, termination expenses and asset disposition costs are charged to current operations.

NUCLEAR FUEL

All expenditures related to the purchase of nuclear fuel are capitalized and carried at cost. Starting at such time the fuel is placed in the reactor, the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. Current period operating expense for Nuclear Project No. 2 includes a charge for future spent nuclear fuel storage and disposal to be provided by the Department of Energy in accordance with the Nuclear Waste Policy Act of 1982. No provision has been made for additional storage and disposal costs which may be incurred by the Supply System prior to transfer of spent fuel to the Department of Energy.

Under certain exchange agreements, the Supply System has transferred to third parties approximately 2.1 million pounds of Nuclear Project No. 1 uranium concentrates (U_3O_8) with a cost of $62.3 million. In return the Supply System will receive, in future years, equivalent quantities of uranium hexafluoride (UF_6). These exchange agreements have been secured by bank letters of credit at current market value, adjusted semiannually. The cost of this uranium is included in the carrying amount of Nuclear Project No. 1 nuclear fuel.

RESTRICTED ASSETS

In accordance with project bond resolutions and related agreements, separate restricted funds are established for each of the projects. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance, termination, and decommissioning.

CASH AND INVESTMENTS

Cash and investments for each utility system are separately maintained. The Supply System's deposits are insured by federal depository insurance or through the Washington Public Deposit Protection Commission. Supply System investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association, Federal Home Loan Banks, Farm Credit System, and Federal Home Loan Mortgage Corporation. Investments are stated at amortized cost and include accrued interest. The combined carrying value of investments for all projects at year-end (including accrued interest) approximates market value.

In accordance with Statement No. 9 of the Governmental Accounting Standards Board, statements of cash flows have been presented for the year ended June 30, 1990. For purposes of the statements of cash flows, the term "cash" includes unrestricted and restricted cash balances. Short-term, highly-liquid investments are not considered cash equivalents.

MATERIALS AND SUPPLIES

Materials and supplies are valued at cost, using weighted-average methods.

FINANCING EXPENSE AND BOND DISCOUNT

Financing expense and bond discount are amortized to operating cost over the terms of the respective bond issues.

CURRENT MATURITY OF REVENUE BONDS

Current maturities of revenue bonds payable are reflected in Long-Term Debt- Revenue Bonds Payable, and funding of current maturities is reflected in Restricted Assets - Debt Service Funds.

REVENUES - OPERATING PROJECTS AND DELAYED PROJECTS

In accordance with bond resolutions, the Supply System is authorized to recover actual cash requirements for operations and debt service for each project over the life of the project. Accordingly, the Supply System records revenues equal to operating costs for each period. No net income or loss is recognized, and no equity is accumulated.

The difference between cumulative revenues received and cumulative operating costs is reported on the balance sheet as either billings in excess of costs (liability) or as costs in excess of billings (deferred charge), as appropriate. Such amounts will be recorded as revenues, or costs, during future operating periods.

DECOMMISSIONING

Estimated Nuclear Project No. 2 decommissioning costs are being accrued and funded currently. Monthly payments are made into a sinking fund which, with accumulated interest, is expected to be adequate to fund decommissioning costs at the end of the 40-year plant operating life. Decommissioning costs are currently estimated at $403 million (in 1987 dollars). Payments to the decommissioning fund for the year ended June 30, 1990 aggregated $2,566,000 and the balance of the fund at June 30, 1990 was $8,275,183.

RETIREMENT PLAN

Substantially all Supply System full-time employees participate in the statewide local government Public Employees' Retirement System (PERS). PERS is a contributory multi-employer cost-sharing retirement system administered by the State of Washington through the Department of Retirement Systems.

PERS contains two plans. Plan I members (employed on or before September 30, 1977) may retire with full benefits at age 60 with at least five years of credited service, at age 55 with 25 years of service, or upon reaching 30 years of service regardless of age. Plan II members (employed after September 30, 1977) may retire with full benefits at age 65 with at least five years of credited service, or with actuarially reduced benefits at age 55 with 20 years of service.

The Office of the State Actuary, using methods prescribed by statute, determines actuarially required contribution rates. However, the rates actually levied are determined by the legislature. Contribution rates are not necessarily adequate to fully fund the plan. While the Supply System's contributions for the year ended June 30,1990 of $4,646,696 on a covered payroll of $71,256,983 represent its full liability under the system, any unfunded future pension benefit obligation could be reflected in future years as higher contribution rates. As of December 31, 1988 (the latest actuarial valuation date) the pension benefit obligation of PERS, which is the actuarial present value of credited projected benefits adjusted for the effects of projected salary increases, was $6.7 billion. As of the same date, the value of net assets available to satisfy present and future pension benefit obligations was $5.3 billion.

Contributions for the year ended June 30, 1990 were as follows:

	Plan I		Plan II	
	Rate	Amount	Rate	Amount
Employer Contributions				
Actuarially determined requirement	8.51%	$1,251,433	7.23%	$4,088,679
Actual Supply System contributions	6.50%	$ 955,649	6.53%	$3,691,047
Employee Contributions				
Actuarially determined requirement	6.00%*	$ 882,679	4.79%	$2,708,819
Actual employee contributions	6.00%	$ 882,679	4.67%	$2,642,028

* Fixed at 6.00%

Note C–Long-Term Debt

Except for Nuclear Projects Nos. 4 and 5, which were financed together as one utility system, all Supply System projects are financed separately. The resolutions of the Supply System authorizing issuance of revenue bonds for each project provide that such bonds are payable solely from the revenues of that project.

During the year ended June 30, 1990, the Supply System issued $3.037 billion in net-billed bonds for Nuclear Projects Nos. 1, 2 and 3 to advance refund $2.261 billion of outstanding bonds with an average interest rate of 12.9 percent. The net proceeds of the new issues were deposited in separate irrevocable trusts under the control of escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

Although the advance refundings resulted in the recognition of an accounting loss for the year ended June 30, 1990, the aggregate debt service payments for Nuclear Projects Nos. 1, 2 and 3 have been reduced resulting in an economic gain (difference between the present values of the old and new debt service payments) of $261 million, $104 million, and $312 million, respectively.

A summary of fiscal year 1990 bond refundings by project and series is presented on the following page. Outstanding revenue bonds of the various projects as of June 30, 1990, are presented on pages 20 through 24, and debt service requirements for these bonds are presented on pages 25 and 26.

SECURITY–NUCLEAR PROJECTS NOS. 1, 2 AND 3

Project participants have purchased all of the project capability of Nuclear Projects Nos. 1 and 2 and the Supply System's 70 percent ownership share of Nuclear Project No. 3. The Department of Energy, acting by and through BPA, has in turn acquired the entire project capability from the project participants under contracts referred to as net-billing agreements. Under the net-billing agreements for each of the projects, project participants are obligated to pay the Supply System their pro rata share of total annual

FISCAL YEAR 1990 BOND REFUNDINGS

Dollars in thousands	Series 1989A	Series 1989B	Series 1990A	Series 1990B	All Series
NUCLEAR PROJECT NO. 1					
Size of issue	$515,550	$129,485	$185,110	$318,000	$1,148,145
Amount of bonds refunded	396,420	108,580	154,500	204,060	863,560
Accounting loss	94,927	20,974	14,370	102,174	232,445
Reduction in aggregate debt service payments	348,160	27,160	5,598	95,768	476,686
NUCLEAR PROJECT NO. 2					
Size of issue			422,845	200,840	623,685
Amount of bonds refunded			354,090	135,900	489,990
Accounting loss			44,043	61,287	105,330
Reduction in aggregate debt service payments			12,210	34,817	47,027
NUCLEAR PROJECT NO. 3					
Size of issue	205,898	701,566		357,695	1,265,159
Amount of bonds refunded	148,500	465,925		292,735	907,160
Accounting loss	39,727	174,140		52,893	266,760
Reduction in aggregate debt service payments	150,406	308,284		52,369	511,059

costs of the respective projects, including debt service on bonds relating to each project, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA by participants under BPA power sales agreements. The net-billing agreements provide that project participants and BPA are obligated to make such payments whether or not the projects are completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output. The validity of the net-billing agreements was challenged in November 1982. In May 1983, the U.S. District Court of Oregon declared that the net-billing agreements were binding, and this decision was upheld on appeal.

SECURITY–NUCLEAR PROJECTS NOS. 4 AND 5

In connection with the issuance of the generating facilities revenue bonds for Nuclear Projects Nos. 4 and 5, the Supply System pledged the revenues to be derived under participants agreements with 88 utilities operating principally in the 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 Nos. 4 and 5 termination costs and debt service were due beginning January 25, 1983. As a result of a ruling by the Washington State Supreme Court declaring the participants agreements invalid, payments due under the participants agreements were not made and an event of default, as defined in the bond resolution, occurred on July 22, 1983 (see Note D).

SECURITY–HANFORD GENERATING PROJECT

It was initially intended that Nuclear Project No. 1 be constructed next to the Hanford Generating Project (HGP) to provide the energy source to operate the project when the Department of Energy ceased operation of the N-Reactor. To allow for construction of Nuclear Project No. 1, it would have been necessary to shut down HGP 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 HGP 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 HGP.

The amended agreements provide for the payment of all HGP debt service costs, net of investment income, by Nuclear Project No. 1 participants, beginning July 1, 1980, regardless of continued operation of the N-Reactor, and that other costs, to the extent not otherwise provided for, be treated as Nuclear Project No. 1 costs with HGP having a first claim on the revenues of that project.

SECURITY–PACKWOOD LAKE HYDROELECTRIC PROJECT

Under power sales agreements, 12 member purchasers have purchased all of the project capability of Packwood. The member purchasers are obligated to pay annual costs

of the project, including debt service, whether or not the project is operable, until outstanding bonds are paid or provision is made for the retirement in accordance with provisions of the bond resolution.

Note D–Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation

In January 1982, the Supply System's Nuclear Projects Nos. 4 and 5 were terminated when construction was 24 percent and 16 percent complete, respectively. The Supply System had previously issued $2.25 billion of bonds to pay costs of the projects.

The participants agreements (discussed in Note C under Security–Nuclear Projects Nos. 4 and 5) provided 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 of 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, thus invalidating the agreements. The Supply System and Chemical Bank, trustee for Nuclear Projects Nos. 4 and 5 bondholders, petitioned the U.S. Supreme Court for grant of a writ of certiorari by which the state court decision might be reviewed by that court. Grant of the writ was denied by the U.S. Supreme Court on April 29, 1985.

On July 22, 1983, the Supply System acknowledged that it could not pay Nuclear Projects Nos. 4 and 5 obligations as they became due. This admission represented an event of default under the Nuclear Projects Nos. 4 and 5 bond resolution. On July 25, 1983, Chemical Bank, as bond fund trustee, demanded that all remaining project funds be transferred to it to be held in a special account. On August 18, 1983, Chemical Bank declared the principal of all Nuclear Projects Nos. 4 and 5 revenue bonds and interest accrued thereon to be due and payable immediately.

In early 1983, a number of securities fraud class actions were filed in federal courts on behalf of purchasers of Nuclear Projects Nos. 4 and 5 bonds. Other suits by plaintiffs on their own behalf were filed in federal and state courts. The defendants named included the Supply System, its member utilities, and Nuclear Projects Nos. 4 and 5 participants. The lawsuits alleged violations of federal and state securities law, fraud, misrepresentation, negligence and breach of contract, and sought monetary damages, rescission and restitution. The federal actions were consolidated in a single multidistrict proceeding in the United States District Court for the Western District of Washington under the caption *In re WPPSS Securities Litigation, MDL 551 (MDL 551).*

In August 1983, Chemical Bank filed a lawsuit in United States District Court for the Western District of Washington, on behalf of all Nuclear Projects Nos. 4 and 5 bondholders, against the Supply System, all Nuclear Projects Nos. 4 and 5 participants, and Supply System member utilities. The lawsuit alleged claims and sought relief similar to that alleged and sought in *MDL 551.*

Another lawsuit, *Haberman v. WPPSS, et al. (Haberman)*, was filed against the Supply System and others in a Washington State court by a number of Nuclear Projects Nos. 4 and 5 bondholders alleging substantially the same allegations as were made in the federal cases.

The lawsuits described above sought to recover the bondholders' investment in the principal amount of $2.25 billion, plus unspecified damages, interest, costs and attorneys' fees.

In September 1988, the Supply System's Executive Board approved an agreement in principle to settle claims against the Supply System in *MDL 551*, the Chemical Bank litigation, and related litigation including the *Haberman* action. A definitive agreement has been executed. The agreement provides for entry of judgment dismissing with prejudice any and all claims which have been, could have been, or might in the future be asserted against the Supply System by members of the classes in *MDL 551*, by Nuclear Projects Nos. 4 and 5 bondholders represented by Chemical Bank, or by bond purchasers in any other action arising out of the subject matter of *MDL 551.*

The agreement calls for the Supply System to consent to future entry of a judgment on the contract claim on the Nuclear Projects Nos. 4 and 5 bonds brought by *MDL 551* class plaintiffs and Chemical Bank. All other claims against the Supply System are to be dismissed. The amount of said judgment shall be equal to the aggregate unpaid principal amount of the Nuclear Projects Nos. 4 and 5 bonds and accrued interest thereon at the time the judgment is entered. As of June 30, 1990, the amount of such accrued interest was approximately $1.315 billion. That judgment shall be entered only upon a final judgment or final settlement of all claims in *MDL 551* and the Chemical Bank litigation. Recourse for satisfaction of the judgment is expressly limited as provided in the Nuclear Projects Nos. 4 and 5 bond resolution to the funds and assets of the Supply System pledged to secure the Nuclear Projects Nos. 4 and 5 bonds.

All defendants in *MDL 551* and the Chemical Bank litigation have reached agreements to settle claims against them. The total amount to be paid under these settlements in *MDL 551* exceeds $650 million, not including past payments by the Supply System and future payments from the proceeds of asset sales of Nuclear Projects Nos. 4 and 5, and not including proceeds of certain insurance claims assigned by defendants to plaintiffs.

In April 1989, certain present holders of Nuclear Projects Nos. 4 and 5 bonds served the Supply System and others with notice of a suit, entitled *Heerey v. Supply System (Heerey)*, in New York State Supreme Court for the County of New York which seeks $750 million and other relief. The plaintiffs in *Heerey* allege that the Supply System and other defendants are liable to the plaintiffs for nonpayment of interest and principal on the Nuclear Projects Nos. 4 and 5 bonds, based on common law fraud and other theories. The district court in *MDL 551* and the Chemical Bank litigation has previously ruled that Chemical Bank represents all of the holders of Nuclear Projects Nos. 4 and 5 bonds.

In another lawsuit entitled *Hoffer v. State of Washington (Hoffer)*, certain purchasers of Nuclear Projects Nos. 4 and 5 bonds have filed claims on behalf of all bondholders against the State of Washington, the state auditor and other elected officials, asserting that the state is liable to the plaintiffs for damages. The State of Washington has advised the Supply System that, if the litigation against the State of Washington is not resolved, it will file cross claims against the Supply System and the other *MDL 551* defendants.

All of the settlements were approved by the court on September 5, 1989. The court found that Chemical Bank represented all Nuclear Projects Nos. 4 and 5 bondholders in the litigation. The court's ruling permanently bars Chemical Bank and all Nuclear Projects Nos. 4 and 5 bond purchasers from commencing, prosecuting, or continuing any action against the Supply System arising out of or relating to the allegations or subject matter of the litigation. The ruling, however, will not preclude Chemical Bank from continuing with the cost sharing litigation described in Note E below.

The plaintiffs in *Heerey* and *Hoffer* have filed notices of appeal. An individual bondholder has also appealed. The time period in which appeals are allowed has expired, and no additional appeals are expected. In the opinion of Supply System Special Counsel and Chief Counsel, the court's ruling, unless modified or reversed on appeal, would bar the *Heerey* litigation and the *Haberman* litigation, and would provide for the release of claims asserted in the *Hoffer* litigation.

If the Supply System's settlement is modified or reversed, or if the district court's ruling that Chemical Bank represents all of the Nuclear Projects Nos. 4 and 5 bondholders is not upheld, the Supply System is unable to predict the outcome of *MDL 551*, the Chemical Bank litigation, *Haberman*, *Heerey*, or *Hoffer*.

The excess carrier of directors' and officers' liability insurance filed a lawsuit in September 1985, seeking a declaration that it has no obligation under the insurance policy because of the alleged failure of the Supply System to declare facts which if known to the insurer, would have resulted in it not issuing the policy. The court in *MDL 551* has approved a settlement between the Supply System's directors and the plaintiffs in *MDL 551*, which dismisses all claims against the directors in return for a payment by the carrier. The court's approval is subject to appeal. When finalized, this settlement will end the litigation involving the insurance carrier and the directors.

Note E - Commitments and Contingencies

NUCLEAR PROJECTS NOS. 4 AND 5 BRIDGE AND TERMINATION LOANS

In late 1981, sixty-eight Nuclear Projects Nos. 4 and 5 participants and others loaned the Supply System $60 million to pay project costs until an alternative source of financing could be found. None was found, and after the projects were terminated in January 1982, forty-two Nuclear Projects Nos. 4 and 5 participants loaned the Supply System additional amounts of approximately $8 million to pay termination costs. The first set of loans were called bridge loans, and the second termination loans. All of these loans were subordinate to the $2.25 billion of bonds payable, and were payable solely from the revenues of Nuclear Projects Nos. 4 and 5. The Supply System defaulted on all of the loans at the same time it defaulted on Nuclear Projects Nos. 4 and 5 bonds in 1983. Interest on these loans in the amount of approximately $116.7 million also remains unpaid at June 30, 1990.

Most of the lenders have sued the Supply System and all but three of the suits have been reduced to judgment. Some of the lenders obtained general judgments against any Supply System assets, whether for Nuclear Projects Nos. 4 and 5 or another project. The Supply System appealed these judgments, and in 1985 the Washington State Supreme Court reversed, holding that the terms of the loans limited recovery to funds and assets of Nuclear Projects Nos. 4 and 5.

INTER-PROJECT CLAIMS AGAINST REVENUES AND OTHER ASSETS

Some creditors of Nuclear Projects Nos. 4 and 5 have attempted, and others have threatened to attempt, to obtain payment from the physical assets of other projects of the Supply System or from the revenues pledged as security for the Supply System bonds issued in connection with, and revenues pledged for the payment of costs of, such other projects. Such creditors include present and former holders of the Nuclear Projects Nos. 4 and 5 bonds and others who may assert claims in the future against the Supply System and/or its projects.

Bond Counsel and Chief Counsel to the Supply System are of the following opinions with respect to the ability of

various classes of claimants, creditors, and future creditors to realize upon the revenues or physical assets of Nuclear Projects Nos. 1, 2 and 3.

First, with respect to the revenues, income, receipts, profits, and other moneys held under each of the net-billed resolutions and pledged thereby for the payment of the related net-billed bonds and for the payment of all other costs of the related net-billed project (collectively, the "Pledged Revenues"), Bond Counsel and Chief Counsel to the Supply System are of the opinion that holders of Nuclear Projects Nos. 4 and 5 bonds, creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects Nos. 4 and 5, and creditors whose judgments derived from other contract claims against the Supply System that do not arise from actions or failures to act relating directly or indirectly to such net-billed project will not be able to realize upon such pledged revenues.

Second, with respect to the pledged revenues relating to a particular net-billed project, while the specific issue has not been decided by the Supreme Court of the State of Washington, Bond Counsel and Chief Counsel to the Supply System are of the opinion that creditors of the Supply System whose judgments derive from tort claims against the Supply System that do not arise from actions or failures to act relating directly or indirectly to such net-billed project will not be able to realize upon such pledged revenues; and Bond Counsel and Chief Counsel to the Supply System believe that, if presented with the question, a court would so hold.

Third, with respect to the physical assets of the net-billed projects that are necessary for the purposes of such projects, while the specific issue has not been decided by the Supreme Court of the State of Washington, Bond Counsel and Chief Counsel to the Supply System are of the opinion that holders of Nuclear Projects Nos. 4 and 5 bonds, creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects Nos. 4 and 5, and creditors whose judgments derive from other contract or tort claims against the Supply System that do not arise from actions or failures to act relating directly or indirectly to the net-billed projects will not be able to realize upon such assets; and Bond Counsel and Chief Counsel to the Supply System believe that, if presented with the question, a court should so hold. The above opinion as to the ability of bondholders or other creditors to realize upon the physical assets of the net-billed projects is limited to those assets located within the State of Washington, or as to which a court would apply the law of the State of Washington.

The above opinions exclude claims against the Supply System arising from a valid exercise of the sovereign police power of the State of Washington or of the constitutional powers of the United States of America.

In order to express the legal conclusions set forth in the foregoing opinions, Bond Counsel and Chief Counsel to the Supply System have assumed that the activities giving rise to the claims described in such opinions were not directly or indirectly related to any net-billed project. In any given suit or proceeding, however, the questions of whether a particular activity does or does not relate to a net-billed project is a factual matter to be determined by the judge or jury, as the case may be. No assurance can be given that in any such suit or proceeding there will not be a finding that the complained of activity relates to one or more of the net-billed projects. If such a finding is made, the claimant may be able to realize on the pledged revenues or physical assets of one or more of the net-billed projects.

If it were determined that a claim is an obligation of one or more of the net-billed projects, the claim would be paid in the same manner as other obligations of those projects.

Bond Counsel and Chief Counsel to the Supply System have not undertaken an investigation of the issues discussed above with respect to the Packwood Lake Hydroelectric Project or Hanford Generating Project. However, they believe that upon full investigation, the same opinions could be rendered with respect to assets of the Packwood Lake Hydroelectric Project and Hanford Generating Project and revenues or funds held in trust or for the holders of bonds issued by the Supply System to finance the construction of such projects.

If it is found that creditors are not limited to payment of their claims from the project to which such claims relate, it will have a material adverse impact on the Supply System.

COST SHARING LITIGATION

Nuclear Projects Nos. 1 and 4 are of substantially identical design and are referred to as "twin units." Nuclear Projects Nos. 3 and 5 are also twin units of substantially the same design. Architect-engineer services, construction management, and certain common equipment used in construction of twin units benefited both units, and costs are shareable by the twin units. The Supply System allocated such shared costs on the basis of respective benefit to the projects involved.

In August 1982, the Participants Committee for Nuclear Projects Nos. 4 and 5, on behalf of the project participants, demanded that the Supply System reallocate $161 million, plus interest, in shared costs previously paid by Nuclear Projects Nos. 4 and 5, based on a revised formula for sharing of costs. The demand indicated this was not the total extent of claims which could be made by the Nuclear Projects Nos. 4 and 5 participants. The investor-owned utilities (IOUs) owning 30 percent of Nuclear Project No. 3 have asserted that they are entitled to set off the amounts

owed by the Supply System on loans made for Nuclear Projects Nos. 4 and 5 in 1981, totaling $12 million plus interest, against any cost sharing obligation.

In October 1982, the Supply System filed a complaint for declaratory judgment in Federal District Court for Western Washington, naming the participants in Nuclear Projects Nos. 1, 2, 3, 4 and 5, BPA, the four IOUs owning shares of Nuclear Project No. 3, and the bond fund trustees for Nuclear Projects Nos. 1 and 3 as defendants, and asking the court to declare the rights and obligations of the parties with regard to the allocation of costs among the projects.

In May 1983, the court designated BPA as the plaintiff and all other parties as defendants. The case is captioned *BPA v. Supply System, et al.* Certain other claims have been filed as part of this action.

In June 1983, Chemical Bank intervened as bond fund trustee on behalf of the Nuclear Projects Nos. 4 and 5 bondholders. Chemical Bank has alleged that the Supply System's allocations of costs among the twinned projects were improper and that repayment to the Nuclear Projects Nos. 4 and 5 bond fund is required for such costs improperly allocated.

In May 1989, the court ruled that Chemical Bank has a lien on any funds which may be determined in the future to have been improperly expended as a result of costs misallocated to Nuclear Projects Nos. 4 and 5, but the court stated that any enforcement of the lien must await resolution of the issue of whether there was any improper allocation.

By agreement among the Supply System, BPA and Chemical Bank signed August 29, 1989 and approved by the court, any final, nonappealable judgment entered in cost sharing litigation granting relief to Chemical Bank for costs misallocated from Nuclear Projects Nos. 1, 2 or 3 to Nuclear Projects Nos. 4 or 5 would be payable by BPA under net-billing agreements. In return, Chemical Bank agreed to release any lien on proceeds of Nuclear Projects Nos. 1, 2 or 3 refunding bonds to be issued in the future, and any other funds disbursed to pay amounts properly payable prior to a judgment in the cost sharing litigation. However, the release by Chemical Bank does not apply to any funds disbursed after a judgment in the cost sharing litigation. If, after such judgment in the cost sharing litigation, Chemical Bank seeks to enforce a lien on the Nuclear Projects Nos. 1, 2 or 3 bond funds or revenue funds, Bond Counsel and Chief Counsel to the Supply System are of the opinion that a court should hold that any such lien would be subordinate to the lien of Nuclear Projects Nos. 1, 2 or 3 bondholders.

The court received briefs and heard oral arguments in September 1989 on the question of proper basis for allocating costs among Supply System projects. On October 5, 1990, the court ruled that principles of equitable cost allocation required the application of principles "akin to those espoused" by Chemical Bank. The court stated that because such principles were not applied, Nuclear Projects Nos. 4 and 5 "apparently bore more than their fair and equitable share of construction costs."

The court granted Chemical Bank's motion that seeks an accounting of all the uses of bond proceeds of Nuclear Projects Nos. 4 and 5. A hearing was set for February 1991 to reopen discovery in the case and to set a trial date on cost-sharing issues.

It is expected that an appeal will be filed.

In April 1989, counsel for Chemical Bank estimated the potential recovery for Nuclear Projects Nos. 4 and 5 at $1 billion, including interest. If a judgment were awarded in favor of Chemical Bank and costs previously allocated to Nuclear Projects Nos. 4 and 5 were allocated to other Supply System projects, such amounts would be construction costs of such projects.

The Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECT NO. 5 TERMINATION CLAIM

Under the terms of the Nuclear Project No. 5 ownership agreement between the Supply System and Pacific Power & Light Company (Pacific), Pacific is obligated to fund its 10 percent ownership share of Nuclear Project No. 5 termination costs beginning January 25, 1983, and continuing until all costs of termination have been paid. Ten percent of the funds received from sales of Nuclear Project No. 5 assets are applied as a reduction of Pacific's obligation for termination costs.

In August 1983, Pacific filed a counterclaim in *BPA v. Supply System, et al.* asserting that termination of Nuclear Project No. 5 was a breach of the ownership agreement between Pacific and the Supply System. Pacific seeks damages in an unspecified amount. Such amount would presumably be approximately $150 million, and could be a general claim against assets of the Supply System. Actions on that claim have been stayed since 1983. The Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECTS NOS. 4 AND 5 SITE RESTORATION

No provisions have been made for site restoration of Nuclear Projects Nos. 4 and 5, which is governed by the site certification agreement between the Supply System and the State of Washington and regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC). It is not known at this time what actions will be necessary to comply with EFSEC's requirements. Because the site certification agreement for Nuclear Project No. 1 also covers Nuclear Project No. 4, and the agreement for

Nuclear Project No. 3 also covers Nuclear Project No. 5, EFSEC might assert that Nuclear Projects Nos. 1 and 3 are obligated to pay the cost of site restoration for Nuclear Projects Nos. 4 and 5. Such costs are estimated to be in the range of $45 - $77 million (in 1989 dollars).

NUCLEAR PROJECTS NOS. 1 AND 3 CONSTRUCTION DELAY

In April 1982, the Supply System commenced a construction delay of Nuclear Project No. 1, and in July 1983, it commenced a construction delay of Nuclear Project No. 3. These projects are currently in an extended delay mode. Plant assets are being preserved and project licenses are being maintained during the delay period in order to enable the Supply System to resume construction of the projects at such time as that action is determined appropriate.

In the 1986 Northwest Conservation and Electric Power Plan, issued by the Northwest Power Planning Council (Council) in January 1986, the Council indicated that Nuclear Projects Nos. 1 and 3 can be cost-effective for the region and should be preserved as potential resource options. However, the Council did not include Nuclear Projects Nos. 1 and 3 in its resource portfolio at that time due to legal and other uncertainties. The Council is in the process of reassessing the status of Nuclear Projects Nos. 1 and 3 for its draft 1990 resource portfolio. On May 23, 1990, the Council voted to include Nuclear Projects Nos. 1 and 3 among the resources for consideration in the resource portfolio of the Council's Draft 1990 Power Plan. This is not a final decision regarding the status of such projects. The Council's Draft 1990 Power Plan is expected to be issued in late 1990.

In its May 1987 Resource Strategy, BPA found that there was no compelling case either for or against continued preservation of Nuclear Projects Nos. 1 and 3 on a net present value basis, and that preservation of both projects was somewhat favorable from an economic risk management standpoint. BPA concluded that preservation of Nuclear Projects Nos. 1 and 3 was the prudent course of action at that time. In its July 1988 Resource Program, BPA indicated that its assessment of the need for the projects remains essentially the same as indicated in the 1987 Resource Strategy. In its 1990 Resource Program, published in mid-1990, BPA recommended that no new study of the need for Nuclear Projects Nos. 1 and 3 be undertaken until changes in circumstances occur.

Preservation of each project is expected to continue until a decision is made whether to complete construction or terminate one or both projects. Continued funding of Nuclear Project No. 1 preservation costs is provided by the Nuclear Project No. 1 construction fund, and continued funding of Nuclear Project No. 3 preservation costs is provided by BPA, 70 percent pursuant to net-billing agreements and 30 percent on behalf of the four investor-owned utility owners pursuant to a settlement agreement.

NUCLEAR PROJECT NO. 3 DELAY LITIGATION

In July and August 1983, the four IOUs owning 30 percent of Nuclear Project No. 3 filed claims against BPA, the Supply System and the Nuclear Project No. 3 participants asserting that they suffered damages as a result of the extended construction delay of Nuclear Project No. 3. The claims were filed in Federal District Court in the pending action entitled *BPA v. Supply System, et al.* (See "Cost Sharing Litigation" above.) Included are claims for injunctive and declaratory relief, damages, rescission of the Nuclear Project No. 3 ownership agreement and recovery of the total amount of payments made under the Nuclear Project No. 3 ownership agreement to date.

The Supply System executed agreements to dismiss the construction delay claims with BPA and with each of the IOUs owning shares of Nuclear Project No. 3 on September 17, 1985. Pursuant to those agreements, the Supply System and each of the other parties exchanged covenants not to sue with respect to the construction delay. BPA also executed settlement agreements with each of the IOUs. Pursuant to the various agreements, the Supply System, BPA and the IOUs asked the court to enter an order dismissing their construction delay claims. A number of the Nuclear Project No. 3 participants have opposed the settlement and dismissal of claims. In October 1985, the participants filed supplemental pleadings in the Federal District Court asserting challenges to the Nuclear Project No. 3 settlement agreements between BPA and the IOUs. None of the agreements executed by the Supply System has been challenged. However, the supplemental pleadings filed by some participants also include claims against the Supply System, the IOUs and BPA unrelated to the validity of the settlement. In July 1986, the district court dismissed, for lack of subject matter jurisdiction, the claims challenging BPA's authority to enter into the Nuclear Project No. 3 settlement agreements with the IOUs and stayed all other claims relating to or arising out of the construction delay or the settlement. These participants also filed an original proceeding in the United States Court of Appeals for the Ninth Circuit, challenging BPA's settlements with the IOUs as exceeding BPA's statutory authority. In January 1989, the United States Court of Appeals for the Ninth Circuit rejected all statutory challenges to BPA's settlements, affirmed BPA's authority to enter into the settlements, and dismissed other claims, including claims against the IOUs and the Supply System, for lack of jurisdiction.

In May 1989, the district court dismissed the claims of all but nine of the Nuclear Project No. 3 participants against the Supply System, BPA, and the IOUs relating to or arising

from the construction delay of Nuclear Project No. 3 or the settlement, pursuant to a stipulation of the parties. The claims of the nine participants who did not enter into the stipulation include, among others, claims that the settlement agreements between BPA and the IOUs are invalid and unenforceable because performance of the Nuclear Project No. 3 settlement agreement would breach contractual rights of the participants under the Nuclear Project No. 3 net-billing agreements, ownership agreement and project agreements and because the settlement contravenes public policy of the State of Washington; a demand that the Supply System give notice of termination of Nuclear Project No.3; and a claim for a declaratory judgment that construction costs for Nuclear Project No.3 cannot be net-billed on a current basis. No action has been taken by these nine participants since the May 1989 district court ruling.

The four IOUs owning 30 percent of Nuclear Project No.3 also filed complaints in state courts in King County, Washington, and Multnomah County, Oregon in May 1983, seeking similar declarative and equitable relief and damages because of the Nuclear Project No.3 construction delay as claimed by them in *BPA v. Supply System, et al.* They filed these cases as a precaution against any determination that the Federal District Court lacked jurisdiction to try the Nuclear Project No. 3 construction delay claims. Proceedings in these state court cases have been stayed by stipulation of the parties.

In the settlement agreements between the Supply System and each of the IOUs, the parties agreed not to proceed further against each other on the claims in the state court cases, and agreed to dismiss these state court cases after final dismissal of the parallel claims in the federal court and the final dismissal of any claims challenging the Nuclear Project No. 3 settlement agreements.

If the settlement agreements between BPA and the IOUs are determined to be invalid or unenforceable, the IOUs might renew their claim that they are entitled to rescission of the Nuclear Project No. 3 ownership agreement. However, the IOUs have agreed in their settlement agreements with the Supply System not to assert any claim against the Supply System for money damages, restitution or injunctive relief.

The Supply System is unable to predict what results will be reached with respect to these claims.

HANFORD GENERATING PROJECT

The Hanford Generating Project (HGP) began generating power from steam supplied by the Department of Energy's (DOE) N-Reactor in 1966. In January 1987, the N-Reactor was shut down for safety improvements, and in October 1989 the reactor was placed in a dry lay-up status for an undetermined length of time, while maintaining the capability to restart within a two-to-three year period.

It is not known whether or when the N-Reactor will resume operations. In 1989, the Supply System and DOE entered into a supplemental agreement that provided for DOE to pay certain Supply System operating costs in exchange for the Supply System maintaining HGP in a condition capable of accepting steam energy from the N-Reactor within two years after notice that the N-Reactor would resume operation. The term of this agreement continues through September 30, 1991.

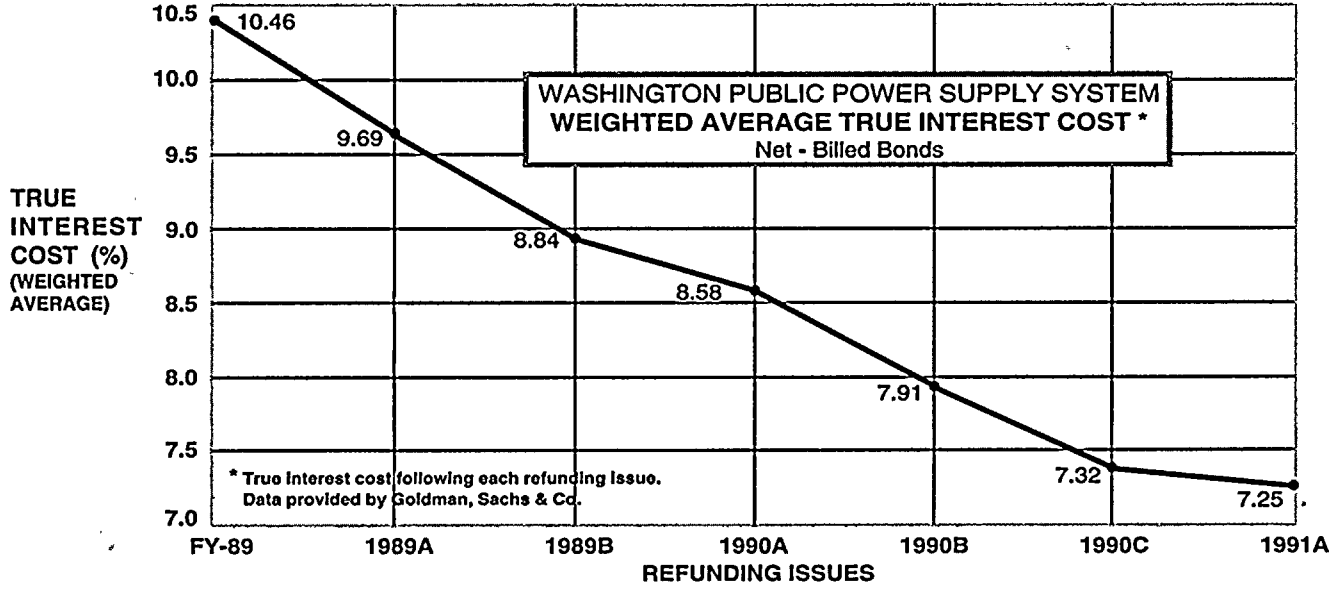
The Supply System has completed a review of alternative steam sources and BPA has completed a study to determine if conversion to an alternative steam source warrants preservation of HGP. Results of the BPA study indicate that from a risk management standpoint, it would not be prudent to terminate this project unless there was a substantial indication that it had no value as a power resource.

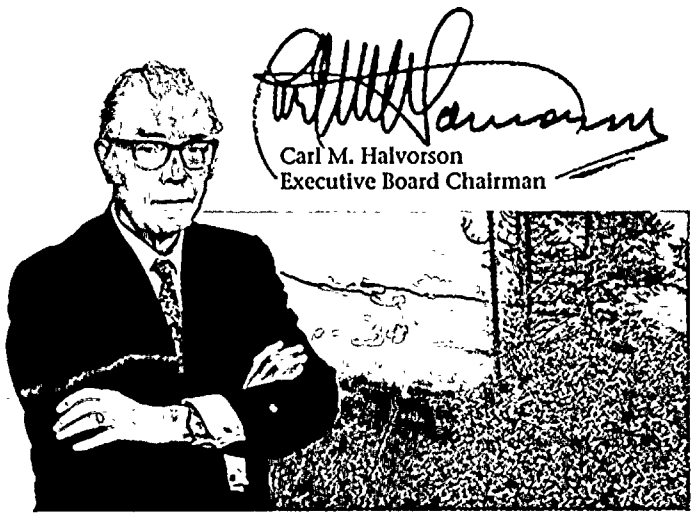
Debt service costs of HGP are paid by Nuclear Project No.1 participants and BPA under net-billing agreements, regardless of continued operation of the project (see Note C).

NUCLEAR INSURANCE

The Price Anderson Act currently provides for nuclear liability insurance up to $7.8 billion per incident, which is covered by a combination of commercial nuclear insurance and mandatory industry self-insurance. The Supply System has purchased the maximum commercial nuclear liability insurance available of $200 million, which is the first layer of protection. The second layer of protection is provided through a mandatory industry self-insurance plan wherein each licensed nuclear facility (currently 115) may be assessed up to $66.15 million per incident, subject to a maximum annual assessment of $10 million per year.

Nuclear property damage insurance requirements are met through a combination of commercial nuclear insurance policies purchased by the Supply System and BPA. The total amount of insurance purchased is currently $1.475 billion. The deductible for this coverage is $10 million per incident.


WASHINGTON PUBLIC POWER SUPPLY SYSTEM
WEIGHTED AVERAGE TRUE INTEREST COST *
Net - Billed Bonds
TRUE INTEREST COST (%) (WEIGHTED AVERAGE)
10.5
10.0
9.5
9.0
8.5
8.0
7.5
7.0
10.46
9.69
8.84
8.58
7.91
7.32
7.25
* True interest cost following each refunding issue.
Data provided by Goldman, Sachs & Co.
FY-89
1989A
1989B
1990A
1990B
1990C
1991A
REFUNDING ISSUES



Carl M. Halvorson
Executive Board Chairman

Responding to Regional Needs

High standards of excellence are a requisite for operators of electrical generating facilities in today's society. In the Pacific Northwest, the Washington Public Power Supply System is working to maintain such standards through safe, reliable and cost-efficient operation of two generating plants, identification of ways to enhance power generation capabilities, and protecting the region's investment in Supply System projects.

Improving Plant 2 performance continues to take center stage among the Supply System's cast of priorities. Unfortunately, operational performance during FY 1991 was marred by difficulties with reactor operator requalifications and equipment failures that required unplanned work during the plant's annual maintenance and refueling outage. These problems resulted in lower than anticipated operating statistics for the year, and present the Supply System with significant challenges for FY 1992.

The challenge of increasing Plant 2's power generation is the focus of a new five-year Megawatt Improvement Program. Designed to boost the plant's 1,100-megawatt net output by at least 60 megawatts, the program places additional emphasis on maintenance activities that will increase reliability, shorten outages, and improve the plant's output. The program is considered a significant undertaking for the Supply System and directly supports the region's growing power needs.

The Packwood Lake Hydroelectric Project completed its 27th year of service to the region by generating 112 million kilowatt-hours of electricity. The project's success also benefitted the 12 public utility districts that divided $1.9 million in surplus operating funds for their participation in the project.

Continuation of the highly successful Supply System and BPA program to refinance high interest Nuclear Project 1, 2 and 3 revenue bonds brought substantial benefits to the region. Through seven refunding bond sales held during the past two years, BPA will realize a net present value savings of more than $1 billion in debt service for Supply System bonds. This reduces the combined Supply System and federal debt service obligations of BPA by about $100 million per year over the life of the bonds.

Support for the refinancing effort intensified as a result of the three primary rating service agencies raising Supply System bond ratings to "AA," and the narrowing of the spread between rates received by the Supply System and comparable public power issues. These were positive steps toward building a solid foundation in the financial marketplace.

Recognizing the substantial savings from the refinancing efforts, the Supply System will continue to examine ways to manage its debt that will offer additional benefits to regional ratepayers.

The value of WNP-1 and 3 was recognized in April 1991, when the Northwest Power Planning Council, in its 1991 Northwest Conservation and Electric Power Plan, recommended continued preservation of the two partially complete nuclear plants, and included both in a group of 46 potential regional electricity resources.

The plan also directs the Supply System and BPA to address certain unresolved issues pertaining to WNP-1 and 3 and report to the Power Council by 1994, so that regional power planners can make a fully informed judgment about how outstanding issues, whether related to preservation, construction, or termination, can be resolved.

The options that exist for WNP-1 and 3 at this time are to continue preserving the plants, to construct either or both of the plants if needed, or to terminate them. The Supply System will continue to preserve WNP-1 and 3 as potential commercial power producers while remaining responsive to the needs of the power planners as they examine options and select appropriate resources for the region.

The Supply System's dedication to helping meet increased power demands prompted our exploration of non-nuclear generating opportunities. In response to the Bonneville Power Administration's (BPA) request for additional generating resources, we submitted a proposal to construct a natural gas-fired combustion turbine power plant of either 70- or 155-megawatt size at our WNP-3 site in western Washington state. The project, which would not affect the Supply System's ability to complete and operate the partially constructed WNP-3 nuclear power plant, is designed to help meet projected power deficits and improve voltage stability in the Puget Sound area.

We're getting closer to the time when some key decisions must be made to ensure that the Pacific Northwest will have an adequate, economical and reliable electricity supply. By maintaining our dedication to achieving high performance standards for both our existing and future generating facilities, the Supply System will be ready to support those decisions. ■

RANDALL W. HARDY
Superintendent
Seattle City Light
Seattle

PARKER L. KNIGHT
Commissioner
Skamania County PUD

PAUL J. NOLAN
(Vice Chairman)
Attorney
Tacoma

JAMES G. ROWLAND
Commissioner
Okanogan County PUD

WILLIAM D. SCOTT
Commissioner
Grant County PUD

SYDNEY STEINBORN
Consulting Engineer
Seattle

PUBLIC POWER SUPPLY SYSTEM

CARL M. HALVORSON
(Chairman)
President
Halvorson Mason Corp.
Portland

VERA GLAUSSEN
(Assistant Secretary)
Commissioner
Grant County PUD

JOHN F. COCKBURN
Investor/Consultant
Seattle

SAM J. FARMER
Consultant
Battelle Memorial Institute
Seattle

RAY FOLEEN
(Secretary)
Consultant
Portland

EXECUTIVE BOARD

The Washington Public Power Supply System is a joint operating agency formed under the laws of the State of Washington dedicated to serving its members and Public Power. The Supply System undertakes projects, as authorized by its members, to provide a safe, reliable and cost-effective electric power supply. The Supply

Ensuring a Precious Commodity

In the Pacific Northwest, electricity is an increasingly precious commodity essential for continual growth and prosperity. To meet growing electrical needs, the Supply System is placing additional emphasis on safety, improved organizational performance, and increased power generation potential.

The Supply System faced many challenges this fiscal year, and regrettably we realized that important procedures necessary for maintaining industry as well as our own high standards for reactor operator training were not being met. The consequences of our predicament necessitated we keep our plant down longer than planned, greatly impacting our operating goals and ability to provide power to the Bonneville Power Administration.

Looking beyond this setback, we can note several positive achievements for the Supply System. For the first time since operating Plant 2, our annual maintenance and refueling outage was completed on time and under budget. Considerable concentration and hard work by Supply System staff went into making this year's outage one of the most successful on record.

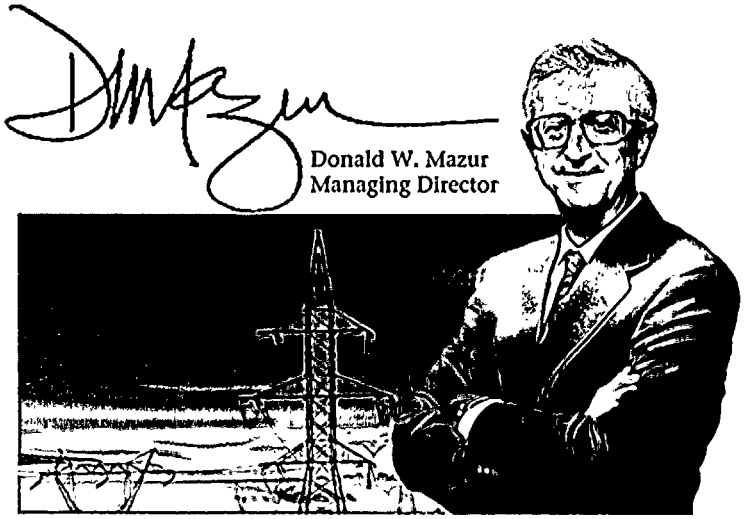
Plant 2's total program costs for the year, including operations and maintenance, debt service, and capital additions, were $12.5 million under the budgeted $459 million. A significant accomplishment contributing to this underrun was that controllable operations and maintenance costs for Plant 2 were managed within budget.

An exceptional operating year was recorded at our Packwood Lake Hydroelectric Project, which generated more electricity during FY 1991 than at any other time in the past decade. Packwood generated 112 million kilowatt-hours of electricity, far surpassing its 10-year average of 93 million kilowatt-hours. Operating costs for the project were about 5 mills (about one-half cent) per kilowatt-hour.

For the second consecutive year, the Nuclear Regulatory Commission (NRC) gave all "superior" and "good" performance ratings to the Supply System for operation of Plant 2. In its annual Systematic Assessment of Licensee Performance (SALP) report, NRC noted "improved performance in Plant Operations, Engineering & Technical Support, and Safety Assessment & Quality Verification" during the period June 1, 1989 - August 31, 1990.

In June 1991, we delayed the restart of Plant 2, following the annual outage, to revise our emergency operating procedures and to provide more comprehensive training to our reactor operators. We were made aware, prior to the decision, that our emergency operating procedures, designed to guide reactor operators through highly complex accident scenarios, were difficult to use in certain circumstances. We did not apply a "quick-fix" solution to the situation. We conducted a major overhaul of the procedures so that reactor operators can rely on them to handle the most challenging accident scenarios encountered in regulatory examinations and in the unlikely event of a real emergency.

The delay in restart caused Plant 2's operating statistics to fall below our forecasts. Net generation for the fiscal year was 5.67 billion kilowatt-hours and the plant capacity factor was about 59 percent. Cost of power averaged about 29.7 mills per kilowatt-hour (operations) during FY 1991, which is higher than had been projected based on our goal to significantly reduce the cost of power by 1997.



Donald W. Mazur
Managing Director

The Supply System is committed to seeking and implementing new processes to increase generation and lower power costs. Several programs to accomplish this goal are in place, and more will be initiated in the future. One example of improving efficiency in power generation at Plant 2 is the installation of new turbine rotors during the Spring 1992 outage. New low-pressure turbine rotors are expected to increase Plant 2 output by at least 15 megawatts.

Strong plant performance prior to our extended shutdown resulted in new plant generation records and in greater amounts of electricity provided to the Bonneville Power Administration's regional transmission grid. A new monthly generation record of 797,521 megawatt-hours of electricity surpassed Plant 2's previous record by 10,200 megawatt-hours. A new monthly plant record capacity factor of 97.89 percent, compared with the former 97.5 percent record, was also set.

We were disappointed to learn that delivery of the new Plant 2 control room simulator will be delayed until fiscal year 1993 due to manufacturing setbacks. When installed, the new simulator will provide a state-of-the-art training environment for our reactor operators. The simulator is a full-scale, computerized model of the Plant 2 control room, and will enable reactor operators to receive the very best hands-on training possible.

Simply saying we want to be the best organization possible is not enough given today's high expectations by consumers and industry regulators. At the Supply System, we are emphasizing four strategic areas: operations, maintenance, engineering support, and safety/quality verification, so we can better meet industry's high standards for safety and performance.

Staff development is another area of extreme importance, and we are seeing positive results from our Quality Improvement program initiated three years ago. Through the program, staff have been provided with communication tools to create and perform in a quality work environment. The quality of our work — among one another and with individuals and groups outside the Supply System — has improved. More efficient work processes and relationships have resulted, along with significant cost savings, from the total Quality effort. This experience reinforces the value of involving our employees in Quality Improvement.

The Supply System is committed to Quality and to meeting customer needs. We will be ready when called upon to meet the power requirements of the region. ■

Plant 2

Jerry Droppo, instrumentation and control maintenance

Operation of a facility as complex as Washington State's only nuclear power plant requires a team of highly skilled and dedicated professionals. At the Supply System's Plant 2, Jerry Droppo is one of those people. Jerry is a maintenance engineering supervisor who oversees the instrumentation and control systems required to operate the 1,100-megawatt reactor plant.

"Reliability is one of the most important elements of operating Plant 2," says Jerry. "By maintaining steady state operation of the plant, we are an example to the region that nuclear power is very much a viable option."

Jerry, an eight-year Supply System employee, emphasizes the organization's commitment to teamwork as one of the keys to successful operation of Plant 2. "Our challenge is to demonstrate that we can work together to provide the region with a safe, reliable power source," says Jerry. More than 100 regional public utilities receive electricity from Plant 2 through

1991 ANNUAL REPORT

FINANCIAL INFORMATION

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

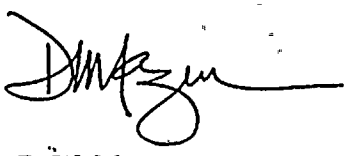
MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Supply System is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis, and include amounts that are based on management's best estimates and judgments.

The financial statements have been audited by Deloitte & Touche, the Supply System's independent auditors. Management has made available to Deloitte & Touche all financial records and related data, and believes that all representations made to Deloitte & Touche during its audit were valid and appropriate.

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures.

The Supply System maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, Deloitte & Touche has considered the internal control structure in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and Deloitte & Touche concerning the system of internal control and has taken appropriate action to respond to the recommendations. Management believes that as of June 30, 1991, the system of internal control is adequate.



D. W. Mazur
Managing Director

J. D. Perko
Chief Financial Officer

AUDIT, LEGAL AND FINANCE COMMITTEE CHAIRMAN'S LETTER

The Executive Board's Audit, Legal and Finance Committee is composed of five independent directors. Members of the Committee are Sam J. Farmer, Chairman; Vera Claussen; Paul J. Nolan; William D. Scott; John F. Cockburn; and Carl M. Halvorson, Ex Officio. The Committee held twelve meetings during the fiscal year ended June 30, 1991.

The Committee oversees the Supply System's financial reporting process on behalf of the Executive Board. In fulfilling its responsibility, the Committee discussed with the internal auditor and the independent auditors the overall scope and specific plans for their respective audits, and reviewed the Supply System's financial statements and the adequacy of the Supply System's internal controls.

The Committee met regularly with the Supply System's internal auditor and independent auditors to discuss the results of their examinations, their evaluations of the Supply System's internal controls, and the overall quality of the Supply System's financial reporting. The meetings were designed to facilitate any private communication with the Committee desired by the internal auditor or independent auditors.

Sam J. Farmer
Chairman, Audit, Legal and Finance Committee

INDEPENDENT AUDITORS' REPORT

Executive Board
Washington Public Power Supply System
Richland, Washington

We have audited the accompanying individual balance sheets of Washington Public Power Supply System's (the Supply System) Nuclear Project No. 2, Packwood Lake Hydroelectric Project, Hanford Generating Project, Nuclear Project No. 1, Nuclear Project No. 3, and Nuclear Projects Nos. 4 and 5 as of June 30, 1991, and the related statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Supply System's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Supply System's individual projects at June 30, 1991, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note F to the financial statements, Nuclear Projects Nos. 1 and 3 are involved in disputes concerning costs shared with Nuclear Projects Nos. 4 and 5. The ultimate amount of additional costs, if any, to be borne by Nuclear Projects Nos. 1 and 3 due to this matter is presently indeterminable. As further discussed in Note F to the financial statements, creditors of Nuclear Projects Nos. 4 and 5 are attempting to obtain payment from assets or funds held by other projects of the Supply System or the revenues pledged thereto. Supply System management is of the opinion that creditor claims can only be realized from the assets, funds, or revenues of the projects to which such claims relate. If it is found that creditors are not limited to payment of their claims from the project to which such claims relate, it may have an impact on the individual projects of the Supply System in amounts which are presently indeterminable. As further discussed in Note F to the financial statements, the Department of Energy has announced the termination of the N Reactor, eliminating the Hanford Generating Project's present energy source. The ultimate utilization of the Hanford Generating Project Facility in another energy production capacity is uncertain.

Deloitte & Touche

Seattle, Washington
August 23, 1991

BALANCE SHEETS

As of June 30, 1991 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5*
ASSETS						
UTILITY PLANT (NOTE B)						
In service	$3,325,993	$12,451	$ 70	$ 12,294	$ 1,544	
Allowance for depreciation	(703,784)	(7,638)	(38)	(3,633)	(911)	
	2,622,209	4,813	32	8,661	633	
Nuclear fuel	170,410			257,683	34,835	
Allowance for amortization	(85,963)					
	84,447			257,683	34,835	
Plant held for future use			12,580			
Construction work in progress	48,311			2,245,144	1,828,075	
	2,754,967	4,813	12,612	2,511,488	1,863,543	
RESTRICTED ASSETS (NOTE B)						
Special funds						
Cash	26		4	561	1,231	$ 272
Investments	39,535	302	3,426	128,808	19,066	13,652
Accounts receivable				4,391	6,299	676
Due from other projects				8,283	171	18,844
Prepayments and other				43	64	7
	39,561	302	3,430	142,086	26,831	33,451
Debt service funds						
Cash	42	25	4	158	99	4
Investments	175,497	757	9,387	260,569	160,894	65,953
	215,100	1,084	12,821	402,813	187,824	99,408
CURRENT ASSETS						
Cash	2,726	25	10	29	182	
Investments	32,326	1,622	2,085	4,689	4,748	
Accounts receivable	1,048	392		8	70	
Due from participants	207			5		
Due from other projects		4	3	3,335		
Due from other funds	28,268	42	1,546	24,908	4,893	
Materials and supplies	36,133	1	374			
Prepayments and other	1,303	2	3			
	102,011	2,088	4,021	32,974	9,893	
DEFERRED CHARGES						
Costs in excess of billings		3,192				
Unamortized regulatory studies	3,687					
Unamortized debt expense	17,448	14	11	21,364	21,654	
	21,135	3,206	11	21,364	21,654	
TOTAL ASSETS	$3,093,213	$11,191	$29,465	$2,968,639	$2,082,914	$99,408

* Supply System's ownership share (Note A)

See notes to financial statements

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5*
LIABILITIES						
DEFICIENCY IN ASSETS						$(3,889,025)
BILLINGS IN EXCESS OF COSTS	$ 617,184		$13,225	$ 512,094	$ 131,655	
LONG-TERM DEBT (NOTE E)						
Revenue bonds payable	2,467,850	$ 9,041	12,220	2,391,930	2,239,095	
Unamortized discount on bonds - net	(83,488)	(54)	(60)	(47,957)	(375,415)	
	2,384,362	8,987	12,160	2,343,973	1,863,680	
DEBT IN DEFAULT, CURRENTLY PAYABLE (NOTES E & F)						
Revenue bonds payable						2,250,000
Subordinated revenue notes						66,201
						2,316,201
LIABILITIES - PAYABLE FROM RESTRICTED ASSETS (NOTE B)						
Special funds						
Accounts payable and accrued expenses	13,083			3,723	3,449	26,791
Due to other projects					18,681	8,096
Due to other funds	23,478	23	930	19,868	1,701	
	36,561	23	930	23,591	23,831	34,887
Debt service funds						
Accrued interest payable		110	132	83,878	59,589	1,632,540
Accounts payable						4,805
Due to other funds	4,790	19	616	5,040	3,192	
	41,351	152	1,678	112,509	86,612	1,672,232
CURRENT LIABILITIES						
Accounts payable and accrued expenses	47,227	64	65			
Due to participants	1,366	1,909	12	63	671	
Due to other projects	1,723		1,844		296	
	50,316	1,973	1,921	63	967	
DEFERRED CREDITS						
Deferred gain on redemption of revenue bonds		79	481			
COMMITMENTS AND CONTINGENCIES (NOTE F)						
TOTAL LIABILITIES	$3,093,213	$11,191	$29,465	$2,968,639	$2,082,914	$ 99,408

STATEMENTS OF OPERATIONS

For the year ended June 30, 1991 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NOS. 4/5
OPERATING REVENUES	$ 529,165	$1,181				
OPERATING EXPENSES						
Nuclear fuel	21,641					
Fuel disposal fee	5,707					
Decommissioning	3,548					
Depreciation and amortization	103,273	432				
Operations and maintenance	106,648	453				
Administrative & general	35,112	104				
Generation tax	1,894	8				
Total operating expenses	277,823	997				
NET OPERATING REVENUES	251,342	184				
OTHER INCOME & EXPENSE						
Non-operating revenues - net			$ 2,681	$ 210,097	$ 124,161	$ 2,417
Investment income	25,695	152	1,162	27,046	14,116	5,457
Interest expense and discount amortization	(164,390)	(336)	(497)	(166,327)	(132,736)	(203,611)
Maintenance of projects in extended construction delay				(5,056)	(4,364)	
Depreciation and maintenance			(2,751)			
Termination and asset disposition expenses						(6,738)
Other	(1,555)		(595)	(1,598)	(1,177)	3,850
NET REVENUES BEFORE EXTRAORDINARY ITEM	111,092	0	0	64,162	0	(198,625)
EXTRAORDINARY ITEM						
Loss on bond refunding (Note E)	(111,092)			(64,162)		
NET REVENUES	$ 0	$ 0	$ 0	$ 0	$ 0	$(198,625)

See notes to financial statements

STATEMENTS OF CASH FLOWS

For the year ended June 30, 1991 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NOS. 4/5
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES						
Operating revenue receipts	$ 358,897	$ 2,749				
Cash payments for operating expenses	(149,623)	(573)				
Non-operating revenue receipts			$ 7,204	$ 152,334	$ 43,252	$ 10,055
Cash payments for maintenance of projects in extended construction delay				(6,836)	(5,845)	
Cash payments for non-operating expenses			(411)	(6,786)		(5,305)
Distributions of operating and non-operating surplus		(1,680)	(2,426)	2,206		
Other	1,439					
Net cash provided by operating and other activities	210,713	496	4,367	140,918	37,407	4,750
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from bond refundings	600,882			255,426	(2)	
Refunded bonds escrow requirement	(553,040)			(240,377)		
Bond issuance costs paid	(8,797)			(3,190)	(299)	
Capital and nuclear fuel acquisitions	(57,649)	(36)		43		
Interest paid on revenue bonds	(163,714)	(330)	(456)	(155,978)	(113,723)	
Principal paid on revenue bond maturities	(32,800)		(4,885)	(23,250)	(13,875)	
Net cash used by capital and related financing activities	(215,118)	(366)	(5,341)	(167,326)	(127,899)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	(1,670,963)	(10,776)	(63,175)	(1,253,995)	(833,164)	(501,188)
Sales of investment securities	1,652,082	10,507	63,177	1,252,455	908,717	490,385
Interest on investments	25,053	141	968	27,743	15,142	5,951
Net cash provided/(used) by investing activities	6,172	(128)	970	26,203	90,695	(4,852)
NET INCREASE/(DECREASE) IN CASH	1,767	2	(4)	(205)	203	(102)
CASH AT JUNE 30, 1990	1,027	48	22	953	1,309	378
CASH AT JUNE 30, 1991 (NOTE B)	$ 2,794	$ 50	$ 18	$ 748	$ 1,512	$ 276

See notes to financial statements

STATEMENTS OF CASH FLOWS (continued)

For the year ended June 30, 1991 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NOS. 4/5
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH PROVIDED BY OPERATING AND OTHER ACTIVITIES:						
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES						
Net operating revenues	$ 251,342	$ 184				
Adjustments to reconcile net operating revenues to cash provided by operating activities:						
Amortized revenues	(170,268)	(434)				
Depreciation and amortization	124,914	431				
Decommissioning	3,548					
Change in operating assets and liabilities:						
Accounts receivable	641	(84)				
Materials and supplies	(2,647)					
Prepaid and other assets	805	1				
Due from/to other projects, funds and participants	(3,870)	391				
Accounts payable	7,803	7				
Non-operating revenue receipts			$ 7,204	$ 152,334	$ 43,252	$ 10,055
Cash payments for maintenance of projects in extended construction delay				(6,836)	(5,845)	
Cash payments for non-operating expenses			(411)	(6,786)		(5,305)
Distributions of non-operating surplus			(2,426)	2,206		
Other	(1,555)					
Net cash provided by operating and other activities	$ 210,713	$ 496	$ 4,367	$ 140,918	$ 37,407	$ 4,750

See notes to financial statements

OUTSTANDING LONG-TERM DEBT

As of June 30, 1991 *Dollars in thousands*

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REVENUE BONDS						
1973	6-26-73	5.65%	100	5.70%	7-1-2012	$ 124,400
						124,400
1974	7-23-74	7.21	(B)	6.80-6.90	7-1-92/1994	7,700
			100	7.00	7-1-1999	15,000
			100	7.375	7-1-2012	37,000
						59,700
1974A	11-26-74	7.67	(B)	7.20	7-1-92/1994	6,800
			100	7.40	7-1-1999	15,000
			100	7.75	7-1-2012	78,000
						99,800
1975A	3-6-75	6.88	(B)	6.60	7-1-92/1994	6,300
			100	6.60	7-1-1999	15,000
			100	6.875	7-1-2012	78,000
						99,300
1976	6-3-76	6.63	100	5.90-6.25	7-1-92/1998	15,265
			99.25	6.625	7-1-2006	42,300
			100	6.75	7-1-2012	49,860
						107,425
1976A	11-18-76	5.86	(B)	5.50-5.875	7-1-92/2002	62,080
			100	6.00	7-1-2007	44,815
			99.50	6.00	7-1-2012	60,990
						167,885
1978	7-11-78	6.71	100	5.80-6.60	7-1-92/2000	43,235
			100	6.80	7-1-2006	45,520
			100	6.875	7-1-2012	66,230
						154,985
1979	3-13-79	6.49	(B)	5.60-6.00	7-1-92/1999	35,670
			100	6.40	7-1-2004	33,490
			100	6.75	7-1-2012	83,605
						152,765

(A) Based on original issue
(B) Various prices
(C) Compound interest bonds stated at original issue price
(D) Excludes amounts due July 1, 1991
(E) Includes amounts due July 1, 1991

OUTSTANDING LONG-TERM DEBT (continued)

As of June 30, 1991 *Dollars in thousands*

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REVENUE BONDS (Continued)						
1979A	10-17-79	7.69%	(B)	6.90-7.30%	7-1-92/1999	$ 25,260
			100	7.60	7-1-2004	23,050
			100	7.75	7-1-2012	57,000
						105,310
1981A	9-4-81	14.67	100	14.375	7-1-2001	30,000
			59.958	8.25	7-1-2003	100,000
						130,000
1990A	3-15-90	7.77	99.75	7.25	7-1-2003	73,705
			98.50	7.50	7-1-2004	61,510
			97.125	7.25	7-1-2006	35,790
			98.75	7.625	7-1-2008	62,215
			96.125	7.375	7-1-2012	189,625
						422,845
1990B	6-7-90	7.69	94.135	7.00	7-1-2012	200,840
						200,840
1990C	11-1-90	7.84	(B)	6.40-7.50	7-1-92/2003	242,080
			97.50	7.625	7-1-2010	209,625
			97.65	7.375	7-1-2011	35,810
			98.25	7.875	7-1-2012	101,980
			(B)	(C)	7-1-04/2005	18,054
						607,549
Adjustment for compound interest bonds accretion						35,046
Revenue bonds payable						$2,467,850 (D)
PACKWOOD LAKE PROJECT REVENUE BONDS						
1962	3-20-62	3.66	99.425	3.625	3-1-2012	6,861
1965	11-4-65	3.76	100.5	3.75	3-1-2012	2,180
Revenue bonds payable						$ 9,041

(A) Based on original issue
(B) Various prices
(C) Compound interest bonds stated at original issue price
(D) Excludes amounts due July 1, 1991
(E) Includes amounts due July 1, 1991

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
HANFORD GENERATING PROJECT REVENUE BONDS						
1963	5-8-63	3.26%	98	3.25%	9-1-1996	$ 12,220
Revenue bonds payable						$ 12,220
NUCLEAR PROJECT NO. 1 REVENUE BONDS						
1975	9-18-75	7.73	(B)	6.90-7.40	7-1-91/2000	28,300
			100	7.70	7-1-2010	58,300
			100	7.75	7-1-2017	74,700
						161,300
1976A	2-4-76	6.84	(B)	6.00-6.25	7-1-91/1998	21,430
			100	6.90	7-1-2010	66,485
			100	7.00	7-1-2017	76,495
						164,410
1976B	8-31-76	6.37	100	5.30-5.90	7-1-91/1998	23,530
			100	6.50	7-1-2010	66,940
			99.50	6.50	7-1-2017	71,235
						161,705
1978A	3-21-78	5.69	(B)	5.00-5.50	7-1-91/2002	47,045
			100	5.80	7-1-2010	50,920
			100	5.875	7-1-2017	64,810
						162,775
1978B	12-5-78	6.61	(B)	5.50-6.00	7-1-91/1998	24,405
			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
						166,050
1979	6-19-79	6.64	(B)	6.00	7-1-91/1998	19,265
			100	6.40	7-1-2003	18,560
			100	6.70	7-1-2009	32,370
			100	6.80	7-1-2017	69,685
						139,880
1980A	8-5-80	9.15	100	7.25-8.25	7-1-91/1995	31,500
						31,500
1982A	2-11-82	15.13	100	12.00	7-1-91	2,725
						2,725

OUTSTANDING LONG-TERM DEBT (continued)

As of June 30, 1991 *Dollars in thousands*

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 1 REVENUE BONDS (Continued)						
1989A	9-14-89	7.76%	100	6.45-7.30%	7-1-91/2002	$ 33,590
			98.185	7.00	7-1-2004	27,385
			99.017	7.50	7-1-2007	62,105
			97.759	7.50	7-1-2015	295,575
			82.083	6.00	7-1-2017	95,110
						513,765
1989B	12-7-89	7.44	100	6.70-7.25	7-1-96/2003	31,095
			98.375	7.00	7-1-2005	2,100
			100	7.40	7-1-2009	5,180
			97.25	7.25	7-1-2015	50,040
			98.533	7.125	7-1-2016	41,070
						129,485
1990A	3-15-90	7.73	(B)	6.30-7.60	7-1-92/2005	72,705
			92.75	7.00	7-1-2011	56,770
			81.75	6.00	7-1-2017	55,635
						185,110
1990B	6-7-90	7.75	(B)	7.00-7.20	7-1-99/2003	24,495
			97.979	7.25	7-1-2009	72,770
			98.913	7.25	7-1-2012	56,000
			98.50	7.75	7-1-2017	164,735
						318,000
1990C	9-27-90	7.85	(B)	6.60-7.75	7-1-92/2003	173,095
			99.50	7.75	7-1-2008	22,085
			99.50	8.00	7-1-2017	60,045
						255,225
Revenue bonds payable						$2,391,930 (E)
NUCLEAR PROJECT NO. 3 REVENUE BONDS						
1975	12-3-75	7.87	100	6.60-7.25	7-1-91/1998	16,755
			100	7.875	7-1-2010	52,695
			99.25	7.875	7-1-2018	71,160
						140,610

(A) Based on original issue
(B) Various prices
(C) Compound interest bonds stated at original issue price
(D) Excludes amounts due July 1, 1991
(E) Includes amounts due July 1, 1991

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 3 REVENUE BONDS (Continued)						
1976	4-13-76	6.48%	(B)	5.50-6.00%	7-1-91/1998	$ 12,035
			99.625	6.50	7-1-2010	35,100
			100	6.60	7-1-2018	45,295
						92,430
1977	7-12-77	5.71	(B)	5.00-5.50	7-1-91/2000	41,925
			99.50	5.70	7-1-2009	63,535
			99.50	5.80	7-1-2018	107,160
						212,620
1978	9-12-78	6.27	(B)	5.90-6.00	7-1-91/2004	54,455
			100	6.375	7-1-2010	42,985
			99	6.40	7-1-2018	90,630
						188,070
1989A	9-14-89	7.43	100	6.45-7.30	7-1-91/2002	32,590
			(B)	(C)	7-1-2003/2014	18,668
			98.533	7.25	7-1-2016	98,340
			84.75	6.00	7-1-2018	54,570
						204,168
1989B	12-7-89	7.39	100	6.40-7.15	7-1-93/2001	84,480
			(B)	(C)	7-1-2004/2014	71,321
			98.375	7.00	7-1-2005	85,690
			100	7.40	7-1-2009	29,235
			97.25	7.25	7-1-2015	226,230
			98.533	7.125	7-1-2016	76,145
			79.755	5.50	7-1-2017	62,560
			79.525	5.50	7-1-2018	65,905
						701,566
1990B	6-7-90	7.57	(B)	6.30-7.25	7-1-91/2000	154,680
			(B)	(C)	7-1-2001/2010	39,210
			98.923	7.375	7-1-2004	55,920
			98	7.50	7-1-2018	107,885
						357,695
Adjustment for compound interest bonds accretion						341,936
Revenue bonds payable						$2,239,095 (E)

DEBT-SERVICE REQUIREMENTS

As of June 30, 1991 Dollars in thousands

FISCAL YEAR	NUCLEAR PROJECT NO. 2 PRINCIPAL	INTEREST	TOTAL	PACKWOOD LAKE PROJECT PRINCIPAL	INTEREST	TOTAL	HANFORD GENERATING PROJECT PRINCIPAL	INTEREST	TOTAL
6/30/91 Balance*	$ 0	$ 0	$ 0	$ 151	$ 110	$ 261	$ 4,836	$132	$ 4,968
1992	37,160	172,757	209,917	239	327	566	5,612	223	5,835
1993	31,860	170,455	202,315	305	316	621	1,639	58	1,697
1994	34,225	168,479	202,704	320	305	625	133	4	137
1995	45,765	166,333	212,098	333	293	626			
1996	32,425	163,398	195,823	347	281	628			
1997	47,815	161,356	209,171	367	269	636			
1998	51,040	157,789	208,829	387	255	642			
1999	91,555	153,991	245,546	422	241	663			
2000	107,340	147,058	254,398	473	226	699			
2001	150,325	138,902	289,227	498	208	706			
2002	73,470	127,845	201,315	524	190	714			
2003	184,330	122,588	306,918	548	171	719			
2004	140,594	120,852	261,446	573	151	724			
2005	90,785	123,107	213,892	599	130	729			
2006	118,850	94,224	213,074	623	108	731			
2007	153,225	85,955	239,180	648	86	734			
2008	169,440	74,933	244,373	673	62	735			
2009	173,240	62,718	235,958	572	37	609			
2010	192,550	50,347	242,897	274	16	290			
2011	159,360	36,556	195,916	122	6	128			
2012	347,450	25,389	372,839	43	2	45			
2013									
2014									
2015									
2016									
2017									
2018									
*Adjustment***	35,046	(35,046)							
	$2,467,850	$2,489,986	$4,957,836	$9,041	$3,790	$12,831	$12,220	$417	$12,637

* Bond fund account balances less accrued investment income.

** Adjustment for compound interest bonds accretion; compound interest bonds are reflected at their face amount less discount on the balance sheet.

FISCAL YEAR	NUCLEAR PROJECT NO. 1 PRINCIPAL	INTEREST	TOTAL	NUCLEAR PROJECT NO. 3 PRINCIPAL	INTEREST	TOTAL	NUCLEAR PROJECTS NOS. 4/5 PRINCIPAL	TOTAL
6/30/91 Balance*	$ 24,455	$ 83,878	$ 108,333	$ 17,995	$ 59,589	$ 77,584	$ 0	$ 0
1992	28,165	166,083	194,248	25,715	118,100	143,815	2,316,201	2,316,201
1993	34,105	164,298	198,403	30,745	116,517	147,262		
1994	35,890	162,078	197,968	32,720	114,592	147,312		
1995	37,825	159,694	197,519	34,875	112,495	147,370		
1996	41,255	157,155	198,410	40,505	110,230	150,735		
1997	45,525	154,455	199,980	29,395	107,560	136,955		
1998	47,820	151,414	199,234	27,310	105,633	132,943		
1999	63,010	148,195	211,205	61,215	103,839	165,054		
2000	67,185	143,808	210,993	65,910	99,605	165,515		
2001	72,050	139,147	211,197	64,265	101,618	165,883		
2002	70,805	134,040	204,845	68,247	97,897	166,144		
2003	61,500	128,984	190,484	70,247	96,429	166,676		
2004	73,240	124,673	197,913	53,836	108,279	162,115		
2005	65,570	119,543	185,113	54,771	106,649	161,420		
2006	83,025	114,883	197,908	55,647	104,798	160,445		
2007	88,900	109,006	197,906	50,611	104,928	155,539		
2008	95,195	102,710	197,905	52,296	103,247	155,543		
2009	98,960	95,967	194,927	54,233	101,306	155,539		
2010	105,925	88,966	194,891	56,382	99,155	155,537		
2011	130,355	81,448	211,803	74,894	88,010	162,904		
2012	139,735	72,107	211,842	88,817	83,785	172,602		
2013	152,615	62,207	214,822	94,118	78,494	172,612		
2014	163,595	51,224	214,819	99,835	72,768	172,603		
2015	175,595	39,226	214,821	133,705	38,903	172,608		
2016	188,360	26,463	214,823	143,140	29,468	172,608		
2017	201,270	13,557	214,827	153,150	19,459	172,609		
2018				162,580	10,025	172,605		
*Adjustment***				341,936	(341,936)			
	$2,391,930	$2,995,209	$5,387,139	$2,239,095	$2,151,442	$4,390,537	$2,316,201	$2,316,201

Refer to Note F under Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation and Nuclear Projects Nos. 4 and 5 Bridge and Termination Loans.

Note A–General

ORGANIZATION

The Washington Public Power Supply System (Supply System), a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 1991, its membership consisted of 10 public utility districts and the cities of Richland, Seattle, and Tacoma. All members own and operate electric systems within the State of Washington. The Supply System has no taxing authority.

SUPPLY SYSTEM PROJECTS

The Supply System operates Nuclear Project No. 2, an 1,100 MWe generating plant completed in 1984, and the Packwood Lake Hydroelectric Project (Packwood), a 27.5 MWe plant completed in 1964.

The Hanford Generating Project (HGP), an 860 MWe plant, was completed in 1966 and was in operation through 1986, using by-product steam from the Department of Energy's dual-purpose New Production Reactor (N-Reactor). The N-Reactor was shut down for safety improvements in 1987, placed in dry lay-up status in 1989, and in August 1991, the Secretary of Energy announced the decision to place the N-Reactor in permanent shutdown in the near future. This action will eliminate the N-Reactor as a future energy source for HGP (see Note F under Hanford Generating Project). HGP is currently being preserved by the Supply System as a potential future energy resource.

Nuclear Project No. 1, a 1,250 MWe plant, is 65 percent complete and is in the tenth year of a construction delay. Nuclear Project No. 3, a 1,240 MWe plant, is 75 percent complete and is in the ninth year of a construction delay.

Nuclear Project No. 1 is wholly owned by the Supply System. Nuclear Project No. 3 is jointly owned, 70 percent by the Supply System and 30 percent by four investor-owned utilities (Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company).

Nuclear Projects Nos. 4 and 5 were terminated on January 22, 1982 and, as of June 30, 1991, substantially all of the utility plant assets have been sold. Nuclear Project No. 4 is wholly owned by the Supply System. Nuclear Project No. 5 is jointly owned, 90 percent by the Supply System and 10 percent by Pacific Power & Light Company (see Note F under Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation).

Each Supply System project is financed and accounted for as a utility system separate from all other current or future projects with the exception of Nuclear Projects Nos. 4 and 5 which are treated as one utility system.

More than 100 Northwest utilities have purchased all of the project capability of Nuclear Projects Nos. 1, 2, and the Supply System's 70 percent ownership share of Nuclear Project No. 3. Pursuant to the terms of their purchase agreements, they are obligated to pay the annual costs of each project, including debt service, whether or not the project is completed, operable or operating and notwithstanding the suspension, reduction or curtailment of project output. These project participants have resold such capability to the Bonneville Power Administration (BPA) and in return BPA is obligated to pay annual costs of these projects, including debt service, by a procedure referred to as net-billing. Under net-billing, project participants pay the Supply System their respective shares of annual costs and BPA pays project participants identical amounts by reducing amounts due to BPA by participants under power sales agreements.

Eighty-eight project participants in Nuclear Projects Nos. 4 and 5 were originally obligated by contract to pay annual costs of Nuclear Projects Nos. 4 and 5, including debt service, whether or not the projects were completed. However, these contracts have been declared invalid. BPA has no obligation with respect to annual costs of Nuclear Projects Nos. 4 and 5.

All electrical energy produced by Supply System projects is delivered to electrical distribution facilities owned and operated by BPA as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electrical utility systems throughout the Northwest, including participants in Supply System projects, for ultimate distribution to consumers. BPA is obligated by law to establish rates for electric power which will recover the cost of acquisition (including all payments under net-billing agreements), and BPA's other costs.

Note B–Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The Supply System has adopted accounting policies and practices that are in accordance with generally accepted accounting principles applicable to governmental utilities. Accounts are maintained in accordance with the uniform system of accounts of the Federal Energy Regulatory Commission. Separate funds and books of account are maintained for each utility system. Payment of obligations of one utility system with funds of another utility system is prohibited, and would constitute violation of bond resolution covenants.

UTILITY PLANT

Utility plant is stated at original cost, and is depreciated by the straight-line method over the estimated useful lives of the various classes of plant in service.

During the normal construction phase of a project, the Supply System's policy is to capitalize all costs relating to the project,

including interest expense (net of interest income), and administrative and general expense.

Because of the extended delay of Nuclear Projects Nos. 1 and 3, the Supply System discontinued capitalizing interest expense for these projects effective July 1, 1984 and, effective July 1, 1990, discontinued capitalizing all other costs (which totalled $6.7 million and $5.5 million for the year ended June 30, 1991 for Nuclear Projects Nos. 1 and 3, respectively). Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 4 and 5 are charged to current operations.

NUCLEAR FUEL

All expenditures related to the purchase of nuclear fuel are capitalized and carried at cost. When the fuel is placed in the reactor, the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. Current period operating expense for Nuclear Project No. 2 includes a charge for future spent nuclear fuel storage and disposal to be provided by the Department of Energy in accordance with the Nuclear Waste Policy Act of 1982. No provision has been made for additional storage and disposal costs which may be incurred by the Supply System prior to the transfer of spent fuel to the Department of Energy.

Under certain exchange agreements, the Supply System has transferred to third parties approximately 2.1 million pounds of Nuclear Project No. 1 uranium with a cost of $62.3 million. In return, the Supply System will receive equivalent quantities of uranium in future years. Additionally, the Supply System receives usage fees for a portion of the transferred uranium. These exchange agreements have been secured by bank letters of credit at current market value, adjusted semiannually. The cost of this uranium is included in the carrying amount of Nuclear Project No. 1 nuclear fuel.

RESTRICTED ASSETS

In accordance with project bond resolutions and related agreements, separate restricted funds are established for each project. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance, termination, and decommissioning.

STATEMENTS OF CASH FLOWS

For purposes of the statements of cash flows, the term "cash" includes unrestricted and restricted cash balances. Short-term, highly-liquid investments are not considered cash equivalents.

MATERIALS AND SUPPLIES

Materials and supplies are valued at cost, using weighted-average methods.

FINANCING EXPENSE AND BOND DISCOUNT

Financing expense and bond discounts are amortized over the terms of the respective bond issues.

CURRENT MATURITY OF REVENUE BONDS

Current maturities of revenue bonds payable are reflected in Long-Term Debt - Revenue Bonds Payable, and funding of current maturities is reflected in Restricted Assets - Debt Service Funds.

REVENUES

With the exception of Nuclear Projects Nos. 4 and 5, the Supply System recovers, through various agreements, actual cash requirements for operations and debt service for each project over the life of that project. Accordingly, the Supply System recognizes revenues equal to operating costs for each period. No net income or loss is recognized, and no equity is accumulated.

The difference between cumulative revenues received and cumulative operating costs is reported on the balance sheet as either billings in excess of costs (liability) or as costs in excess of billings (deferred charge), as appropriate. Such amounts will be recognized as revenues or costs during future operating periods.

DECOMMISSIONING

Estimated Nuclear Project No. 2 decommissioning costs are being accrued and funded currently. Monthly payments are made into a sinking fund which, with accumulated interest, is expected to be adequate to fund decommissioning costs at the end of the 40-year plant operating life. Decommissioning costs are currently estimated at $403 million (in 1987 dollars). Payments to the decommissioning fund for the year ended June 30, 1991 aggregated $2.7 million and the balance of the fund at June 30, 1991 was $11.8 million.

Note C–Cash and Investments

Cash and investments for each utility system are separately maintained. The Supply System's deposits are insured by federal depository insurance or through the Washington Public Deposit Protection Commission. Supply System investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association, Federal Home Loan Banks, Farm Credit System, and Federal Home Loan Mortgage Corporation. During fiscal year 1991, the Supply System's investment policy was revised to allow for investments in repurchase agreements, however, no investments in repurchase agreements were made during the year. All investments are held in the Supply System's name by safekeeping agents, custodians, or trustees.

Investments are stated at amortized cost and include accrued interest. The combined carrying value of investments for all projects at year-end (including accrued interest) approximates market value. The Supply System's investments are categorized

(Dollars in thousands)	U.S. Gov't Securities	U.S. Gov't Agencies	Total	Accrued Interest	Carrying Amount
NUCLEAR PROJECT NO. 2					
Amortized cost	$ 127,689	$ 115,525	$ 243,214	$ 4,144	$ 247,358
Market value	127,881	115,557	243,438		
PACKWOOD LAKE PROJECT					
Amortized cost	2,667	-0-	2,667	14	2,681
Market value	2,668	-0-	2,668		
HANFORD GENERATING PROJECT					
Amortized cost	14,818	-0-	14,818	80	14,898
Market value	14,813	-0-	14,813		
NUCLEAR PROJECT NO. 1					
Amortized cost	187,552	199,063	386,615	7,451	394,066
Market value	187,869	199,030	386,899		
NUCLEAR PROJECT NO. 3					
Amortized cost	72,799	108,434	181,233	3,475	184,708
Market value	72,773	108,442	181,215		
NUCLEAR PROJECTS NOS. 4/5					
Amortized cost	34	79,206	79,240	365	79,605
Market value	34	79,227	79,261		

above to give an indication of the types and amounts of investments held by each project at year-end.

Note D–Retirement Benefits

Substantially all Supply System full-time employees participate in the statewide local government Public Employees' Retirement System (PERS). PERS is a contributory multi-employer cost-sharing retirement system established by the Washington State Legislature and administered by the State of Washington through the Department of Retirement Systems. For the year ended June 30, 1991, the Supply System's payroll covered under PERS was $75.8 million, representing 96 percent of total payroll.

PERS contains two plans. Plan I members (employed on or before September 30, 1977) may retire with full benefits at age 60 with at least five years of credited service, at age 55 with 25 years of service, or upon reaching 30 years of service regardless of age. Plan II members (employed after September 30, 1977) may retire with full benefits at age 65 with at least five years of credited service, or with actuarially reduced benefits at age 55 with 20 years of service. The annual pension benefits are generally based on a percentage of final average salary.

Required employer contributions for both plans, and PERS II employee contributions, are determined each biennium by the Legislature. Employee contribution rates for Plan I are established by legislative statute. Employer rates for Plan I are not necessarily adequate to fully fund the system. The employer and employee contribution rates for Plan II are developed by the Office of State Actuary to fully fund the system. The methods used to determine the contribution requirements were established under state statute.

As of December 31, 1989 (the latest actuarial valuation date), the pension benefit obligation of PERS, which is the actuarial present value of credited projected benefits adjusted for the effects of projected salary increases, was $7.259 billion and the value of net assets available to satisfy present and future pension benefit obligations was $6.222 billion. The pension benefit obligation is a standardized measure which enables readers of financial statements to assess the funding status of each system and progress made in accumulating sufficient assets to pay benefits when due, and to make comparisons with other retirement systems. The standardized disclosure method is independent of the actuarial funding method used to determine contributions.

Contributions for the year ended June 30, 1991, expressed both in dollar amounts and percentages of current-year covered payroll, were as follows:

	Plan I Rate	Plan I Amount	Plan II Rate	Plan II Amount
Employer Contributions				
Actuarially determined requirement	7.00%	$ 985,053	7.00%	$4,324,149
Actual Supply System contributions	7.41%	$1,043,271	7.43%	$4,591,689
Employee Contributions				
Actuarially determined requirement	6.00%*	$ 844,639	4.33%	$2,674,795
Actual employee contributions	6.00%	$ 844,639	4.70%	$2,900,453

* Fixed at 6.00%

The Supply System's actuarially determined employer contribution requirement represents approximately 2.2 percent of the total for all employers covered by PERS.

Historical trend information showing PERS' progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 1990 comprehensive annual financial report.

In addition to the pension benefits available through PERS, the Supply System offers postemployment life insurance benefits to retirees who are eligible to receive pensions under PERS Plan I and Plan II. Currently, 118 retirees are eligible to receive life insurance benefits and 101 retirees have elected to participate in this insurance. The life insurance benefit is equal to the employee's annual rate of salary at retirement for non-bargaining unit employees and one-half of the employee's annual rate of salary at retirement, with a minimum benefit of $22,000, for bargaining unit employees. Retirees contribute $5.28 per $1,000 of coverage annually for life insurance, and the Supply System funds the death benefit claims on a pay-as-you-go basis.

At the time of retirement, the Supply System accrues a liability equal to the present value of estimated claims, net of retiree contributions. The total expense recognized for the year ended June 30, 1991 was $.7 million and the total liability at June 30, 1991 was $2.1 million for these benefits.

Note E–Long-Term Debt

Except for Nuclear Projects Nos. 4 and 5, which were financed together as one utility system, each Supply System project is financed separately. The resolutions of the Supply System authorizing issuance of revenue bonds for each project provide that such bonds are payable solely from the revenues of that project.

During the year ended June 30, 1991, the Supply System issued $862.8 million in net-billed bonds for Nuclear Projects Nos. 1 and 2 to advance refund $633.1 million of outstanding bonds with an average interest rate of 13.94 percent. The net proceeds of the new issues were deposited in separate irrevocable trusts under the control of escrow agents to provide for all future debt service payments on the refunded bonds.

Although the advance refundings resulted in the recognition of an accounting loss for the year ended June 30, 1991, the aggregate debt service payments for Nuclear Projects Nos. 1 and 2 have been reduced resulting in an economic gain, including changes to debt service reserve fund balances, of $25.9 million and $156.5 million, respectively.

In prior fiscal years, the Supply System defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. Including the fiscal year 1991 defeasements, approximately $890.8 million, $726.6 million, and $907.2 million of bonds outstanding are considered defeased at June 30, 1991 for Nuclear Projects Nos. 1, 2 and 3, respectively.

A summary of fiscal year 1991 Series 1990C bond refundings by project is presented below:

FISCAL YEAR 1991 BOND REFUNDINGS

(Dollars in Thousands)

	Nuclear Project No. 1	Nuclear Project No. 2
Size of issue	$255,225	$607,549
Amount of bonds refunded	181,695	451,360
Accounting loss	64,162	111,092
Reduction in aggregate debt service payments	26,742	110,480

The Supply System expects to continue the refunding of high-interest bonds when economically feasible.

Outstanding revenue bonds of the various projects as of June 30, 1991, are presented on pages 25 through 29, and debt service requirements for these bonds are presented on pages 30 and 31.

SECURITY–NUCLEAR PROJECTS NOS. 1, 2 AND 3

Project participants have purchased all of the project capability of Nuclear Projects Nos. 1 and 2 and the Supply System's 70 percent ownership share of project capability of Nuclear Project No. 3. The U.S. Department of Energy, acting by and through BPA, has in turn acquired the entire project capability from the project participants under contracts referred to as net-billing agreements. Under the net-billing agreements for each of the projects, project participants are obligated to pay the Supply System their pro rata share of total annual costs of the respective projects, including debt service on bonds relating to each project, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA by participants under BPA power sales agreements. The net-billing agreements provide that project participants and BPA are obligated to make such payments whether or not the projects are completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output. The validity of the net-billing agreements was challenged in November 1982. In May 1983, the U.S. District Court of Oregon declared that the net-billing agreements were binding, and this decision was upheld on appeal.

SECURITY–NUCLEAR PROJECTS NOS. 4 AND 5

In connection with the issuance of the generating facilities revenue bonds for Nuclear Projects Nos. 4 and 5, the Supply System pledged the revenues to be derived under participants' agreements with 88 utilities operating principally in the 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 Nos. 4 and 5 termination costs and debt service were due beginning on January 25, 1983. As a result of a ruling by the Washington State Supreme Court declaring the participants' agreements invalid, payments due under the participants' agreements were not made and an event of default, as defined in the bond resolution, occurred on July 22, 1983 (see Note F under Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation).

SECURITY–HANFORD GENERATING PROJECT

It was initially intended that Nuclear Project No. 1 be constructed next to the Hanford Generating Project (HGP) to provide the energy source to operate the project when the Department of Energy ceased operation of the N-Reactor. To allow for construction of Nuclear Project No. 1, it would have been necessary to shut down HGP 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 HGP 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 HGP.

The amended agreements provide for the payment of all debt service costs, net of investment income, of HGP by Nuclear Project No. 1 participants beginning July 1, 1980, regardless of continued operation of the N-Reactor, and that other costs, to the extent not otherwise provided for, be treated as Nuclear Project No. 1 costs with HGP having a first claim on the revenues of that project.

SECURITY–PACKWOOD LAKE HYDROELECTRIC PROJECT

Under power sales agreements, 12 member purchasers have purchased all of the project capability of Packwood. The member purchasers are obligated to pay annual costs of the project, including debt service, whether or not the project is operable, until outstanding bonds are paid or provision is made for the retirement in accordance with provisions of the bond resolution.

Note F–Commitments and Contingencies

NUCLEAR PROJECTS NOS. 4 AND 5 TERMINATION, BOND DEFAULT, AND LITIGATION

In January 1982, the Supply System's Nuclear Projects Nos. 4 and 5 were terminated when construction was 24 percent and 16 percent complete, respectively. The Supply System had previously issued $2.25 billion of bonds to pay costs of the projects.

The participants' agreements (discussed in Note E under Security-Nuclear Projects Nos. 4 and 5) provided that each participant pay its respective share of the debt service on the bonds and termination costs beginning January 25, 1983. However, payments due under the participants' agreements were not made pending a judicial determination of the participants' authority and obligation to pay. In 1983, and again in 1984, the Washington State Supreme Court ruled that Washington municipal utilities did not have statutory authority to enter into the participants' agreements, thus invalidating the agreements. When the U.S. Supreme Court denied a writ of certiorari by which the state court decision might be reviewed, this suit was ended.

On July 22, 1983, the Supply System acknowledged that it could not pay Nuclear Projects Nos. 4 and 5 obligations as they became due. This admission represented an event of default under the Nuclear Projects Nos. 4 and 5 bond resolution. On July 25, 1983, Chemical Bank, as bond fund trustee, demanded that all remaining project funds be transferred to it for holding in a special account. On August 18, 1983, Chemical Bank declared the principal of all Nuclear Projects Nos. 4 and 5 revenue bonds and interest accrued thereon to be due and payable immediately.

In early 1983, a number of securities fraud class actions were filed in federal courts on behalf of purchasers of Nuclear Projects Nos. 4 and 5 bonds. Other suits by plaintiffs on their own behalf were filed in federal and state courts. The defendants named included the Supply System, its member utilities, and Nuclear Projects Nos. 4 and 5 participants. The lawsuits alleged violations of federal and state securities law, fraud, misrepresentation, negligence and breach of contract, and sought monetary damages, rescission and restitution. The federal actions were consolidated in a single multidistrict proceeding in the United States District Court for the Western District of Washington under the caption *In re WPPSS Securities Litigation, MDL 551 (MDL 551).*

In August 1983, Chemical Bank filed a lawsuit in United States District Court for the Western District of Washington, on behalf of all Nuclear Projects Nos. 4 and 5 bondholders, against the Supply System, all Nuclear Projects Nos. 4 and 5 participants, and Supply System member utilities. The lawsuit alleged claims and sought relief similar to that alleged and sought in *MDL 551.*

Another lawsuit, *Haberman v. WPPSS, et al. (Haberman)*, was filed against the Supply System and others in a Washington State court by a number of Nuclear Projects Nos. 4 and 5 bondholders alleging substantially the same allegations as were made in the federal cases.

The lawsuits described above sought to recover the bondholders' investment in the principal amount of $2.25 billion, plus unspecified damages, interest, costs and attorneys' fees.

In September 1988, the Supply System's Executive Board approved an agreement to settle claims against the Supply System in *MDL 551*, the Chemical Bank litigation, and related litigation including the *Haberman* action. The agreement calls for the Supply System to consent to entry of a judgment on the contract claim on the Nuclear Projects Nos. 4 and 5 bonds brought by *MDL 551* class plaintiffs and Chemical Bank. All other claims against the Supply System are to be dismissed with prejudice. The amount of the judgment shall be equal to the aggregate unpaid principal amount of the Nuclear Projects Nos. 4 and 5 bonds and accrued interest thereon at the time the judgment is entered. As of June 30, 1991, the amount of such accrued interest was approximately $1.503 billion. That judgment shall be entered only upon a final judgment or final settlement of all claims in *MDL 551* and the Chemical Bank litigation. Recourse for satisfaction of the judgment is expressly limited to the funds and assets of the Supply System pledged to secure the Nuclear Projects Nos. 4 and 5 bonds.

All other defendants in *MDL 551* and the Chemical Bank litigation also have reached agreements to settle claims against them. The total amount to be paid under these settlements in *MDL 551* exceeds $850 million.

In April 1989, certain present holders of Nuclear Projects Nos. 4 and 5 bonds served the Supply System and others with notice of a suit, entitled *Heerey v. Supply System (Heerey)*, in New York State Court which seeks $750 million and other relief. The plaintiffs allege that the Supply System and others are liable for nonpayment of interest and principal on the Nuclear Projects Nos. 4 and 5 bonds, based on common law fraud and other theories. The district court in *MDL 551* and the Chemical Bank litigation has previously ruled that Chemical Bank represents all of the holders of Nuclear Projects Nos. 4 and 5 bonds. Proceedings in *Heerey* have been stayed by agreement of the parties pending the outcome of appeals of the order approving joint *MDL 551* settlements.

In another lawsuit entitled *Hoffer v. State of Washington (Hoffer)*, certain purchasers of Nuclear Projects Nos. 4 and 5 bonds have

filed claims on behalf of all bondholders against the State of Washington, the state auditor and other elected officials, asserting that the state is liable to the plaintiffs for damages. The State of Washington has advised the Supply System that, if the litigation against the State of Washington is not resolved, it may file cross-claims against the Supply System and the other *MDL 551* defendants.

All of the settlements were approved by the court on September 5, 1989. The court found that Chemical Bank represented all Nuclear Projects Nos. 4 and 5 bondholders in the litigation. If it becomes final and non-appealable, the court's ruling will permanently bar Chemical Bank and all Nuclear Projects Nos. 4 and 5 bond purchasers (including the *Heerey* plaintiffs) from commencing, prosecuting, or continuing any action against the Supply System arising out of or relating to the allegations or subject matter of the litigation. The ruling, however, will not preclude Chemical Bank from continuing with the cost-sharing litigation described below.

The plaintiffs in *Heerey* and *Hoffer* have filed notices of appeal, and an individual bondholder also has appealed. No additional appeals are expected. In the opinion of Supply System Special Counsel and Chief Counsel, the court's ruling, unless modified or reversed on appeal, would bar the *Heerey* litigation and the *Habenman* litigation, and would provide for the release of claims asserted in the *Hoffer* litigation.

If approval of the settlements is modified or reversed, the Supply System is unable to predict the outcome of *MDL 551*, the Chemical Bank litigation, *Habenman*, *Heerey*, or *Hoffer*.

LIABILITY INSURANCE LITIGATION

The excess carrier of directors' and officers' liability insurance, National Union (AIG), filed a lawsuit in September 1985, seeking a declaration that it has no obligation under the insurance policy because of the alleged failure of the Supply System to declare facts which if known to the insurer, would have resulted in it not issuing the policy. The court in *MDL 551* has approved a settlement between the Supply System's directors and the plaintiffs in *MDL 551*, which dismisses all claims against the directors in return for a payment of $30 million by the carrier. If approval of this settlement becomes final and non-appealable, the insurer will be barred from proceeding with this litigation. If approval is modified or reversed, the Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECTS NOS. 4 AND 5 BRIDGE AND TERMINATION LOANS

In late 1981, 68 Nuclear Projects Nos. 4 and 5 participants and others loaned the Supply System $60 million to pay project costs until an alternative source of financing could be found. None was found, and after the projects were terminated in January 1982, 42 Nuclear Projects Nos. 4 and 5 participants loaned the Supply System additional amounts of approximately $8 million to pay termination costs. The first set of loans were called bridge loans, and the second termination loans. All of these loans were subordinate to the $2.25 billion of bonds payable, and were payable solely from the revenues of Nuclear Projects Nos. 4 and 5. The Supply System defaulted on all of the loans at the same time it defaulted on Nuclear Projects Nos. 4 and 5 bonds in 1983. Interest on these loans in the amount of approximately $132.3 million also remains unpaid at June 30, 1991.

Most of the lenders have sued the Supply System and all but three of the suits (those brought by certain investor-owned utilities) have been reduced to judgment. The Washington State Supreme Court has held that the terms of the loans limited the source of recovery to funds and assets of Nuclear Projects Nos. 4 and 5.

INTER-PROJECT CLAIMS AGAINST REVENUES AND OTHER ASSETS

Some creditors of Nuclear Projects Nos. 4 and 5 have attempted, and others have threatened to attempt, to obtain payment from the physical assets of other projects of the Supply System or from the revenues pledged as security for the Supply System bonds issued in connection with, and revenues pledged for the payment of costs of, such other projects. Such creditors include present and former holders of the Nuclear Projects Nos. 4 and 5 bonds and others who may assert claims in the future against the Supply System and/or its projects.

Bond Counsel and Chief Counsel to the Supply System are of the following opinions with respect to the ability of various classes of claimants, creditors, and future creditors to realize upon the revenues or physical assets of Nuclear Projects Nos. 1, 2 and 3.

First, with respect to the revenues, income, receipts, profits, and other moneys held under each of the net-billed resolutions and pledged thereby for the payment of the related net-billed bonds and for the payment of all other costs of the related net-billed project (collectively, the "Pledged Revenues"), Bond Counsel and Chief Counsel to the Supply System are of the opinion that holders of Nuclear Projects Nos. 4 and 5 bonds, creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects Nos. 4 and 5, and creditors whose judgments derived from other contract claims against the Supply System that do not arise from actions or failures to act relating directly or indirectly to such net-billed project, will not be able to realize upon such pledged revenues.

Second, with respect to the pledged revenues relating to a particular net-billed project, while the specific issue has not been decided by the Supreme Court of the State of Washington, Bond Counsel and Chief Counsel to the Supply System are of the opinion that creditors of the Supply System whose judgments derive from tort claims against the Supply System that do not arise from actions or failures to act relating directly or indirectly to such net-billed project will not be able to realize upon such pledged revenues; and Bond Counsel and Chief Counsel to the Supply System believe that, if presented with the question, a court would so hold.

Third, with respect to the physical assets of the net-billed projects that are necessary for the purposes of such projects, while the specific issue has not been decided by the Supreme Court of the State of Washington, Bond Counsel and Chief Counsel to the Supply System are of the opinion that holders of Nuclear Projects Nos. 4 and 5 bonds, creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects Nos. 4 and 5, and creditors whose judgments derive from other contract or tort claims against the Supply System that do not arise from actions or failures to act relating directly or indirectly to the net-billed projects, will not be able to realize upon such assets; and Bond Counsel and Chief Counsel to the Supply System believe that, if presented with the question, a court should so hold. The above opinion as to the ability of bondholders or other creditors to realize upon the physical assets of the net-billed projects is limited to those assets located within the State of Washington, or as to which a court would apply the law of the State of Washington.

The above opinions exclude claims against the Supply System arising from a valid exercise of the sovereign police power of the State of Washington or of the constitutional powers of the United States of America.

In order to express the legal conclusions set forth in the foregoing opinions, Bond Counsel and Chief Counsel to the Supply System have assumed that the activities giving rise to the claims described in such opinions were not directly or indirectly related to any net-billed project. In any given suit or proceeding, however, the question of whether a particular activity does or does not relate to a net-billed project is a factual matter to be determined by the judge or jury, as the case may be. No assurance can be given that in any such suit or proceeding there will not be a finding that the complained-of activity relates to one or more of the net-billed projects. If such a finding is made, the claimant may be able to realize on the pledged revenues or physical assets of one or more of the net-billed projects.

If it were determined that a claim is an obligation of one or more of the net-billed projects, the claim would be paid in the same manner as other obligations of those projects.

Bond Counsel and Chief Counsel to the Supply System have not undertaken an investigation of the issues discussed above with respect to the Packwood Lake Hydroelectric Project or Hanford Generating Project. However, they believe that upon full investigation, the same opinions could be rendered with respect to assets of the Packwood Lake Hydroelectric Project and Hanford Generating Project and revenues or funds held in trust or for the holders of bonds issued by the Supply System to finance the construction of such projects.

If it is found that creditors are not limited to payment of their claims from the project to which such claims relate, it will have a material adverse impact on the Supply System.

COST-SHARING LITIGATION

Nuclear Projects Nos. 1 and 4 are of substantially the same design and are referred to as "twin units." Nuclear Projects Nos. 3 and 5 are also twin units of substantially the same design. Architect-engineer services, construction management, and certain common equipment used in construction of twin units benefited both units, and costs are sharable by the twin units. The Supply System allocated such shared costs on the basis of respective benefit to the projects involved.

In August 1982, the Participants' Committee for Nuclear Projects Nos. 4 and 5, on behalf of the project participants, demanded that the Supply System reallocate $161 million, plus interest, in shared costs previously paid by Nuclear Projects Nos. 4 and 5, based on a revised formula for sharing of costs. The demand indicated this was not the total extent of claims which could be made by the Nuclear Projects Nos. 4 and 5 participants. The investor-owned utilities (IOUs) owning 30 percent of Nuclear Project No. 3 have asserted that they are entitled to set off the amounts owed by the Supply System on bridge and termination loans made for Nuclear Projects Nos. 4 and 5 in 1981, totaling $12 million plus interest, against any cost-sharing obligation.

In October 1982, the Supply System filed a complaint for declaratory judgment in Federal District Court for Western Washington, naming the participants in Nuclear Projects Nos. 1, 2, 3, 4 and 5, BPA, the four IOUs owning shares of Nuclear Project No. 3, and the bond fund trustees for Nuclear Projects Nos. 1 and 3 as defendants, and asking the court to declare the rights and obligations of the parties with regard to the allocation of costs among the projects.

In May 1983, the court designated BPA as the plaintiff and all other parties as defendants. The case is captioned *BPA v. Supply System, et al.* Certain other claims have been filed as part of this action.

In June 1983, Chemical Bank intervened as bond fund trustee on behalf of the Nuclear Projects Nos. 4 and 5 bondholders. Chemical Bank has alleged that the Supply System's allocations of costs among the twinned projects were improper and that repayment to the Nuclear Projects Nos. 4 and 5 bond fund is required for such costs allegedly improperly allocated.

In May 1989, the court ruled that Chemical Bank has a lien in an amount of any funds which may be determined in the future to have been improperly expended as a result of costs misallocated to Nuclear Projects Nos. 4 and 5, but the court stated that any enforcement of the lien must await resolution of the issue of whether there was any improper allocation.

By agreement among the Supply System, BPA and Chemical Bank signed August 29, 1989 and approved by the court, any final, nonappealable judgment entered in cost-sharing litigation granting relief to Chemical Bank for costs misallocated from Nuclear Projects Nos. 1, 2 or 3 to Nuclear Projects Nos. 4 or 5 would be payable by BPA under net-billing agreements. In return, Chemical Bank agreed to release any lien on proceeds of Nuclear Projects Nos. 1, 2 or 3 refunding bonds to be issued in the future, and any other funds disbursed to pay amounts properly payable prior to a judgment in the cost-sharing litigation. However, if Chemical Bank obtains a judgment, the release by Chemical Bank will not apply to any funds disbursed after such judgment. If, after such judgment in the cost-sharing litigation, Chemical Bank

seeks to enforce a lien on the Nuclear Projects Nos. 1, 2 or 3 bond funds or revenue funds, Bond Counsel and Chief Counsel to the Supply System are of the opinion that a court should hold that any such lien would be subordinate to the lien of Nuclear Projects Nos. 1, 2 or 3 bondholders.

On October 5, 1990, the court ruled that the Nuclear Projects Nos. 4 and 5 Bond Resolutions required the application of principles "akin to those espoused" by Chemical Bank. The court stated that because such principles were not applied, Nuclear Projects Nos. 4 and 5 "apparently bore more than their fair and equitable share of construction costs."

The court granted Chemical Bank's motion for seeking an accounting of all the uses of bond proceeds of Nuclear Projects Nos. 4 and 5. The Supply System and other parties in the case have appealed this order to the United States Court of Appeals for the Ninth Circuit.

Counsel for Chemical Bank has estimated the potential recovery for Nuclear Projects Nos. 4 and 5 at $1 billion, including interest. If a judgment were awarded in favor of Chemical Bank and costs previously allocated to Nuclear Projects Nos. 4 and 5 were allocated to other Supply System projects, such amounts would be construction costs of such projects.

The Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECT NO. 5 TERMINATION CLAIM

In August 1983, Pacific Power & Light Company (Pacific), owner of 10 percent of Nuclear Project No. 5, filed a counterclaim in *BPA v. Supply System, et al.* asserting that termination of Nuclear Project No. 5 was a breach of the ownership agreement between Pacific and the Supply System. Pacific seeks damages in an unspecified amount. Such amount would presumably be approximately $150 million, and could be a general claim against assets of the Supply System. Actions on that claim have been stayed since 1983. The Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECTS NOS. 4 AND 5 SITE RESTORATION

No provisions have been made for site restoration of Nuclear Projects Nos. 4 and 5, which is governed by the site certification agreement between the Supply System and the State of Washington and regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC). It is not known at this time what actions will be necessary to comply with EFSEC's requirements. Because the site certification agreement for Nuclear Project No. 1 also covers Nuclear Project No. 4, and the agreement for Nuclear Project No. 3 also covers Nuclear Project No. 5, EFSEC might assert that Nuclear Projects Nos. 1 and 3 are obligated to pay the cost of site restoration for Nuclear Projects Nos. 4 and 5. Such costs are estimated to be in the range of $45 to $77 million (in 1989 dollars).

NUCLEAR PROJECTS NOS. 1 AND 3 CONSTRUCTION DELAY

In April 1982, the Supply System commenced a construction delay of Nuclear Project No. 1, and in July 1983, it commenced a construction delay of Nuclear Project No. 3. These projects are currently in an extended delay mode. Plant assets are being preserved and project licenses are being maintained during the delay period in order to enable the Supply System to resume construction of the projects at such time as that action is determined appropriate.

In the 1986 Northwest Conservation and Electric Power Plan, issued by the Northwest Power Planning Council (Council) in January 1986, the Council indicated that Nuclear Projects Nos. 1 and 3 can be cost-effective for the region and should be preserved as potential resource options. However, the Council did not include Nuclear Projects Nos. 1 and 3 in its resource portfolio at that time due to legal and other uncertainties. In April 1991, the Council released its 1991 Power Plan, which includes an objective to determine the cost and availability of resources to the region in the next twenty years. Such resources, among others, include Nuclear Projects Nos. 1 and 3. An action plan item supporting that objective recommends that BPA and the Supply System undertake the work necessary to determine whether outstanding issues are resolvable so that the Council can make an informed judgment in the next Power Plan as to whether to: 1) continue preserving the projects, 2) construct either or both of the projects if needed, or 3) terminate the projects. BPA and the Supply System have initiated work in response to this recommendation, and anticipate completion by mid-1993.

In its 1987 Resource Strategy, BPA found that there was no compelling case either for or against continued preservation of Nuclear Projects Nos. 1 and 3 on a net present value basis, and that preservation of both projects was somewhat favorable from an economic risk management standpoint. BPA concluded that preservation of Nuclear Projects Nos. 1 and 3 was the prudent course of action at that time. These findings and conclusions remained unchanged in BPA's 1988 Resource Program and 1990 Resource Program. No new decision regarding completion or termination of the projects is expected to be reflected in BPA's 1992 Resource Program.

Preservation of each project is expected to continue until a decision is made whether to complete construction or terminate one or both projects. Continued funding of Nuclear Project No. 1 preservation costs is provided by the Nuclear Project No. 1 construction fund, and continued funding of Nuclear Project No. 3 preservation costs is provided by project participants (70 percent pursuant to net-billing agreements) and by the four investor-owned utility owners (30 percent pursuant to a settlement agreement).

NUCLEAR PROJECT NO. 3 DELAY LITIGATION

In July and August 1983, the four IOUs owning 30 percent of Nuclear Project No. 3 filed claims against BPA, the Supply System and the Nuclear Project No. 3 participants asserting that they

suffered damages as a result of the extended construction delay of Nuclear Project No. 3.

The Supply System executed agreements on September 17, 1985, to settle the construction delay claims with BPA and with each of the IOUs owning shares of Nuclear Project No. 3. A number of the Nuclear Project No. 3 participants have opposed the settlement and dismissal of claims. In October 1985, the participants filed pleadings in the U.S. District Court asserting challenges to the Nuclear Project No. 3 settlement agreements between BPA and the IOUs. None of the agreements executed by the Supply System has been challenged. However, the pleadings filed by some participants also include claims against the Supply System, the IOUs and BPA unrelated to the validity of the settlement. In July 1986, the district court dismissed the claims challenging BPA's authority to enter into the Nuclear Project No. 3 settlement agreements with the IOUs and stayed all other claims relating to or arising out of the construction delay or the settlement.

An original proceeding also was filed in the United States Court of Appeals for the Ninth Circuit, challenging BPA's settlements with the IOUs. In January 1989, the Court of Appeals rejected all statutory challenges to BPA's settlements, affirmed BPA's authority to enter the settlements, and dismissed other claims, including claims against the IOUs and the Supply System, for lack of jurisdiction.

In May 1989, the district court dismissed the claims of all but nine of the Nuclear Project No. 3 participants against the Supply System, BPA, and the IOUs relating to or arising out of the construction delay of Nuclear Project No. 3 or the settlement, pursuant to a stipulation of the parties. No action has been taken by these nine non-stipulating participants since the May 1989 district court ruling.

The four IOUs owning 30 percent of Nuclear Project No. 3 also filed complaints in state courts in King County, Washington, and Multnomah County, Oregon in May 1983, seeking similar declarative and equitable relief and damages because of the Nuclear Project No. 3 construction delay as claimed by them in *BPA v. Supply System, et al.* These cases were filed as a precaution against any determination that the federal District Court lacked jurisdiction to try the Nuclear Project No. 3 construction delay claims. Proceedings in these state court cases have been stayed by stipulation of the parties. The parties have agreed to dismiss these state court cases after final dismissal of the parallel claims in the federal court and the final dismissal of any claims challenging the Nuclear Project No. 3 settlement agreements.

If the settlement agreements between BPA and the IOUs are determined to be invalid or unenforceable, the IOUs might renew their claim that they are entitled to rescission of the Nuclear Project No. 3 ownership agreement. However, the IOUs have agreed in their settlement agreements with the Supply System not to assert any claim against the Supply System for money damages, restitution or injunctive relief.

The Supply System is unable to predict what results will be reached with respect to these claims.

HANFORD GENERATING PROJECT

The Hanford Generating Project (HGP) was completed in 1966 and operated through 1986, using by-product steam from the Department of Energy's N-Reactor. In January 1987, the Department of Energy shut down the N-Reactor for safety improvements, and in October 1989 placed it in a dry lay-up status, while maintaining the capability to restart within a two-to-three year period. HGP has not operated since 1986.

In 1988, the Supply System completed a study of alternative steam sources for HGP, and BPA completed a study to determine if conversion to an alternative steam source warranted preservation of HGP. BPA's conclusion at that time was that from a risk management standpoint, it would not be prudent to terminate the project unless there was a substantial indication that it had no value as a power resource.

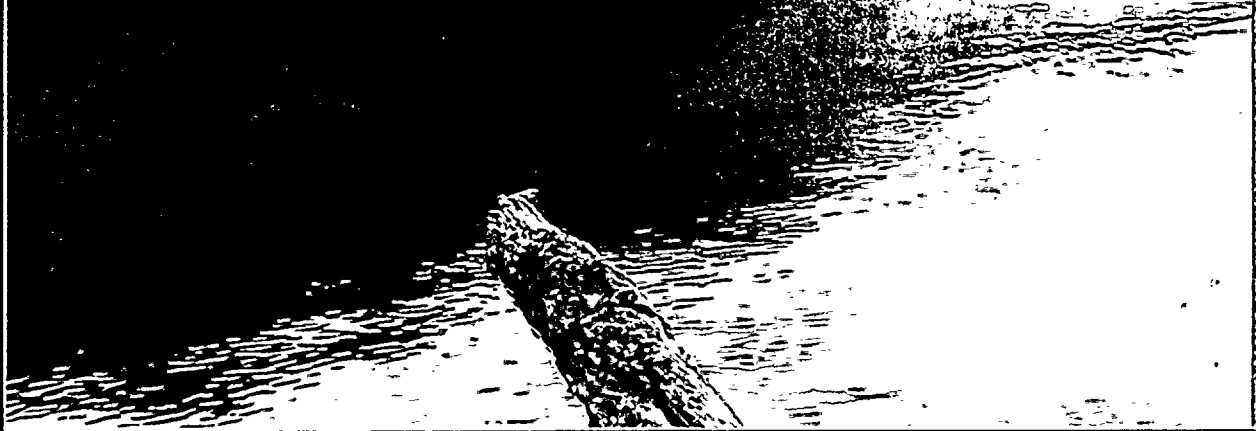
In August 1991, the Secretary of Energy announced the decision to place the N-Reactor in permanent shutdown in the near future. This action will eliminate the N-Reactor as a future power source for HGP. The Supply System and BPA are again reviewing the status of HGP to determine whether the project should be terminated or continue to be preserved as a potential future energy resource.

Certain HGP preservation costs have been funded by the Department of Energy since 1988 under a supplemental agreement between the Supply System and the Department of Energy. This agreement expires on September 30, 1991, and it is uncertain whether this agreement will be extended. Remaining HGP debt service costs and continuing preservation costs, or project termination costs, will be funded by project participants.

NUCLEAR INSURANCE

The Price Anderson Act currently provides for nuclear liability insurance up to $7.8 billion per incident, which is covered by a combination of commercial nuclear insurance and mandatory industry self-insurance. The Supply System has purchased the maximum commercial insurance available of $200 million, which is the first layer of protection. The second layer of protection is provided through a mandatory industry self-insurance plan wherein each licensed nuclear facility required to participate in the plan (currently 115) may be assessed up to $66.15 million per incident, subject to a maximum annual assessment of $10 million per year.

Nuclear property damage insurance requirements are met through a combination of commercial nuclear insurance policies purchased by the Supply System and BPA. The total amount of insurance purchased is currently $1.625 billion. The deductible for this coverage is $10 million per occurrence.



Hanford Site Neighbor

Joan Ames

Joan Ames and the Supply System's operating nuclear power Plant 2 have been neighbors for seven years. How do they get along? Joan, a retired high school fine arts teacher, conveys a sense of pride in knowing that her neighbor is making a contribution to the quality of life in the Pacific Northwest.

"Compared with other generating alternatives, the operation of Plant 2

Packwood Lake Hydroelectric Project

Bill Johnson, maintenance

For 19 years, Bill Johnson has been responsible for maintenance of the Supply System's first electrical generating plant. The Packwood Lake Hydroelectric Project, which began operation in 1964, is one of the Pacific Northwest's most constant and reliable sources of electricity.

Situated in the foothills of Mt. Rainier, the 27.5-megawatt plant generates an average of seven megawatts of electricity. "We're not a large generating plant," says Bill, "but we're a reliable one."

One of only two Supply System employees stationed at Packwood, Bill appreciates the challenge of maintaining the project in top-notch operating condition. The small Packwood crew takes special pride during the winter months when Packwood may be called upon to support the local public utility district during electrical power losses. "It's important that Packwood is ready and available when

WNP-1

Mark Domarotsky, craft coordination

The Supply System's 65-percent complete pressurized water reactor, WNP-1, has been in a preserved state since 1982. People like Mark Domarotsky, craft coordinator, have worked hard to ensure the plant's structure is in good condition and the

BOARD OF DIRECTORS

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Commissioner
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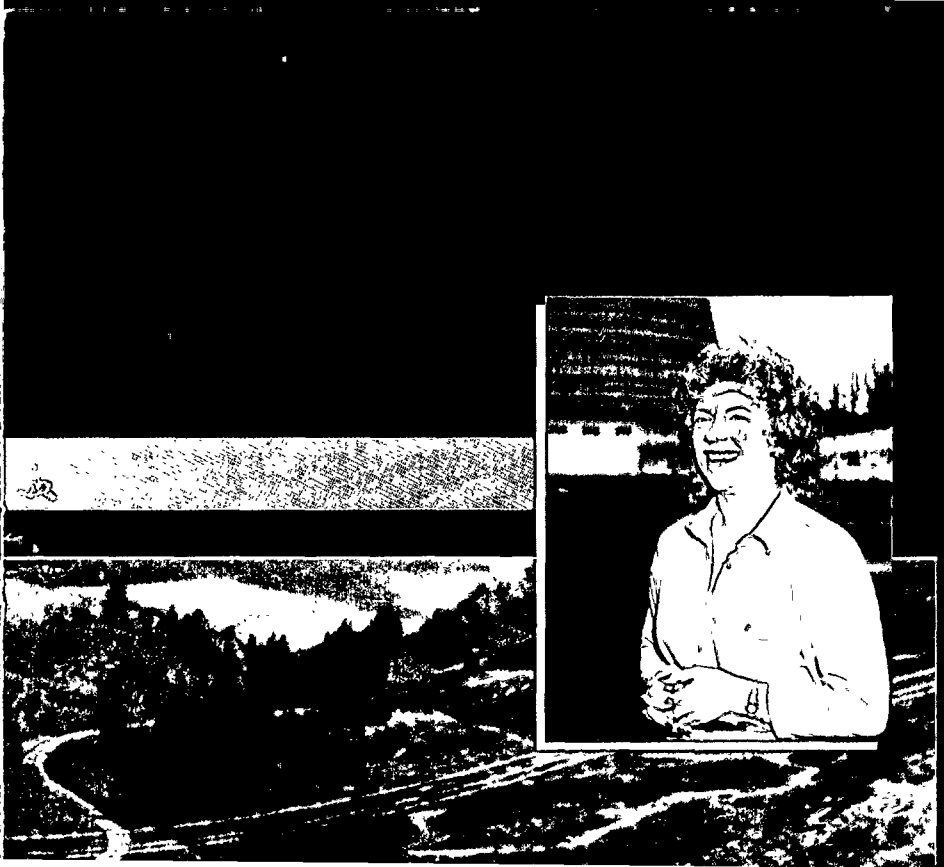

WNP-3

Sandi DeLoe, administration

Sandi DeLoe, administrative coordinator, and 70 other full-time employees work at the Supply System's 75-percent complete WNP-3 project near Satsop in Grays Harbor County, Washington. The 1,240-megawatt pressurized water reactor is being preserved until the region makes a decision about the future of the project.

"We take pride in preservation," says Sandi. "WNP-3 employees firmly believe

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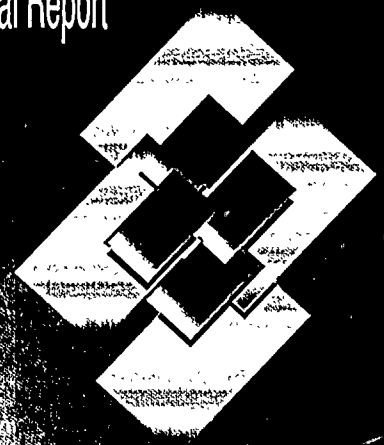


1993

Donald W. Mazur resigned from the Supply System in fiscal year 1993, after nearly 10 years service as managing director. His many contributions to the organization are appreciated, and his enthusiasm and personal commitment to the Supply System and its employees will long be remembered. He is wished the best.

FINANCIAL AND OPERATING HIGHLIGHTS

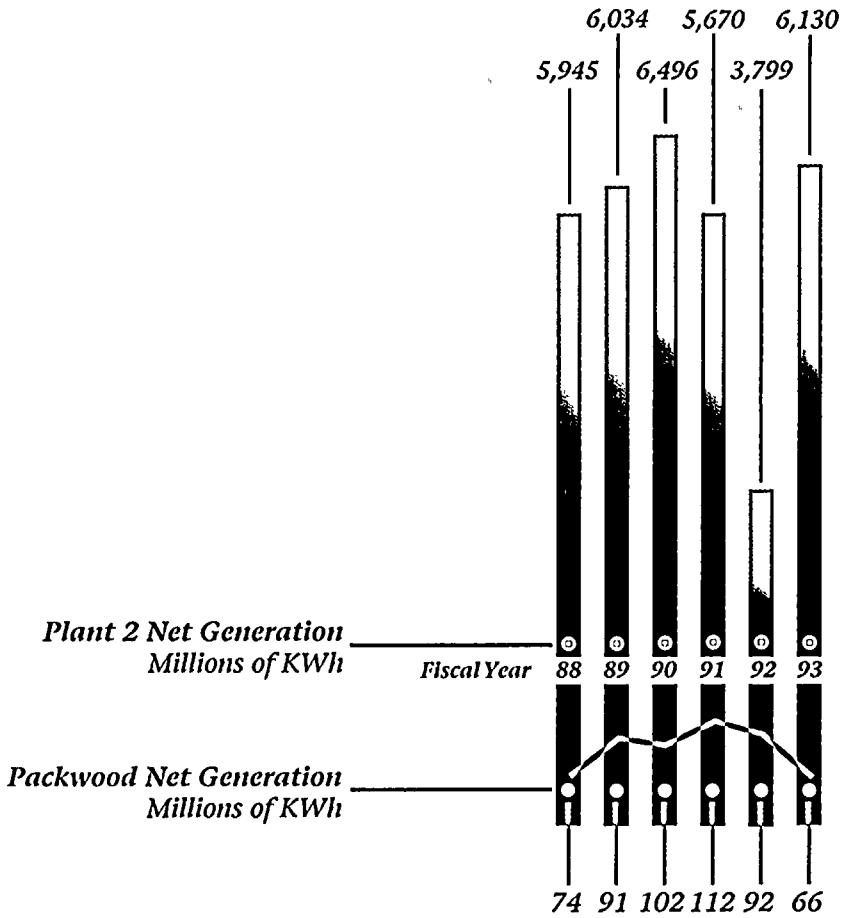
For the year ended June 30, 1993 (Dollars in millions)

BONDS OUTSTANDING	FY 1993	FY 1992
Amount*/Weighted Average Coupon Rate		
WNP-1 *amount*	$2,406.3	$2,382.0
weighted average	6.6%	6.9%
WNP-2 *amount*	$2,507.4	$2,454.5
weighted average	6.6%	7.0%
WNP-3 *amount*	$1,868.1	$1,895.4
weighted average	6.1	6.1
**Excludes, Compound Interest Bonds Accretion*		
BOND RATINGS		
Fitch Investors Service, Inc.	AA	AA
Moody's Investors Service, Inc.	Aa	Aa
Standard and Poor's	AA	AA

INVESTMENT PERFORMANCE	
Income	$ 46.8
Average Balance	839.2
Rate of Return	5.6%

	FY 1993		FY 1992	
OPERATING STATISTICS	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT
Total production costs*	$ 138.6	$ 0.3	$ 116.9	$ 0.3
Net generation (millions of kWh)	6129.7	65.8	3799.2	92.1
Cost in mills/kWh	22.6	4.4	30.8	3.4
Plant availability	68.8%	100.0%	43.3%	100.0%
Plant capacity	63.7%	27.3%	39.9%	38.1%

*Includes operation and maintenance costs per FERC report.



Carl M. Halvorson
Executive Board Chairman

Our Competitive Effort

1993

As electricity needs in the Pacific Northwest continue to spiral upward, Supply System efforts are concentrated on getting as much generation as possible from its operating power plants, and investigating other power-producing opportunities. In both cases, the end result must be safe and reliable generation of cost-effective electricity for the region's ratepayers.

Various resources are vying for positions in today's energy market. And while the Supply System's Plant 2 has been a significant contributor to the region's electricity base for nine years, operating costs must be carefully watched. We're seeing Plant 2 costs gradually decrease, and anticipate that 1993 and 1994 costs will be the lowest to date.

During fiscal year 1993, Plant 2 costs were held within budget. Savings in plant capital additions were sufficient to offset a slight increase in operating costs, resulting in a net overall reduction of about $2 million in the plant's $200 million annual budget.

The collaborative effort of the Supply System and BPA to continue pursuit of refinancing opportunities also paid off well during the fiscal year. The sale of $644 million in refunding revenue bonds for Projects 1, 2 and 3 in October 1992, and $796 million in bonds sold for Projects 1 and 2 in May 1993, represented $83 million in net present value savings for the Supply System and BPA. Seventeen million in notes for Project 1 were sold in May 1993.

As of October 1993, two additional sales, each at $691 million, have brought economic benefits to Supply System projects and Northwest ratepayers by increasing total net present value savings for the entire refinancing effort, which began in September 1989, to $1.2 billion.

Additional attention was focused on Projects 1 and 3 when in April 1993, Supply System Executive Board members recommended termination studies for the two partially complete reactor plants. The realization that completion of the projects as commercial nuclear power plants is unlikely, prompted this action. A decision on the future of Projects 1 and 3 will most likely be made in early 1994, after the parties involved have had time to analyze and discuss the results of the studies.

Good news was received this year on our proposal to construct a gas-fueled combustion turbine project at our Satsop site in western Washington. In June 1993, BPA announced that the 204-average megawatt project was one of three finalists selected for consideration as a potential new electrical generating facility in the Northwest. While this step gave the Supply System the green light to proceed with site development activities at BPA expense, it does not obligate BPA to call for project construction and operation unless the resource is needed by the region within a ten-year option period.

As competition for resources and other changes swirl through the electric utility industry, the Supply System will continue to rely on its assets — our people, the region, and our technological leadership — to maintain its position as a provider of low-cost electricity.

EXECUTIVE BOARD

Washington Public Power Supply System

From left to center

CARL M. HALVORSON
President, Halvorson Mason Corp., Portland, OR (Board Chairman)

VERA CLAUSSEN
Commissioner, Grant County PUD, Ephrata, WA (Board Assistant Secretary)

JAMES G. ROWLAND
Commissioner, Okanogan County PUD, Okanogan, WA

RAY FOLEEN
Consultant, Portland, OR (Board Secretary)

William G. Counsil
Managing Director

A Period of Performance and Change

Fiscal year 1993 can be classified as a turnaround year for the Supply System. A number of changes have been made throughout the organization to more effectively dedicate resources to improving Plant 2 performance. Most visible is the new management team, with representatives, including myself, from top-performing nuclear plants throughout the country. These individuals, with lengthy experience in operations, engineering and quality assurance, bring with them proven successful approaches to safe and reliable plant operations.

Strong emphasis on teamwork prevails throughout the Supply System. We're diligently working to improve our cohesiveness, with each employee striving to achieve the challenges we've established for ourselves. We have made a commitment to the Nuclear Regulatory Commission (NRC) to demonstrate improvement in this area. It is, and will remain, a top priority.

We also are emphasizing procedural compliance. We've taken some criticism from the NRC in this area and have devoted considerable effort to eliminate any non-compliance issues.

In their annual assessment of our operations, the NRC said "the performance of licensed activities at WNP-2 is acceptable and directed toward safe facility operation." But we need to significantly improve our Systematic Assessment of Licensee Performance (SALP) grades in the key areas of plant operations, maintenance, engineering and plant support.

The Supply System had a successful maintenance and refueling outage this year. Having joined the Supply System just prior to the outage, I was repeatedly impressed with the high caliber of work being performed by our employees.

Safety was a prime consideration for all involved in outage work, with zero lost-time accidents and only three recordable injuries sustained in more than 700,000 hours of work. That effort contributed to this outage being Plant 2's safest, as well as shortest (at 53 days), in its nine-year operating history.

That's quite an accomplishment considering outage work included the replacement of more than one-fifth of the reactor's 764 nuclear fuel assemblies. Completing all work on schedule offered real benefit to the Bonneville Power Administration (BPA), the federal agency that markets electrical power from Plant 2.

Below average water flows through the region's hydroelectric system during the entire year placed increased regional reliance on power from Plant 2. An illustration was BPA's request to the Supply System to delay the start of Plant 2's annual outage by two weeks. We were glad to help relieve some of the stress being experienced by the Northwest electrical power system at that time.

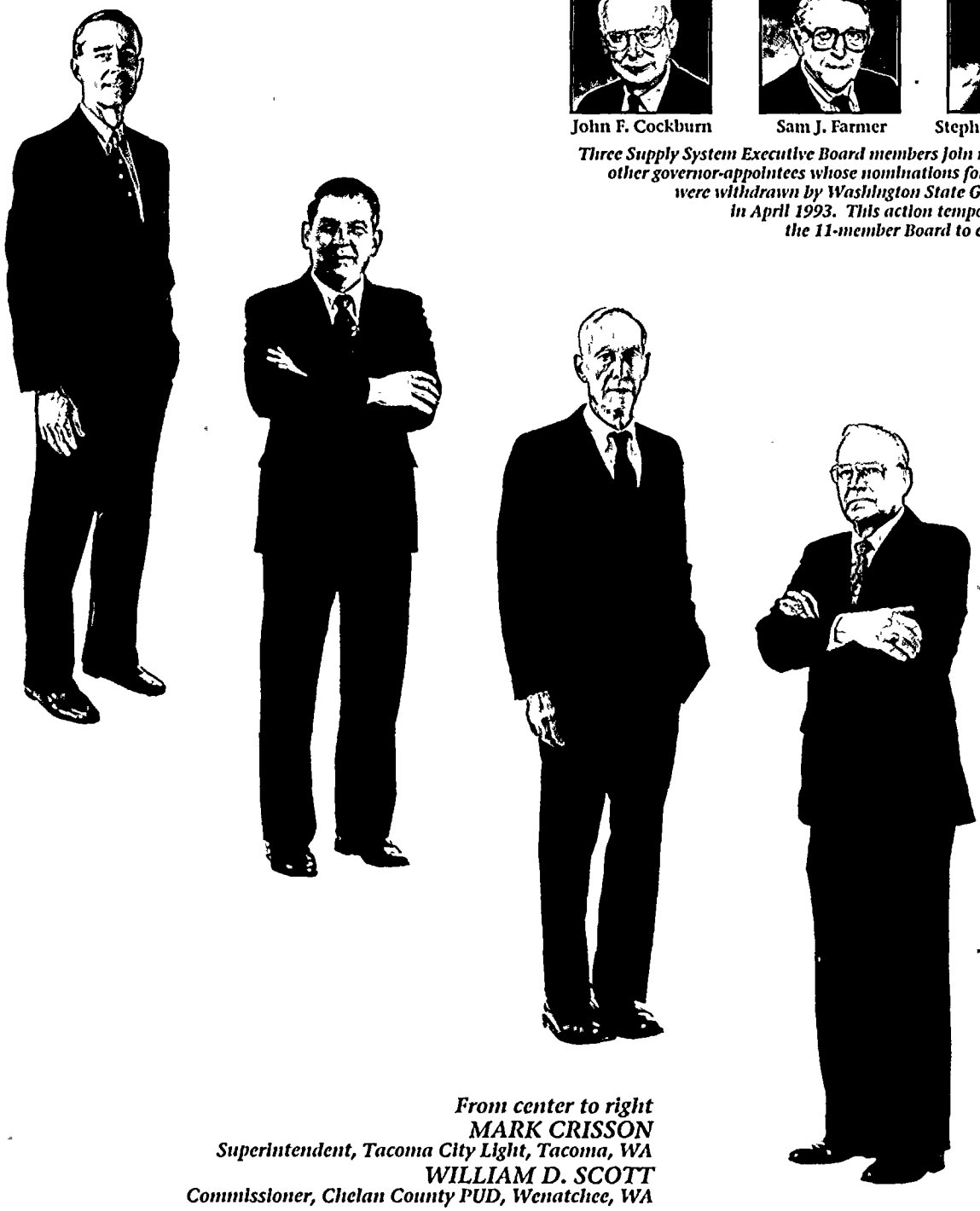
By playing to our strengths and targeting opportunities for improved performance, the Supply System can continue to be responsive to the growing electrical needs in the Pacific Northwest.

John F. Cockburn

Sam J. Farmer

Stephen J. Williams

Three Supply System Executive Board members join more than 200 other governor-appointees whose nominations for another term were withdrawn by Washington State Governor Lowry in April 1993. This action temporarily reduced the 11-member Board to eight members.



From center to right

MARK CRISSON
Superintendent, Tacoma City Light, Tacoma, WA

WILLIAM D. SCOTT
Commissioner, Chelan County PUD, Wenatchee, WA

PAUL J. NOLAN
Attorney, Tacoma, WA (Board Vice Chairman)

PARKER L. KNIGHT
Commissioner, Skamania County PUD, Carson, WA

Changes in the electric power industry are motivating operators of electrical generating facilities to focus on two key areas—reliability and cost of power. Like any other business, the nuclear industry seeks to satisfy its customers, in this case by operating safe and reliable power plants that produce low-cost electricity.

Operations at the Supply System's Plant 2 during fiscal year 1993 were on the mark in both areas. Plant 2 maintained a high level of performance throughout the year, generating more than 6.1 billion kilowatt hours of electricity and achieving a capacity factor of 63.7 percent. Both statistics are improvements over previous years' performance, and are indicators that Plant 2 has the ability to become a top performer.

This year's electrical generation, which was second to Plant 2's record of 6.5 billion kilowatt-hours of electricity produced during fiscal year 1990, contributed significantly to the region's power supply. Steady operations resulted in power from Plant 2 averaging about 10 percent of the Bonneville Power Administration's (BPA) firm power load for the greater part of the year. BPA is the federal agency that markets electrical power from Plant 2 and 30 hydroelectric projects to residents and industries throughout the Pacific Northwest.

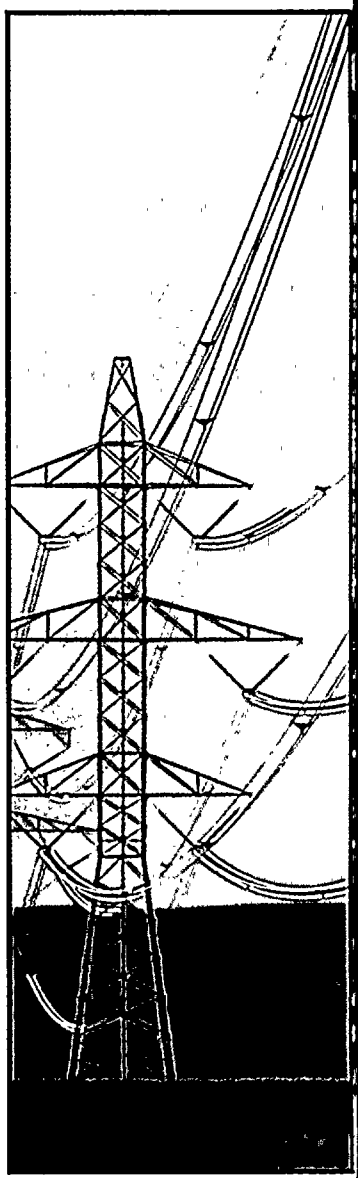
Reliable plant operations were the basis for an increased capacity factor of 63.7 percent in fiscal year 1993. Capacity factor refers to the ratio of energy actually produced to that which would have been produced during the same period had Plant 2 operated continuously at 100 percent power. Plant 2's capacity factor is an area that has been targeted for even greater improvement, and operations staff are working diligently to achieve an 80 percent capacity factor goal within the next few years. Such an achievement would result in Plant 2 power costs that would be among the nuclear industry's lowest.

Plant 2's cost of power during the fiscal year, reported using nuclear industry standards, was 22.6 mills per kilowatt hour. Reflecting significant improvement over past years, cost of power is an area that will continue to be fine-tuned.

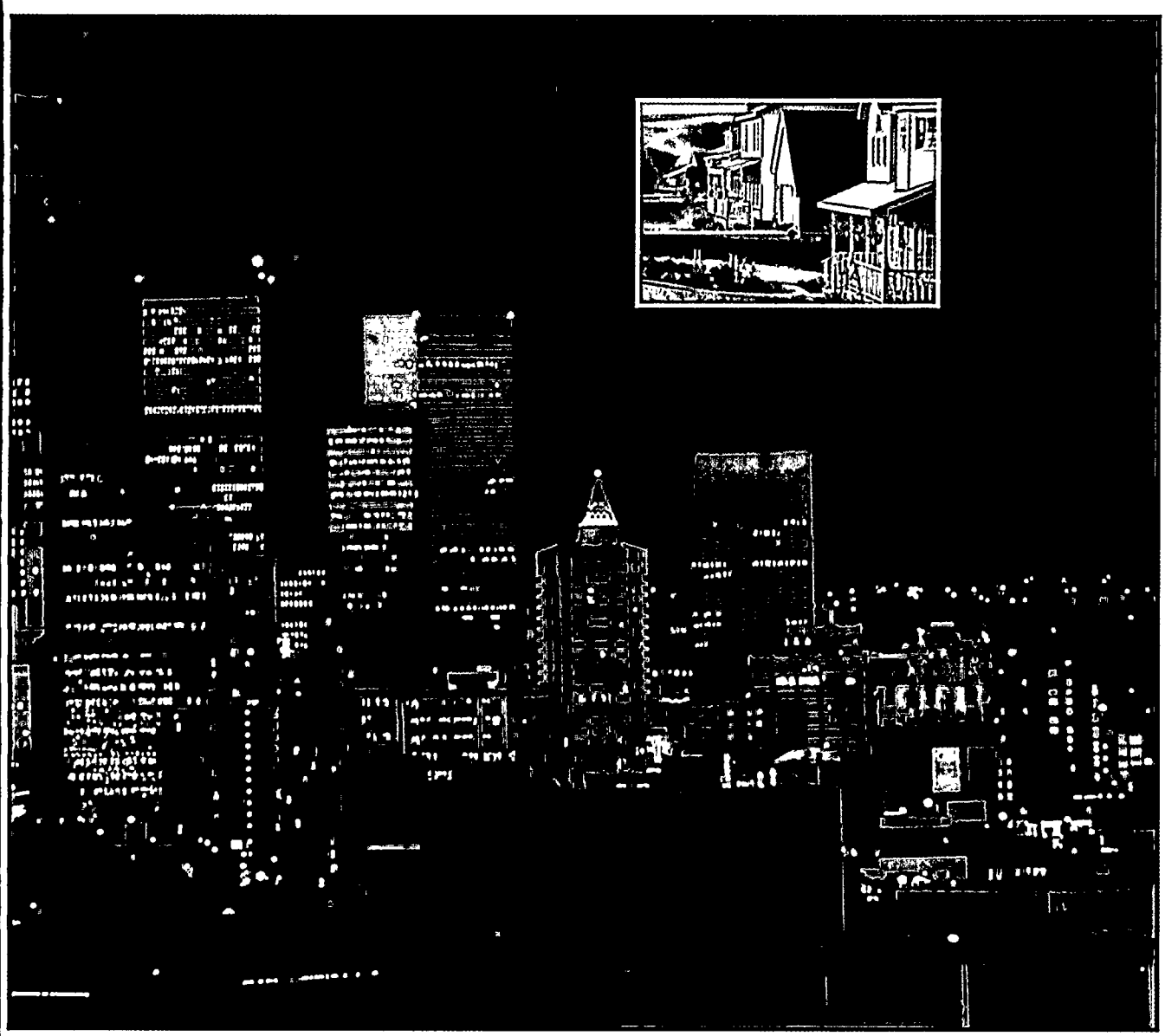
From a regional perspective, as reported by BPA and including controllable, incremental and capital costs, Plant 2's cost of power totalled 40.7 mills per kilowatt hour. With measures in place to improve Plant 2's overall performance and reliability, expectations are that the cost of power from Plant 2 will continue to decline as operating and maintenance costs are held within budget.

The Supply System will continue to meet the challenge of improving Plant 2 performance and reducing associated costs to better serve the region as a safe and reliable source of electricity.

Washington Public Power Supply System is a key player in the full-time role of supporting state-wide electricity use. Plant 2 provides enough electricity to meet the needs of about 375,000 Pacific Northwest homes.



The Supply System (Operations)



Plant 2 took center stage on several occasions during fiscal year 1993 when other electrical generating resources in the Pacific Northwest were impacted by economic and environmental constraints. For example, Portland General Electric Company permanently closed its Trojan nuclear power plant in January 1993, reducing the region's supply of electricity by 800 average megawatts. This action left Plant 2 as the only commercial nuclear power plant operating in the Pacific Northwest.

Economics and the uncertainty surrounding the future operating costs were contributing factors that led to Trojan's premature closure. The Supply System is acutely aware of the symptoms that lead to such drastic measures and is working diligently to reduce economic uncertainties by meeting ambitious performance and cost goals.

The loss of Trojan, combined with dry weather conditions affecting the region's hydroelectric system, strengthened the Bonneville Power Administration's (BPA) reliance on the 1,112 megawatts of electricity produced by Plant 2. The increasing need for power from Plant 2 was demonstrated in April 1993, when BPA officials requested a two-week delay in the start of the nuclear power plant's annual maintenance and refueling outage. The scheduled outage coincided with dry weather conditions and several consecutive years of low streamflows on the Columbia and Snake Rivers that forced BPA to rely more heavily on its non-hydroelectric resources.

The Supply System's Packwood Lake Hydroelectric Project was not exempt from the region's stressed water situation. Lack of snow and reduced rainfall, coupled with maintenance activities, resulted in a low production year for the 27.5-megawatt plant. During fiscal year 1993, Packwood generated 66 million kilowatt-hours of electricity, down considerably from the 92 million kilowatt-hours produced the previous year.

Dependence on the region's hydroelectric system was impacted further this year by measures being taken to protect endangered salmon species. Measures already implemented, and others being considered, promise significantly fewer megawatts from the hydro system.

Serving as a base load power resource for the region, particularly when the hydroelectric system is stressed, is one of Plant 2's chief responsibilities. The power it generates gives BPA more flexibility in responding to the effects of competing demands on use of water in the region's rivers.

Such demands were evident this year with increased economic and population growth throughout the region. The influx of new people and business, added to the existing power load, has the potential to create a power deficit of nearly 900 megawatts in 1994.

As the region continues to balance the need for power with its available resources, the Supply System will work to ensure that Plant 2 maintains its value as a safe, reliable and low-cost provider of electricity.

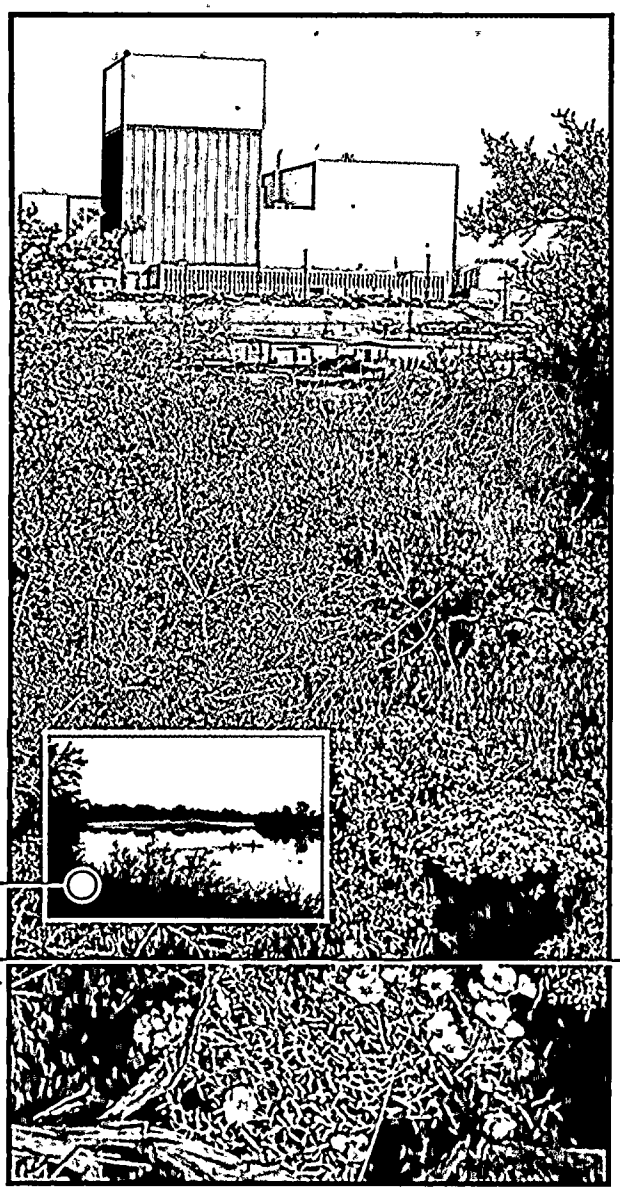
Washington Public Power Supply System is an integral part of the region's power resource network, and is an important factor in fulfilling growing energy demands and environmental balance.

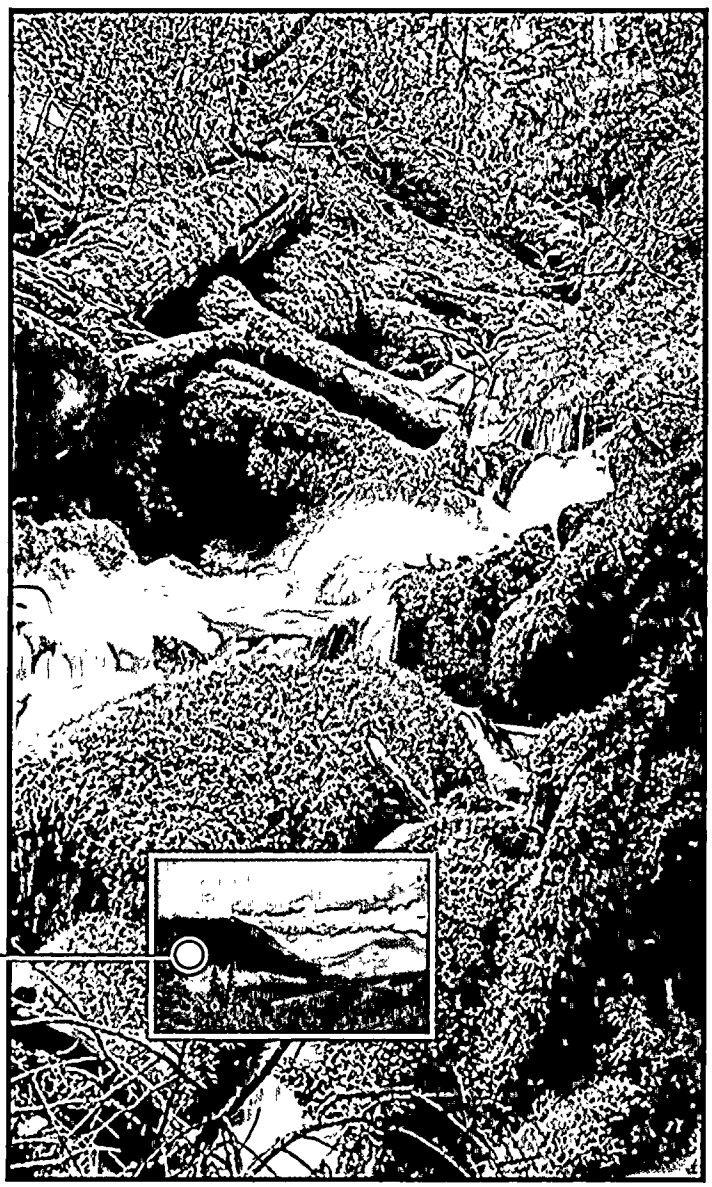
Balancing
Safe, reliable electric power

Environment
Low snow pack and runoff

and Growth
Meeting the region's needs

The Supply System (Resource)





When Plant 2 shut down on April 30, 1993, for its annual maintenance and refueling outage, the countdown began. The Bonneville Power Administration (BPA), regional power planners, the news media, the Nuclear Regulatory Commission (NRC), Supply System employees, and the public all watched closely as outage activities were completed within a record-setting 53 days — one day less than the previous Plant 2 annual outage record set in 1988.

Success in meeting the challenges of a safe and efficient outage and smooth reactor start-up was critical so that Plant 2 could help meet the region's high demand for electricity experienced during this year's summer months. Supply System workers met that challenge by returning Plant 2 to the BPA transmission grid on schedule.

This year's major outage work focused on replacing 128 of the plant's 764 nuclear fuel assemblies and completing a variety of maintenance activities expected to increase Plant 2's operating efficiency and reliability.

The annual outage also was Plant 2's safest to date, with a sixty-percent reduction in number of recordable injuries and zero lost-time accidents reported from among the nearly 1,200 people involved. Recordable injuries require medical attention, while lost-time accidents involve time away from work.

Exemplary safety performance continued throughout the year. In May 1993, employees achieved a new safety record by working one year without a lost-time accident. The effort involved 3,200,000 hours of work, and is the first time the Supply System has surpassed the three-million hour mark.

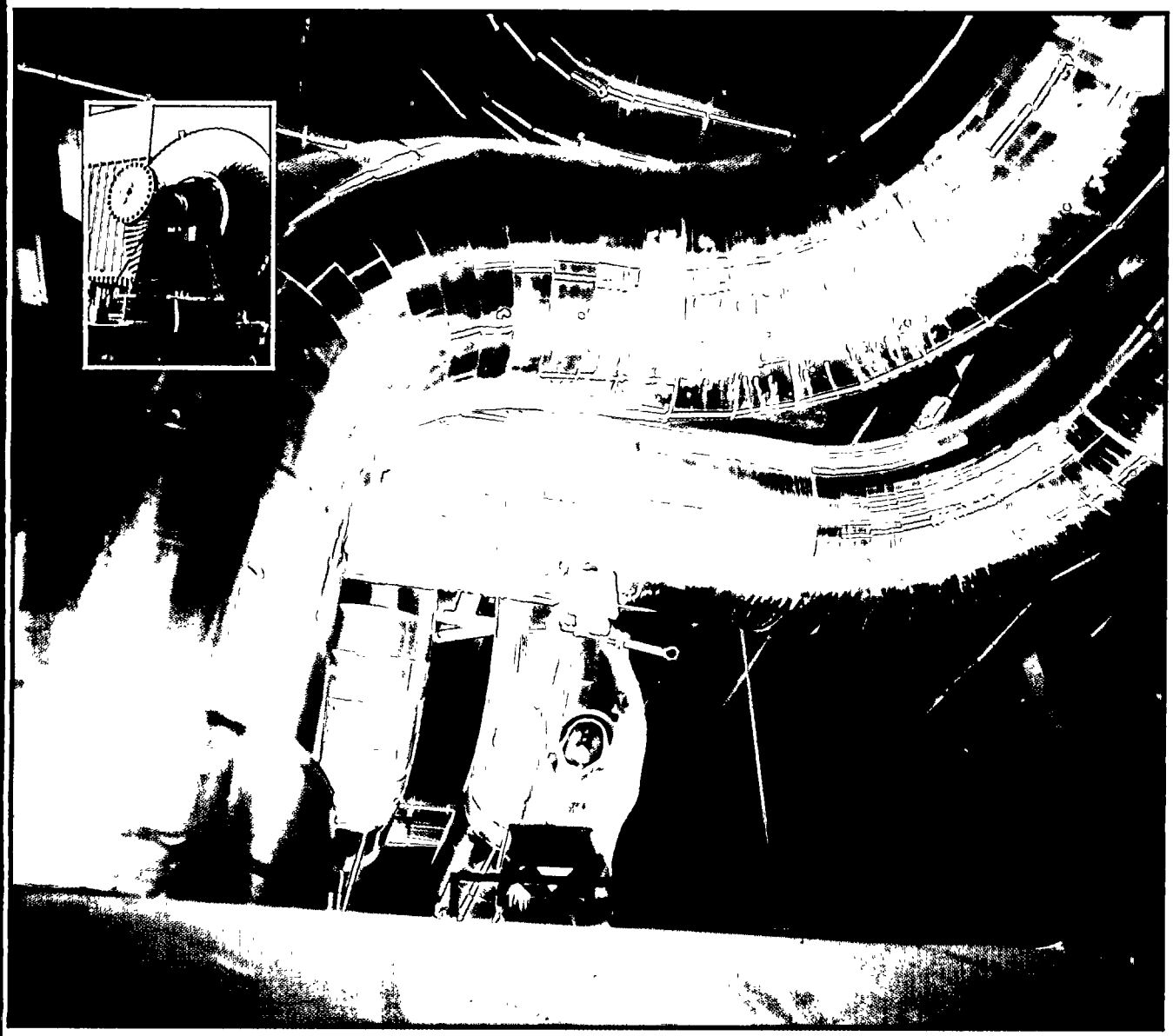
In recognition of the year's safety accomplishments, the Northwest Public Power Association and the American Public Power Association honored the Supply System with first-place awards in safety competitions involving utilities with employees who annually work between two- and four-million hours.

Success in safely completing this year's outage on schedule is attributed in part to careful planning and execution of work. Following the outage, the Supply System began evaluating the scope of work conducted during annual outages as part of a study of the feasibility of converting Plant 2 to a two-year refueling cycle. The extended cycle is a possibility for Plant 2 once its capacity factor has been increased to approximately 80 percent. The longer cycles would provide greater fuel efficiency and increased electrical generation.

Washington Public Power Supply System

achieves success with the shortest and safest refueling outage in its history. Maintenance and refueling activities took only 53 days to complete, with a safety performance of zero lost time accidents. A job well done.

The Supply System (Performance)



BOARD OF DIRECTORS

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Superintendent
Seattle City Light

Don Carter
Energy Services Director
City of Richland

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Commissioner
Grant County PUD

Mark Crisson
Superintendent
Tacoma City Light

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Commissioner
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Commissioner
Ferry County PUD

James G. Rowland
Commissioner
Okanogan County PUD

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Chief Engineer
Benton County PUD

William D. Scott
Commissioner
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Commissioner
Kittitas County PUD

Arne Torget (Assistant Secretary)
Commissioner
Wahkiakum County PUD

EXECUTIVE BOARD COMMITTEES

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- Vera Claussen, Chairman
- Ray Foleen
- Paul J. Nolan
- James G. Rowland
- Carl M. Halvorson, Ex Officio

Audit, Legal and Finance Committee
- William D. Scott, Acting Chairman
- Vera Claussen
- Paul J. Nolan
- Carl M. Halvorson, Ex Officio

Operations / Construction Committee
- Parker L. Knight, Chairman
- Mark Crisson
- Ray Foleen
- James G. Rowland
- William D. Scott
- Carl M. Halvorson, Ex Officio

1993 ANNUAL REPORT

FINANCIAL INFORMATION

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Supply System is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis, and include amounts that are based on management's best estimates and judgments.

The financial statements have been audited by Deloitte & Touche, the Supply System's independent auditors. Management has made available to Deloitte & Touche all financial records and related data, and believes that all representations made to Deloitte & Touche during its audit were valid and appropriate.

Management has established and maintains internal control procedures that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. These control procedures provide for appropriate division of responsibility and are documented by written policies and procedures.

The Supply System maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, Deloitte & Touche has considered the internal control structure in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and Deloitte & Touche concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 1993, internal control procedures are adequate.

William G. Counsil
W. G. Counsil
Managing Director

J. D. Perko
Chief Financial Officer

AUDIT, LEGAL AND FINANCE COMMITTEE CHAIRMAN'S LETTER

The Executive Board's Audit, Legal and Finance Committee is composed of three independent directors. Members of the Committee are William D. Scott, Acting Chairman; Vera Claussen; Paul J. Nolan; and Carl M. Halvorson, Ex Officio. The Committee held twelve meetings during the fiscal year ended June 30, 1993.

The Committee oversees the Supply System's financial reporting process on behalf of the Executive Board. In fulfilling its responsibility, the Committee discussed with the internal auditor and the independent auditors the overall scope and specific plans for their respective audits, and reviewed the Supply System's financial statements and the adequacy of the Supply System's internal controls.

The Committee met regularly with the Supply System's internal auditor and independent auditors to discuss the results of their examinations, their evaluations of the Supply System's internal controls, and the overall quality of the Supply System's financial reporting. The meetings were designed to facilitate any private communication with the Committee desired by the internal auditor or independent auditors.

William D. Scott
William D. Scott
Acting Chairman, Audit, Legal and Finance Committee

INDEPENDENT AUDITORS' REPORT

Executive Board
Washington Public Power Supply System
Richland, Washington

We have audited the accompanying individual balance sheets of Washington Public Power Supply System's (the Supply System) Nuclear Project No. 2, Packwood Lake Hydroelectric Project, Hanford Generating Project, Nuclear Project No. 1, Nuclear Project No. 3, and Nuclear Projects Nos. 4 and 5 as of June 30, 1993, and the related statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Supply System's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Supply System's individual projects at June 30, 1993, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note G to the financial statements, Nuclear Projects Nos. 1 and 3 are involved in disputes concerning costs shared with Nuclear Projects Nos. 4 and 5. The ultimate amount of additional costs, if any, to be borne by Nuclear Projects Nos. 1 and 3 due to this matter is presently indeterminable. As further discussed in Notes A and G, the Supply System has determined that completion of Nuclear Projects Nos. 1 and 3 as nuclear generating facilities is unlikely, and intends to study the legal and other issues associated with termination of either or both of the projects or their conversion to fossil fuel powered electric generating facilities.

Deloitte & Touche

Seattle, Washington
September 1, 1993

BALANCE SHEETS

As of June 30, 1993 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT**	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
ASSETS						
UTILITY PLANT (NOTE B)						
In service	$3,284,109	$12,496	$ 92	$ 12,947	$ 1,390	
Allowance for depreciation	(904,950)	(8,519)	(46)	(4,650)	(695)	
	2,379,159	3,977	46	8,297	695	
Nuclear fuel, net of accumulated amortization	132,166			264,231	39,640	
Construction work in progress	106,947			2,237,504	2,451,379	
Less joint owners' share					(624,925)	
	2,618,272	3,977	46	2,510,032	1,866,789	
RESTRICTED ASSETS (NOTE B)						
Special funds						
Cash	5	1		268	1,120	$ 5,380
Investments	44,863	290	1	131,053	18,876	9,390
Accounts receivable				2,354	7,655	244
Due from other projects				174	119	19,201
Due from other funds					2,291	
Prepayments and other				36	37	1
Debt service funds						
Cash	55	2		120	155	
Investments	172,128	717		243,903	178,600	46,043
	217,051	1,010	1	377,908	208,853	80,259
LONG-TERM RECEIVABLE (NOTE B)	50,238					
CURRENT ASSETS						
Cash	2,386	22	25	44	153	
Investments	40,087	916	8,652	1,569	4,667	
Accounts receivable	2,938	365		2,241	113	
Due from participants	77			4	20	
Due from other projects		21	35	592		
Due from other funds	24,809	20		26,171	2,103	
Materials and supplies	44,428					
Prepayments and other	493					
Plant & equipment held for sale		1	3,900			
	115,218	1,345	12,612	30,621	7,056	
DEFERRED CHARGES						
Costs in excess of billings		3,488				
Unamortized regulatory studies	13,445					
Unamortized debt expense	20,492	11		25,671	20,773	
Other deferred debits				749	747	
	33,937	3,499		26,420	21,520	
TOTAL ASSETS	$3,034,716	$ 9,831	$12,659	$2,944,981	$2,104,218	$80,259

* Supply System's ownership share (Note A)
** Project recorded on a liquidation basis
See notes to financial statements

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT**	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
LIABILITIES						
DEFICIENCY IN ASSETS						$(4,151,010)
BILLINGS IN EXCESS OF COSTS	$ 452,977		$ 5,279	$ 461,993	$ 153,834	
LONG-TERM DEBT (NOTE E)						
Revenue bonds payable	2,587,080	$8,241		2,389,405	2,210,000	
Unamortized discount on bonds - net	(125,284)	(44)		(44,295)	(351,034)	
Notes Payable				16,900		
	2,461,796	8,197		2,362,010	1,858,966	
DEBT IN DEFAULT, CURRENTLY PAYABLE (NOTES E & G)						
Revenue bonds payable						2,155,755
Subordinated revenue notes						65,384
						2,221,139
LIABILITIES - PAYABLE FROM RESTRICTED ASSETS (NOTE B)						
Special funds						
Accounts payable and accrued expenses (NOTE F)	20,403			8,964	8,102	34,828
Due to other projects					18,995	8,093
Due to other funds	21,129	9		20,787		
Debt service funds						
Accrued interest payable	2,394	103		84,792	57,719	1,958,598
Accounts payable						8,611
Due to other funds	3,680	11		5,384	4,394	
	47,606	123		119,927	89,210	2,010,130
OTHER NONCURRENT LIABILITIES (NOTE F)	21,731	6	8			
CURRENT LIABILITIES						
Current maturities of long-term debt	250	210				
Accounts payable and accrued expenses	47,365	120	6,780	4	4	
Due to participants	2,437	1,104		1,047	2,204	
Due to other projects	554		592			
	50,606	1,434	7,372	1,051	2,208	
DEFERRED CREDITS						
Deferred gain on redemption of revenue bonds		71				
COMMITMENTS AND CONTINGENCIES (NOTE G)						
TOTAL LIABILITIES	$3,034,716	$9,831	$12,659	$2,944,981	$2,104,218	$ 80,259

STATEMENTS OF OPERATIONS

For the year ended June 30, 1993 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT**	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
OPERATING REVENUES	$ 494,126	$1,372				
OPERATING EXPENSES						
Nuclear fuel	24,456					
Fuel disposal fee	5,796					
Decommissioning	4,588					
Depreciation and amortization	105,547	445				
Operations and maintenance	121,577	602				
Administrative & general	35,201	97				
Generation tax	2,251	1				
Total operating expenses	299,416	1,145				
NET OPERATING REVENUES	194,710	227				
OTHER INCOME & EXPENSE						
Non-operating revenues - net			$ 15,446	$190,635	$128,085	$ 147,971
Investment income	15,636	92	703	17,995	8,627	5,174
Interest expense and discount amortization	(169,759)	(319)	(44)	(162,263)	(130,712)	(201,226)
Maintenance of projects in extended construction delay				(5,009)	(3,400)	
Maintenance of plant held for disposition			(377)			
Termination and asset disposition expenses			(15,728)			(10,109)
Other	(11,859)			(2,200)	(1,904)	
NET REVENUES BEFORE EXTRAORDINARY ITEM	28,728	0	0	39,158	696	(58,190)
EXTRAORDINARY ITEM						
Loss on bond refunding (Note E)	(28,728)			(39,158)	(696)	
NET REVENUES	$ 0	$ 0	$ 0	$ 0	$ 0	$ (58,190)

* Supply System's ownership share (Note A)
** Project recorded on a liquidation basis
See notes to financial statements

STATEMENTS OF CASH FLOWS

For the year ended June 30, 1993 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT**	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES						
Operating revenue receipts	$ 398,963	$ 2,186				
Cash payments for operating expenses	(175,744)	(726)				
Non-operating revenue receipts			$ 2,704	$ 185,449	$ 143,638	$ 147,880
Cash payments for maintenance of projects in extended construction delay				(4,392)	(5,950)	
Cash payments for other expenses	573		(391)	(1,626)	(1,915)	(3,989)
Distributions of operating and non-operating surplus		(1,497)	(1,860)	(844)		
Net cash provided/(used) by operating and other activities	223,792	(37)	453	178,587	135,773	143,891
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from bond refundings	596,284			842,063	14,564	
Refunded bonds escrow requirement	(557,664)			(818,749)	(14,089)	
Bond issuance costs paid	(4,818)			(10,644)	126	
Capital and nuclear fuel acquisitions	(46,097)	(4)		(191)	(33)	
Cash payments for deferred programs	(4,628)			(1)	7	
Interest paid on revenue bonds	(161,449)	(317)	(108)	(160,008)	(116,353)	(75,755)
Principal paid on revenue bond maturities	(7,714)	(271)	(6,635)	(30,950)	(28,385)	(94,245)
Net cash used by capital and related financing activities	(186,086)	(592)	(6,743)	(178,480)	(144,163)	(170,000)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(1,006,814)	(6,833)	(26,076)	(792,875)	(641,601)	(11,717,874)
Sales of investment securities	953,547	7,242	31,827	771,948	639,144	11,743,324
Interest on investments	16,148	81	549	20,561	10,621	5,776
Net cash provided/(used) by investing activities	(37,119)	490	6,300	(366)	8,164	31,226
NET INCREASE/(DECREASE) IN CASH	587	(139)	10	(259)	(226)	5,117
CASH AT JUNE 30, 1992	1,859	164	15	691	1,654	263
CASH AT JUNE 30, 1993 (NOTE B)	$ 2,446	$ 25	$ 25	$ 432	$ 1,428	$ 5,380

* Supply System's ownership share (Note A)
** Project recorded on a liquidation basis
See notes to financial statements

STATEMENTS OF CASH FLOWS (continued)

For the year ended June 30, 1993 *Dollars in thousands*

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT**	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH PROVIDED BY OPERATING AND OTHER ACTIVITIES						
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES						
Net operating revenues	$ 194,710	$ 227				
Adjustments to reconcile net operating revenues to cash provided by operating activities:						
Amortized revenues	(95,162)	(408)				
Depreciation and amortization	126,345	435				
Decommissioning	4,588					
Other	18					
Change in operating assets and liabilities:						
Accounts receivable	1,597	(171)				
Materials and supplies	(3,788)	1				
Prepaid and other assets	60					
Due from/to other projects, funds and participants	(7,835)	(143)				
Accounts payable	3,259	22				
Non-operating revenue receipts			$ 2,704	$ 185,449	$ 143,638	$ 147,880
Cash payments for maintenance of projects in extended construction delay				(4,392)	(5,950)	
Cash payments for other expenses			(391)	(1,626)	(1,915)	(3,989)
Distributions of non-operating surplus			(1,860)	(844)		
Net cash provided/(used) by operating and other activities	$ 223,792	$ (37)	$ 453	$ 178,587	$ 135,773	$ 143,891

* Supply System's ownership share (Note A)
** Project recorded on a liquidation basis
See notes to financial statements

OUTSTANDING LONG-TERM DEBT

As of June 30, 1993 *Dollars in thousands*

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REVENUE BONDS						
1973	6-26-73	5.65%	100	5.70%	7-1-2012	$ 117,815
						117,815
1976	6-3-76	6.63	100	6.20-6.25	7-1-96/1998	7,425
			99.25	6.625	7-1-2006	42,300
			100	6.75	7-1-2012	49,860
						99,585
1976A	11-18-76	5.86	(B)	5.50-5.75	7-1-94/2000	34,080
			100	6.00	7-1-2007	44,815
			99.50	6.00	7-1-2012	60,990
						139,885
1979	3-13-79	6.49	(B)	5.90-6.00	7-1-96/1999	19,985
			100	6.75	7-1-2012	83,605
						103,590
1981A	9-4-81	14.67	100	14.375	7-1-2001	30,000
			59.958	8.25	7-1-2003	100,000
						130,000
1990A	3-15-90	7.77	99.75	7.25	7-1-2003	73,705
			98.50	7.50	7-1-2004	61,510
			97.125	7.25	7-1-2006	35,790
			98.75	7.625	7-1-2008	62,215
			96.125	7.375	7-1-2012	189,625
						422,845
1990B	6-7-90	7.69	94.135	7.00	7-1-2012	200,840
						200,840
1990C	11-1-90	7.84	(B)	7.00-7.50	7-1-97/2003	204,870
			97.50	7.625	7-1-2010	209,625
			97.65	7.375	7-1-2011	35,810
			(B)	(C)	7-1-04/2005	18,054
						468,359
1991A	9-26-91	6.81	(B)	5.40-6.60	7-1-96/2005	135,260
			90.375	6.00	7-1-2012	105,940
			(B)	(C)	7-1-06/2007	13,431
						254,631

(A) Based on original issue
(B) Various prices
(C) Compound interest bonds
(D) Excludes amounts due July 1,1993
(E) Includes amounts due July 1, 1993

OUTSTANDING LONG-TERM DEBT

As of June 30, 1993 *Dollars in thousands*

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REVENUE BONDS (continued)						
1992A	10-2-92	6.19%	(B)	4.65-6.30%	7-1-96/2009	$ 193,360
			97.230	6.25	7-1-2012	66,780
			98.875	6.30	7-1-2012	50,000
			(B)	(C)	7-1-2010/2011	9,084
						319,224
1993A	5-20-93	5.76	(B)	2.90-6.00	7-1-1994/2010	208,480
			96.404	5.75	7-1-2012	42,105
						250,585
Compound interest bonds accretion						79,971
Revenue bonds payable						$2,587,330 (D)
PACKWOOD LAKE PROJECT REVENUE BONDS						
1962	3-20-62	3.66	99.425	3.625	3-1-2012	6,411
1965	11-4-65	3.76	100.5	3.75	3-1-2012	2,040
Revenue bonds payable						$ 8,451
NUCLEAR PROJECT NO. 1 REVENUE BONDS						
1976A	2-4-76	6.84	(B)	6.00	7-1-93	2,395
						2,395
1976B	8-31-76	6.37	100	5.50-5.90	7-1-93/1998	18,625
			100	6.50	7-1-2010	66,940
						85,565
1978A	3-21-78	5.69	(B)	5.00-5.50	7-1-93/2002	40,885
			100	5.80	7-1-2010	50,920
			100	5.875	7-1-2017	64,810
						156,615
1978B	12-5-78	6.61	(B)	5.70	7-1-93	2,775
						2,775

(A) Based on original issue
(B) Various prices
(C) Compound Interest bonds
(D) Excludes amounts due July 1,1993
(E) Includes amounts due July 1, 1993

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 1 REVENUE BONDS (continued)						
1979	6-19-79	6.64%	(B)	6.00%	7-1-93	$ 2,150
						2,150
1989A	9-14-89	7.76	100	6.70-7.30	7-1-93/2002	29,675
			98.185	7.00	7-1-2004	27,385
			99.017	7.50	7-1-2007	62,105
			97.759	7.50	7-1-2015	295,575
			82.083	6.00	7-1-2017	95,110
						509,850
1989B	12-7-89	7.44	100	6.70-7.25	7-1-96/2003	31,095
			98.375	7.00	7-1-2005	2,100
			100	7.40	7-1-2009	5,180
			97.25	7.25	7-1-2015	50,040
			98,533	7.125	7-1-2016	41,070
						129,485
1990A	3-15-90	7.73	(B)	6.40-7.60	7-1-93/2005	71,575
			92.75	7.00	7-1-2011	56,770
			81.75	6.00	7-1-2017	55,635
						183,980
1990B	6-7-90	7.75	(B)	7.00-7.20	7-1-99/2003	24,495
			97.979	7.25	7-1-2009	72,770
			98.913	7.25	7-1-2012	56,000
						153,265
1990C	9-27-90	7.85	(B)	6.80-7.75	7-1-93/2003	168,755
			99.50	7.75	7-1-2008	22,085
						190,840
1991A	9-26-91	7.02	(B)	5.10-6.80	7-1-93/2008	51,775
			98.375	6.875	7-1-2017	92,965
						144,740
1992A	10-2-92	6.51	(B)	3.10-6.40	7-1-93/2011	65,770
			99.375	6.50	7/1/2015	137,820
			98	6.25	7-1-2017	78,815
						282,405

OUTSTANDING LONG-TERM DEBT (continued)

As of June 30, 1993 *Dollars in thousands*

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 1 REVENUE BONDS (continued)						
1993A	5-20-93	5.86%	(B)	2.90-7.00%	7-1-94/2008	$ 215,485
			100	5.75	7-1-2011	80,000
			99.75	6.05	7-1-2012	35,705
			96.306	5.75	7-1-2013	37,970
			96.566	5.70	7-1-2017	176,180
						545,340
Revenue bonds payable						2,389,405 (E)
1993A NOTES	5-20-93	4.975	100	4.70	7-1-1995	16,900
						16,900
Revenue bonds/notes payable						$2,406,305
NUCLEAR PROJECT NO. 3 REVENUE BONDS						
1976	4-13-76	6.48	(B)	5.70-6.00	7-1-93/1998	$ 9,545
			99.625	6.50	7-1-2010	35,100
			100	6.60	7-1-2018	45,295
						89,940
1977	7-12-77	5.71	(B)	5.10-5.50	7-1-93/2000	35,100
			99.50	5.70	7-1-2009	63,535
			99.50	5.80	7-1-2018	107,160
						205,795
1978	9-12-78	6.27	(B)	5.90-6.00	7-1-93/2004	49,280
			100	6.375	7-1-2010	42,985
			99	6.40	7-1-2018	90,630
						182,895
1989A	9-14-89	7.43	100	6.70-7.30	7-1-93/2002	28,790
			(B)	(C)	7-1-2003/2014	18,668
			98.533	7.25	7-1-2016	98,340
			84.75	6.00	7-1-2018	54,570
						200,368

(A) Based on original issue
(B) Various prices
(C) Compound interest bonds
(D) Excludes amounts due July 1, 1993
(E) Includes amounts due July 1, 1993

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 3 REVENUE BONDS (continued)						
1989B	12-7-89	7.39%	100	6.40-7.15%	7-1-93/2001	84,480
			(B)	(C)	7-1-2004/2014	71,321
			98.375	7.00	7-1-2005	85,690
			100	7.40	7-1-2009	29,235
			97.25	7.25	7-1-2015	226,230
			98.533	7.125	7-1-2016	76,145
			79.755	5.50	7-1-2017	62,560
			79.525	5.50	7-1-2018	65,905
						701,566
1990B	6-7-90	7.57	(B)	6.50-7.25	7-1-93/2000	132,590
			(B)	(C)	7-1-2001/2010	39,210
			98.923	7.375	7-1-2004	55,920
			98	7.50	7-1-2018	107,885
						335,605
1991A	9-26-91	6.97	(B)	5.10-6.80	7-1-93/2008	50,540
			97.75	6.75	7-1-2011	20,790
			94.552	6.5	7-1-2018	66,065
						137,395
1992A	10-2-92	4.86	100	3.10-5.10	7-1-1993/1998	14,500
						14,500
Compound interest bonds accretion						341,936
Revenue bonds payable						$2,210,000 (E)

DEBT-SERVICE REQUIREMENTS

As of June 30, 1993 Dollars in thousands

FISCAL YEAR	NUCLEAR PROJECT NO. 2 PRINCIPAL	INTEREST	TOTAL	PACKWOOD LAKE PROJECT PRINCIPAL	INTEREST	TOTAL
6/30/93 Balance*	$ 12,939	$ 309	$ 13,248	$ 105	$ 103	$ 208
1994	250	166,345	166,595	320	305	625
1995	1,025	166,066	167,091	333	293	626
1996	43,996	165,812	209,808	347	281	628
1997	60,515	163,534	224,049	367	269	636
1998	64,005	159,693	223,698	387	255	642
1999	113,150	155,570	268,720	422	241	663
2000	123,980	147,753	271,733	473	226	699
2001	160,570	138,973	299,543	498	208	706
2002	83,915	127,657	211,572	524	190	714
2003	202,930	122,090	325,020	548	171	719
2004	148,624	119,578	268,202	573	151	724
2005	107,060	121,707	228,767	599	130	729
2006	123,686	104,261	227,947	623	108	731
2007	157,130	96,920	254,050	648	86	734
2008	185,300	73,948	259,248	673	62	735
2009	189,615	61,220	250,835	572	37	609
2010	199,479	58,289	257,768	274	16	290
2011	165,620	45,165	210,785	122	6	128
2012	363,570	24,147	387,717	43	2	45
2013						
2014						
2015						
2016						
2017						
2018						
*Adjustment***	79,971	(79,971)				
	$ 2,587,330	$ 2,139,066	$ 4,726,396	$ 8,451	$ 3,140	$ 11,591

* Bond account balances less accrued investment income.

** Adjustment for compound interest bonds accretion; compound interest bonds are reflected at their face amount less discount on the balance sheet.

FISCAL YEAR	NUCLEAR PROJECT NO. 1 PRINCIPAL	INTEREST	TOTAL	NUCLEAR PROJECT NO. 3 PRINCIPAL	INTEREST	TOTAL	NUCLEAR PROJECTS NOS. 4/5 PRINCIPAL	TOTAL
6/30/93 Balance*	$ 35,050	$ 79,966	$ 115,016	$ 31,545	$ 57,719	$ 89,264	$ 0	$ 0
1994	38,085	158,335	196,420	33,505	113,546	147,051	2,221,139	2,221,139
1995	58,345	152,682	211,027	35,635	111,473	147,108		
1996	44,500	149,730	194,230	41,245	109,228	150,473		
1997	48,680	147,121	195,801	30,120	106,573	136,693		
1998	50,900	144,151	195,051	28,015	104,664	132,679		
1999	66,025	140,999	207,024	61,910	102,886	164,796		
2000	70,085	136,725	206,810	66,600	98,656	165,256		
2001	74,865	132,148	207,013	64,950	100,676	165,626		
2002	73,565	127,102	200,667	68,922	96,965	165,887		
2003	64,195	122,107	186,302	70,917	95,500	166,417		
2004	75,845	117,884	193,729	54,496	107,360	161,856		
2005	68,090	112,844	180,934	55,421	105,739	161,160		
2006	85,455	108,268	193,723	56,292	103,893	160,185		
2007	91,255	102,475	193,730	51,251	104,031	155,282		
2008	97,695	96,030	193,725	52,921	102,362	155,283		
2009	101,465	89,127	190,592	54,843	100,436	155,279		
2010	108,495	82,287	190,782	56,967	98,311	155,278		
2011	132,590	74,962	207,552	75,449	87,198	162,647		
2012	141,725	65,936	207,661	89,332	83,012	172,344		
2013	154,350	56,292	210,642	94,563	77,788	172,351		
2014	164,370	46,262	210,632	100,200	72,141	172,341		
2015	175,100	35,541	210,641	133,980	38,369	172,349		
2016	186,925	23,711	210,636	143,310	29,041	172,351		
2017	198,650	11,995	210,645	153,195	19,156	172,351		
2018				162,480	9,863	172,343		
*Adjustment***				341,936	(341,936)			
	$2,406,305	$2,514,680	$4,920,985	$2,210,000	$1,894,650	$4,104,650	$ 2,221,139	$2,221,139

Refer to Note G under Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation and Nuclear Projects Nos. 4 and 5 Bridge and Termination Loans

NOTES TO FINANCIAL STATEMENTS

Note A - General

ORGANIZATION

The Washington Public Power Supply System (Supply System), a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 1993, its membership consisted of 10 public utility districts and the cities of Richland, Seattle, and Tacoma. All members own and operate electric systems within the State of Washington. The Supply System has no taxing authority.

SUPPLY SYSTEM PROJECTS

The Supply System operates Nuclear Project No. 2, a 1,120 MWe (DER net) generating plant completed in 1984, and the Packwood Lake Hydroelectric Project (Packwood), a 27.5 MWe plant completed in 1964.

The Hanford Generating Project (HGP), an 860 MWe plant, previously used by-product steam from the Department of Energy's (DOE) dual-purpose New Production Reactor (N-Reactor) and has not operated since the shutdown of the N-Reactor in 1987. As a result of the Secretary of Energy's decision to place the N-Reactor in permanent shutdown, the Supply System has evaluated alternative energy uses for the plant and anticipates termination of HGP in fiscal year 1994, and subsequent removal and site restoration (see Note G - Hanford Generating Project.)

Nuclear Project No. 1, a 1,250 MWe plant, is 65 percent complete and is in the twelfth year of a construction delay. Nuclear Project No. 3, a 1,240 MWe plant, is 75 percent complete and is in the eleventh year of a construction delay. The future of Nuclear Projects Nos. 1 and 3 has not been determined. In April 1993, the Supply System's Executive Board determined that completion of Nuclear Projects Nos. 1 and 3 as nuclear generating facilities was unlikely and has initiated a study of the issues associated with the termination of either or both projects, or their conversion to fossil fuel powered electric generating facilities. The Supply System intends to continue plant preservation activities during the extended construction delay. Nuclear Project No. 1 is wholly-owned by the Supply System. Nuclear Project No. 3 is jointly-owned, 70 percent by the Supply System and 30 percent by four investor-owned utilities (PacifiCorp, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company).

Nuclear Projects Nos. 4 and 5 were terminated on January 22, 1982 and are in liquidation. Substantially all of the utility plant assets have been sold. Nuclear Project No. 4 is wholly-owned by the Supply System. Nuclear Project No. 5 is jointly-owned, 90 percent by the Supply System and 10 percent by PacifiCorp (see Note G - Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation).

Each Supply System project is financed and accounted for as a utility system separate from all other current or future projects with the exception of Nuclear Projects Nos. 4 and 5 which are treated as one utility system.

More than 100 Northwest utilities have purchased all of the project capability of Nuclear Projects Nos. 1, 2, and the Supply System's 70 percent ownership share of Nuclear Project No. 3. Five investor-owned utilities are obligated by contract to pay Nuclear Project No. 1 a specified amount for their portion of project capability through June 1996. The remaining utilities (participants), pursuant to the terms of their purchase agreements, are obligated to pay the annual costs of each project, including debt service, whether or not the project is completed, operable or operating and notwithstanding the suspension, reduction or curtailment of project output. These project participants have resold such capability to the Bonneville Power Administration (BPA) and in return BPA is obligated to pay annual costs of these projects, including debt service, by a procedure referred to as net-billing. Under net-billing, project participants pay the Supply System their respective shares of annual costs and BPA pays project participants identical amounts by reducing amounts due to BPA by participants under power sales agreements.

Eighty-eight project participants in Nuclear Projects Nos. 4 and 5 were originally obligated by contract to pay annual costs of Nuclear Projects Nos. 4 and 5, including debt service, whether or not the projects were completed. However, these contracts have been declared invalid. BPA has no obligation with respect to annual costs of Nuclear Projects Nos. 4 and 5.

All electrical energy produced by Supply System projects is delivered to electrical distribution facilities owned and operated by BPA as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electrical utility systems throughout the Northwest, including participants in Supply System projects, for ultimate distribution to consumers. BPA is obligated by law to establish rates for electric power which will recover the cost of acquisition (including all payments under net-billing agreements), and BPA's other costs.

Note B - Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The Supply System has adopted accounting policies and practices that are in accordance with generally accepted accounting principles applicable to governmental utilities. Accounts are maintained in accordance with the uniform system of accounts of the Federal Energy Regulatory Commission. Separate funds and books of account are maintained for each utility system. Payment of obligations of one utility system with funds of another utility system is prohibited, and would constitute violation of bond resolution covenants.

UTILITY PLANT

Utility plant is stated at original cost. Plant in service is depreciated by the straight-line method over the estimated useful lives of the various classes of plant.

During the normal construction phase of a project, the Supply System's policy is to capitalize all costs relating to the project, including interest expense (net of interest income), and administrative and general expense.

HGP has been reduced to its net realizable value in anticipation of project termination in fiscal year 1994 (see Note G - Hanford Generating Project).

Because of the extended delay of Nuclear Projects Nos. 1 and 3, the Supply System discontinued capitalizing interest expense and preservation costs. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 4 and 5 are charged to current operations.

NUCLEAR FUEL

All expenditures related to the purchase of nuclear fuel are capitalized and carried at cost. When the fuel is placed in the reactor, the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. Accumulated nuclear fuel amortization as of June 30, 1993 for Nuclear Project No. 2 is $90 million. Current period operating expense for Nuclear Project No. 2 includes a charge for future spent nuclear fuel storage and disposal to be provided by the DOE in accordance with the Nuclear Waste Policy Act of 1982, and a charge by DOE for clean-up of its nuclear enrichment facilities, in accordance with the Energy Policy Act of 1992. No provision has been made for additional storage and disposal costs which may be incurred by the Supply System prior to the transfer of spent fuel to DOE.

Under certain exchange agreements, the Supply System can transfer to third parties approximately 2.1 million pounds of Nuclear Project No. 1 uranium (equivalent U_3O_8) and 2.3 million pounds of Nuclear Project No. 2 uranium (equivalent U_3O_8). In return, the Supply System will receive equivalent quantities of uranium in future years. Additionally, the Supply System receives usage fees for a portion of the transferred uranium. These exchange agreements have been secured by bank letters of credit at current market value, adjusted semiannually. The cost of this uranium, $46.5 million and $34.2 million, is included in the carrying amount of Nuclear Projects Nos. 1 and 2 nuclear fuel, respectively.

RESTRICTED ASSETS

In accordance with project bond resolutions, related agreements, or state law, separate restricted funds have been established for each project. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance, termination, decommissioning, and workers' compensation claims.

LONG-TERM RECEIVABLES

Long-term receivables include minimum guaranteed amounts pertaining to future discounts for certain goods and services to be provided to Nuclear Project No. 2 as the result of a litigation settlement.

DECOMMISSIONING

Estimated Nuclear Project No. 2 decommissioning costs are accrued based on current funding requirements. Monthly payments are made into a sinking fund which, with accumulated interest, is expected to be adequate to fund decommissioning costs at the end of the 40-year plant operating life. Decommissioning costs are currently estimated at $403 million (in 1987 dollars). Payments to the decommissioning fund for the year ended June 30, 1993 aggregated $3.0 million and the balance of the fund at June 30, 1993 was $20.4 million.

MATERIALS AND SUPPLIES

Materials and supplies are valued at cost, using weighted-average methods.

FINANCING EXPENSE, BOND DISCOUNT, AND DEFERRED GAIN

Financing expense, bond discounts, and deferred gain on redemption of revenue bonds are amortized over the terms of the respective bond issues.

REGULATORY STUDIES

Expenses associated with regulatory studies for Nuclear Project No. 2 are deferred and amortized by the straight-line method over the estimated operating life of the plant.

CURRENT MATURITIES OF REVENUE BONDS

Current maturities of revenue bonds payable from restricted assets are reflected in Long-Term Debt. Current maturities of bonds for which funds have not yet been restricted are reflected in Current Liabilities.

REVENUES

With the exception of Nuclear Projects Nos. 4 and 5, the Supply System recovers, through various agreements, actual cash requirements for operations and debt service for each project over the life of that project. Accordingly, the Supply System recognizes revenues equal to operating costs for each period. No net income or loss is recognized, and no equity is accumulated.

The difference between cumulative revenues received and cumulative operating costs is recorded as either billings in excess of costs (liability) or as costs in excess of billings (asset), as appropriate. Such amounts will be recognized as revenues, or costs, during future operating periods.

STATEMENTS OF CASH FLOWS

For purposes of the statements of cash flows, the cash includes unrestricted and restricted cash balances. Short-term, highly-liquid investments are not considered cash equivalents.

INVESTMENTS (*Dollars in thousands*)	U.S. Gov't Securities	U.S. Gov't Agencies	Total	Accrued Interest	Carrying Amount
NUCLEAR PROJECT NO. 2					
Amortized cost	$ 219,944	$ 33,257	$ 253,201	$ 3,877	$ 257,078
Fair value	226,784	33,426	260,210		
PACKWOOD LAKE PROJECT					
Amortized cost	1,923	-0-	1,923	-0-	1,923
Fair value	1,923	-0-	1,923		
HANFORD GENERATING PROJECT					
Amortized cost	8,577	-0-	8,577	75	8,652
Fair value	8,577	-0-	8,577		
NUCLEAR PROJECT NO. 1					
Amortized cost	238,833	133,038	371,871	4,654	376,525
Fair value	246,206	133,769	379,975		
NUCLEAR PROJECT NO. 3					
Amortized cost	85,257	114,288	199,545	2,598	202,143
Fair value	87,704	114,696	202,400		
NUCLEAR PROJECTS NOS. 4/5					
Amortized cost	54,793	6	54,799	634	55,433
Fair value	55,095	6	55,101		

Note C - Cash and Investments

Cash and investments for each utility system are separately maintained. The Supply System's deposits are insured by federal depository insurance or through the Washington Public Deposit Protection Commission. Supply System investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association, Federal Home Loan Banks, Farm Credit System, and Federal Home Loan Mortgage Corporation, as well as repurchase agreements. Collateral for repurchase agreements must be authorized investments under Supply System investment policies. During fiscal year 1993, the Supply System invested in repurchase agreements, however, none were held at year-end. All investments are held in the Supply System's name by safekeeping agents, custodians, or trustees.

Investments are stated at amortized cost and include accrued interest. The Supply System's investments are categorized above to give an indication of the types and amounts of investments held by each project at year-end.

Note D - Retirement Benefits

Substantially all Supply System full-time employees participate in the statewide local government Public Employees' Retirement System (PERS). PERS is a contributory multi-employer cost-sharing retirement system established by the Washington State Legislature and administered by the State of Washington through the Department of Retirement Systems. For the year ended June 30, 1993, the Supply System's payroll covered under PERS was $87.6 million, representing 92 percent of total payroll.

PERS contains two plans. Plan I members (employed on or before September 30, 1977) may retire with full benefits at age 60 with at least five years of credited service, at age 55 with 25 years of service, or upon reaching 30 years of service regardless of age. Plan II members (employed after September 30, 1977) may retire with full benefits at age 65 with at least five years of credited service, or with actuarially reduced benefits at age 55 with 20 years of service. The annual pension benefits are generally based on a percentage of final average salary.

Required employer contributions for both plans, and PERS II employee contributions, are determined each biennium by the Legislature. Employee contribution rates for Plan I are established by legislative statute. Employer rates for Plan I are not necessarily adequate to fully fund the system. The employer and employee contribution rates for Plan II are developed by the Office of State Actuary to fully fund the system. The methods used to determine the contribution requirements were established under state statute.

As of December 31, 1991 (the latest actuarial valuation date), the pension benefit obligation of PERS, which is the actuarial present value of credited projected benefits adjusted for the effects of projected salary increases, was $8.881 billion and the value of net assets available to satisfy present and future pension benefit obligations was $7.938 billion. The pension benefit obligation is a standardized measure which enables readers of financial statements to assess the funding status of each system and progress made in accumulating sufficient assets to pay benefits when due, and to make comparisons with other retirement systems. The standardized disclosure method is independent of the actuarial funding method used to determine contributions.

Supply System contributions for the year ended June 30, 1993, expressed both in dollar amounts and percentages of current-year covered payroll, were as follows:

	Plan I		Plan II	
	Rate	Amount	Rate	Amount
Employer Contributions				
Actuarially determined requirement	7.19%	$1,013,875	7.19%	$5,288,012
Actual Supply System contributions	7.58%	$1,069,889	7.58%	$5,573,805
Employee Contributions				
Actuarially determined requirement	6.00%*	$ 845,690	4.98%	$3,662,628
Actual employee contributions	6.00%	$ 845,690	4.85%	$3,566,596

* Fixed at 6.00%

The Supply System's actuarially determined employer contribution requirement represents approximately 2.4 percent of the total for all employers covered by PERS.

Historical trend information showing PERS' progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 1992 comprehensive annual financial report.

In addition to the pension benefits available through PERS, the Supply System offers postemployment life insurance benefits to retirees who are eligible to receive pensions under PERS Plan I and Plan II. Currently, 169 retirees are eligible to receive life insurance benefits and 123 retirees have elected to participate in this insurance. The life insurance benefit is equal to the employee's annual rate of salary at retirement for non-bargaining unit employees and one-half of the employee's annual rate of salary at retirement, with a minimum benefit of $22,000, for bargaining unit employees. Retirees contribute $6.00 per $1,000 of coverage annually for life insurance, and the Supply System funds the death benefit claims on a pay-as-you-go basis.

At the time of retirement, the Supply System accrues a liability for the actuarial present value of estimated claims, net of retiree contributions. The total expense recognized for the years ended June 30, 1993 and 1992 was $.3 million and $.3 million, respectively, and the total liability at June 30, 1993 was $2.8 million for these benefits.

During fiscal years 1993 and 1992, pension costs for Supply System employees and postemployment life insurance benefit costs for retirees were calculated and allocated to each project based on direct labor dollars. Approximately, 91 percent of all such costs were allocated to Nuclear Project No. 2 during fiscal years 1993 and 1992.

Note E - Long-Term Debt

Except for Nuclear Projects Nos. 4 and 5, which were financed together as one utility system, each Supply System project is financed separately. The resolutions of the Supply System authorizing issuance of revenue bonds for each project provide that such bonds are payable solely from the revenues of that project.

During the year ended June 30, 1993, the Supply System issued $1.44 billion in net-billed bonds for Nuclear Projects Nos. 1, 2 and 3 to refund $1.345 billion of outstanding bonds with an average interest rate of 6.98 percent. The net proceeds of the new issues were deposited in separate irrevocable trusts under the control of escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

Although the advance refundings resulted in the recognition of an accounting loss for the year ended June 30, 1993, the change in the aggregate debt service payments for Nuclear Projects Nos. 1, 2 and 3 and changes to debt service reserve fund balances resulted in an economic gain of $42.1 million, $32.2 million, and $.6 million, respectively.

In prior fiscal years, the Supply System defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. Including the fiscal year 1993 defeasements, approximately $1 billion, $507 million, and $253.8 million of bonds outstanding are considered defeased at June 30, 1993 for Nuclear Projects Nos. 1, 2 and 3, respectively.

A summary of fiscal year 1993 Series 1992A and 1993A bond refundings by project is presented below:

FISCAL YEAR 1993 BOND REFUNDINGS

(Dollars in Thousands)

NUCLEAR PROJECT NO. 1	Series 1992A	Series 1993A	All Series
Size of issue	$282,405	$562,240	$844,645
Amount of bonds refunded	268,480	520,910	789,390
Accounting loss	26,535	12,623	39,158
Reduction in aggregate debt service	57,994	25,845	83,839
NUCLEAR PROJECT NO. 2			
Size of issue	$347,394	$250,585	$597,979
Amount of bonds refunded	312,375	229,350	541,725
Accounting loss	19,928	8,800	28,728
Reduction/(increase) in aggregate debt service	7,545	(66,503)	(58,958)
NUCLEAR PROJECT NO. 3			
Size of issue	$ 14,500		$ 14,500
Amount of bonds refunded	13,425		13,425
Accounting loss	696		696
Reduction in aggregate debt service	142		142

The Supply System expects to continue the refunding of high-interest bonds when economically feasible. In July 1993, the Supply System issued a total of $691.4 million in refunding revenue bonds, Series 1993B, for Nuclear Projects Nos. 1 ($189.7 million), 2 ($219.4 million), and 3 ($282.3 million). The proceeds of the bonds will be used to refund $175.1 million, $203.2 million and $268.6 million of Nuclear Projects Nos. 1, 2 and 3 bonds, respectively.

The Supply System redeemed all remaining HGP bonds in the principal amount of $6.635 million on September 1, 1992.

Outstanding revenue bonds of the various projects as of June 30, 1993, are presented on pages 21 through 25, and debt service requirements for these bonds are presented on pages 26 through 27.

SECURITY - NUCLEAR PROJECTS NOS. 1, 2 AND 3

Project participants and five investor-owned utilities for Nuclear Project No. 1 have purchased all of the project capability of Nuclear Projects Nos. 1 and 2 and the Supply System's 70 percent ownership share of project capability of Nuclear Project No. 3. BPA has in turn acquired the entire project capability from the project participants under contracts referred to as net-billing agreements. Under the

net-billing agreements for each of the projects, project participants are obligated to pay the Supply System their pro rata share of total annual costs of the respective projects, including debt service on bonds relating to each project, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA by participants under BPA power sales agreements. The net-billing agreements provide that project participants and BPA are obligated to make such payments whether or not the projects are completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output. The validity of the net-billing agreements was challenged in November 1982. In May 1983, the U.S. District Court of Oregon declared that the net-billing agreements were binding, and this decision was upheld on appeal.

SECURITY - NUCLEAR PROJECTS NOS. 4 AND 5

In connection with the issuance of the generating facilities revenue bonds for Nuclear Projects Nos. 4 and 5, the Supply System pledged the revenues to be derived under participants' agreements with 88 utilities operating principally in the 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 Nos. 4 and 5 termination costs and debt service were due beginning on January 25, 1983. As a result of a ruling by the Washington State Supreme Court declaring the participants' agreements invalid, payments due under the participants' agreements were not made and an event of default, as defined in the bond resolution, occurred on July 22, 1983 (see Note G - Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation).

SECURITY - HANFORD GENERATING PROJECT

It was initially intended that Nuclear Project No. 1 be constructed next to HGP to provide the energy source to operate the project when DOE ceased operation of the N-Reactor. To allow for construction of Nuclear Project No. 1, it would have been necessary to shut down HGP 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 HGP 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 HGP.

The amended agreements provide for the payment of all HGP debt service costs, net of investment income, by Nuclear Project No. 1 participants, beginning July 1, 1980, regardless of continued operation of the N-Reactor, and that other costs, to the extent not otherwise provided for, be treated as Nuclear Project No. 1 costs with HGP having a first claim on the revenues of that project.

SECURITY - PACKWOOD LAKE HYDROELECTRIC PROJECT

Under power sales agreements, 12 member purchasers have purchased all of the project capability of Packwood. The member purchasers are obligated to pay annual costs of the project, including debt service, whether or not the project is operable, until outstanding bonds are paid or provision is made for the retirement in accordance with provisions of the bond resolution.

Note F - DOE Uranium Enrichment Assessment

In October 1992, the Energy Policy Act of 1992 created a new Uranium Enrichment Decontamination and Decommissioning Fund which requires annual funding by all domestic utilities that have purchased enriched uranium from DOE. This fund will be used by DOE for the clean-up of its nuclear enrichment facilities. Payments to the Fund are due annually over a 15 year period and will be adjusted for inflation. The Supply System has recognized this obligation as a nuclear fuel cost and recorded a liability for it pro rata share of the total funding, estimated to be $6.6 million, $17.6 million and $4.8 million, respectively, for Nuclear Projects Nos. 1, 2 and 3. The initial combined payment of $1.934 million is due September 30, 1993. The annual assessment may be adjusted based on DOE produced separative work units purchased from or sold to another party. This liability is reflected in accounts payable and accrued expenses for Nuclear Projects Nos. 1 and 3; and in other noncurrent liabilities ($16.5) for Nuclear Project No. 2. Amounts applicable to Nuclear Project No. 2's nuclear fuel previously used have been recorded as other expense ($11.9 million) and the amounts applicable to current year Nuclear Project No. 2 operations have been recorded as nuclear fuel operating expense ($1.3 million).

Note G - Commitments and Contingencies

COST-SHARING LITIGATION

Nuclear Projects Nos. 1 and 4 are of substantially the same design and are referred to as "twin units." Nuclear Projects Nos. 3 and 5 are also twin units of substantially the same design. As costs of architect-engineer services, construction management services, certain common equipment used in the construction of twin units and other costs incurred by the Supply System benefited both units, it was concluded that those costs should be shared by the twin units. The Supply System allocated such shared costs on the basis of respective benefit to the projects involved in accordance with a policy statement adopted by the Supply System's Executive Committee.

In August 1982, the Participants' Committee for Nuclear Projects Nos. 4 and 5, on behalf of the project participants, demanded that the Supply System reallocate $161 million, plus interest, in shared costs previously paid by Nuclear Projects Nos. 4 and 5, based on a revised formula for sharing of costs which it prepared. The demand indicated this was not the total extent of claims which could be

made by the Nuclear Projects Nos. 4 and 5 participants. The investor-owned utilities (IOUs) owning 30 percent of Nuclear Project No. 3 asserted that they are entitled to set off the amounts owed by the Supply System on bridge and termination loans made for Nuclear Projects Nos. 4 and 5 in 1981, totaling $12 million plus interest, against any cost-sharing reallocation obligation.

In October 1982, the Supply System filed a complaint for declaratory judgment in Federal District Court for Western Washington, naming the participants in Nuclear Projects Nos. 1, 2, 3, 4 and 5, BPA, the four IOUs owning shares of Nuclear Project No. 3, and the bond fund trustees for Nuclear Projects Nos. 1 and 3 as defendants, and asking the court to declare the rights and obligations of the parties with regard to the allocation of costs among the projects. Certain other claims have been filed as part of this action.

In May 1983, the court designated BPA as the plaintiff and all other parties as defendants. The case is captioned *BPA v. Supply System, et al.*

In June 1983, Chemical Bank intervened as bond fund trustee on behalf of the Nuclear Projects Nos. 4 and 5 bondholders. Chemical Bank alleged that the Supply System's allocations of costs among the twinned projects were improper and that repayment to the Nuclear Projects Nos. 4 and 5 bond fund was required for such costs allegedly improperly allocated.

In May 1989, the District Court ruled that the cost allocation procedures used were improper and that Chemical Bank has a lien in an amount of any funds which may be determined in the future to have been improperly expended as a result of costs misallocated to Nuclear Projects Nos. 4 and 5. The court stated that any enforcement of the lien must await resolution of the issue of whether there was any improper allocation.

On October 5, 1990, the District Court ruled that the Nuclear Projects Nos. 4 and 5 Bond Resolution required the application of cost allocation principles "akin to those espoused" by Chemical Bank. The court stated that because such principles were not applied, Nuclear Projects Nos. 4 and 5 "apparently bore more than their fair and equitable share of construction costs."

The court granted Chemical Bank's motion for an accounting of all uses of bond proceeds of Nuclear Projects Nos. 4 and 5. The Supply System and other parties in the case appealed this order to the U.S. Court of Appeals for the Ninth Circuit.

On February 25, 1992, the Court of Appeals reversed both the May 1989 and October 1990 rulings. The Court of Appeals upheld the proportional cost sharing method implemented by the Supply System's Policy Statement, reversed the lower court's finding of a lien on misallocated funds, and remanded the case to the District Court for resolution of the remaining issues in accordance with the Court of Appeals' decision.

Prior to the reversal, counsel for Chemical Bank had publicly estimated the potential recovery for Nuclear Projects Nos. 4 and 5 at up to $1 billion, including interest. If a judgment were awarded in favor of Chemical Bank and costs previously allocated to Nuclear Projects Nos. 4 and 5 were allocated to other Supply System projects, such amounts would be treated as construction costs of such projects.

The case is still in the early stages of discovery and the Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECTS NOS. 1 AND 3 CONSTRUCTION DELAY

In April 1982, the Supply System commenced a construction delay of Nuclear Project No. 1, and in July 1983, it commenced a construction delay of Nuclear Project No. 3. Both projects are being preserved and project licenses are being maintained so that construction can be completed, if the projects are needed in the future. Any decision to either finish construction or to terminate could be made independently for Nuclear Projects Nos. 1 and 3. Consequently, the decisions may be different for each project, and the decisions do not have to be made at the same time for each project.

Preservation of each project is expected to continue until a decision is made whether to complete construction or terminate one or both projects. Continued funding of Nuclear Project No. 1 preservation costs is provided by the Nuclear Project No. 1 construction fund. Continued funding of Nuclear Project No. 3 preservation costs is provided by project participants (70 percent pursuant to net-billing agreements) and the four investor-owned utility owners (30 percent pursuant to a settlement agreement).

On April 9, 1993, the Supply System's Executive Board determined that the completion of Nuclear Projects Nos. 1 and 3 as nuclear generating facilities was unlikely and that BPA and the Supply System should study the legal and other issues associated with termination of either or both of Nuclear Projects Nos. 1 and 3 or their conversion to fossil fuel powered electric generating facilities. BPA and the Supply System have initiated investigative studies. The Supply System is continuing project preservation activities while performing the studies which are anticipated to be completed in fiscal year 1994.

NUCLEAR PROJECT NO. 3 DELAY LITIGATION

In July and August 1983, the four IOUs owning 30 percent of Nuclear Project No. 3 filed claims against BPA, the Supply System and the Nuclear Project No. 3 participants asserting that they suffered damages as a result of the extended construction delay of Nuclear Project No. 3.

The Supply System executed agreements on September 17, 1985 to settle the construction delay claims with BPA and with each of the IOUs owning shares of Nuclear Project No. 3. A number of the Nuclear Project No. 3 participants have opposed the settlement and dismissal of claims. In October 1985, the participants filed pleadings in the U.S. District Court asserting challenges to the Nuclear Project No. 3 settlement agreements between BPA and the IOUs. None of the agreements executed by the Supply System has been challenged. However, the pleadings filed by some participants also include claims against the Supply System, the IOUs and BPA unrelated to the validity of the settlement. In July 1986, the district court dismissed the claims challenging BPA's authority to enter into the Nuclear Project No. 3 settlement agreements with the IOUs and stayed all other claims relating to or arising out of the construction delay or the settlement.

An original proceeding also was filed in the United States Court of Appeals for the Ninth Circuit, challenging BPA's settlements with the IOUs. In January 1989, the Court of Appeals rejected all statutory challenges to BPA's settlements, affirmed BPA's authority

to enter the settlements, and dismissed other claims, including claims against the IOUs and the Supply System, for lack of jurisdiction.

In May 1989, the District Court dismissed the claims of all but nine of the Nuclear Project No. 3 participants against the Supply System, BPA and the IOUs relating to or arising out of the construction delay of Nuclear Project No. 3 or the settlement, pursuant to a stipulation of the parties. No action has been taken by these nine non-stipulating participants since the May 1989 district court ruling.

The four IOUs owning 30 percent of Nuclear Project No. 3 also filed complaints in state courts in King County, Washington, and Multnomah County, Oregon, in May 1983 seeking declarative and equitable relief and damages because of the Nuclear Project No. 3 construction delay as claimed by them in *BPA v. Supply System, et al.* These cases were filed as a precaution against any determination that the Federal District Court lacked jurisdiction to try the Nuclear Project No. 3 construction delay claims. The Washington case was dismissed without prejudice in March 1992. Proceedings in the Oregon case are stayed by stipulation of the parties. The parties have agreed to dismiss the Oregon case after final dismissal of the parallel claims in the Federal Court and the final dismissal of any claims challenging the Nuclear Project No. 3 Settlement Agreements.

If the settlement agreements between BPA and the IOUs are determined to be invalid or unenforceable, the IOUs might renew their claim that they are entitled to rescission of the Nuclear Project No. 3 ownership agreement. However, the IOUs have agreed in their settlement agreements with the Supply System not to assert any claim against the Supply System for money damages, restitution or injunctive relief.

The Supply System is unable to predict what results will be reached with respect to these claims.

HANFORD GENERATING PROJECT

HGP, completed in 1966, previously used by-product steam from DOE's N-Reactor, and has not operated since the shutdown of the N-Reactor in 1987. As a result of the Secretary of Energy's decision to place the N-Reactor in permanent shutdown, the Supply System has evaluated alternative energy uses for the plant and anticipates termination of HGP in fiscal year 1994. Options for the disposition of HGP include a transfer to DOE for removal and site restoration; or removal and site restoration by the Supply System. The Supply System has reduced the assets of HGP to their net realizable value and has accrued for the estimated cost of removal and site restoration.

Certain preservation costs of HGP were funded by DOE from 1989 to 1992 under a supplemental agreement between the Supply System and DOE. Preservation costs have been funded by BPA since June 30, 1992.

NUCLEAR PROJECTS NOS. 4 AND 5 TERMINATION, BOND DEFAULT, AND LITIGATION

In January 1982, the Supply System's Nuclear Projects Nos. 4 and 5 were terminated prior to completion. The Supply System had previously issued $2.25 billion of bonds to pay costs of the projects.

The participants' agreements (discussed in Note E - Security-Nuclear Projects Nos. 4 and 5) provided that each participant pay its respective share of the debt service on the bonds and termination costs beginning January 25, 1983. However, payments due were not made pending a judicial determination of the participants' authority and obligation to pay. In 1983, and again in 1984, the Washington State Supreme Court ruled that Washington municipal utilities did not have statutory authority to enter into the participants' agreements, thus invalidating the agreements. This decision became final when the U.S. Supreme Court denied a writ of certiorari.

On July 22, 1983, the Supply System acknowledged that it could not pay Nuclear Projects Nos. 4 and 5 obligations as they became due. This was an event of default under the Nuclear Projects Nos. 4 and 5 bond resolution. On July 25, 1983, Chemical Bank, as bond fund trustee, demanded that all remaining project funds be transferred to it for holding in a special account. On August 18, 1983, Chemical Bank declared the principal of all Nuclear Projects Nos. 4 and 5 revenue bonds and interest accrued thereon to be due and payable immediately.

Beginning in 1983, a number of lawsuits were filed by and on behalf of purchasers and holders of Nuclear Projects Nos. 4 and 5 bonds ("the securities litigation"). The defendants named included the Supply System, its member utilities, and Nuclear Projects Nos. 4 and 5 participants. The lawsuits alleged violations of federal and state securities law, fraud, misrepresentation, negligence and breach of contract, and sought monetary damages, rescission and restitution. The lawsuits sought to recover the bondholders' investment in the principal amount of $2.25 billion, plus unspecified damages, interest, costs and attorneys' fees.

In September 1988, the Supply System's Executive Board approved an agreement to settle the securities litigation. The agreement called for the Supply System to consent to the entry of a judgment on the contract claim on the Nuclear Projects Nos. 4 and 5 bonds brought on behalf of bondholders. All other claims against the Supply System were to be dismissed with prejudice. The amount of the judgment is to equal the aggregate unpaid principal amount of the Nuclear Projects Nos. 4 and 5 bonds and accrued interest thereon at the time the judgment is entered. Recourse for satisfaction of the judgment is expressly limited to the funds and assets of the Supply System pledged to secure the Nuclear Projects Nos. 4 and 5 bonds. That judgment shall be entered once there is a final judgment or final settlement of all suits covered by the settlement.

All other defendants in the securities litigation and the State of Washington, a nonparty, settled all of the claims against them for aggregate payments of more than $850 million. All of the settlements were approved by the District Court on September 5, 1989. The court found that the settlements were binding on all Nuclear Projects Nos. 4 and 5 bondholders in the litigation.

On February 4, 1992, the Court of Appeals affirmed, in its entirety, the settlement of those claims; and a petition for certiorari was denied by the U. S. Supreme Court on November 2, 1992.

Accordingly, the District Court's ruling now permanently bars Chemical Bank and all Nuclear Projects Nos. 4 and 5 bond purchasers and bondholders from commencing, prosecuting, or continuing any action against the Supply System arising out of or relating to the allegations or subject matter of the securities litigation. However, based on the terms of the Supply System's settlement with Chemical Bank, the ruling does not preclude Chemical Bank from continuing with the cost sharing litigation described above.

In November 1992, Nuclear Projects Nos. 4 and 5 received $148 million from Chemical Bank as a reimbursement to the Bond Fund Reserve Account and recorded the reimbursement as non-operating

revenue. On March 8, 1993, Chemical Bank made an interim distribution of $170 million to current bondholders representing principal in the amount of $94 million and accrued interest of $76 million.

LIABILITY INSURANCE LITIGATION

The excess carrier of directors' and officers' liability insurance, National Union (AIG), filed a lawsuit in September 1985, seeking a declaration that it has no obligation under the insurance policy because of the alleged failure of the Supply System to declare facts which if known to the insurer, would have resulted in it not issuing the policy. The court has approved a settlement between the Supply System's directors and the plaintiffs in the securities litigation, which dismisses all claims against the directors in return for a payment of $30 million by the carrier. If approval of this settlement becomes final and non-appealable, the insurer will be barred from proceeding with this litigation. This suit was dismissed without prejudice for want of prosecution on August 13, 1993.

NUCLEAR PROJECTS NOS. 4 AND 5 BRIDGE AND TERMINATION LOANS

In late 1981, sixty-eight Nuclear Projects Nos. 4 and 5 participants and others loaned the Supply System $60 million to pay project costs until an alternative source of financing could be found. None was found, and after the projects were terminated in January 1982, forty-two Nuclear Projects Nos. 4 and 5 participants loaned the Supply System additional amounts of approximately $8 million to pay termination costs. The first set of loans were called bridge loans, and the second termination loans. All of these loans were subordinate to the $2.25 billion of bonds payable, and were payable solely from the revenues of Nuclear Projects Nos. 4 and 5. The Supply System defaulted on all of the loans at the same time it defaulted on Nuclear Projects Nos. 4 and 5 bonds in 1983. Interest on these loans in the amount of approximately $163.9 million also remains unpaid at June 30, 1993.

Most of the lenders have sued the Supply System and all but three of the suits (those brought by certain investor-owned utilities) have been reduced to judgment. The Washington State Supreme Court has held that the terms of the loans limited the source of recovery to funds and assets of Nuclear Projects Nos. 4 and 5.

INTER-PROJECT CLAIMS AGAINST REVENUES AND OTHER ASSETS

Some creditors of Nuclear Projects Nos. 4 and 5 have attempted, and others have threatened to attempt, to obtain payment from the physical assets of other projects of the Supply System or from the revenues pledged as security for the Supply System bonds issued in connection with, and revenues pledged for the payment of costs of, such other projects. Such creditors include present and former holders of the Nuclear Projects Nos. 4 and 5 bonds and others who may assert claims in the future against the Supply System and/or its projects.

The Supply System's management and legal counsel are of the opinion that such creditors will only be able to realize upon the net assets of Nuclear Projects Nos. 4 and 5 and will not be able to realize upon any net assets or future revenues of the Supply System and/or its other projects.

NUCLEAR PROJECT NO. 5 TERMINATION CLAIM

In August 1983, PacifiCorp, owner of 10 percent of Nuclear Project No. 5, filed a counterclaim in *BPA v. Supply System, et al.* asserting that termination of Nuclear Project No. 5 was a breach of the ownership agreement between PacifiCorp and the Supply System. PacifiCorp seeks damages in an unspecified amount. Such amount would presumably be approximately $150 million, and could be a general claim against assets of the Supply System. Actions on that claim have been stayed since 1983. The Supply System is unable to predict the outcome of this litigation, but counsel is of the opinion that a successful claim against assets of other than Nuclear Projects Nos. 4 and 5 is remote.

NUCLEAR PROJECTS NOS. 4 AND 5 SITE RESTORATION

No provisions have been made for site restoration of Nuclear Projects Nos. 4 and 5, which is governed by the site certification agreement between the Supply System and the State of Washington and regulations adopted by the Washington Energy Facility Site Evaluation Council (EFSEC) and, with respect to Nuclear Project No. 4, the lease agreement with the Department of Energy. It is not known at this time what actions will be necessary to comply with these requirements. Because the site certification agreement for Nuclear Project No. 1 also covers Nuclear Project No. 4, and the agreement for Nuclear Project No. 3 also covers Nuclear Project No. 5, EFSEC might assert that Nuclear Projects Nos. 1 and 3 are obligated to pay the cost of site restoration for Nuclear Projects Nos. 4 and 5. Such costs are estimated to be in the range of $49 to $82 million (in January 1992 dollars).

NUCLEAR LICENSING AND INSURANCE

The Supply System is a licensee of the Nuclear Regulatory Commission and is subject to routine licensing and user fees, to retrospective premiums for nuclear liability insurance, and to license modification, suspension, or revocation or civil penalties in the event of violations of various regulatory and license requirements.

The Price Anderson Act currently provides for nuclear liability insurance up to $7.8 billion per incident, which is covered by a combination of commercial nuclear insurance and mandatory industry self-insurance. The Supply System has purchased the maximum commercial insurance available of $200 million, which is the first layer of protection. The second layer of protection is provided through a mandatory industry self-insurance plan wherein each licensed nuclear facility required to participate in the plan (currently 116) may be assessed up to $79.275 million per incident, subject to a maximum annual assessment of $10 million per year.

Nuclear property damage and decontamination liability insurance requirements are met through a combination of commercial nuclear insurance policies purchased by the Supply System and BPA. The total amount of insurance purchased is currently $1.825 billion. The deductible for this coverage is $10 million per occurrence.