



WASHINGTON PUBLIC POWER SUPPLY SYSTEM

1992

Annual Report

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A rigorous training program is under way to license air control room operators at Project 2 in time for fuel loading in September 1983.



1982: Financial Highlights

Topics

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(\$ in Millions)

	Project 1	Project 2	Project 3	Projects 4/5	Total
Long-Term Revenue Bond Sales					
Par Values	\$ 700	\$ 885	\$ 695	—	\$2,280
Number of Issues (Combined)	2	3	3	—	3
Number of Series	2	4	4	—	10
Borrowing Cost (%)	14.79	13.83	14.43	—	14.30

Total Long-Term Revenue Bonds Outstanding

Outstanding as of June 30	\$2,151	\$2,330	\$1,600	\$2,250	\$8,331
Annualized Interest Expense	\$ 209	\$ 218	\$ 166	\$ 188	\$ 781
Borrowing Cost (%)	9.94	9.69	10.53	8.44	9.58

Interest Earned

Interest on Investments	\$ 53	\$ 46	\$ 48	\$ 54	\$ 201
Annual Rate of Return (%)	14.77	14.02	14.83	12.59	13.96

Construction Status, October 1982

	Project 1	Project 2	Project 3
% Complete	63.0	93.0	65.0

Today, water power generates about 80 percent of the Northwest's electricity, but increasing the stream flows for dwindling salmon will displace about 500 megawatts of that electricity.



The Northwest: Redefining its energy needs

Our construction program was conceived between 1972 and 1977 at the request of more than 100 Northwest utilities. It called for five nuclear power plants, each large enough to meet the needs of a half million people.

The recession has temporarily changed that optimistic outlook. Recent power forecasts from some sources indicate that all of our plants may not be needed as indicated in their original time frame.

Consequently, Projects 4 and 5 were terminated and Project 1 was delayed up to five years. We are making sure, however, that the projects' licenses are preserved so that construction can resume as quickly as possible. Otherwise, we might extend the recession because of our inability to meet our power needs—power essential for new industry and new jobs.

In the meantime, we must complete Projects 2 and 3 as quickly and economically as possible. Our new Executive Board is keenly aware of its independent responsibility to oversee the Supply System's progress. For example, it demanded a rigorous and exacting budget review. It is apparent that the Supply System is now a much leaner organization after curtailing its construction program, reducing its staff and instituting tighter fiscal controls. These changes are reflected in the 1983 budget and in our future financing requirements.

As yet, no one has a clear picture about the Northwest's power needs between now and the year 2000. Our job is to ensure that the region has a viable energy resource so that 8.5 million people who are depending on us for their power will not be literally left out in the cold.



*Stanton H. "Nick" Cain
President, Supply System Board
Chairman, Executive Board*

Stanton H. Cain

Executive Board: (front row, left to right)
Winnard, Olsen, Vice Chairman Berry,
Chairman Cain, Hill and Nolan; (back
row) Duffie, Wall, Clayhold, Halvorson
and Richman.



Executive Board: New law changes its role

A new Washington state law changed the role and makeup of the Supply System's Executive Board in 1982. Its membership is now drawn not only from participating Washington utilities, but also from across the nation. Six new members who are recognized experts in finance, construction or utility operations join five representatives of the participating utilities to form an 11-member Board.

The new Executive Board is now responsible for all policy decisions except those specifically reserved for the 23-member full Board. The full Board retains the final authority to purchase, acquire, build, terminate or decommission power plants. It also elects five of its members to serve on the Executive Board as well as appointing three outside members.

The Executive Board members elected from the full Board are: Stanton H. "Nick" Cain, an Okanogan County Public Utility District commissioner; Donald R. Clayhold, chief engineer and assistant manager of Benton County Public Utility District; Paul J. Nolan, director of utilities for the city of Tacoma; C. Stanford Olsen, a Snohomish County Public Utility District commissioner; and Howard B. Richman, commissioner and vice president of Cowlitz County Public Utility District.

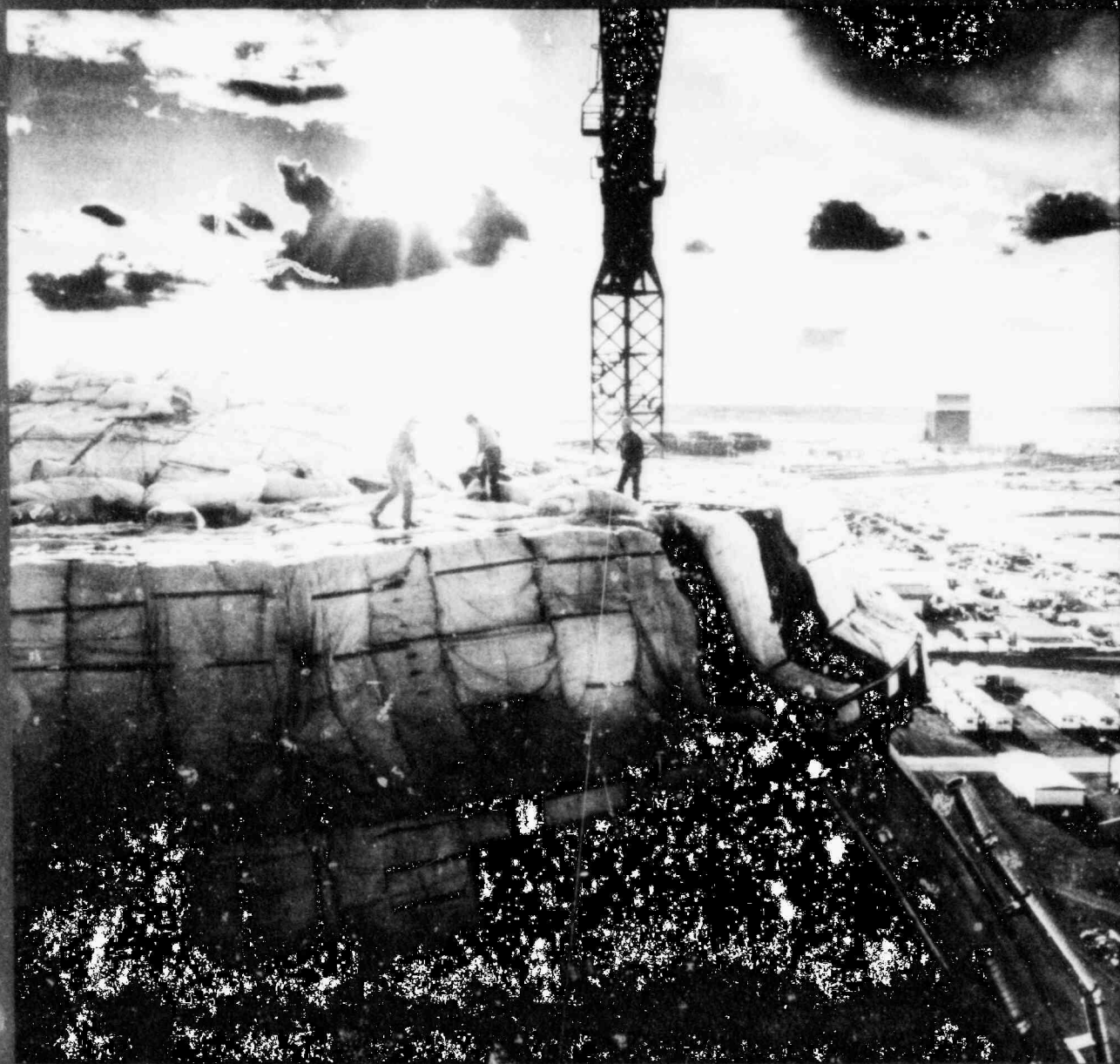
The additional three outside members selected by the Board are: Carl M. Halvorson, a Northwest construction business owner with 40 years experience building major energy projects; Durwood W. Hill, general manager of Nebraska Public Power District; and Louis H. Winnard, former general manager of the Los Angeles Department of Water and Power.

The final three members were appointed by Washington Governor John Spellman. They are: C. Michael Berry, retired president of Seattle-First National Bank; Cornelius R. Duffie, vice chairman of Willamette Industries and former chief executive officer of Western Kraft Corporation; and William E. Wall, chairman and chief executive officer of Kansas Power and Light. The governor's appointees must be confirmed by the Washington State Senate during the 1983 legislative session.



The new Executive Board draws on the expertise of Northwest utility officials like Nick Cain (standing) and national businessmen like Carl Halvorson.

As workers atop Project 1's dome were making the final concrete pour in April, decisions were being made that would delay the plant for up to five years.



The Supply System: Making progress, facing problems

In a sense 1982 was two-dimensional for the Supply System.

On the internal level, where we had control, we set construction records that were the envy of the nuclear power industry. Labor losses due to strikes or walkouts were the lowest in the company's history. And now Project 2 is so close to commercial operation that employees say they can almost "smell the megawatts."

Success, in any endeavor, is based on solid performance day in and day out. Our efforts to responsibly manage our construction and operation program have brought positive results. We've had affirmation by the Nuclear Regulatory Commission about the quality of our work.

On the financial side, we've maintained Standard and Poors AAA rating on Projects 2 and 3 and have carefully managed the termination of Projects 4 and 5 well within the budget established for that purpose. Supply System borrowing requirements have been decreased by 90 percent from a year ago and at the same time we have found ways to greatly reduce corporate overhead expenses. And finally, in the past year, three independent studies have supported the need and cost competitiveness of the projects.

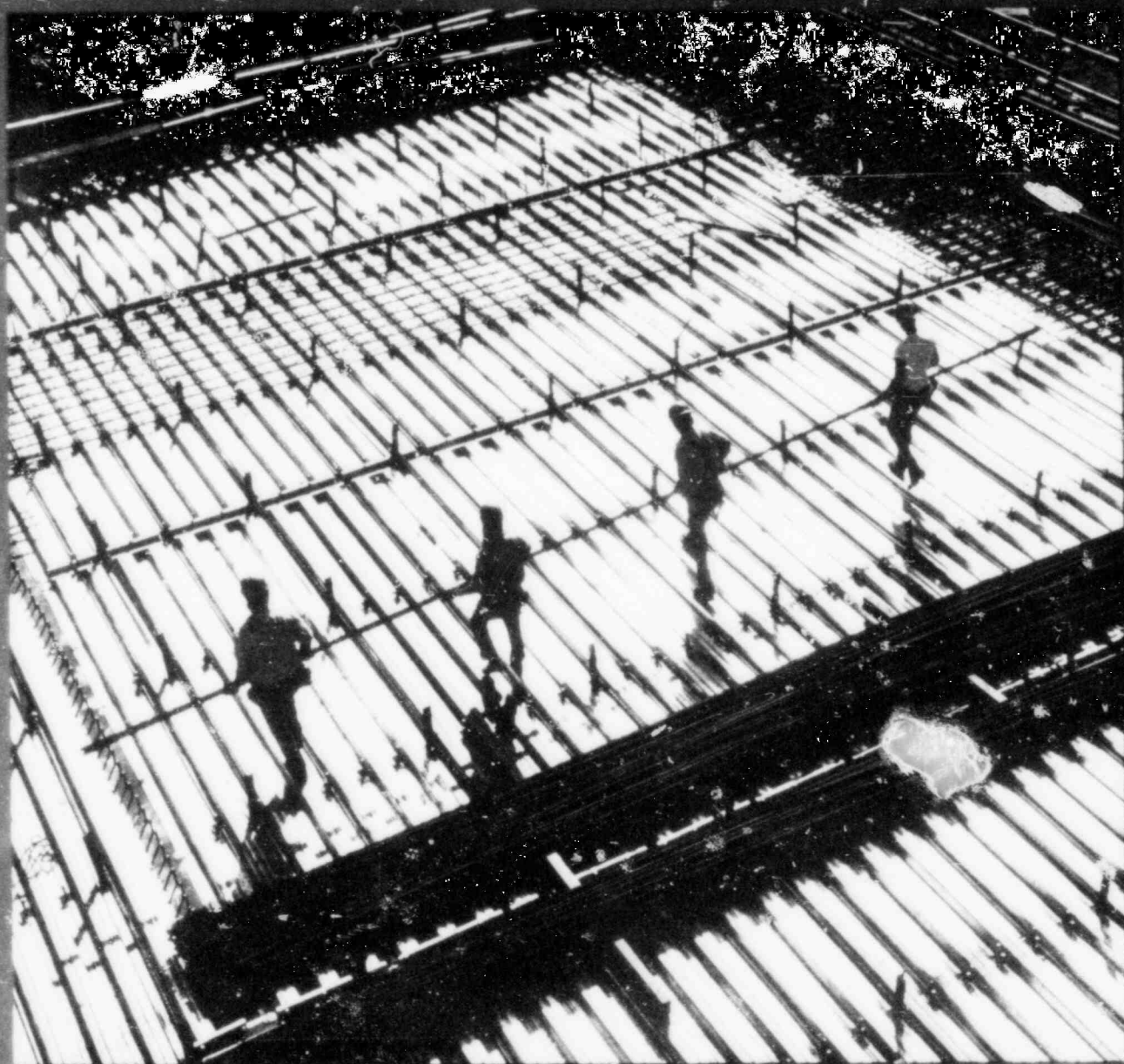
But, on the external level, where we did not have control, the Supply System was impacted by: uncertainties in the financial markets, the highest interest rates ever experienced in the United States, inflation, changing federal regulations and confusion about how much energy the Northwest will need. Because of these issues, Project 1 has been delayed for up to five years.

These problems are not unique to the Supply System, the Northwest or even to publicly owned utilities. Nationwide, other utilities that began constructing electricity-producing power plants at the same time we did are facing the same issues. Our situation has been further compounded by our relationship with the federal government. Much of Supply System policy is driven directly or indirectly by Bonneville's concerns with rates, financing and



*Robert L. Ferguson
Managing Director*

Labor was in step with the Supply System in 1982—with greater productivity, fewer labor disputes and unparalleled safety records.



The Supply System: Making progress, facing problems (continued)

energy forecasting. Project 1 was delayed based upon the Bonneville Power Administration's recommendation.

The Supply System went through some very traumatic changes in the past year—changes that could overwhelm an organization not as strong as this one. We've gone from building five plants to two. After the delay of Project 1 this year, a balanced analysis called for another reduction in force. Management faced this reality and the organization weathered a difficult 21 percent reduction of the work force.

Following the reductions in force, the Institute of Nuclear Power Operations (of which we are a member) and other industry experts were consulted on how to best use the talents of our remaining staff. After considering all recommendations, the upper-level management was realigned. Project work was consolidated under one director, as were most administrative functions.

It is a sign of the Supply System's underlying vigor that it has functioned as well as it has under the circumstances of the past year. At Project 2, we've maintained all key project milestones since the restart in mid-1981. And, the teamwork at Project 3 has put the project ahead of production goals for the past 13 months.

I will be the first to acknowledge that these are difficult times for all of us. Yet, I do not think we can afford to base future energy forecasts on a recession scenario. Rather, I think that we must have the courage to plan for an era of economic recovery.

The current economic climate has been harsh on the Supply System. But it also, ironically, has provided us with an important opportunity. The electricity produced by Projects 2 and 3 will provide the foundation for the revitalization of the Northwest. When the power is needed, it will be there.



The Northwest became acquainted with a new brand of irate ratepayer—the pro-nuclear kind—in April 1982.

Bob Ferguson

*Revised safety regulations required more
bracing in Project 2's wetwell—which
holds nearly 1 million gallons of water for
emergency cooling of the reactor.*



Project 2: Counting down to completion

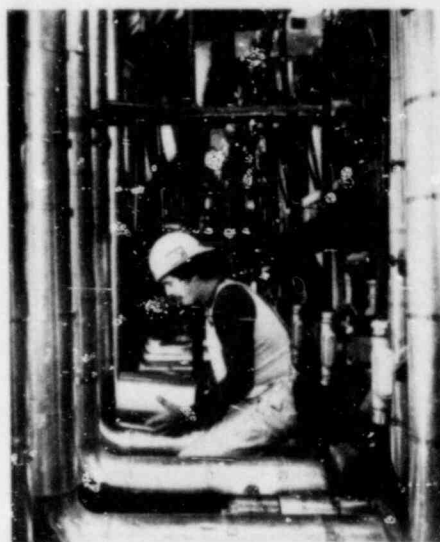
The state's first commercial nuclear plant, Project 2 in Eastern Washington, passed major licensing and construction tests with flying colors in 1982—staying on a challenging schedule to load fuel by September 1983.

The Nuclear Regulatory Commission issued Project 2's final *Safety Evaluation Report* in March 1982—only 10 months after a stop work order was lifted at the plant. The report listed 28 items that required further investigation, a dramatic reduction from the November 1981 preliminary review which listed 215 unresolved items. By July, the list was reduced to less than 20 items. The most serious concerns have now been resolved.

In August 1982, the critical hydrostatic pressure test reaffirmed the quality of work at the heart of the plant. The test verified the integrity of the plant's reactor pressure vessel and the 4,000 feet of water and steam pipes connected to the vessel.

Project 2's journey from its hydro test to fuel loading is one of the most grueling in the nuclear industry—with 12 months for work that normally averages 17. The emphasis is now on completing other plant systems so that they can be tested for operation. As of October, 24 of the plant's 101 systems had been officially turned over to the Supply System and another 68 had been provisionally accepted.

Completing operator training and emergency planning are also necessary steps in the drive to completion. Operator training was about 78 percent complete in October with 43 out of 46 trainees passing simulator tests (including 36 at the senior operator level). Emergency plans have been upgraded to comply with federal regulations stemming from the Three Mile Island incident. As a result, a new emergency support building is being built and will be finished in time for full-scale emergency drills beginning in February 1983. A major exercise in June 1983 will test the emergency response capabilities of the Supply System and federal, state and county agencies.



Major tests of piping and pumps at Project 2 during 1982 reaffirmed the integrity of the plant's construction.

*Last September it took five hours to
move the 550-ton permanent steel dome
(that forms the top of the containment
vessel) into place at Project 3.*



Project 3: Breaking national records

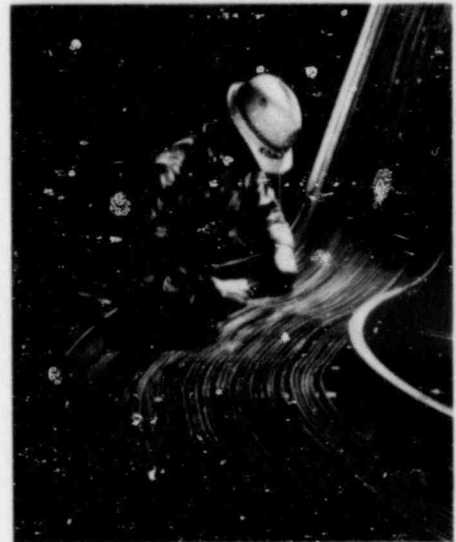
Project 3, in Western Washington, was the scene of productivity and safety records that put it at the forefront of the nuclear construction industry in 1982.

Workers completed 24 percent of the plant's construction in 12 months—4 percent more than their goal. To help set that record, they installed more than three miles of pipe per month (the national average is about one and a half miles per month). And Project 3's safety record was about 50 times better than the national average for construction work.

Not only was the work done quickly and safely, but economically. Work normally costing a dollar was done for about 95 cents. Also, about \$27.5 million was saved when such services as scaffolding and cranes were consolidated under specified contractors.

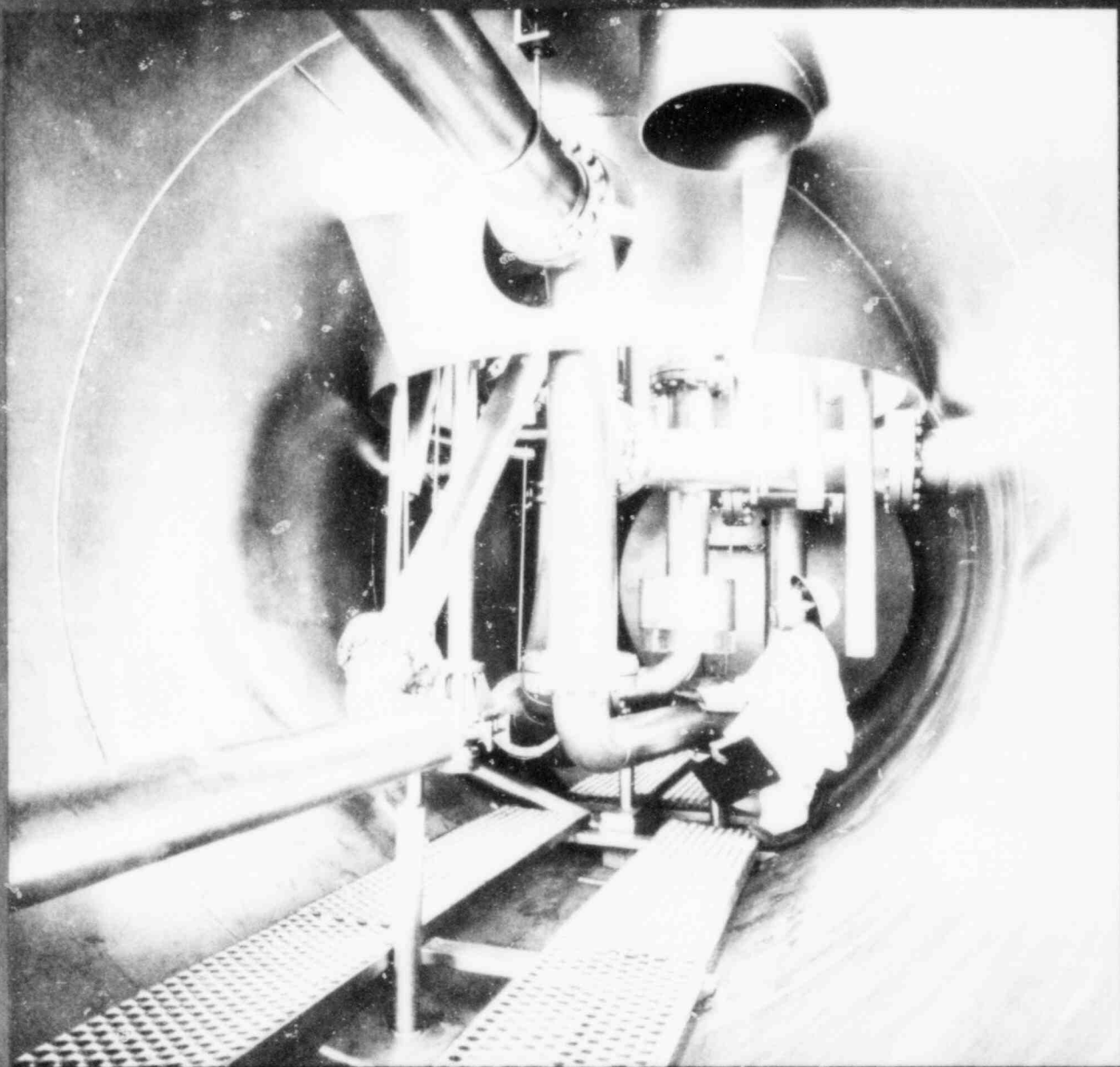
By October 1982, Project 3 was 65 percent complete. The last piece of structural steel was placed in the reactor auxiliary building in August, and in September the last major reactor components were lifted into the reactor building before it was enclosed with a permanent steel dome.

The Nuclear Regulatory Commission is now reviewing the project's 7,000-page *Final Safety Analysis Report* and 500-page environmental assessment—an important step in Project 3's licensing process. Other activities required for operation are also under way. For example, 35 people are already training to become control room operators. And the Supply System's recruiting efforts are focused on building a complete team of qualified operations people at Project 3 to run the plant when it begins commercial operation in December 1986.



Workers at Project 3 are attempting to pull 64 miles of electrical cable per month—twice the national average.

To ensure the integrity of key components during Project 1's construction delay, special maintenance precautions are being taken.



Project 1: Forecasts prompt schedule delay

The Supply System's Board of Directors delayed construction of Project 1 on May 1, 1982. The Board followed the recommendation of the Bonneville Power Administration after Bonneville forecasted a far lower demand for electrical power in the Northwest than was estimated in the 1970s. The delay at Project 1, located in Eastern Washington, will last up to five years—depending on the region's future power requirements.

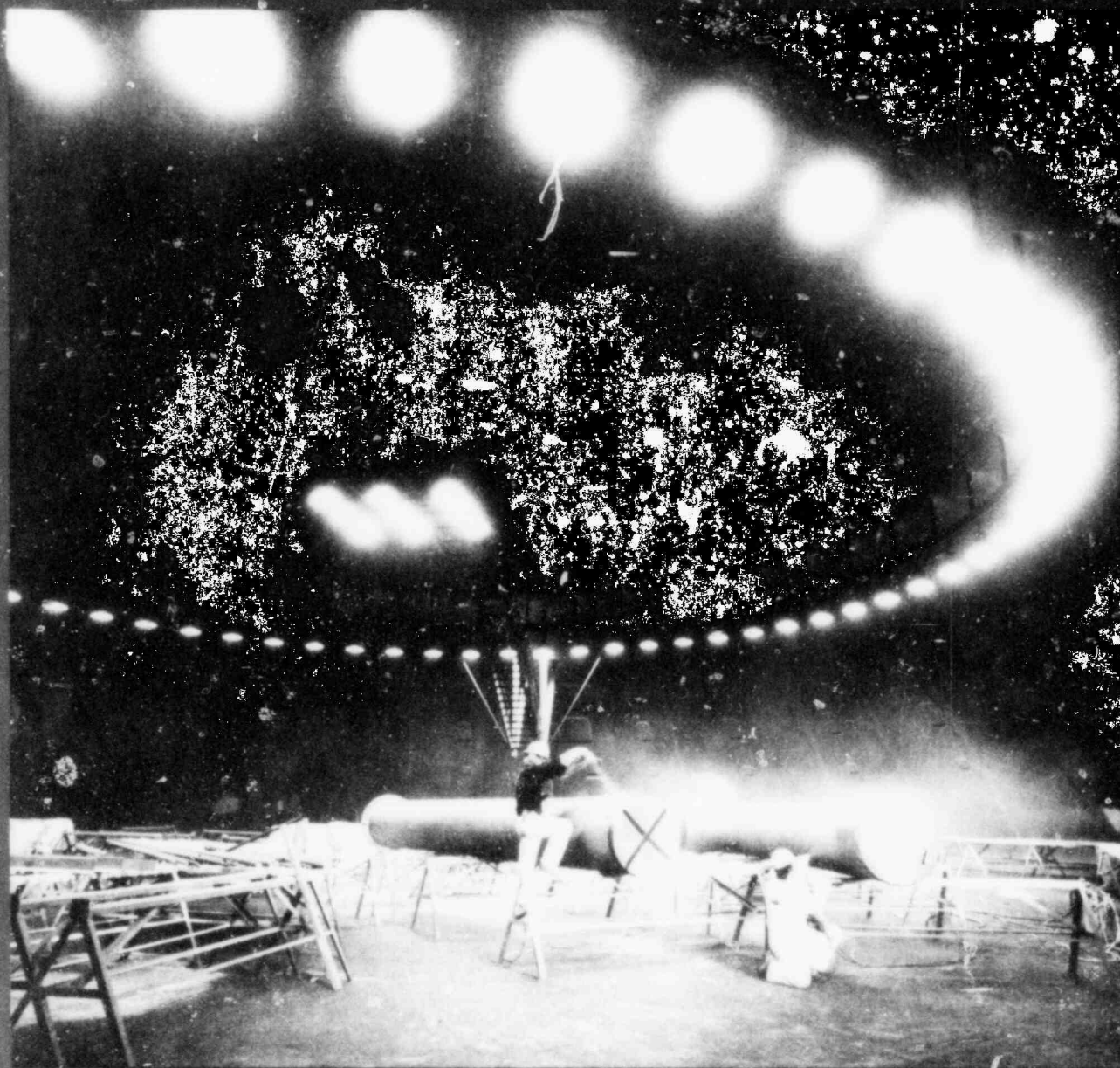
Before the delay, the project was five months ahead of the schedule that was set in 1981. It stands at 63 percent complete with all major civil and structural work finished. Procurement of services and equipment is 98 percent complete. The acceptance review for Project 1's *Final Safety Analysis Report*, which was sent to the Nuclear Regulatory Commission in November 1981, will continue despite the construction delay so that it need not be repeated when construction resumes. The Supply System also has received an American Society of Mechanical Engineers' "N" Stamp for Project 1. It is an independent verification that the project's design, construction and quality control procedures meet stringent requirements for safe operation.

The goals of the delay plan are to: preserve the plant's assets and licenses; stop construction activities in an orderly manner; close out contracts and pay commitments; and minimize cash expenditures. Staffing, which was about 6,400 contractor and Supply System personnel before the delay, was reduced to 1,100 by September 1, 1982, and will be reduced to 500 by July 1983. This plan preserves the option of restarting the project in less than five years.



Nearly 63 percent complete, Project 1 awaits a signal for construction to restart.

Project 5's idle containment dome is transformed into a paint shop—an innovative use that saved the time and expense of setting up a temporary building at adjacent Project 3.



The 4/5 decision: Recession takes energy toll

The Supply System's primary purpose is to build and operate power plants. However, when the region's need for power was seriously questioned and financing for the last two plants became impossible, the Supply System's Board of Directors terminated Project 4 in Eastern Washington and Project 5 in Western Washington. Since January 22, 1982, the termination of those projects has been carefully managed.

A special termination program office within the Supply System handles all activities on Projects 4 and 5: selling assets, closing contracts and resolving legal issues. The termination team works with the Oversight Committee (representing the interests of the projects' participating public utilities) and with Pacific Power & Light Co. (a private utility that owns 10 percent of Project 5).

The goal of the termination team is to get the maximum return for the projects' assets and settle outstanding obligations as economically as possible. The original estimate for a 24-month termination program was \$343 million. The revised estimate for a 30-month program is \$335.3 million. The \$7.7 million reduction is due to the favorable settlement of fuel and fuel services contracts and tight fiscal control of all expenditures.

The best return on the projects will be realized if they can be sold in their entirety. To do this, the Nuclear Regulatory Commission construction licenses must be retained during the first phase of the termination program. This requires preventive maintenance work at the projects and preservation of all nuclear safety-related equipment. An attempt by intervenors to have the licenses revoked failed when the Nuclear Regulatory Commission found their petitions to be without merit and formally rejected them. An agreement was also reached with the Washington State Energy Facility Site Evaluation Council to defer any changes in the site certification licenses for Projects 4 and 5.



Why Project 4/5?

When economic conditions forced a slowdown of two Supply System projects in 1981, Projects 4 and 5 were the obvious choices. They were the last scheduled for completion, and with construction and financing costs at \$6 billion each, were the most expensive of the five Supply System projects under construction. A strategy for raising the funds to mothball the projects until the Regional Power Council completes its 20-year plan failed to gain adequate support. The council's plan will be complete in April 1983.

*The Hanford Generating Project meets
nearly 5 percent of the Northwest's
power requirements.*



Operations: Generating power and revenue

The U.S. Department of Energy agreed in July 1982 to continue selling steam to the Supply System while N Reactor is in operation. The waste steam from the government's N Reactor is used to power the Hanford Generating Project—a Supply System facility that has generated more than 52 billion kilowatt hours of electricity since 1966.

Under the terms of the 10-year contract, the Supply System will pay 1.6 cents per kilowatt hour of energy generated the first year. Costs in future years will be determined by labor and operating expenses. The contract goes into effect on July 1, 1983.

Once billed as an expensive white elephant, the Hanford Generating Project has proved to be a dependable workhorse and the nation's second greatest producer of nuclear-generated electricity. Not only has the Hanford Generating Project used an energy resource that otherwise would have been wasted, but it has provided the federal government with \$250 million of income from steam sales. In fiscal year 1982, the Supply System's operating receipts from the Hanford Generating Project were \$40.2 million.

The 12 member utilities in the Supply System's Packwood Lake Hydroelectric Project received \$544,841 in surplus revenues from the operation of the plant between July 1980 and June 1982. Surplus revenues from the 27-megawatt dam, located in the Gifford Pinchot National Forest near Mt. Rainier, are expected to increase to \$1.1 million in fiscal year 1983 due to efficient plant operation, a good water year and increased Bonneville Power Administration rates.

Since it began operating in 1964, the Packwood project has generated nearly 2 billion kilowatt hours of electricity which is sold to Bonneville Power Administration on an exchange agreement. Power from the project is produced for less than one cent per kilowatt hour but is sold at the Bonneville Power Administration wholesale rate, which in October 1982 was 1.99 cents per kilowatt hour for firm power to preference customers.



The Packwood Lake Project near Mt. Rainier is almost totally automated and needs only periodic surveillance.

*Investments by the Supply System's
three-person team earned \$204 million
in fiscal year 1982.*



1982 financing program: Record \$2.28 billion raised

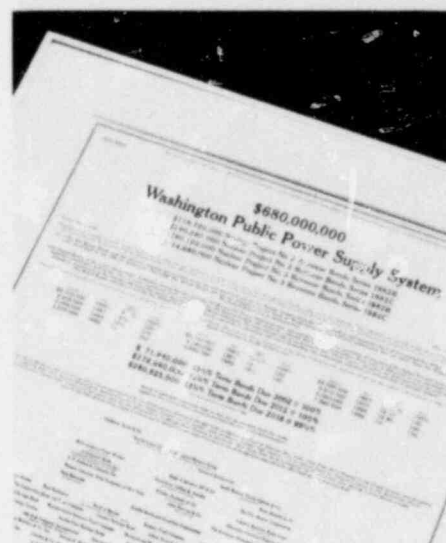
During fiscal year 1982, the Supply System raised a record \$2.28 billion by completing three bond sales at an average interest cost of 13.93 percent. Two of the sales established records for the largest, totally public offerings in the history of public power tax-exempt financing.

The success of the financing program is remarkable considering the extensive changes required due to the slowdown and eventual termination of Projects 4 and 5, and the extended construction delay of Project 1. A major factor in the success of the program was the use of the negotiated sale option granted by the Washington State Legislature in 1981. Use of this option allowed the Supply System to negotiate optimum-size, multi-project sales at minimum current interest rates as shown below:

Date	Project	Value	Average Borrowing Cost
September 1981	1, 2 and 3	\$750 million	13.46
February 1982	1, 2 and 3	\$850 million	14.53
May 1982	2 and 3	\$680 million	13.70

The sales were required to finance the continuing portion of the construction program and to provide cash coverage for commitments into the fourth quarter of fiscal year 1983 (April-June 1983).

Also in fiscal year 1982, the Supply System earned \$204 million in investment income, most of which will help defray the costs of the construction projects. The average balance of funds invested was \$1.5 billion, and the rate of return was 14 percent. The investment income earned was the highest in the history of the Supply System, reflecting the record high interest rates experienced in general during the year.



The Supply System raised \$2.28 billion from three bond sales in fiscal year 1982.

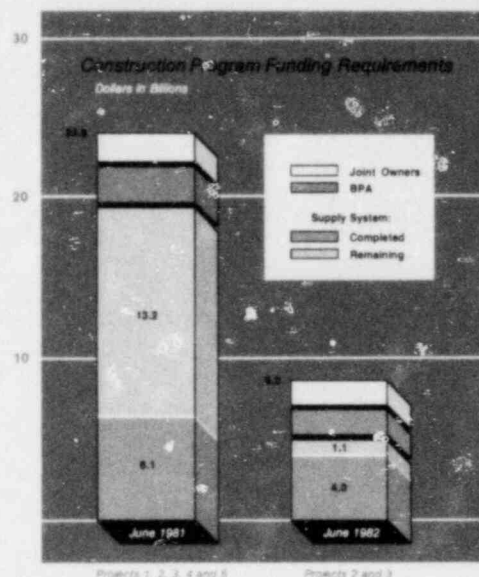
Future outlook: Financing needs reduced

The Supply System's financing program was significantly reduced during the past year as a result of terminating Projects 4 and 5 and delaying Project 1. On June 30, 1981, the Supply System needed \$13.2 billion in financing to complete its five projects. By June 30, 1982—with three more bond sales completed and a curtailed construction program—the Supply System's financing needs were reduced to \$1.1 billion to complete Projects 2 and 3.

To raise the funds needed to complete the projects, the Supply System intends to issue \$500 million in bonds in May 1983 with the remaining \$600 million to be raised over the subsequent 28 months. Of this, \$149 million is needed to complete Project 2 and \$961 million to complete Project 3.

Project 2's total funding requirements from start of construction to completion are now estimated at \$3.258 billion, a \$42 million increase over the previous estimate. Controllable construction and fuel costs did not increase, but interest and financing costs were higher than previously estimated. The Supply System is raising \$2.519 billion of the total funding requirements through the sale of bonds. About 94 percent of those bonds (or \$2.370 billion) have been sold.

Project 3's total funding requirements are now estimated at \$4.963 billion, a \$431 million increase over the previous estimate. While controllable construction and fuel costs decreased by \$82 million, \$186 million in costs that would have been shared with Project 5 were added to Project 3. The net increase in Project 3's construction cost is \$104 million. Actual and projected interest rates were also higher—causing the estimated interest and financing costs to increase by \$327 million. The Supply System is raising \$2.561 billion of Project 3's total funding requirements through the sale of bonds. About 62 percent (or \$1.6 billion) of those bonds have been sold.



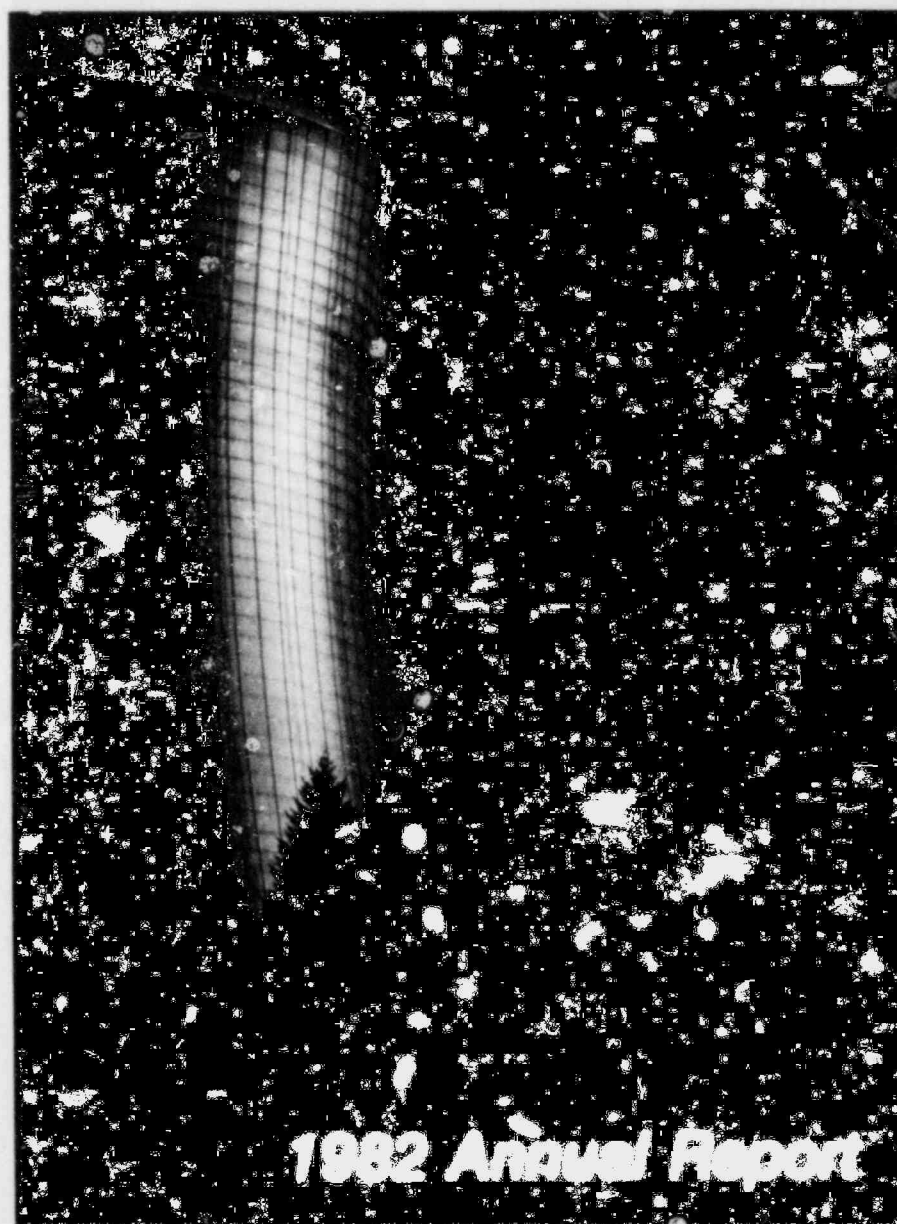
"I think we must have the courage to
plan for an era of economic recovery.
And all of us know that energy is essen-
tial to that plan." — Robert L. Ferguson,
September 1982.



Financial Section

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Balance sheets

HANFORD GENERATING PROJECT

ASSETS

CURRENT ASSETS— OPERATING FUND

Cash and Investments	\$10,213
Accounts Receivable	245
Prepaid and Other	345
Due from Other Projects and Internal Service Fund	
Due from Other Funds	1,741
TOTAL CURRENT ASSETS—OPERATING FUND	12,544

RESTRICTED ASSETS— NOTES B & C

Special Funds (Primarily for Construction)	
Cash and Investments	3,492
Receivable from Joint Owners and Other Assets	
Due from Other Projects and Internal Service Fund	
Due from Other Funds—Net	
	3,492
Debt Service Funds Cash and Investments	7,446
TOTAL RESTRICTED ASSETS	10,938

UTILITY PLANT AND EQUIPMENT—NOTE B

In Service	67,007
Improvements to U.S. Government Facilities	14,411
Less Allowance for Depreciation and Amortization	(49,220)
	32,198
Construction Work in Progress	
Cost Related to Construction and Termination of Utility Plants	
Nuclear Fuel and Prepaid Enrichment Services	
Less Amount Charged to Joint Owners	
TOTAL UTILITY PLANT AND EQUIPMENT	32,198

OTHER ASSETS AND DEFERRED CHARGES

Unbilled Reimbursable Costs	981
Unamortized Debt Expense	146
Other	
TOTAL OTHER ASSETS AND DEFERRED CHARGES	1,127
TOTAL ASSETS	\$56,807

LIABILITIES

CURRENT LIABILITIES— OPERATING FUND

Accounts Payable and Accrued Expenses	\$ 6,359
Due to Other Projects	2,464
Due to Internal Service Fund	222
TOTAL CURRENT LIABILITIES—OPERATING FUND	9,045

LIABILITIES—PAYABLE FROM RESTRICTED ASSETS— NOTES B & C

Special Funds (Primarily for Construction)	
Accounts Payable and Accrued Expenses	
Amounts Withheld from Contractors	
Due to Other Projects and Internal Service Fund	
Due to Other Funds—Net	992
	992

Debt Service Funds	
Accrued Bond Interest Payable	459
Due to Other Funds—Net	749
	1,208

TOTAL LIABILITIES—PAYABLE FROM RESTRICTED ASSETS	2,200
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LONG-TERM DEBT—NOTE C

Revenue Bonds Payable	43,130
Less Unamortized Discount on Bonds—Net	(800)
Subordinated Revenue Notes	
TOTAL LONG-TERM DEBT	42,330

OTHER LIABILITIES AND DEFERRED CREDITS

Unearned Revenue	
Deferred Gain on Revenue Bonds	1,832
Due to Other Projects	
Advances and Others	1,400
TOTAL OTHER LIABILITIES AND DEFERRED CREDITS	3,232

TOTAL LIABILITIES	\$56,807
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COMMITMENTS AND CONTINGENCIES—NOTE D

(\$ in thousands)

PACKWOOD LAKE HYDROELECTRIC PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 2	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECT NO. 4/5	INTERNAL SERVICE FUND
\$ 627	\$ 9,576	\$ 15,855	\$ 5,552		\$18,408
158	532				404
12					2,979
	2,464	157			
19	17,286	7,609			
816	29,858	23,621	5,552		21,791
290	298,285	555,101	411,922	106,710	
	935	276	26,896	17,097	
	5,689	3,203	4,645		
(10)			17,130	18,824	
280	304,909	558,580	460,593	142,631	
673	215,790	119,058	194,577	336,303	
953	520,699	677,638	655,170	478,934	
12,204		9,560			8,402
(4,613)		(899)			(1,655)
7,591		8,661			6,747
	1,767,577	2,056,556	1,484,095		
	266,860	68,761	44,886	2,343,467	
			(422,767)	(101,985)	
	2,034,437	2,125,317	1,106,214	2,241,482	
7,591	2,034,437	2,133,978	1,106,214	2,241,482	6,747
3,021					
27	3,807	3,442	2,514		968
3,048	3,807	3,442	2,514	2,019,178	968
\$12,408	\$2,588,801	\$2,838,679	\$1,769,450	\$2,720,416	\$29,506
\$ 701	\$ 26,857	\$ 20,620	\$ 2,551		\$11,838
					7,504
701	26,857	20,620	2,551		19,342
	30,641	53,620	80,848	\$ 284,689	
	52,602	34,689	44,023	52,198	
		61	39	440	
	9,894	7,230			
	143,137	95,600	124,910	337,327	
141	99,905	8,510	66,887	98,257	
10	7,392	379	17,101	18,824	
151	107,297	8,889	83,988	117,081	
151	250,434	104,489	208,898	454,408	
11,545	2,151,305	2,329,870	1,600,000	2,250,000	
(102)	(57,510)	(76,984)	(41,999)	(51,780)	
				67,788	
11,443	2,093,795	2,252,886	1,558,001	2,266,008	
	217,715	417,436			
113					
		43,248			5,427
113	217,715	460,684			4,737
					10,164
\$12,408	\$2,588,801	\$2,838,679	\$1,769,450	\$2,720,416	\$29,506

Statements of changes in financial po

NUCLEAR PROJECTS NO.'S 1 THROUGH 5

SOURCE OF FUNDS:

Nonoperating Projects

	NUCLEAR PROJECT NO. 1
Collected Under Net Billing	\$156,300
Bond Proceeds	671,072
Interest Income	53,326
Charged to Joint Owners	
Net Decrease in Restricted Funds	
Revaluation of Investments	
Other	2,464
TOTAL SOURCE OF FUNDS	\$883,162

USE OF FUNDS:

Construction Costs	\$511,126
Interest Expense	168,941
Nuclear Fuel	133,326
Financing Expense	1,721
Bonds Redeemed	3,695
Revaluation of Investments	188
Net Increase in Restricted Funds	52,308
Increase in Amounts Due Participants	6,902
Increase in Operating Fund	
Transfers to the Hanford Project	4,955
TOTAL USE OF FUNDS	\$883,162

HANFORD AND PACKWOOD PROJECTS

SOURCE OF FUNDS:

Operating Projects

	HANFORD GENERATING PROJECT
Operations	
Net Revenue	\$ -0-
Items Not Affecting Working Capital:	
Depreciation and Amortization	2,613
Decrease (Increase) in Costs Reimbursable from	
Power Purchasers	431
Less Gain on Redemption of Revenue Bonds	(129)
Total from Operations	2,915
Contributions for Improvements	16
Advances from Participants for Working Capital	-0-
TOTAL SOURCE OF FUNDS	\$2,931

USE OF FUNDS:

Net Improvements	\$ 16
Cost of Revenue Bonds Purchased and Retired	2,915
Increase in Restricted Assets	-0-
	2,931
Changes in Working Capital	
Cash and Investments	(626)
Receivables and Other	631
Payables and Other	(5)
Net Increase in Working Capital	-0-
TOTAL USE OF FUNDS	\$2,931

NUCLEAR PROJECT NO. 2	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NO. 4 & 5
\$ 135,725	\$ 2,365	
827,664	672,281	\$ 67,789
46,484	48,598	53,812
	162,588	21,852
		394,265
789		
<u>\$1,010,662</u>	<u>\$885,832</u>	<u>\$537,718</u>
\$ 398,709	\$518,600	\$470,164
147,050	111,296	192,209
22,598	24,000	(126,335)
1,909	1,321	938
14,130		
	266	742
423,925	224,984	
2,338	2,365	
	3,000	
<u>\$1,010,662</u>	<u>\$885,832</u>	<u>\$537,718</u>

PACKWOOD
PROJECT

\$ -0-
260
11
(123)
148
<u>\$148</u>
142
6
148
539
(132)
(407)
-0-
<u>\$148</u>

Statements of operations

HANFORD AND PACKWOOD PROJECTS

	HANFORD GENERATING PROJECT	PACKWOOD PROJECT
OPERATING REVENUES	\$36,302	\$ 905
OPERATING EXPENSES		
Reactor Availability	30,919	
Depreciation and Amortization	2,546	256
Power Production and Transmission	1,692	208
Maintenance	1,089	241
Administrative and General	543	68
	<u>36,789</u>	<u>773</u>
Net Operating Revenue (Loss)	<u>(487)</u>	<u>132</u>
OTHER INCOME AND EXPENSE		
Interest and Other Income	2,135	303
Interest Expense and Discount Amortization	(1,648)	(435)
	<u>487</u>	<u>(132)</u>
NET REVENUE	<u>\$ -0-</u>	<u>\$ -0-</u>

Outstanding long-term debt

HANFORD GENERATING PROJECT

Revenue Bonds (\$2,915,000 due within one year at
June 30, 1982)

SERIES

1963

PACKWOOD LAKE HYDROELECTRIC PROJECT

(\$155,000 due within one year at June 30, 1982)
Revenue Bonds
Revenue Bonds

1962

1965

NUCLEAR PROJECT NO. 1

Revenue Bonds (\$1,000,000 due July 1, 1982)

1975

Revenue Bonds (\$1,275,000 due July 1, 1982)

1976A

Revenue Bonds (\$1,540,000 due July 1, 1982)

1976B

Revenue Bonds

1978A

Revenue Bonds

1978B

Revenue Bonds

1979

Revenue Bonds

1980A

Revenue Bonds

1981A

Revenue Bonds

1981B

Revenue Bonds

1981C

Revenue Bonds

1981D

Revenue Bonds

1982A

(\$ in thousands)

DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1982
5-8-63	3.26%	(A) 98	2.90—3.10% 3.25	9-1-82/1986 9-1-1996	\$ 15,545 27,585 <u>\$ 43,130</u>
3-20-62 11-4-65	3.66 3.76	99.425 100.5	3.625 3.75	3-1-2012 3-1-2012	\$ 8,750 2,795 <u>\$ 11,545</u>
9-18-75	7.73	(A) 100 100	5.75—7.40 7.70 7.75	7-1-82/2000 7-1-2010 7-1-2017	\$ 41,000 58,300 74,700 <u>174,000</u>
2-4-76	6.84	(A) 100 100	6.00—6.25 6.90 7.00	7-1-82/1998 7-1-2010 7-1-2017	35,805 66,485 76,495 <u>178,785</u>
8-31-76	6.37	(A) 100 99.50	5.00—5.90 6.50 6.50	7-1-82/1998 7-1-2010 7-1-2017	40,345 66,940 71,235 <u>178,520</u>
3-21-78	5.69	(A) 100 100	5.00-5.50 5.80 5.875	7-1-84/2002 7-1-2010 7-1-2017	64,270 50,920 64,810 <u>180,000</u>
12-5-78	6.61	(A) 100 100 99.50	5.50—6.00% 6.35 6.60 6.80	7-1-84/1998 7-1-2003 7-1-2009 7-1-2017	38,355 22,305 38,190 81,150 <u>180,000</u>
6-19-79	6.64	(A) 100 100 100	5.00 6.40 6.70 6.80	7-1-84/1998 7-1-2003 7-1-2009 7-1-2017	29,385 18,560 32,370 69,685 <u>150,000</u>
8-5-80	8.87	(A) 100 100 99.00 (A)	7.00—10.00 9.00 9.20 9.25 7.75	7-1-86/1995 7-1-2002 7-1-2005 7-1-2013 7-1-2017	55,500 37,000 16,950 70,550 30,000 <u>210,000</u>
4-13-81	11.30	(A) 100	11.30—13.00 11.625	7-1-96/2003 7-1-2012	28,580 91,420 <u>120,000</u>
4-13-81	11.30	(A)	10.00	7-1-2016	<u>40,000</u>
4-13-81	10.29	100	10.25	7-1-2015	<u>40,000</u>
9-4-81	14.78	100 57.895 100	14.375 8.25 15.00	7-1-2001 7-1-2003 7-1-2017	20,000 30,000 265,000 <u>315,000</u>
2-11-82	14.79	100 100 99.25	10.50—13.75 14.50 14.75	7-1-88/1996 7-1-2002 7-1-2017	29,355 50,645 305,000 <u>385,000</u> <u>\$2,151,305</u>

Outstanding long-term debt (continued)

	<u>SERIES</u>
Revenue Bonds	1973
Revenue Bonds	1974
Revenue Bonds (\$2,500,000 due July 1, 1982)	1974A
Revenue Bonds (\$2,800,000 due July 1, 1982)	1975A
Revenue Bonds (\$875,000 due July 1, 1982)	1976
Revenue Bonds (\$2,585,000 due July 1, 1982)	1976A
Revenue Bonds (\$1,730,000 due July 1, 1982)	1978
Revenue Bonds (\$2,100,000 due July 1, 1982)	1979
Revenue Bonds (\$1,540,000 due July 1, 1982)	1979A
Revenue Bonds	1980
Revenue Bonds	1981A
Revenue Bonds	1982A
Revenue Bonds	1982B

(\$ in thousands)

DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1982
6-26-73	5.66%	(A) 100	5.00—5.10% 5.70	7-1-87/1991 7-1-2012	\$ 13,600 124,400 <u>138,000</u>
7-23-74	7.21	(A) 100 100	6.50—6.90 7.00 7.375	7-1-87/1994 7-1-1999 7-1-2012	18,000 15,000 37,000 <u>70,000</u>
11-25-74	7.67	(A) 100 100	7.20 7.40 7.75	7-1-82/1994 7-1-1999 7-1-2012	25,500 15,000 78,000 <u>118,500</u>
3-6-75	6.71	(A) 100 100	6.60 6.60 6.875	7-1-82/1994 7-1-1999 7-1-2012	29,200 15,000 78,000 <u>122,200</u>
6-3-76	6.63	(A) 99.25 100	5.40—6.25 6.625 6.75	7-1-82/1998 7-1-2006 7-1-2012	26,965 42,300 49,860 <u>119,125</u>
11-18-76	5.87	(A) 100 99.50	5.50—5.875 6.00 6.00	7-1-82/2002 7-1-2007 7-1-2012	91,610 44,815 60,990 <u>197,415</u>
7-11-78	6.71	(A) 100 100	5.50—6.60 6.80 6.875	7-1-82/2000 7-1-2006 7-1-2012	66,520 45,520 66,230 <u>178,270</u>
3-13-79	6.49	(A) 100 100	5.50—6.00 6.40 6.75	7-1-82/1999 7-1-2004 7-1-2012	60,805 33,490 83,605 <u>177,900</u>
10-17-79	7.69	(A) 100 100	6.40—7.30 7.60 7.75	7-1-82/1999 7-1-2004 7-1-2012	43,410 23,050 57,000 <u>123,460</u>
10-21-80	9.36	(A) 100 100 (A) (A)	8.90—10.90 9.30 9.60 9.25 8.25	7-1-86/1997 7-1-2001 7-1-2006 7-1-2001 7-1-2012	35,230 23,735 46,070 75,045 19,920 <u>200,000</u>
9-4-81	12.44	100 57.895 99 100	14.375 8.25 14.50 13.25	7-1-2001 7-1-2003 7-1-2006 7-1-2012	30,000 100,000 30,000 50,000 <u>210,000</u>
2-11-82	14.76	100 100 99.25	9.50—13.75 14.50 14.75	7-1-86/1996 7-1-2002 7-1-2012	33,335 51,665 215,000 <u>300,000</u>
5-20-82	13.82	100 100	9.00—13.00 13.875	7-1-86/1996 7-1-2012	39,400 139,320 <u>178,720</u>

Outstanding long-term debt (continued)

NUCLEAR PROJECT NO. 3

	SERIES
Revenue Bonds	1982C
Revenue Bonds	1975
Revenue Bonds	1976
Revenue Bonds	1977
Revenue Bonds	1978
Revenue Bonds	1981A
Revenue Bonds	1981B
Revenue Bonds	1982A
Revenue Bonds	1982B
Revenue Bonds	1982C
Revenue Bonds	1977A
Revenue Bonds	1977B
Revenue Bonds	1977C

NUCLEAR PROJECTS NO. 'S 4 AND 5

(\$ in thousands)

DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1982
5-20-82	13.89%	100 100	13.50% 13.875	7-1-2002 7-1-2012	56,960 139,320 <u>196,280</u> <u>\$2,329,870</u>
12-3-75	7.87	(A) 100 100	5.40—7.25 7.875 7.875	7-1-83/1998 7-1-2010 7-1-2018	\$ 26,145 52,695 71,160 <u>150,000</u>
4-13-76	6.48	(A) 99.625 100	5.50—6.00 6.50 6.60	7-1-83/1998 7-1-2010 7-1-2018	19,605 35,100 45,295 <u>100,000</u>
9-12-77	5.71	(A) 99.50 99.50	5.00—5.30 5.70 5.80	7-1-85/2000 7-1-2009 7-1-2018	59,305 63,535 107,160 <u>230,000</u>
9-12-78	6.27	(A) 100 99	5.90—6.00 6.375 6.40	7-1-85/2004 7-1-2010 7-1-2018	66,385 42,985 90,630 <u>200,000</u>
2-11-81	10.80	(A) 100 99.50 88.50 88.50	9.50—12.50 11.125 11.125 9.75 9.75	7-1-87/2001 7-1-2005 7-1-2010 7-1-2017 7-1-2018	64,375 40,535 80,310 18,950 20,830 <u>225,000</u>
9-4-81	14.80	57.895 99 100	8.25 14.50 15.00	7-1-2003 7-1-2006 7-1-2018	20,000 20,000 185,000 <u>225,000</u>
2-11-82	14.83	100 100 99.25	10.50—13.75 14.50 14.75	7-1-88/1996 7-1-2002 7-1-2018	6,055 10,445 148,500 <u>165,000</u>
5-20-82	13.95	100 99.50	10.50—13.00 13.875	7-1-88/1996 7-1-2018	9,195 280,925 <u>290,120</u>
5-20-82	13.63	100	13.50	7-1-2002	14,880 <u>\$1,600,000</u>
2-3-77	5.93	(A) 100 100	5.50—5.75 5.90 6.00	7-1-89/2001 7-1-2008 7-1-2015	\$ 42,105 40,605 62,290 <u>145,000</u>
5-24-77	6.32	(A) 100	6.00—6.20 6.40	7-1-89/2001 7-1-2012	33,485 56,515 <u>90,000</u>
9-13-77	5.96	(A) 100	5.20—5.70 6.00	7-1-89/2001 7-1-2018	20,480 109,520 <u>130,000</u>

Outstanding long-term debt (continued)

	SERIES
Revenue Bonds	1978A
Revenue Bonds	1978B
Revenue Bonds	1978C
Revenue Bonds	1979A
Revenue Bonds	1979B
Revenue Bonds	1979C
Revenue Bonds	1980A
Revenue Bonds	1980B
Revenue Bonds	1980C
Revenue Bonds	1980D
Revenue Bonds	1980E
Revenue Bonds	1981A
Revenue Bonds	1981B

(\$ in thousands)

DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1982
1-31-78	6.07%	(A) 99.75 100	5.50—5.75% 6.00 6.125	7-1-89/2000 7-1-2010 7-1-2018	\$ 27,700 43,900 78,400 <hr/> 150,000
5-23-78	6.86	(A) 100 100	6.00—6.60 6.80 6.90	7-1-89/2003 7-1-2010 7-1-2018	37,785 32,960 79,255 <hr/> 150,000
10-12-78	6.81	(A) 99.50 100	6.00—6.50 6.75 7.00	7-1-89/2003 7-1-2010 7-1-2018	45,225 42,970 81,805 <hr/> 170,000
2-14-79	7.16	(A) 100 100	6.30—6.90 7.125 7.25	7-1-89/2003 7-1-2010 7-1-2018	47,515 43,140 84,345 <hr/> 175,000
8-28-79	7.69	(A) 100 100 99	7.00—7.10 7.40 7.60 7.625	7-1-89/1999 7-1-2003 7-1-2010 7-1-2018	25,505 14,600 37,425 72,470 <hr/> 150,000
12-11-79	8.30	(A) 100 99.50 71.47	7.90—8.75 8.50 8.50 5.75	7-1-89/2002 7-1-2010 7-1-2017 7-1-2018	39,145 54,020 89,185 17,650 <hr/> 200,000
5-9-80	9.23	(A) 100 99.25 93.50	7.90—8.70 9.30 9.375 8.50	7-1-89/1995 7-1-2003 7-1-2010 7-1-2016	7,000 17,575 75,425 30,000 <hr/> 130,000
7-15-80	9.50	(A) 99.50 (A)	9.10—10.75 9.875 7.75	7-1-89/1999 7-1-2012 7-1-2018	55,000 95,000 30,000 <hr/> 180,000
9-23-80	10.69	(A) 100 99.50 (A)	10.00—12.00 10.80 10.875 9.00	7-1-89/1999 7-1-2007 7-1-2015 7-1-2017	20,000 33,550 102,450 24,000 <hr/> 180,000
12-19-80	12.44	(A) 100 100 (A)	14.60—15.25 12.25 12.50 9.50	7-1-89/1996 7-1-2000 7-1-2010 7-1-2013	11,280 18,145 109,575 11,000 <hr/> 150,000
12-19-80	11.83	(A)	11.75	7-1-2010	50,000
3-17-81	11.77	100 99.50 100 (A)	10.50—11.50 11.75 12.00 10.25	7-1-89/1995 7-1-2000 7-1-2009 7-1-2011	15,255 27,105 102,640 25,000 <hr/> 170,000
3-17-81	11.06	(A)	11.00	7-1-2009	30,000
					<hr/> <hr/> \$2,250,000

Notes to financial statements

Note A—Organization

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

The Supply System has constructed and is now operating the Packwood Lake Hydroelectric Project and the Hanford Generating Project and has two nuclear electric generating plants currently under construction (Nuclear Projects No.'s 2 and 3). The Supply System's Nuclear Project No. 1 is in the first year of an extended construction delay of up to five years and Nuclear Projects No.'s 4 and 5 were terminated on January 22, 1982. In addition, the Supply System has an Internal Service Fund to account for the central procurement of certain common goods and services for the projects on a cost-reimbursement basis.

Nuclear Projects No.'s 1, 2, and 4 are wholly owned by the Supply System. Nuclear Project No. 3 is jointly owned by the Supply System (70%) and four investor-owned utilities (30%). Nuclear Project No. 5 is also jointly owned by the Supply System (90%) and one investor-owned utility (10%).

Each joint owner is responsible for its own financing costs, providing its share of the costs of construction, operation and termination and will be entitled to its ownership share of the projects' operating capability.

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

Note B—Summary of Significant Accounting Policies

The Supply System has adopted accounting policies and practices that are in accordance with generally accepted accounting principles applicable to the utility industry. Separate books of account are maintained for each project except for Nuclear Projects No.'s 4 and 5, which are accounted for as a single entity.

Restricted Funds

In accordance with project bond resolutions and certain related agreements, separate restricted funds are required to be established for each of the projects. The assets held in these funds are restricted for specific uses including construction, termination, debt service and other special reserve requirements. Restricted funds are identified on the balance sheet as Special Funds and Debt Service Funds.

Cash and investments in Special Funds of projects under construction and in termination include cash retainage amounts held in escrow for contractors of \$144,472,664 at June 30, 1982.

Current Assets and Current Liabilities

Assets and liabilities shown as current in the accompanying balance sheets exclude current maturities on revenue bonds and accrued interest thereon because Debt Service Funds are provided for their payment.

Investments

Investments include time certificates of deposit, repurchase agreements (secured by U.S. Government securities) and United States Government and Government Agencies securities. Investments are stated at cost or amortized cost as appropriate and include accrued interest.

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

The market value of investments held in Debt Service and Special Funds and in Current Assets (Operating Fund) approximate the carrying value.

Income Earned on Investments

Income earned on investments includes gains and losses from the sale of investments. Income earned on investments held by projects under construction is recorded as a reduction in construction costs. Income earned on investments held by operating projects accrues to the applicable project's Operating Fund.

Capitalization of Construction Costs and Overhead Expenses

During the construction or construction-delay phase of a project, the Supply System will capitalize all costs of the project including general, administrative, interest, certain depreciation and other overhead expenses. After termination, such costs are classified as Costs Related to Construction and Termination of Utility Plants.

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

Utility Plant and Equipment—At Cost

Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the projects, which approximate the term of the related revenue bonds.

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

Contributions Used for Purchase of Equipment—Packwood and Hanford Projects

Monies provided by participants to acquire equipment since completion of the projects are recorded and accounted for as a reduction of the carrying value of such equipment included in Utility Plant and Equipment.

Debt Discount, Premium and Expenses

Debt discount or premium relating to the issuance of revenue bonds is amortized by the straight-line method over the terms of the respective issues.

For operating and construction projects, expenses relating to the issuance of revenue bonds are also amortized by the straight-line method over the terms of the respective issues. For terminated projects such costs are combined with Costs Related to Construction and Termination of Utility Plants.

Revenues

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

Cumulative reimbursable annual costs, less payments by member purchasers for bond redemption, are reflected as Unbilled Reimbursable Costs in the accompanying balance sheets.

For Projects No.'s 1 and 2, payments received from member purchasers for bond redemption and interest are shown as Unearned Revenue in the accompanying balance sheets. Such unearned revenue will be recognized as revenue during the operation period of the plants.

Cost Related to Construction and Termination of Utility Plants

For Projects No.'s 4 and 5, the costs of construction through January 22, 1982, the date of termination, and the costs of termination and other related costs subsequent to that date are shown as Cost Related to

Notes to financial statements (continued)

Construction and Termination of Utility Plants in the accompanying balance sheets as of June 30, 1982.

Such costs will be reduced as funded by participants and the joint owner (termination costs) or by participants alone (debt service) or as offset by the proceeds of disposal of the plants.

Retirement Plan

The Supply System participates in the Washington State Public Employees' Retirement System that provides retirement benefits to eligible employees. The cost of the plan to the Supply System is determined by the retirement system's Board. The actuarially computed value of pension benefits exceeds the fund assets for the retirement system. However, because the retirement system is a multi-employer system, the amount of such excess, if any, that relates to the Supply System is not available. The Supply System's required contribution was \$4,033,255 in 1982.

Note C—Long-Term Debt

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

Outstanding revenue bonds of the various projects as of June 30, 1982 and 1981, are presented on pages 30 through 37.

Security—Agreements and Contracts

The United States of America, Department of Energy (DOE), acting by and through the Bonneville Power Administration (BPA) has purchased the entire capability of the Hanford Generating Project and the Supply System's ownership share of the projects' capability in Nuclear Projects No.'s 1, 2 and 3 from its statutory preference customers and, in addition, with respect to Project No. 1, five of its private utility customers. Each of these customers has, in turn, purchased such capability from the Supply System, all

under the net-billing and exchange agreements. BPA is obligated to pay the participants, and the participants are obligated to pay the Supply System its pro rata share of the total annual costs of the projects including debt service on the bonds, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output.

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

As security for the Generating Facilities revenue bonds for Nuclear Projects No.'s 4 and 5, the Supply System has entered into Participants' Agreements with 88 utilities operating principally in the western United States. Pursuant to the Participants' Agreements, the participants are obligated to pay their respective share of annual termination costs, including debt service on the bonds. Payments from the participants for Nuclear Projects No.'s 4 and 5 termination costs and debt service are due beginning on January 25, 1983. See Note D for a discussion of the termination of Nuclear Projects No.'s 4 and 5 and related challenges to the Participants' Agreements.

As security for Nuclear Projects No.'s 4 and 5 subordinated revenue notes, the Supply System has pledged to set aside funds for payment of such obligations from funds available in the revenue fund. Such repayments, to the degree not otherwise provided for, will be included in the amounts due under the Participants' Agreements described above.

Advances from Members and Participants and Unearned Revenue

As of September 1, 1977, for Nuclear Project No. 2 and July 1, 1980, for Nuclear Project No. 1, project participants were required to fund debt service, working capital and reserve requirements as provided in the net-billing agreements.

The debt service portion of this funding has been classified as Unearned Revenue, a deferred credit that will be recognized as revenue during the operating period of the plant.

Note D—Commitments and Contingencies

The Supply System has entered into substantial contracts covering a portion of the total estimated costs for certain major equipment and material, and for services relating to financing, design and the supply of nuclear fuel for the projects under construction.

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

The Department of Energy owns and operates the New Production Reactor. This reactor provides by-product steam to the Hanford Generating Project. The Supply System's current agreement with DOE provides for the continuation of this dual-purpose operation of the reactor through June 1983.

On July 9, 1982, a new agreement between the Supply System and the DOE was approved. This agreement extends the dual-purpose operation of the New Production Reactor through June 30, 1993, and calls for a substantial increase in contract costs. In accordance with certain related agreements, the operating costs of the project will in turn be offset by payments from certain public and private utilities in return for the energy generated as a result of continued operation.

It was initially intended that Nuclear Project No. 1 would be constructed adjacent to the Hanford Generating Project and would pro-

vide the energy source to operate the project when DOE ceased operation of the New Production Reactor. Because studies indicated that generating resources in the Pacific Northwest would be inadequate in the late 1970s and early 1980s, the Supply System determined that the Hanford Generating Project should be kept available for power production. Therefore, the Nuclear Project No. 1 net-billing, exchange and project agreements were amended to provide for the separation of Nuclear Project No. 1 from the Hanford Generating Project and to provide that Hanford Generating Project costs, to the extent not otherwise provided for, will be treated as Nuclear Project No. 1 costs having a first claim on the revenues of that project.

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

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

Nuclear Project No. 1—Construction Delay

On April 29, 1982, the Supply System, upon the recommendation of Bonneville, approved the implementation of an extended construction delay of Nuclear Project No. 1 for up to five years. During the construction delay, plant assets will be preserved along with existing project licenses.

The Supply System's current estimate of costs to settle terminated and delayed con-

Notes to financial statements (continued)

tracts (\$11,060,000) has been accrued as Accounts Payable and Accrued Expenses in the accompanying balance sheet. Although management of the Supply System is satisfied that their estimates are reasonable, the settlement process is in its early stages and the final settlement costs cannot be determined at this time.

The obligations of the participants of the Project and Bonneville under the net-billing agreements are not affected by the construction delay.

Initiative 394

On November 3, 1982, Washington state voters approved Initiative No. 394. Under the new law, the Supply System must obtain the approval of the voters of its 23 member government entities to issue bonds to finance the cost of each of its projects after July 1, 1982.

The bond fund trustees for Projects No.'s 1, 2 and 3 have commenced a lawsuit against the State of Washington and certain officials thereof alleging, in part, that Initiative No. 394 is unconstitutional, is pre-empted by existing federal legislation, and is an improper exercise of the initiative process under Washington law.

The Department of Justice has initiated a similar lawsuit challenging Initiative No. 394 on behalf of the United States of America asserting certain rights and interests of Bonneville. The Court has consolidated the two lawsuits.

In June 1982, the United States District Court, Western District of Washington, ruled that Initiative 394 is unconstitutional. However, to speed the appeal process, the Court elected to stay the effective date of its order until April 15, 1983. The appeal is currently scheduled to be heard by the United States Court of Appeals on November 10, 1982.

In the opinion of legal counsel, the Court's ruling will be affirmed by the appeal process.

Should Initiative 394 be held to be constitutional and voters disapprove the issuance of bonds to pay for continued construction of the projects, or should the Supply System for any reason be unable to issue additional bonds, BPA, subject to the provisions and procedures specified in the net-billing and project agreements, and the investor-owned utilities, subject to the provisions and procedures specified in the Nuclear Project No. 3 Ownership Agreement, may continue current or reduced levels of construction of their respective ownership share of the projects and provide funds to complete construction from revenues or other funding sources which may be available to them.

The inability of the Supply System to finance continued construction of any of the projects through the issuance of bonds could result in a delay and increased costs of the projects or termination of the projects unless other means of paying for the remaining costs of construction are available.

Based on current cash-flow projections, the Supply System estimates that monies currently available will be sufficient to meet cash-flow requirements on Nuclear Projects No.'s 1, 2 and 3 until April 1985, August 1983 and August 1983, respectively.

Termination of Projects No.'s 4 and 5

On January 22, 1982, the Supply System's Nuclear Projects No.'s 4 and 5 were terminated. The construction licenses and physical assets of Projects No.'s 4 and 5 are being maintained for a period in order to maximize the value of the projects in the event of possible sale of the projects in their entirety. The costs of construction for the projects are reflected as utility plant and equipment related to terminated projects at historical cost.

Under the terms of the Participants Agreements (discussed below under Security) and the Ownership Agreement with Pacific Power and Light Company (Pacific), the participants of the projects are obligated to pay debt service on the bonds and Pacific and the participants are obligated to fund their respective ownership

share of termination costs, beginning January 25, 1983, and continuing until the bonds are funded completely and all costs of termination have been paid. The recoverable value of the plant assets may be less than their cost. Any funds received from the sale of plant assets reduce the project participants' obligation for debt service and termination costs.

Pacific has stated to the Supply System that it considers the failure of the Supply System to obtain necessary financing for Project No. 5 to be a breach of the Project No. 5 Ownership Agreement and that it reserves its rights to pursue appropriate remedies with respect to such breach. It is the position of the Supply System that the termination of Project No. 5 does not constitute a breach of the Project No. 5 Ownership Agreement and that Pacific is responsible under the Project No. 5 Ownership Agreement for payment of its 10% share of the costs of termination of such project. In the event Pacific fails to pay its share of termination costs, an insufficiency of funds to meet Pacific's share with respect to the cost of termination of Project No. 5 under the Project No. 5 Ownership Agreement would result. To date Pacific has made all payments required under the Project No. 5 Ownership Agreement, subject to a reservation of its rights under such agreement.

The Supply System's estimate of the current liability for termination costs (\$274,588,000), including costs of contract settlements and other termination costs, have been accrued as Accounts Payable and Accrued Expenses in the accompanying balance sheets. The portion of such costs which must be paid prior to commencement of the payments by the participants and by Pacific on January 25, 1983, is not expected to exceed \$35,068,000. Such costs will be funded through amounts in special funds not needed to fund other liabilities and through termination notes from participants. Outstanding unused commitments from participants for such termination notes total \$62,673,000 at June 30, 1982.

Although management of the Supply System is satisfied that their estimates are reasonable, the settlement process is in its early stages and the final settlement costs cannot be determined at this time. The accrual of such costs and expenses causes the Special Fund to reflect an excess of liabilities over assets at June 30, 1982. In the opinion of legal counsel, the existence of a deficit balance in the Special Funds, as a result of recording liabilities that had accrued but were not yet due and payable, is not an event of default under the bond resolution for the projects.

During 1982 numerous lawsuits have been filed by participants and ratepayers of participants challenging the validity of the Participants' Agreements. Although the individual actions make various specific claims, they all seek to avoid, through one means or another, payments for termination and debt service costs required by these agreements.

As of October 29, 1982, a case involving Oregon public bodies, the Circuit Court for Lane County, Oregon, has issued a ruling that these public bodies did not have authority under Oregon law to enter into the Participants' Agreements.

In addition, an action has been brought against the Supply System and the participants by Chemical Bank (Projects No.'s 4 and 5 bond trustee) asking the court to declare that there is no reason why the bonds should not be repaid on a timely basis. On October 15, 1982, the Court ruled that the Washington participants are required to fund debt service and termination costs of the projects. It is likely that this ruling will be appealed, and the action is continuing on other issues.

At the current stage of the matters discussed above, it is impossible to predict the ultimate outcome and the related impact on the projects.

Notes to financial statements (continued)

However, should the Participants' Agreements be held to be invalid, the assets of Nuclear Projects No.'s 4 and 5, currently shown on the accompanying balance sheets at cost, would require restatement to their realizable value. Such realizable value has not been determined and may be less than the amount shown in the accompanying balance sheets.

As discussed above, the Supply System Nuclear Projects No.'s 4 and 5 are currently involved in several matters that may affect their ability to obtain funding for termination costs. Should the projects be unable to obtain such funding, their creditors may, through legal process, seek to reach funds held by other nonoperating projects of the Supply System or the revenues pledged thereto. In a September 4, 1981, opinion, counsel to the Supply System stated that the revenues and the funds held by other nonoperating projects of the Supply System are not subject to the claims of such creditors and no liens thereon are available to them, except as they might obtain rights through a valid exercise of the sovereign police power of the State of Washington, or of the constitutional powers of the United States of America, or by a voluntary bankruptcy of the Supply System. Although counsel has not updated their legal research, they have since confirmed that nothing has come to their attention that would lead them to believe their September 4, 1981, opinion was incorrect as of October 29, 1982. Counsel has not undertaken an investigation of such issues with respect to the Packwood or Hanford Generating Projects; however, they believe that upon full investigation the same opinion could be rendered with respect thereto.

Shared Costs

The termination of Nuclear Projects No.'s 4 and 5 creates an uncertainty as to how certain common services and facilities are to be shared with Nuclear Projects No.'s 1 and 3, respectively. The participants of

Nuclear Projects No.'s 4 and 5 have presented a claim to Projects No.'s 1 and 3 to reimburse Projects No.'s 4 and 5 for a portion of the costs of such shared services and facilities paid by the projects prior to July 1, 1981. The claim includes a request for immediate payment of \$75,000,000 and \$86,000,000 plus interest from Nuclear Projects No.'s 1 and 3, respectively, plus such amounts as may be determined in the future.

In addition, three of the four investor-owned utilities that comprise the joint owners of Nuclear Project No. 3 have filed a legal action against the Supply System asking for a judicial determination of how costs should be shared between Projects No.'s 3 and 5. On October 26, 1982, the Supply System filed a legal action against BPA, the four investor-owned utilities, and the participants of Nuclear Projects No.'s 4 and 5, and the construction fund trustee for Nuclear Project No. 1 seeking a judicial determination of past and future shared costs among Nuclear Projects No.'s 1 and 4 and Nuclear Projects No.'s 3 and 5.

The Supply System cannot predict the outcome of these pending claims and litigations.

Litigation

On November 18, 1982, the city of Springfield, Oregon, filed a complaint against the Supply System, BPA and the four investor-owned utilities in Nuclear Project No. 3. The defendants are all entities which have executed net-billing agreements pertaining to one or more of the Supply System projects.

The complaint alleges that the *DeFazio v. Washington Public Power Supply System* decision raises issues relative to Supply System Projects No.'s 4 and 5 which additionally apply to the net-billed projects. It further alleges that members of Oregon public utility boards are exposed to personal liability for payments of public money not authorized by law if the *DeFazio* decision is applicable to the net-billing agreements.

It seeks a declaratory judgment declaring (1) that the Oregon public entities have full legal authority to enter into the net-billing agreements; or (2) that if they did not have authority to enter into the net-billing agreements, BPA is liable to make such payment and is estopped from denying its obligation to do so.

Because of the recent filing of the case, no discovery has taken place nor have the various parties' positions been fully ascertained. Until defenses and counter positions are set forth, it is not reasonable to attempt to analyze the likelihood of their success.

Counsel for BPA has been in contact with counsel for the Supply System regarding the issues raised by the DeFazio case which is the basis for this litigation. The Supply System has been advised that it is BPA's position that if a participant does not pay the Supply System under the net-billing agreements but pays its full BPA power bill rather than taking the credit provided for under the net-billing agreements, BPA would pay the Supply System the portion of the power bill payment which would have been paid directly to the Supply System on the payment which had been misdirected. Thus, the Supply System would receive the amount required under the net-billing agreements directly from BPA. BPA further advises that if a participant does not pay the Supply System but still took a deduction on its BPA power bill, BPA would treat the matter as a default under the default provisions and would pay the Supply System directly.

As noted above, BPA is a party to the case and any ultimate decision will be binding upon the BPA.

The Supply System is involved in various claims and legal actions not mentioned above as both a plaintiff and a defendant and in certain claims arising in the normal course of business for a large construction program. Although some suits and claims

are significant in amount, final disposition is not determinable. In the opinion of management and legal counsel, the outcome of any such litigation or claims will not have a material effect on the financial positions of the projects. The estimated cost of the projects may either be increased or decreased as a result of the outcome of these matters.

Note E—Interproject Transaction

In order to meet their cash-flow needs, Nuclear Projects No.'s 4 and 5 sold nuclear fuel and related enrichment contract rights to Nuclear Project No. 1 during 1982. The sales price was approximately \$61 million, which was \$55 million less than the carrying value of these assets. The difference between carrying value and the proceeds of the sale has been included in Costs Related to Construction and Termination of Utility Plants. The Supply System believes that the terms of this transaction are not less favorable than Projects No.'s 4 and 5 could have obtained from an unrelated party.

Statement of debt service requirements

HANFORD GENERATING PROJECT				PACKWOOD LAKE HYDROELECTRIC PROJECT			NUCLEAR PROJECT NO. 1		
YEAR	PRINCIPAL	INTEREST	ANNUAL DEBT REQUIREMENTS	PRINCIPAL	INTEREST	ANNUAL DEBT REQUIREMENTS	PRINCIPAL*	INTEREST	ANNUAL DEBT REQUIREMENTS
1983	\$ 2,915	\$1,303	\$ 4,218	\$ 155	\$ 424	\$ 579	\$ 4,045	\$ 208,940	\$ 212,985
1984	3,010	1,210	4,220	160	418	578	9,245	208,717	217,962
1985	3,125	1,114	4,239	170	413	583	9,785	208,211	217,996
1986	3,240	1,014	4,254	175	406	581	14,855	207,674	222,529
1987	3,255	913	4,168	180	400	580	15,470	206,652	222,122
1988	3,360	806	4,166	190	393	583	18,055	205,729	223,784
1989	3,485	693	4,178	195	386	581	18,970	204,564	223,534
1990	3,455	580	4,035	265	379	644	21,465	203,320	224,785
1991	5,065	425	5,490	275	369	644	62,560	201,877	224,437
1992	5,585	246	5,831	290	359	649	23,755	196,226	219,981
1993	5,835	58	5,893	300	349	649	25,560	194,547	220,107
1994	800	4	804	315	338	653	26,985	192,684	219,669
1995				330	326	656	28,550	190,667	219,217
1996				340	314	654	30,745	188,420	219,225
1997				360	302	662	38,080	185,949	224,029
1998				380	289	669	41,565	182,462	224,027
1999				400	275	675	45,455	178,573	224,028
2000				465	260	725	49,465	174,563	224,028
2001				490	243	733	53,920	170,104	224,024
2002				515	225	740	58,885	165,142	224,027
2003				540	207	747	51,135	159,602	210,737
2004				565	187	752	55,430	155,305	210,735
2005				590	166	756	60,600	150,137	210,737
2006				615	145	760	66,320	144,415	210,735
2007				640	122	762	72,065	138,071	210,736
2008				665	99	764	79,705	131,031	210,736
2009				690	75	765	87,525	123,213	210,738
2010				715	49	764	96,220	114,518	210,738
2011				410	23	433	105,855	104,883	210,738
2012				165	4	169	113,610	94,129	210,739
2013							118,635	82,105	200,740
2014							127,155	69,605	196,760
2015							142,820	55,476	198,296
2016							175,395	39,441	214,836
2017							194,005	20,831	214,836
2018									
	<u>\$43,130</u>	<u>\$8,366</u>	<u>\$51,496</u>	<u>\$11,545</u>	<u>\$7,945</u>	<u>19,490</u>	<u>\$2,147,490</u>	<u>\$5,457,843</u>	<u>\$7,605,333</u>

*Excludes \$3,815,000 of bond principal retired on July 1, 1982

(\$ in thousands)

NUCLEAR PROJECT NO. 2			NUCLEAR PROJECT NO. 3			NUCLEAR PROJECT NO.'s 4/5		
PRINCIPAL	INTEREST	ANNUAL DEBT REQUIREMENTS	PRINCIPAL	INTEREST	ANNUAL DEBT REQUIREMENTS	PRINCIPAL	INTEREST	ANNUAL DEBT REQUIREMENTS
\$ 15,010	\$ 217,937	\$ 232,947	\$ 1,680	\$ 165,882	\$ 167,562	\$ 7,788	\$ 188,903	\$ 196,691
15,940	217,020	232,960	1,785	165,791	167,576	60,000	207,140	267,140
16,925	216,048	232,973	6,175	165,692	171,867		187,904	187,904
23,295	215,015	238,310	6,530	165,357	171,887		187,904	187,904
24,925	213,399	238,324	8,925	165,001	173,926		187,904	187,904
26,645	211,686	238,331	10,555	164,368	174,923		187,904	187,904
28,510	209,818	238,328	11,315	163,579	174,894	\$ 24,060	187,904	211,964
30,555	207,778	238,333	12,145	162,761	174,906	75,530	185,991	261,521
82,800	205,539	288,339	13,050	161,901	174,951	57,125	178,083	235,208
35,260	196,455	231,715	14,045	160,961	175,006	29,125	173,144	202,269
37,980	193,758	231,738	15,125	159,932	175,057	31,265	170,437	201,702
40,950	190,820	231,770	16,310	158,798	175,108	34,415	167,991	202,406
44,225	187,602	231,827	17,615	157,546	175,161	36,165	165,243	201,408
47,825	184,053	231,878	19,045	156,163	175,208	39,335	162,338	201,673
65,575	180,144	245,719	22,595	154,637	177,232	42,160	159,097	201,257
71,955	173,774	245,729	24,605	152,628	177,233	45,390	155,643	201,033
79,330	166,666	245,996	26,810	150,427	177,237	49,000	151,923	200,923
85,795	159,947	245,742	29,020	148,218	177,238	52,975	147,843	200,818
93,290	152,468	245,758	31,475	145,773	177,248	55,160	143,349	198,509
101,635	144,141	245,776	34,180	143,068	177,248	59,855	138,657	198,512
93,055	134,854	227,909	37,095	140,057	177,152	65,015	133,500	198,515
97,375	127,046	224,421	42,730	136,746	179,476	70,685	127,825	198,510
106,765	117,655	224,420	45,995	132,503	178,498	76,940	121,574	198,514
117,225	107,196	224,421	49,615	127,908	177,523	83,780	114,729	198,509
122,655	95,576	218,231	49,675	122,946	172,621	91,280	107,233	198,513
134,755	83,566	218,321	54,485	118,136	172,621	99,500	99,011	198,511
148,200	70,217	218,417	59,810	112,810	172,620	108,535	89,979	193,514
163,170	55,365	218,535	65,710	106,909	172,619	116,820	80,065	196,885
179,835	38,822	218,657	72,265	100,355	172,620	111,080	70,226	181,306
198,410	20,380	218,790	80,365	92,250	172,615	92,740	60,952	153,692
			89,490	83,126	172,616	110,945	53,702	164,647
			99,770	72,846	172,616	107,595	44,612	152,207
			111,370	61,252	172,622	114,855	35,926	150,781
			124,455	48,165	172,620	118,485	26,657	145,142
			139,235	33,382	172,617	118,740	17,871	136,611
			154,950	17,665	172,615	131,445	9,020	140,465
<u>\$2,329,870</u>	<u>\$4,694,745</u>	<u>\$7,024,615</u>	<u>\$1,600,000</u>	<u>\$4,675,539</u>	<u>\$6,275,539</u>	<u>\$2,317,788</u>	<u>\$4,630,184</u>	<u>\$6,947,972</u>

Report of independent accountants

Board of Directors
Washington Public Power Supply System
Richland, Washington

We have examined the individual financial statements, as listed in the financial statements section of the table of contents, of Washington Public Power Supply System's Hanford Generating Project, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 2, Nuclear Project No. 3, Nuclear Projects No.'s 4 and 5, and the Internal Service Fund for the year ended June 30, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note D to the financial statements, Washington Public Power Supply System Project No. 1 is negotiating with its contractors and suppliers to settle contract claims associated with an extended construction delay of the project. Due to the preliminary status of the settlement process, the ultimate amounts of such costs are not fully determinable at the present time.

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

As discussed in Note D, a decision was made in January 1982 to terminate construction of the Supply System's Nuclear Projects No.'s 4 and 5. As a result of the termination of the projects, numerous lawsuits have been filed by and against the Supply System to determine the validity of the Participants' Agreements. Should these agreements ultimately be ruled invalid, and the participants excused from payment of the costs of Projects No.'s 4 and 5, monies would not be available for repayment of revenue bonds and other liabilities of the projects. In addition, as further discussed in Note D, amounts have been accrued for estimated contract settlement and termination costs. Due to the preliminary nature of the settlement process, the ultimate amounts are not fully determinable at the present time.

In view of the significance of the matters discussed in the preceding paragraph, we are unable to express, and we do not express, an opinion on the balance sheet or statement of changes in financial position of Nuclear Projects No.'s 4 and 5 referred to above.

In our opinion, subject to the effects on the 1982 financial statements of Nuclear Project No. 1 of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the second paragraph been known, and subject to the effects on the 1982 financial statements of Nuclear Projects No.'s 1 and 3 of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the third paragraph been known, the financial statements listed in the aforementioned table of contents present fairly the respective individual financial positions of Washington Public Power Supply System's Hanford Generating Project, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 2, Nuclear Project No. 3, and the Internal Service Fund at June 30, 1982, and the respective individual results of operations and changes in financial position of the operating projects and changes in financial position of the nonoperating Projects No.'s 1, 2, and 3 for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Seattle, Washington
September 10, 1982, except as to
the 25th, 26th and 31st paragraphs of
Note D as to which the date is
October 29, 1982

Ernst & Whinney