

1-24-73

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1

AGREEMENT

executed by the

UNITED STATES OF AMERICA

DEPARTMENT OF THE INTERIOR

acting by and through the

BONNEVILLE POWER ADMINISTRATOR

and

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

and

THE WASHINGTON WATER POWER COMPANY

(Project Exchange Agreement)

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This AGREEMENT, executed February 6, 1973, by the UNITED STATES OF AMERICA ("the Government"), Department of the Interior, acting by and through the BONNEVILLE POWER ADMINISTRATOR ("the Administrator"), and WASHINGTON PUBLIC POWER SUPPLY SYSTEM ("Supply System"), a municipal corporation of the State of Washington, and THE WASHINGTON WATER POWER COMPANY, a corporation organized and existing in the State of Washington ("the Company"),

W I T N E S S E T H:

WHEREAS Supply System has constructed the Hanford Project which includes the Generating Facilities having a generating capability of 860 megawatts which are operated in conjunction with byproduct steam from the New Production Reactor (NPR) of the Atomic Energy Commission (AEC) on the Hanford Reservation; and

WHEREAS Supply System, the Administrator and 76 utility participants, including the Company, have executed Hanford Exchange Agreements which

provide for the purchase of Project Output from the Hanford Project by the participants and the exchange of such Project Output with the Administrator for firm electric power and energy; and

WHEREAS the AEC has notified Supply System of its intention to discontinue dual purpose operation of the NPR and Supply System, the Administrator and the participants, being all the parties to the Hanford Exchange Agreements, have agreed that Supply System shall construct a nuclear steam supply facility and additional generating facilities which can be used in conjunction with the Generating Facilities; and

WHEREAS Supply System proposes to design, finance, construct, operate, and maintain the Project; and

WHEREAS the construction of the Project is a part of the Hydro-Thermal Power Program for the Pacific Northwest and this agreement is one of a series of agreements implementing such program; and

WHEREAS the Company has agreed to purchase a portion of Project Capability from Supply System and exchange it with the Administrator for electric power and energy delivered in accordance with the terms of this agreement; and

WHEREAS the Administrator has determined that the exchange of electric power and energy as herein provided will assist in attaining the objectives of the Bonneville Project Act and other statutes which pertain to the disposition of electric power and energy from Government projects in the Pacific Northwest by enabling the Government to make optimum use of the Federal Columbia River Power System, and that the integration of the capability of the Project with the generating resources of the Federal Columbia River Power System will enable the Administrator to make available additional firm electric power and energy to meet the needs of his customers; and

WHEREAS Supply System and the Administrator propose to enter into the Project Agreement simultaneously with this agreement which will provide among other things for relationships between Supply System and the Administrator with respect to Project construction, operation, maintenance, and budgets; and

WHEREAS Supply System, the Administrator, and each of The Montana Power Company, Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company (the Companies) are simultaneously entering into Project Exchange Agreements containing terms and conditions substantially identical to those herein; and

WHEREAS Supply System is organized under the laws of the State of Washington (Rev. Code of Washington, Ch. 43.52) and is authorized by law to construct, acquire and operate works, plants, and facilities for the generation and/or transmission of electric power and energy and to enter into contracts with the Administrator and public and private organizations for the disposition and distribution of electric power and energy produced thereby; and

WHEREAS the Administrator is authorized pursuant to law to dispose of electric power and energy generated at various federal hydroelectric projects in the Pacific Northwest and to enter into related agreements;

NOW, THEREFORE, the parties hereto mutually agree as follows:

1. Definition and Explanation of Terms.

(a) "Annual Budget" means the budget adopted in accordance with the Project Agreement by Supply System not less than 45 days prior to the beginning of each Contract Year which itemizes the projected costs of the Project applicable to such Contract Year, or, in the case of an amended Annual Budget, applicable to the remainder of such Contract Year. The Annual Budget, as amended from time to time, shall make provision for all such projected

costs, including (1) all obligations of Supply System incurred with respect to the Hanford Project including its obligations under Supply System Resolution No. 178 and the Bond Resolution and (2) accruals and amortizations, resulting from the ownership, operation (including cost of fuel) and maintenance of the Project and repairs, renewals, replacements and additions to the Project, including, but not limited to, the amounts which Supply System is required under the Bond Resolution to pay in each Contract Year into the various funds provided for in the Bond Resolution for debt service and all other purposes and shall include the source of funds proposed to be used; provided, however, that the Annual Budget for any portion of a Contract Year prior to the Date of Commercial Operation or September 1, 1980, whichever occurs first, shall include only such amounts as may be agreed upon by Supply System and the Administrator.

All taxes imposed and required by law to be paid, and which are due and payable in a Contract Year, shall be included in the Annual Budget for that Contract Year as a Project Cost. To the extent Supply System is permitted by law to negotiate for payments in lieu of taxes or other negotiated payments to state or local taxing entities, the Annual Budget shall also include the amounts of such negotiated payments; provided, however, that Supply System shall not agree to such a negotiated payment if in any Contract Year the sum of such negotiated payments to such taxing entities and taxes imposed by law by such taxing entities would exceed the total amount of ad valorem taxes that Supply System would have paid in that year to such taxing entities if the Project or portion thereof, within the boundaries of each such taxing entity, were subject to ad valorem taxes and its valuation for tax purposes were added to the valuation of the property subject to ad valorem taxes by such taxing entity, but with its millage rate reduced so that the amount of ad valorem taxes raised would be unchanged.

(b) "Billing Statement" means the written statement prepared by Supply System pursuant to section 6(d).

(c) "Bonds" means any bond, bonds, or other evidences of indebtedness issued in connection with the Project pursuant to the Bond Resolution (1) to finance or refinance Supply System's cost associated with planning, designing, financing, acquiring and constructing the Project pursuant to the Bond Resolution and (2) for any other purpose related to the Project authorized thereby.

(d) "Bond Resolution" means the resolution or resolutions, as described in section 4(b), adopted or supplemented by Supply System, as the same may be amended or supplemented, to authorize the Bonds.

(e) "Company's Share" means 0.06494, applied to Project Capability or to costs as context requires, plus during any period in which a decimal fraction share is assigned to the Company pursuant to section 9 hereof, the decimal fraction share or shares so assigned and minus any reductions under section 9 during any period such reductions are in effect.

(f) "Contract Year" means the period commencing at 12 p.m. on June 30, and ending at 12 p.m. on the following June 30. The first Contract Year will commence at 12 p.m. on June 30, 1980.

(g) "Date of Commercial Operation" means the date fixed pursuant to section 1(f) of the Project Agreement.

(h) "Exchange Agreement" means the Exchange Agreement (Contract No. Ibp-7420, as the same may be amended, extended or replaced) executed by the Administrator and the Company as of September 10, 1959, which provides, among other things, for Points of Delivery.

(i) "Generating Facilities" means the Hanford Project power house with two turbine generator units with a combined nameplate rating of 860 megawatts, related auxiliary equipment, transformation and transmission facilities.

(j) "Hanford Project" means the works, plants, and facilities constructed by Supply System for the generation and transmission of electric power and energy in conjunction with the Atomic Energy Commission's New Production Reactor pursuant to Supply System's Resolution No. 178.

(k) "Hanford Exchange Agreements" means the Exchange Agreements (Contracts No. 14-03-35345 through 14-03-35363 and 14-03-35569 through 14-03-35625 inclusively) executed by 76 utility participants, Supply System and the Administrator providing for the purchase of Project Output from the Hanford Project by the participants and the exchange of such Project Output with the Administrator for firm power and energy.

(l) "Project" means the nuclear generating plant and related property as described in Exhibit A. Exhibit A may be revised from time to time by mutual agreement of Supply System and the Administrator, but in any event shall conform to the description of the Project in Article III of the Bond Resolution which authorizes the issuance of Bonds in an amount sufficient to pay the costs of acquiring and constructing the Project.

(m) "Project Agreement" means the agreement for financing, construction, ownership, and operation of the Project as the same may be amended, extended, or replaced, to be executed by Supply System and the Administrator concurrently with execution of this agreement and substantially in the form of the draft dated 11/16/72 (Contract No. 14-03-39211 attached hereto as Exhibit B).

(n) "Project Capability" means the actual electrical generating capability, if any, of the Project at any particular time (including times when the Project is not operable or operating or the operation thereof is suspended,

interrupted, interfered with, reduced, or curtailed, in each case in whole or in part), less Project station use and losses to the Project point of delivery specified in section 8.

(o) "Project Exchange Agreements" means the agreements, substantially in the form of this agreement, entered into by Supply System, the Administrator and each of The Montana Power Company, Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company (Contracts No. 14-03-39212 through 14-03-39216, inclusive).

(p) "Prudent Utility Practice" at a particular time means any of the practices, methods and acts, which, in the exercise of reasonable judgment in the light of the facts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice shall apply not only to fractional parts of the Project but also to appropriate structures, landscaping, painting, signs, lighting, other facilities and public relations programs reasonably designed to promote public enjoyment, understanding, and acceptance of the Project. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts. In evaluating whether any matter conforms to Prudent Utility Practice, the parties shall take into account (1) the fact that Supply System is a municipal corporation and operating agency under the laws of the State of Washington with the statutory duties and responsibilities thereof and (2) the objective to integrate the entire Project Capability with the generating resources of the

Federal Columbia River Power System to achieve optimum utilization of the resources of that system taken as a whole, and to achieve efficient and economical operation of that system. Any practice, method, or act which pursuant to the Project Agreement is determined to be Prudent Utility Practice shall be deemed to be Prudent Utility Practice hereunder.

(q) "Uniform System of Accounts" means the Federal Power Commission Uniform System of Accounts prescribed for public utilities and licensees in effect on January 1, 1970.

2. Exhibits. Exhibits A through D are by this reference incorporated herein and made a part of this agreement. Supply System and the Company shall each be the "Contractor" as that term is used in Exhibit C.

3. Term of Agreement. This agreement shall be effective upon execution and delivery and, except as to accrued obligations and liabilities, shall terminate at 12 p.m. on June 30, 1996.

4. Financing, Design, Construction, Operation, and Maintenance of the Project.

(a) Supply System, in good faith and in accordance with the Project Agreement and Prudent Utility Practice, shall use its best efforts to arrange for financing, design, construction, operation, and maintenance of the Project.

(b) There has been furnished to the Company a draft dated 11-21-72 of a Bond Resolution entitled "A Resolution Providing A Plan And System For The Acquisition And Construction By Washington Public Power Supply System Of A Utility System Consisting Of A Nuclear Generating Plant And Associated Facilities To Be Known As The Washington Public Power Supply System Nuclear Project No. 1, And Providing For The Issuance of Revenue Bonds For Said Purpose", herein referred to as the "Initial Bond Resolution". Supply System contemplates issuance of short term securities prior to issuance of bonds under the Initial

Bond Resolution and also anticipates the adoption of resolutions supplementing the Initial Bond Resolution to authorize additional series of bonds as prescribed by the Initial Bond Resolution. Supply System covenants that the Initial Bond Resolution will be adopted in a form substantially as furnished to the Company and that any changes therein or such resolutions supplementing said Initial Bond Resolution shall not be such as to adversely affect, in any material respect, the rights or obligations of the Company under this agreement; and that any resolution or resolutions authorizing the issuance of short term securities will not be inconsistent with the Initial Bond Resolution insofar as the interests of the Company are concerned.

5. Sale, Purchase, and Exchange of Company's Share.

(a) Sale of Company's Share. In each Contract Year Supply System shall sell, and the Company shall purchase, the Company's Share. The purchase price to be paid for each Contract Year by the Company to Supply System for the Company's Share shall be the amount determined under section 6.

(b) Exchange of Company's Share with the Administrator. The Company hereby assigns to the Administrator and the Administrator hereby accepts the assignment of the Company's Share. In exchange for such assignment, the Administrator shall make available to the Company each Contract Year 68 megawatts average annual energy at a rate of delivery in any hour of such Contract Year not to exceed 80 megawatts. Such electric power and energy shall be made available to the Company in accordance with the applicable terms of the Exchange Agreement during the period beginning (1) at 12 p.m. on June 30, 1980, and ending at 12 p.m. on June 30, 1990, at one or more of the Points of Delivery specified therein, and (2) at 12 p.m. on June 30, 1990, and ending at 12 p.m. on June 30, 1996, at one or more of the 230 kv or higher voltage Points of

Delivery specified therein less losses between the Project and such Points of Delivery as agreed upon by the Company and the Administrator prior to each Contract Year; provided, however, that if the Company owns or otherwise provides adequate facilities to accept deliveries as hereinafter provided, upon five years prior written notice the Company may elect for any Contract Year to take, and the Administrator shall make, deliveries of all or a portion of such electric power and energy less losses, if any, as agreed upon by the Administrator and the Company at either (i) the Project Point of Delivery specified in section 8 or (ii) the point in the Vantage substation where the 230 kv facilities of the Administrator and Public Utility District No. 2 of Grant County or any other utility are connected (Vantage 230 kv Bus); provided, further, that the total of such deliveries at the Project Point of Delivery and at the Vantage 230 kv Bus in each succeeding Contract Year shall not be less than the total amounts delivered to such points in the previous Contract Year.

The Administrator's making available to the Company the amounts of electric power and energy provided in this section 5(b) shall be the essential consideration for the obligation of the Company to purchase the Company's Share. The amounts of electric power and energy to be made available by the Administrator under this agreement shall not be reduced by offset or otherwise, and shall not be conditioned upon the performance or nonperformance by Supply System.

(c) Further Exchanges. For any Contract Year prior to July 1, 1990, the Company may request, at least 6 months in advance of such Contract Year, that additional firm capacity be made available in exchange for all or a portion of the average annual energy to be made available by the Administrator in section 5(b). The Administrator shall make such additional capacity available to the Company in exchange for reducing his obligations to deliver average annual energy to the Company subject to his sole determination that surplus

firm capacity and adequate transmission capacity are available on the Federal Columbia River Power System to support such exchange. The total amount of firm capacity and average annual energy to be made available in such Contract Year shall not exceed the amount of firm capacity and average annual energy which would be made available by the Administrator if the amounts to be paid by the Company pursuant to section 6(a) had been used to purchase the then requested amounts of capacity and energy under the Administrator's Wholesale Power Rate Schedules then in effect.

(d) The Company, during the period beginning at 12 p.m. on June 30, 1990, and ending at 12 p.m. on June 30, 1996, shall provide station use energy for the Project at the point or points that the Administrator makes electric power and energy available to the Company pursuant to section 5(b) to the extent such energy is not available from the Project for the Company's Share; provided, however, that the Administrator shall provide such station use energy to the Company at the Administrator's then current rates or charges if not less than 90 days prior to each Contract Year the Company so requests and the Administrator determines that energy is available to fulfill such request.

6. Payment by the Company. The Company shall pay Supply System the amounts determined pursuant to this section. The Company shall make the payments to be made to Supply System hereunder, whether or not the Project is completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction, or curtailment of the Project output, and such payments shall not be subject to any reduction by reason of claims against Supply System, whether by offset or otherwise, and shall not be conditioned upon the performance or non-performance by Supply System under this or any other agreement or instrument.

(a) In each Contract Year in the period beginning at 12 p.m. on June 30, 1980, and ending at 12 p.m. on June 30, 1990, the Company shall pay Supply

System an amount determined by applying the rate schedule or schedules designated by the Company as provided in this section 6(a) to the amounts of electric power and energy that the Administrator is obligated to make available under section 5(b) in such Contract Year. At least 90 days in advance of the initial Contract Year, the Company shall designate by written notice to Supply System and the Administrator, from among the Administrator's Wholesale Rate Schedules (Schedules) which would then be applicable to similar direct sales of firm electric power and energy by the Administrator, the rate schedule(s) to be applied in determining payments under this section 6(a). Schedule C-5 or a combination of Schedules C-5 and F-5 (for example 68 megawatts under Schedule C-5 and 12 megawatts under Schedule F-5) would be applicable if deliveries were being made on the date of execution of this agreement. The rate schedule(s) so designated or thereafter changed pursuant to this section 6(a) may be changed at any time upon mutual agreement of the Administrator and the Company, or by the Company upon 90 days' written notice to Supply System and the Administrator, to other applicable Schedules within 90 days after the Administrator's new Schedules become effective, if (1) the level of the Schedule(s) previously selected is changed, (2) the Schedule(s) previously selected is otherwise materially changed, or (3) a new Schedule becomes effective which would be applicable to the Company.

(b) In each Contract Year in the period beginning at 12 p.m. on June 30, 1990, and for the remainder of the term hereof, the Company shall pay Supply System an amount equal to the sum of the following:

(1) An amount equal to the product of Supply System's Fixed Cost (hereinafter defined) for such Contract Year and the Company's Share.

(2) An amount equal to the product of Supply System's Operation, Maintenance and Other Costs (Excluding Fuel) (hereinafter defined) for such Contract Year and the Company's Share.

(3) An amount equal to the product of 595,680,000 kilowatt-hours (68,000 kilowatts x 8760 hours) and the unit fuel costs for the preceding 12 month period. The unit fuel cost for the preceding 12 month period shall be determined by dividing Supply System Fuel Costs (hereinafter defined) for such period by the total net kilowatt-hours delivered by Supply System to the Project point of delivery during such period; provided, however, that such unit fuel cost shall not exceed 105 percent of the estimated unit fuel cost for the Project at 65 percent annual plant factor determined by Supply System in the same manner as the unit fuel cost applicable to such Contract Year is determined in the final Plan submitted under section 8 of the Project Agreement; provided, further, that if the Project is inoperable during such preceding Contract Year, the unit fuel cost shall be the forecast unit fuel cost in such final Plan at 65 percent annual plant factor or, in the absence of such final Plan, the projected unit fuel cost at 65 percent annual plant factor for the current Contract Year for Supply System's ownership share of the first completed and then operating light water nuclear project in which Supply System has an ownership interest.

(4) An amount equal to the product of 12,000 kw and the lesser of (1) 5/6 of the Administrator's Wholesale Rate Schedule then in effect for firm capacity for such Contract Year or, if available, (2) the Administrator's Wholesale Rate Schedule then in effect for Forced Outage Reserve capacity for such Contract Year. The Administrator's Wholesale Rate Schedule F-5 for firm capacity would be applicable to this subsection if this subsection were applied on the date of execution of this agreement.

(5) An amount equal to the product of 80,000 kilowatts and the rate determined by applying the Administrator's average transmission costs the

in effect to the facilities (184 miles of 230 kv and higher voltage lines, associated system line terminals, delivery terminal and system general costs for switching, transformation and backup which at the time of execution of this agreement would result in a total transmission cost of \$2.65 per kilowatt year, which cost would be appropriately reduced if the Company provided some of the required terminal facilities) deemed to be used in providing transmission from the Project Point of Delivery specified in section 8 to 230 kv or higher voltage Points of Delivery specified in the Exchange Agreement; provided, however, that if the Company elects to take all or a portion of the deliveries of electric power and energy at the Project Point of Delivery or the Vantage 230 kv Bus for any Contract Year as provided in section 5(b)(2) such 80,000 kilowatts used in the above calculation shall be reduced accordingly for such Contract Year and the Company shall pay Supply System the additional amount, if any, determined by multiplying the largest hourly amount expressed in kilowatts to be delivered at the Vantage 230 kv Bus in such Contract Year by the rate determined by applying the Administrator's average transmission costs then in effect to the facilities (switching, transformation and backup which at the time of execution of this agreement would result in a total transmission cost of \$0.50 per kilowatt year) deemed to be used in providing transmission from the Project Point of Delivery to the Vantage 230 kv Bus.

(c) For the purposes of this section 6, the following definitions shall apply:

(1) Project Cost.

(i) The term "Project Cost" shall mean all of Supply System's costs of acquisition and construction of the Project, exclusive of fuel, and the placing of it into operation and shall include without limiting the generality of the foregoing all preconstruction costs, all legal and financing costs (including Bond discounts and premiums), all cost of material and equipment, labor and construction, contractors'

nces, engineering, testing (less net receipts relating to testing), major items of materials, supplies and spare parts in inventory which are capitalized, all applicable taxes and payments in lieu of taxes, of the type and subject to the limitations set forth in section 1(a) relating to the Annual Budget, applicable during the construction period, interest during construction, cost and overhead of Supply System in arranging for and supervising construction, construction costs pursuant to any Project trust agreements with the Administrator, and all other costs properly allocable to the development and construction of the Project, whether or not allocable to construction cost under the Uniform System of Accounts. Any net receipts relating to construction, including investment income, shall be credited against Project Cost. Costs for the Generating Facilities included in Project Cost shall be \$50,000,000.

(ii) The Project Cost shall be increased by the cost of any additions and replacements and by the cost of removal for retirements and shall be decreased by the original cost of the units of property removed.

Notwithstanding any other provisions of this section 6(c)(1) the term Project Cost, until the Date of Commercial Operation of the Project, shall mean \$50,000,000 of project costs from the Hanford Project plus the greater of (A) the latest estimate of the cost of the Project in the Construction Budget adopted by Supply System under section 6(a) of the Project Agreement which estimate for the purpose of this section shall not exceed \$690,000,000, or (B) the cost of the Project then expended and the cost of the Project then obligated to be paid.

(2) Working Capital. The term "Working Capital" shall mean an amount equal to the sum of the following:

(i) \$3,600,000; and

(ii) The average of the amounts invested in operating materials, supplies and spare parts (other than major items which are capitalized) on June 30, 1988, June 30, 1989, and June 30, 1990; and

(iii) The average amount invested in prepayments (exclusive of fuel payments) on the first day of each month during the period beginning on July 1, 1987 and ending on June 1, 1990 (prepayments being costs that were or are to be transferred to operation expense in monthly increments).

(3) Capital Funds. The term "Capital Funds" for each month shall mean an amount equal to the sum of the amounts deposited for the account of the Project at the beginning of such month in the Bond Fund, Reserve and Contingency Fund and Fuel Fund (as such Funds are defined in Article VII of the Initial Bond Resolution).

(4) Capitalized Fuel. The term "Capitalized Fuel" for any month shall mean an amount equal to the sum of the amounts shown on the balance sheet for the preceding month in Accounts 120.2, 120.3, 120.4 and 120.5 of the Uniform System of Accounts. The cost of material purchased for future fabrication and use shall be accrued in Account 120.1, as described in the Uniform System of Accounts, and any interest charged during fuel preparation shall be at the weighted average annual interest rate upon all Bonds then outstanding and capitalized prior to transfer to Account 120.2 upon receipt of the finished fuel.

(5) Operation, Maintenance and Other Costs (Excluding Fuel). The term "Operation, Maintenance and Other Costs (Excluding Fuel)" shall mean all of Supply System's costs and expenses of the Project not recovered through Fixed Cost and Fuel Cost, including, without limiting the generality of the foregoing, all operation and maintenance expenses (excluding depreciation

expense and Fuel Costs), costs of insurance, cost of water, costs of materials and supplies, costs of spare parts not capitalized, ad valorem taxes if any on the property comprising the Project, sales, privilege, excise and other taxes incurred by Supply System on account of the Project, payments in lieu of taxes paid to taxing entities, cost of labor (including but not limited to social security taxes, unemployment insurance expenses, group liability insurance, group hospitalization, medical insurance, pension plan contributions, workmen's compensation and other insurance, and cost to Supply System of other fringe benefits), storage handling costs, transportation expenses, administrative and general costs incurred by Supply System for operation and maintenance of the Project, and all other costs properly allocable under generally accepted accounting practices to the operation and maintenance of the Project, whether or not allocable to operation and maintenance cost under the Uniform System of Accounts as now or hereafter prescribed for electric utilities by the Federal Power Commission.

Notwithstanding any of the other provisions of this section 6(c)(5), during any period that the Project is not operating (other than normal shutdowns for maintenance, repair and refueling), and operating and maintenance and other costs are reduced thereby, the Operation, Maintenance and Other Costs (Excluding Fuel) shall mean Supply System's estimate of such Operation, Maintenance and Other Costs (Excluding Fuel) as if the Project were being operated normally, and if the Date of Commercial Operation has not occurred by July 1, 1990, until the Date of Commercial Operation the Company shall pay Supply System at the rate of \$8,500 per year for each Contract Year in lieu of furnishing station use energy pursuant to section 5(d).

(6) Fuel Costs. The term "Fuel Costs" shall mean all costs of fuel for the Project chargeable to Account 518 of the Uniform System of Account

(Nuclear Fuel Expense) plus administrative and general expenses associated with such costs which are not included in Operation, Maintenance and Other Costs (Excluding Fuel).

(7) Fixed Cost. The term "Fixed Cost" for any Contract Year shall mean the sum of the Fixed Costs for each month in such Contract Year which shall be determined for such month by dividing 12 into the algebraic sum of the following amounts:

(i) the product of Project Cost, as of the end of the preceding month and the decimal fraction determined from the following formula:

$$\frac{\sqrt{1}}{\sqrt{1 - (1 + I)^{-35}}} + R$$

where

R = average annual allowance, expressed as a decimal fraction, for financing the cost of interim replacements ("units of property included in the plant with life spans of less than the adopted overall facility service life") for light water nuclear power plants published by the Federal Power Commission for estimating purposes or in the absence of such an allowance, 0.005.

I = weighted average annual interest rate of all Bonds outstanding on July 1, 1980, and of \$50,000,000 of bonds for the Hanford Project at an average annual interest rate of 3.178 percent.

(ii) the product of Working Capital and an amount equal to the weighted average annual interest rate of all Bonds issued and outstanding on July 1, 1980, reduced by the estimated interest earnings for such Contract Year to the Revenue Fund, as such Fund is defined in Article VII of the Bond Resolution, attributable to Working Capital for the Project;

(iii) the product of Capitalized Fuel as of the end of the preceding month and an amount equal to the weighted average annual interest rate of all Bonds issued and outstanding on July 1, 1980; and

(iv) the product of Capital Funds as of the end of the preceding month and an amount equal to the weighted annual average interest rate of all Bonds issued and outstanding on July 1, 1980, reduced by the estimated interest earnings of the Bond Fund, Reserve and Contingency Fund and the Fuel Fund in such Contract Year (as such Funds are defined in Article VII of the Bond Resolution);

provided, however, that if the Date of Commercial Operation has not occurred by July 1, 1990, until the Date of Commercial Operation the Fixed Cost shall be determined using the following components: (i) Project Cost pursuant to the last paragraph of section 6(c)(1); (ii) Working Capital of \$3,600,000; (iii) Capitalized Fuel but not less than \$39,000,000; and (iv) Capital Funds but not less than \$25,000,000; and the interest rate of all Bonds issued and outstanding on July 1, 1980, shall be deemed to equal the weighted average annual interest rate for all bonds outstanding on July 1, 1980 issued to finance the construction of Supply System's ownership share of all nuclear projects (but not the Hanford Project) for which it has issued bonds; and, for the purpose of computing interest earnings in each Contract Year it shall be deemed that the amount of (A) Working Capital of \$2,500,000 is invested at an interest rate equivalent to the estimated average annual interest rate for the previous Contract Year that Supply System's Revenue Funds for all projects were invested and (B) Capital Funds of \$25,000,000 are invested at an interest rate equivalent to the estimated average annual interest rate for the previous Contract Year that Supply System obtained in investing similar funds for all projects.

(d) Not less than 45 days prior to the beginning of each Contract Year Supply System shall prepare an estimate of the amounts to be paid for the Contract Year under this agreement and, based thereon, shall deliver to the Company a Billing Statement showing the amounts to be paid by the Company in each month of such Contract Year. Such Billing Statement shall be amended during the Contract Year as appropriate. At the end of each Contract Year any deviation between amounts previously billed and amounts to be paid for such Contract Year as determined under this agreement shall be corrected by the issuance of a supplemental Billing Statement which shall apply a credit or a debit to the amount to be paid in the next following month or months and, for the final Contract Year, a similar supplemental Billing Statement following the close of such final Contract Year. Each Billing Statement shall be accompanied by the estimate in reasonable detail and a copy of the related annual budget.

(e) The Company shall pay Supply System each Contract Year the amount specified in the Billing Statements or amended Billing Statements submitted under this section. Such payments shall be made prior to the twentieth day of each month of such Contract Year in an amount equal to one-twelfth of the amount shown in the Billing Statement or in the case of an amended Billing Statement in an amount equal to the amount determined by dividing the amount in the amended Billing Statement by the number of months remaining during such Contract Year. Supplemental Billing Statements submitted after the final Contract Year shall be paid within 20 days after the date of mailing. Amounts due and not paid on or before the due date, shall bear an additional charge of two percent of the unpaid amount. Thereafter a further charge of one-half percent of the initial amount remaining unpaid shall be added on the last day of each succeeding 30 day period until the amount due is paid in full. Remittances received by mail will be accepted without assessment of the delayed payment charges referred

to above provided the postmark indicates the payment was mailed on or before the twentieth day of such month. If the twentieth day of such month is a Sunday or other nonbusiness day of the Company, the next following business day shall be the last day on which payment may be mailed without addition of the delayed payment charge.

(f) Supply System's books of accounts shall be audited at least annually by a nationally recognized independent certified public accounting firm. For each Contract Year beginning with the Contract Year commencing at 12 p.m. on June 30, 1989, Supply System shall mail to the Company, promptly after completion, the annual audit of accounts of the Project.

7. Scheduling.

(a) Prior to 4 p.m. on each workday beginning on the day preceding the Date of Commercial Operation (workday meaning a day which the scheduling parties observe as a regular workday) the Administrator shall notify Supply System of the amounts of energy from the Company's Share he will require for each hour of the following day or days; provided, however, that the Administrator may during any hour request delivery of other amounts of energy up to the Company's Share. Supply System's dispatcher, within the capability of the Company's Share and in accordance with Prudent Utility Practice, shall schedule for delivery to the Administrator at the point of delivery specified in section 8 for each hour in the term hereof the amounts of energy so requested by the Administrator.

(b) Prior to January 1, 1978, and each January 1 thereafter, the Company shall submit to the Administrator a tabulation showing the amounts of energy it plans to obtain hereunder for each month for the ensuing five Contract Years (Monthly Energy Schedule). The sum of the amounts of energy specified therein for any Contract Year shall not exceed the annual amount of energy in such year to which the Company is entitled under section 5, nor shall the monthly amounts of energy exceed 80 megawatts times the hours in such month. Each such Monthly

Energy Schedule shall become effective and be attached hereto as Exhibit D, and shall supersede any prior Exhibit D formerly submitted by the Company.

(c) The Company shall notify the Administrator prior to noon on each workday of the amounts of energy that it requests, pursuant to section 5(b), for each hour of the following day or days. The Administrator shall schedule for delivery to the Company at the points of delivery specified in section 5(b) for each hour in the term hereof the amounts so requested by the Company. The amount of energy requested for any hour may be decreased by mutual agreement of the dispatchers of the parties and may be increased at any time upon notice of the Company's dispatcher; provided, however, that if the amount of energy previously requested for such day is increased by more than a number of kilowatt-hours equal to two times the rate of delivery specified in section 5(b), the Company shall make available to the Administrator, at a time to be agreed to by the parties, an amount of energy equal to the loss, if any, as determined by the Administrator, resulting from the less efficient use of water on the Federal Columbia River Power System than that which could have been made if the increased amount of electric energy in excess of two times the rate of delivery specified in section 5(b) for that day had been scheduled in accordance with the first sentence of this subsection. The Company shall endeavor to avoid the necessity for any increase in the amount of energy requested by noon on the day preceding the day of delivery of such energy. The total amount of energy scheduled in a month shall not exceed the amount of energy specified for such month in Exhibit D without the prior agreement of the Administrator.

8. Provisions Relating to Delivery. Deliveries of electric power and energy to the Administrator shall be made at the point of delivery and at the approximate voltage described below. Such electric power and energy shall be in the form of three-phase current, alternating at a frequency of approximately 60 hertz. Amounts so delivered at such point during each month shall be

determined from measurements made by the Government's meters, adjusted for losses as agreed upon by the parties hereto, installed to record such deliveries at the place and in the circuits hereinafter specified:

PROJECT POINT OF DELIVERY:

Location: the point in the Vantage substation where the 500 kv facilities of the Government and the Project are connected;

Voltage: 500 kv;

Metering: in the 500 kv circuits at the Project over which such electric power and energy will flow;

Adjustment: for losses between the point of metering and the point of delivery.

9. Obligations in the Event of Default. The Company's Share purchased by the Company from Supply System and exchanged with the Administrator, and the corresponding obligations and right to delivery of electric power and energy under this agreement, shall be automatically increased for the remaining term of this agreement pro rata with that of other nondefaulting Companies if, and to the extent that, one or more of the Companies is unable, or fails or refuses for any reason, to perform its obligations under its Project Exchange Agreement, and the Company's Share of the defaulting Company shall be reduced correspondingly ten days after Supply System has sent written notice to the Companies of such Company's nonperformance of its obligations unless such default is cured within such ten day period; provided, however, that the sum of such increases for the Company pursuant to this subsection shall not, without consent of the Company, exceed an accumulated maximum of 0.01624.

If the Company shall fail or refuse to pay any amounts due to Supply System hereunder, the fact that the other Companies have assumed the obligation to make such payments shall not relieve the Company of its liability for such payments, and the Companies assuming such obligation, either individually or as a member of a group, shall have a right of recovery from the Company. Supply System or any Company as their interests may appear, jointly or severally, may

commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of this agreement against the Company under this subsection.

10. Modification and Uniformity of Agreement.

(a) Notwithstanding any provision in this agreement to the contrary, but subject to section 6 hereof, this agreement is entire and indivisible and any right or obligation of any party hereto is nonseverable from, and dependent upon, those other rights and obligations which together constitute this agreement.

(b) This agreement shall not be amended, modified, or otherwise changed by agreement of the parties in any manner that will impair or adversely affect the security afforded by the provisions of this agreement for the payment of the principal, interest, and premium, if any, on the Bonds as they respectively become payable so long as any of the Bonds are outstanding and unpaid or funds are not set aside for the payment or retirement thereof in accordance with the Bond Resolution.

(c) If any Project Exchange Agreement is amended or replaced so that it contains terms and conditions different from those contained in this agreement, the Administrator shall notify the Company and upon timely request by the Company shall amend this agreement to include similar terms and conditions.

11. Hanford Exchange Agreements.

(a) The parties hereto agree (1) to the use and employment of the Generating Facilities by Supply System for the purposes and in the manner prescribed in the Bond Resolution, (2) that the electric power and energy to be produced by the Project, including the electric power and energy to be produced by the Generating Facilities, shall be disposed of to the parties, in the quantities, for the periods and under the terms and conditions prescribed in the Net Billing

Agreements and the Project Exchange Agreements, and (3) that the execution and delivery of this agreement does not affect, limit, modify, alter, release, or discharge their respective rights and obligations under the Hanford Exchange Agreements, or reduce the Company's obligations to make payments thereunder, in the event that sufficient moneys to make such payments are not otherwise available in accordance with the Net Billing Agreements, the Project Exchange Agreements and the Bond Resolution.

(b) Supply System in preparing its budgets for the Hanford Project pursuant to section 5(e) of the Hanford Exchange Agreement for the contract years beginning on September 1, 1975, and ending August 31, 1980, shall provide for payments by the participants under the Hanford Exchange Agreements of not less than the amounts shown during the following periods:

<u>Beginning</u>	<u>Ending</u>	<u>Amount</u>
9-1-75	Through 8-31-76	\$4,720,000
9-1-76	Through 8-31-77	\$4,900,000
9-1-77	Through 8-31-78	\$4,980,000
9-1-78	Through 8-31-79	\$5,040,000
9-1-79	Through 6-30-80	\$4,270,000

(c) Supply System shall transfer to the appropriate funds and accounts under Supply System Resolution No. 178 from the income, revenues, receipts, and profits received from the Project amounts sufficient so that no payments by the Company under the Hanford Exchange Agreement are due under section 5(e) of such Agreement after June 30, 1980. The budget adopted for the Contract Year beginning September 1, 1979, pursuant to section 5(e) of the Hanford Exchange Agreement shall be prepared anticipating that the Company's obligations under the Hanford Exchange Agreement will be met beginning July 1, 1980, by the transfers required under this section 11(c). Monthly payments by the

Company under the Hanford Exchange Agreement prior to July 1, 1980, shall not be reduced by amounts paid to Supply System under the Project Exchange and Project Net Billing Agreements.

12. Assignment of Agreement. This agreement shall inure to the benefit of and shall be binding upon the respective successors and assigns of the parties to this agreement; provided, however, that neither this agreement nor any interest therein shall be transferred or assigned by any one of the parties hereto except with the mutual consent in writing of the other two parties hereto, to any other entity except the United States or an agency thereof. Such consent will not be unreasonably withheld. No assignment or transfer of this agreement shall relieve the parties of any obligation hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in several counterparts.

UNITED STATES OF AMERICA
Department of the Interior

(SEAL)

By S/ DONALD PAUL HODEL
Bonneville Power Administrator

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

(SEAL)

By S/ J. J. STEIN

Title Managing Director

ATTEST:

By S/ ED FISCHER

Title Chairman
Executive Board

THE WASHINGTON WATER POWER COMPANY

(SEAL)

By S/ M. F. HATCH

Title Vice President

ATTEST:

By S/ R. L. STINCE

Title Assistant Secretary

EXHIBIT A

PROJECT CHARACTERISTICS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1

The Washington Public Power Supply System's Nuclear Project No. 1 is expected to have a net electrical plant capability of approximately 1230 MW.

A new pressurized water reactor nuclear steam supply system similar to other reactors now under construction will replace the NPR as a steam source. It will include, but not be limited to, a nuclear reactor, fuel, control systems, primary coolant loops with steam generators, engineered safeguard systems, radwaste system, service systems, containment building and other auxiliary facilities.

Steam will be fed from this new reactor to a new topping turbine and generator with a nameplate rating of approximately 400 MW housed in an extension of the existing turbine-generator building of the Generating Facilities. New piping will transmit low pressure exhaust steam from the new topping turbine to the existing low pressure turbine complex which is a part of the Generating Facilities. The existing turbines may be modified, including the addition of extra stages of blades; and such modifications, additions and alterations to the condensers, cooling system, feedwater heaters, feedwater pumps, instrumentation, control systems, auxiliary startup power facilities and other components of the Generating Facilities will be made as shall be required to operate the topping turbine and to utilize exhaust steam from the topping turbine.

ATTACHMENT 1-2

WNP NO. 1 SAMPLE AMENDATORY AGREEMENT

NO. 1 to PROJECT EXCHANGE AGREEMENT

Amendatory Agreement No. 1 to
Contract No. 14-03-39216

3-11-74

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

AMENDATORY AGREEMENT

executed by the

UNITED STATES OF AMERICA

DEPARTMENT OF THE INTERIOR

acting by and through the

BONNEVILLE POWER ADMINISTRATOR

and

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

and

THE WASHINGTON WATER POWER COMPANY

(Exchange Agreement)

This AMENDATORY AGREEMENT, executed as of _____, 1974, by the UNITED STATES OF AMERICA, Department of the Interior, acting by and through the BONNEVILLE POWER ADMINISTRATOR (Administrator), and WASHINGTON PUBLIC POWER SUPPLY SYSTEM (Supply System), a municipal corporation of the State of Washington, and THE WASHINGTON WATER POWER COMPANY (Company), a corporation organized and existing under the laws of the State of Washington,

W I T N E S S E T H:

WHEREAS the parties hereto, on February 6, 1973, executed an Exchange Agreement for the Washington Public Power Supply System Nuclear Project No. 1 (Contract No. 14-03-39216, hereinafter referred to as Primary Contract), which

provides for the sale of a portion of Project Capability to the Company and the exchange of such Project Capability with the Administrator for firm electric power and energy made available from the Federal Columbia River Power System, and the parties desire to amend the Primary Contract to incorporate a new Project description and revise other provisions related to the Hanford Project and the Generating Facilities, both as defined therein; and

WHEREAS the Project, as described in the Primary Contract, includes the use of the Generating Facilities which are a part of the Hanford Project, and which are necessary to the Hanford Project to produce power from waste steam from the Atomic Energy Commission's New Production Reactor (NPR) pursuant to an agreement executed by the Supply System and the Atomic Energy Commission ("AEC Hanford NPR Agreement"); and

WHEREAS the present schedule for the Project requires the shutdown of the Hanford Project about October 31, 1977, and will eliminate the availability of the Hanford Project as a source of power thereafter; and

WHEREAS due to delays in construction of various generating projects in the Pacific Northwest and anticipated fuel shortages, planned power generating resources under the Hydro-Thermal Power Program are expected to be inadequate to meet the needs of the area in the late 1970's; and

WHEREAS the parties have agreed that in order to keep the Hanford Project available for continued operation after October 1977 it is appropriate that the Project operation be disassociated from Hanford Project operation and that it no longer be operated in conjunction with said Generating Facilities, and the Administrator and the Company have determined that such disassociation will be beneficial to them by improving the probability that amounts of electric power resources will be sufficient to meet their loads in the late 1970's and early 1980's; and

WHEREAS the Administrator is authorized pursuant to law to dispose of electric power and energy generated at various federal hydroelectric projects in the Pacific Northwest and to enter into related agreements;

NOW, THEREFORE, the parties agree as follows:

1. Effective Date. This amendatory agreement shall be effective on the date of execution.

2. Section 4(b) is amended by deleting "11-21-72" from such section's first line and substituting "2-14-74" therefor.

3. Section 6(c)(1)(i) is amended by deleting the last sentence thereof.

The last paragraph of section 6(c)(1) shall be deleted and the following paragraph substituted therefor:

"Notwithstanding any other provision of this section 6(c)(1) the term 'Project Cost, until the Date of Commercial Operation of the Project', shall mean the greater of (A) the latest estimate of the cost of the Project in the Construction Budget adopted by Supply System under section 6(a) of the Project Agreement which estimate for the purpose of this section shall not exceed \$825,000,000 or (B) the cost of the Project then expended and the cost of the Project then obligated to be paid."

Section 6(c)(7)(i) is amended by deleting the phrase "and of \$50,000,000 of bonds for the Hanford Project at an average annual interest rate of 3.178 percent."

4. Section 8 is amended by deleting the words (1) "in the Vantage substation" in the subheading entitled "Location", and (2) "500 kv" in the subheading entitled "Metering".

5. Section 11(a) is deleted and the following substituted therefor:

"(a) The parties hereto agree that the use and employment of the Generating Facilities by Supply System and the disposition of the

electric power and energy to be produced by the Generating Facilities subsequent to the date the AEC suspends operation of the NPR in accordance with Article 8 of the AEC Hanford NPR Agreement shall be to the entities, for the purpose and in the manner agreed upon by the Administrator and Supply System."

6. The parties hereto agree that the execution and delivery of the Primary Contract as herein amended does not affect, limit, modify, alter, release, or discharge their respective obligations under the Hanford Exchange Agreements or reduce the Company's obligations to make payments thereunder, in the event that sufficient moneys to make such payments are not otherwise available in accordance with the Net Billing Agreements, the Project Exchange Agreements, and the Bond Resolution.

7. Exhibit. Exhibit A, "Project Characteristics", is replaced with the Exhibit A attached hereto.

IN WITNESS WHEREOF, the parties have executed this amendatory agreement

ATTACHMENT 1-1

SAMPLE WNP NO. 1 PROJECT EXCHANGE AGREEMENT

in several counterparts.

UNITED STATES OF AMERICA
Department of the Interior

(SEAL)

By Bonneville Power Administrator

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

(SEAL)

By _____
Title _____

ATTEST:

By _____
Title _____

THE WASHINGTON WATER POWER COMPANY

(SEAL)

By _____
Title _____

ATTEST:

By _____
Title _____

EXHIBIT A
Revision 1
(2-28-74)

PROJECT CHARACTERISTICS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1

The Washington Public Power Supply System's Nuclear Project No. 1 is expected to have a net electrical plant capability of approximately 1,200 MW. The Project will be located on the Hanford Reservation of the U. S. Atomic Energy Commission which is near the City of Richland in Benton County, Washington.

The plant and associated facilities will include a nuclear steam supply system, fuel and reactor coolant system with all related containment structures, safety features, instrumentation, control and auxiliary systems; turbine-generator, condensers and circulating water systems, facilities and piping; electrical and mechanical systems and other related equipment and facilities; electrical facilities to deliver the output of the Project to the Federal Columbia River Power System; and other structures, shops, warehouses, construction facilities, offices, equipment or facilities necessary or appropriate to the construction, maintenance and operation of the Project.

ATTACHMENT 1-3

WNP NO. 1 PROJECT AGREEMENT

11-16-72

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1

AGREEMENT

executed by the

UNITED STATES OF AMERICA

DEPARTMENT OF THE INTERIOR

acting by and through the

BONNEVILLE POWER ADMINISTRATOR

and

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

(Project Agreement)

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This AGREEMENT, executed _____, 1972, by the UNITED STATES OF AMERICA (Government), Department of the Interior, acting by and through the BONNEVILLE POWER ADMINISTRATOR (Administrator), and WASHINGTON PUBLIC POWER SUPPLY SYSTEM (Supply System), a municipal corporation of the State of Washington,

W I T N E S S E T H:

WHEREAS Supply System has constructed the Hanford Project which includes the Generating Facilities having a generating capability of 860 megawatts which are operated in conjunction with byproduct steam from the New Production Reactor (NPR) of the Atomic Energy Commission (AEC) on the Hanford Reservation; and

WHEREAS the AEC has notified Supply System of its intention to discontinue dual purpose operation of the NPR and Supply System, the Administrator and the participants, being all the parties to the Hanford Exchange Agreements, have agreed that Supply System shall construct a nuclear steam supply facility and additional generating facilities which can be used in conjunction with the Generating Facilities; and

WHEREAS Supply System proposes to design, finance, construct, operate, and maintain the Project; and

WHEREAS the Administrator has determined that acquisition of the Project Capability as herein provided will assist in attaining the objectives of the Bonneville Project Act, and other statutes pertaining to the disposition of electric power and energy from Government projects in the Pacific Northwest by enabling the Government to make optimum use of the Federal Columbia River Power System, and that the integration of the capability of the Project with the generating resources of the Federal Columbia River Power System as provided herein will enable the Administrator to make available additional firm power and energy to meet the needs of his customers; and

WHEREAS the construction of the Project is a part of the Hydro Thermal Power Program for the Pacific Northwest and this agreement is one of a series of agreements implementing such program; and

WHEREAS Supply System expects to enter into certain contracts for the financing, planning, engineering, construction and operation of the Project; and

WHEREAS Supply System, the Administrator and the Participants are parties to Net Billing Agreements under which Supply System sells a portion of Project Capability to the Participants and under which the Administrator will acquire Project Capability from the Participants; and

WHEREAS Supply System, the Administrator, and each of The Montana Power Company, Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company are parties to Project Exchange Agreements under which Supply System sells a portion of Project Capability to such companies and the companies exchange such Project Capability with the Administrator for electric power and energy from the Federal Columbia River Power System; and

WHEREAS Supply System is organized under the laws of the State of Washington (Rev. Code of Washington, Ch. 43.52) and is authorized by law to construct,

acquire and operate works, plants, and facilities for the generation and/or transmission of electric power and energy and to enter into contracts with the Administrator and public and private organizations for the disposition and distribution of electric power and energy produced thereby; and

WHEREAS the Administrator is authorized pursuant to law to dispose of electric power and energy generated at various federal hydroelectric projects in the Pacific Northwest and to enter into related agreements;

NOW, THEREFORE, the parties hereto mutually agree as follows:

1. Definition and Explanation of Terms.

(a) "Annual Budget" means the budget adopted by Supply System not less than 45 days prior to the beginning of each Contract Year which itemizes the projected costs of the Project applicable to such Contract Year, or, in the case of an amended Annual Budget, applicable to the remainder of such Contract Year. The Annual Budget, as amended from time to time, shall make provision for all such Supply System's costs, including (1) all obligations of Supply System incurred with respect to the Hanford Project, including its obligations under Supply System's Resolution No. 178 and the Bond Resolution and (2) accruals and amortizations, resulting from the ownership, operation (including cost of fuel), and maintenance of the Project and repairs, renewals, replacements, and additions to the Project, including, but not limited to, the amounts which Supply System is required under the Bond Resolution to pay in each Contract Year into the various funds provided for in the Bond Resolution for debt service and all other purposes and shall include the source of funds proposed to be used; provided, however, that the Annual Budget for any portion of a Contract Year prior to the Date of Commercial Operation or September 1, 1980, whichever occurs first, shall include only such amounts as may be agreed upon by Supply System and the Administrator.

(b) "Bonds" means any bond, bonds, or other evidences of indebtedness issued in connection with the Project pursuant to the Bond Resolution (1) to finance or refinance Supply System's costs associated with planning, designing, financing, acquiring and constructing the Project pursuant to the Bond Resolution and (2) for any other purpose related to the Project authorized thereby.

(c) "Bond Resolution" means the resolution or resolutions adopted or supplemented by Supply System, as the same may be amended or supplemented, to authorize the Bonds.

(d) "Construction Budget" means the budget adopted by Supply System which sets forth an estimated schedule of construction expenditures and itemizes all costs related to ownership, design, planning, construction and financing of the Project, as well as any revision or updating thereof during the course of construction.

(e) "Contract Year" (1) means the period commencing on the Date of Commercial Operation, or on January 1, 1980, whichever occurs first, and ending at 12 p.m. on the following June 30, and (2) thereafter means the 12 month period commencing each year at 12 p.m. on June 30, except that the last Contract Year shall end on the date of termination of this agreement.

(f) "Date of Commercial Operation" means the date fixed by the parties as the point in time when the Project is ready to be operated on a commercial basis pursuant to schedules agreed to by the Administrator and Supply System.

(g) "Generating Facilities" means the Hanford Project power house with two turbine generator units with a combined nameplate rating of 860 megawatts, related auxiliary equipment, transformation and transmission facilities.

(h) "Hanford Exchange Agreements" means the Exchange Agreements (Contracts No. 14-03-35345 through 14-03-35363 and 14-03-35569 through 14-03-35625,

inclusively) executed by 76 utility participants, Supply System and the Administrator providing for the purchase of Project Output from the Hanford Project by the Participants and the exchange of such Project Output with the Administrator for firm power and energy.

(i) "Hanford Project" means the works, plants and facilities constructed by the Supply System for the generation and transmission of electric power and energy in conjunction with the Atomic Energy Commission's New Production Reactor pursuant to Supply System's Resolution No. 178.

(j) "Net Billing Agreements" means the agreements for the Project entered into by Supply System, the Administrator and each of the Participants (Contracts No. 14-03-39217 through 14-03-39320, inclusive).

(k) "Participants" means those entities which are specified in Exhibit A of the Net Billing Agreements, or which become assignees of all or part of any Participant's Share pursuant to the Net Billing Agreements.

(l) "Project" means the nuclear generating plant and related properties as described in Exhibit A. Exhibit A may be revised from time to time by mutual agreement of the parties, but in any event shall conform to the description of the Project in the Bond Resolution which authorizes the issuance of Bonds in an amount sufficient to pay the costs of acquiring and constructing the Project.

(m) "Project Capability" means the actual electrical generating capability, if any, of the Project at any particular time (including times when the Project is not operable or operating or the operation thereof is suspended, interrupted, interfered with, reduced or curtailed, in each case in whole or in part), less Project station use and losses.

(n) "Project Consultant" means an individual or firm, of national reputation having demonstrated expertise in the field of the matter or item referred to it, appointed among other things, for the resolution of a difference regarding a matter or item referred by Supply System. A different Project Consultant may be appointed for each matter or item referred.

(o) "Project Exchange Agreements" means the agreements entered into by Supply System, the Administrator and each of The Montana Power Company, Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company (Contracts No. 14-03-39212 through 14-03-39216, inclusive).

(p) "Prudent Utility Practice" at a particular time means any of the practices, methods and acts, which, in the exercise of reasonable judgment in light of the facts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice shall apply not only to functional parts of the Project but also to appropriate structures, landscaping, painting, signs, lighting, other facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of the Project. Prudent Utility practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts. In evaluating whether any matter conforms to Prudent Utility Practice, the parties and any Project Consultant shall take into account (1) the fact that Supply System is a municipal corporation and operating agency under the laws of the State of Washington with the statutory duties and responsibilities thereof and (2) the

objective to integrate the entire Project Capability with the generating resources of the Federal Columbia River Power System to achieve optimum utilization of the resources of that system taken as a whole, and to achieve efficient and economical operation of that system.

2. Exhibits. Exhibits A and B are by this reference incorporated herein and made a part of this agreement. Supply System shall be the Contractor as that term is used in Exhibit B.

3. Term of Agreement. This agreement shall be effective upon execution and delivery and shall terminate when the Project terminates as provided in section 15.

4. Design, Licensing and Construction of the Project.

(a) Supply System shall perform its duties and exercise its rights under this agreement in accordance with Prudent Utility Practice.

(b) Supply System shall seek and use its best efforts to obtain all licenses, permits and other rights and regulatory approvals necessary for the ownership, construction, and operation of the Project.

(c) Supply System shall complete all appropriate planning and engineering studies and construct the Project in accordance with Prudent Utility Practice. Supply System shall use its best efforts to schedule the Date of Commercial Operation to be, as near as may be, September 1, 1980.

(d) Supply System shall keep the Administrator informed of all matters Supply System deems significant with respect to planning, engineering studies and construction of the Project, where practicable in time for the Administrator to comment thereon before decisions are made. Upon request by the Administrator, Supply System shall furnish or make available to the Administrator with reasonable

promptness, and at reasonable times, copies of proposed plans, specifications, invitations for bids and contracts and all certificates delivered to Supply System by any engineer or architect in connection with such construction, and all bids, papers, records and accounts relating to construction or operation of the Project.

(e) Supply System shall award separate contracts for readily separable parts of the work to the extent consistent with construction of the Project at least overall cost and the high quality required. Construction contracts may be lump sum or unit price, and may also contain incentive and liquidated damages clauses. Supply System shall advertise for bids among qualified contractors and award the contract after appropriate evaluation and review to the lowest responsible bidder, or reject all bids. All bids, bid evaluations and proposed contract awards for amounts in excess of \$500,000 shall be submitted to the Administrator prior to contract award. If the Administrator disapproves the proposed award, the matter will be referred to the Project Consultant as provided in section 10.

(f) The Administrator may, at his option and at Government expense, maintain a representative at the Project site during the construction of the Project. Such representative shall have no authority regarding administration or inspection of the Project construction.

(g) Notwithstanding any other provisions of this agreement, the selection of the (1) type and specifications for the nuclear steam supply system, (2) method of cooling, (3) specifications for the additional turbine-generator and (4) architect-engineer shall be made only after approval by the Administrator.

(h) The Administrator shall have the right to purchase upon reasonable terms and conditions energy produced during any test operation of the generating unit of the Project, upon reasonable notice to Supply System of his intention to

do so, given prior to the commencement of such test operation. If the Administrator does not exercise such right, he shall accept delivery into the Federal Columbia River Power System and, upon reasonable terms and conditions, shall deliver any such energy not purchased by him to Supply System or its assignee at mutually agreed points.

5. Financing of the Project.

(a) Supply System shall, in good faith and with due diligence, use its best efforts to issue and sell Bonds to finance the costs of the Project and the completion thereof, as such costs are defined in the Bond Resolution and, subject to the provisions of section 11(c), to finance the costs of any capital additions, renewals, repairs, replacements or modifications to the Project; provided, however, that in each such case such Bonds may then be legally issued and sold.

Supply System may, after submitting its financing proposal to the Administrator, or shall, whenever requested by the Administrator, adopt proceedings to authorize the issuance and sale of additional Bonds to refund outstanding Bonds prior to maturity in accordance with the Bond Resolution; provided, however, that if in the judgment of Supply System or the Administrator no substantial benefits or economies will be achieved by such refunding, the matter shall be referred to the Project Consultant as provided in section 10.

(b) Notwithstanding any other provisions of this agreement, the Bond Resolution shall be subject to the approval of the Administrator.

6. Budget and Accounting Procedures.

(a) Construction Budget. The Administrator has heretofore reviewed Supply System's Construction Budget in connection with the Project. By October 1 of each year until completion of construction of the Project Supply System shall

prepare and submit to the Administrator an updated Construction Budget describing the items of construction and the estimated amounts to be expended therefor in each quarter from the succeeding January 1 to estimated date of Project completion. Supply System shall submit revised Construction Budgets to the Administrator from time to time to reflect substantial changes in construction schedules, plans, specifications, or costs. Updated Construction Budgets for the succeeding calendar year and revised Construction Budgets for the current calendar year shall become effective unless disapproved by the Administrator within 30 days, and seven days, respectively, after submittal. Any item disapproved shall be referred to the Project Consultant as provided in section 10.

A monthly Construction Budget report shall be prepared by Supply System and filed with the Administrator showing by major plant accounts or contracts, the cumulative amounts committed and the cumulative expenditures to date of each such report.

(b) Annual Budget. At least 90 days prior to the expected Date of Commercial Operation, Supply System shall submit to the Administrator a proposed Annual Budget for the period from the expected Date of Commercial Operation to the next succeeding July 1, and if the Date of Commercial Operation occurs subsequent to April 1 in a calendar year, a similar Annual Budget for the next succeeding Contract Year. Thereafter, on or before April 1 of each year Supply System shall submit to the Administrator a similar Annual Budget for the next succeeding Contract Year, which budget shall take into account the cumulative difference between total moneys received and expenditures for the prior Contract Year and provide for adjustment, as necessary, of the appropriate working cash fund.

All taxes imposed and required by law to be paid, and which are due and payable in a Contract Year, shall be included in the Annual Budget for that Contract Year as a Project cost. To the extent Supply System is permitted by law to negotiate for payments in lieu of taxes or other negotiated payments to state or local taxing entities, the Annual Budget shall also include the amounts of such negotiated payments; provided, however, that Supply System shall not agree to such negotiated payment if in any Contract Year the sum of such negotiated payments to such taxing entities and taxes imposed by law by such taxing entities would exceed the total amount of ad valorem taxes that Supply System would have paid in that year to such taxing entities if the Project or portion thereof, within the boundaries of each such taxing entity, were subject to ad valorem taxes and its valuation for tax purposes were added to the valuation of the property subject to ad valorem taxes by such taxing entity, but with its millage rate reduced so that the amount of ad valorem taxes raised would be unchanged.

Notwithstanding any other provision of this agreement, costs incurred by Supply System in an emergency or to protect the safety of the Project or the public shall be added to the Annual Budget as incurred. Promptly after any such occurrence, and prior to expenditures of any other funds not contemplated in the effective Annual Budget, Supply System shall submit a revised Annual Budget to the Administrator.

The Annual Budget and revised Annual Budget shall become effective unless disapproved by the Administrator within 30 days and seven days, respectively, after submittal. Any item disapproved shall be referred to the Project Consultant as provided in section 10.

(c) Accounting. Supply System shall keep up-to-date books and records showing all financial transactions and other arrangements made in carrying out

the terms of this agreement. Such books and records shall contain information supporting the allocation of Supply System's indirect costs associated with the Project, and the method of allocating or prorating costs or expenses as between the Project and other activities in which Supply System may have an interest shall be based upon Prudent Utility Practice. Such books and records shall be retained by Supply System for three years and shall be made available for inspection and audit by the Administrator at any reasonable time.

All accounts shall be kept so as to permit conversion to the applicable system of accounts prescribed for electric utilities by the Federal Power Commission.

Any contract with any consultant or contractor of Supply System providing for reimbursement of costs or expenses of any kind shall require the keeping and maintenance of books, records, documents, and other evidence pertaining to the costs and expenses incurred or claimed under such contract to the extent and in such detail as will properly reflect all costs related to this agreement and shall require such books, records, documents and evidence to be made available to the Administrator at all reasonable times for review and audit for a period of three years after final settlement of the applicable contracts.

(d) All moneys received on account of the Project which are surplus to a current year's operating and capital expenses and Bond Resolution requirements shall be invested by Supply System in accordance with the Bond Resolution until such surplus moneys can be appropriately applied in a future Contract Year.

7. Operation and Maintenance of the Project.

(a) Supply System shall operate and maintain the Project in accordance with Prudent Utility Practice, so as to meet the requirements of the Atomic Energy

Commission, and other government agencies having jurisdiction and the applicable requirements of bond resolutions.

(b) During any hour in which the Project does not generate power for station use and losses to the high voltage terminals of the Project substation, the Administrator shall furnish such power, except for amounts others are obligated to supply under the Project Exchange Agreements and Net Billing Agreements, to the Supply System at the point of delivery specified in section 11 of the Net Billing Agreements; provided, however, that deliveries of such power may be interrupted or reduced in the case of system emergencies, or in order to make repairs, replacements or necessary additions to or perform maintenance on that portion of the Federal Columbia River Power System necessary to provide such power.

8. Fuel.

(a) At least 60 days prior to the anticipated date of award of the initial fuel contracts, Supply System shall submit the proposed provisions of such contracts to the Administrator. Within 180 days after the date of award of such contracts, and annually thereafter until the Date of Commercial Operation, Supply System shall prepare and submit a fuel management plan (Plan) to the Administrator. Each year after the Date of Commercial Operation, the Plan shall be submitted at the same time as the Annual Budget is submitted pursuant to section 6(b). Supply System shall amend the Plan as reasonably required to reflect changes in conditions unforeseen at the time the Plan was prepared.

Supply System shall consult with the Administrator in the preparation of the initial and each subsequent Plan. The Administrator shall furnish Supply System all necessary forecasts of the generation requirements of the Project. Such forecasts shall indicate the manner in which the Project is to be operated to integrate and coordinate the Project with hydroelectric and other thermal

resources available to the Administrator. Supply System shall rely upon such forecasts in preparing the Plan.

The Plan shall cover a period of at least the next succeeding ten years. It shall include a cash flow analysis of forecasted expenditures and credits for each major component of the fuel cycle, by years, for the entire period, and cash flow by months, for the first five years of the period. The Plan shall also include, but shall not be limited to, forecasts of the dates and details of fueling outages, contracts for each component of the fuel cycle, shipments and any licenses or permits required therefor and any other pertinent actions.

Each Plan (including the provisions of the initial fuel contracts), any changes therein, and costs relating thereto shall become effective unless disapproved by the Administrator within 30 days after submittal; provided, however, that whenever in his judgment it is practical to do so the Administrator shall notify Supply System in writing within ten days after each such submittal of his approval or disapproval. Any matter or item disapproved shall be referred to the Project Consultant as provided in section 10.

(b) At the time of each fueling, Supply System shall prepare in consultation with the Administrator and furnish to the Administrator its best estimate of the kilowatt-hours of net energy available from the Project to the next scheduled fueling date and the estimated fixed and variable unit cost per net kilowatt-hour and furnish to the Administrator such other data as may be requested by the Administrator. Supply System shall review the data with the Administrator at least monthly and revise such data as necessary.

9. Permits. Subject to any regulations of the Atomic Energy Commission pertaining to the Project, if by the terms of this agreement any equipment or

facility of either party is, or is to be, located on the property of the other, a permit to install, test, maintain, inspect, replace, and repair during the term of this agreement and to remove at the expiration of said term such equipment and facility, together with the right of ingress to and egress from the location thereof at all reasonable times in such term, is hereby granted by the other party.

10. Administrator's Approval and Project Consultant.

(a) All proposals of Supply System, including but not limited to, budgets, plans, actions, activities, or matters submitted to the Administrator under any provisions of this agreement shall include itemized cost estimates and other detail sufficient to support a comprehensive review, including but not limited to, a copy of all supporting reports, analyses, recommendations, or other documents pertaining thereto. If the Administrator does not disapprove the proposal within the time specified, or if no time is specified, within seven days after receipt, the proposal shall be deemed approved. Any proposal disapproved shall be segregated so that exact items of difference are identified and shall become effective immediately as to items not disapproved.

(b) Except as provided in sections 4(g), 5(b), 11(b), and the third paragraph of section 6(b), disapproval by the Administrator shall be given in writing and shall be based solely on whether the proposal or item is consistent with Prudent Utility Practice. Such disapproval shall describe in what particular the proposal or item is not consistent with Prudent Utility Practice and shall at the same time recommend what would meet that standard.

When any proposal or item is so disapproved by the Administrator, Supply System shall adopt the suggestion of the Administrator or within seven days after receipt of such disapproval, shall appoint a Project Consultant acceptable to the

Administrator to review the proposal or item in the manner described in this section. If the parties shall not agree upon the selection of the Project Consultant, Supply System shall promptly request the Chief Judge of the United States District Court for the Western District of Washington to appoint the Project Consultant.

(c) The Project Consultant shall consider all written arguments and factual materials which have been submitted to it by either party within ten days following its appointment, and as promptly as possible after the expiration of such period, make a written determination as to whether the proposal or item disapproved by the Administrator referred to it by Supply System would or would not have been consistent with Prudent Utility Practice. If the Project Consultant determines that the proposal or item referred to it was not consistent with Prudent Utility Practice it shall, at the same time, recommend what would, under the same circumstances, have met such test.

Proposals or items found by the Project Consultant to be consistent with Prudent Utility Practice shall become immediately effective. Proposals or items found by the Project Consultant to be inconsistent with Prudent Utility Practice shall be modified to conform to the recommendation of the Project Consultant or as the parties otherwise agree and shall become effective as and when modified.

(d) All costs incurred by Supply System for or by reason of employing a Project Consultant under this agreement and the Net Billing Agreements shall be a cost of the Project.

(e) If any proposal or item referred to the Project Consultant has not been resolved and will affect the continuous operation of the Project, Supply System shall continue to operate the Project. Supply System may proceed with the item, (1) as proposed by it, or (2) as proposed by the Administrator, or (3) as modified by mutual agreement by Supply System and the Administrator prior

to the time such item affects operation of the Project; provided, however, that if Supply System proceeds with the item as proposed by it and that item is determined by the Project Consultant to be inconsistent with Prudent Utility Practice, Supply System shall bear any net increase in the cost of construction or operation of the Project resulting from such item without charge to the Project to the extent such item was inconsistent with what the Project Consultant determined would under such circumstances have met such test. Notwithstanding other provisions of this section 10(c), whenever a proposal has been referred to the Project Consultant, Supply System shall operate in accordance with Supply System's proposals until such proposal has been resolved by the Project Consultant, whenever Supply System determines that the Administrator's proposals would create an immediate danger to the safe operation of the Project.

(f) The Administrator's approval or failure to disapprove any plan, proposal or item pursuant to the terms of this agreement shall not render the Government, its officers, agents, or employees, liable or responsible for any injury, loss, damage, or accident resulting from ownership, design, construction, operation, or maintenance of the Project.

(g) The word "item" as used in this section means the item described including the cost specified therefor.

11. Replacements, Repairs and Capital Additions.

(a) After the Date of Commercial Operation Supply System shall submit its plan, including but not limited to a financing plan, and budget of expenditures to the Administrator for each replacement, repair, or betterment relating thereto, or capital addition required by governmental agencies, each as related to the Project and having a cost, as estimated by Supply System, in excess of \$3,000,000; provided, however, that if the estimated cost of any such replacement,

repair, or betterment relating thereto, or capital addition required by governmental agencies, exceeds 20 percent of the then depreciated value of the Project, the Administrator may direct that Supply System end the Project in accordance with section 15. If the parties cannot agree upon such estimated costs, such estimated costs shall be referred to and determined by the Project Consultant. If the Administrator does not so direct within 90 days from the date such estimated cost has been so agreed upon or determined, Supply System shall proceed with its plan and budget of expenditures for such replacement, repair, or betterment relating thereto, or capital addition required by such governmental agency. Each such plan and budget or updated or revised budget relating thereto shall be submitted to the Administrator and shall become effective at the time and in the manner provided in section 6(a).

(b) Notwithstanding any other provisions of this agreement, Supply System shall not expend or obligate, without prior approval of the Administrator, moneys exceeding \$50,000 in any Contract Year for capital additions to the Project unless such capital additions are required by governmental agencies.

(c) If in any Contract Year the amounts in the Annual Budget for renewals, repairs, replacements, and betterments, and for capital additions necessary to achieve design capability or required by governmental agencies (Amounts for Extraordinary Costs), whether or not such amounts are costs of operation or costs of construction, exceed the amount of reserves, if any, maintained for such purpose pursuant to the Bond Resolution plus the proceeds of insurance, if any, available by reason of loss or damage to the Project, by the lesser of:

- (1) an amount of \$3,000,000 or

(2) an amount by which the amount of the Administrator's estimate of the total of the Administrator's net billing credits available in such Contract Year to the Participants pursuant to section 7(a) of the Net Billing Agreements and the amounts of such reserves and insurance proceeds, if any, exceeds the Annual Budget for such Contract Year exclusive of Amounts for Extraordinary Costs,

Supply System shall, in good faith, use its best efforts to issue and sell Bonds to pay such excess in accordance with section 5(a).

12. Insurance.

(a) Supply System shall maintain in force, for the benefit of the Project, the Administrator, Supply System, and the Participants as their respective interests shall appear, as a Project expense, such insurance as will satisfy the requirements of the Bond Resolution, the Atomic Energy Act of 1954 as amended, other insurance required by applicable statutes, and such other insurance as the parties agree. Subject to section 11 any proceeds of such insurance received by the Supply System for loss or damage to the Project shall be used to repair the Project. Supply System shall not, without the consent of the Administrator and the Participants' Review Board as established pursuant to section 17 of the Net Billing Agreements, cause the insurance on the Project to be extended to any additional units or generating projects or to lapse to permit the extension of such coverage.

(b) The Administrator may request additional insurance to the extent available, and Supply System shall purchase such requested insurance at the Administrator's expense. The proceeds from such requested insurance shall be disbursed as directed by the Administrator.

13. Inspection of Project Facilities. The Administrator may, but shall not be obligated to, inspect the Project at any reasonable time, but such inspection, or failure to inspect, shall not render the Government, its officers, agents, or employees, liable or responsible for any injury, loss, damage, or accident resulting from defect in the Project.

14. Training. Supply System shall carry out a familiarization and training program to maintain adequate staff for the Project and the expenses thereof shall be part of the direct or indirect costs of construction or costs of operation as appropriate.

15. End of the Project. The Project shall terminate and Supply System shall cause the Project to be salvaged, discontinued, decommissioned, and disposed of or sold in whole or in part to the highest bidder(s) or disposed of in such other manner as the parties may agree when

(a) Supply System determines it is unable to construct, operate, or proceed as owner of the Project due to licensing, financing, or operating conditions or other causes which are beyond its control;

(b) the parties determine the Project is not capable of producing energy consistent with Prudent Utility Practice or, if the parties disagree, the Project Consultant so determines, or

(c) the Administrator directs end of Project as provided in section 11(a).

The date of termination shall be the earliest of the date of the determination under subsections (a) or (b) above or the date of direction under subsection (c) above.

16. Assignment of Agreement. This agreement shall inure to the benefit of, and shall be binding upon, the respective successors and assigns of the

parties to this agreement; provided, however, that neither this agreement nor any interest therein shall be transferred or assigned by (a) Supply System to any entity other than the United States or an agency thereof without written consent of the Administrator, or (b) the Administrator to any party other than the United States, or an agency thereof, without written consent of Supply System.

17. Applicability of Other Instruments. It is recognized by the parties hereto that Supply System in the ownership, construction and operation of the Project must comply with the requirements of the Bond Resolution and all licenses, permits and regulatory approvals necessary for such ownership, construction and operation, and it is, therefore, agreed that this agreement is made, and referrals to the Project Consultant hereunder shall be, subject to the terms and provisions of the Bond Resolution and all such licenses, permits, and regulatory approvals.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in several counterparts.

UNITED STATES OF AMERICA
Department of the Interior

(SEAL)

By Bonneville Power Administrator

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

(SEAL)

By _____

Title _____

ATTEST:

By _____

Title _____

PROJECT CHARACTERISTICS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1

The Washington Public Power Supply System's Nuclear Project No. 1 is expected to have a net electrical plant capability of approximately 1250 MW.

A new pressurized water reactor nuclear steam supply system similar to other reactors now under construction will replace the NPR as a steam source. It will include, but not be limited to, a nuclear reactor, fuel, control systems, primary coolant loops with steam generators, engineered safeguard systems, radwaste system, service systems, containment building and other auxiliary facilities.

Steam will be fed from this new reactor to a new topping turbine and generator with a nameplate rating of approximately 400 MW housed in an extension of the existing turbine-generator building of the Generating Facilities. New piping will transmit low pressure exhaust steam from the new topping turbine to the existing low pressure turbine complex which is a part of the Generating Facilities. The existing turbines may be modified, including the addition of extra stages of blades; and such modifications, additions and alteration to the condensers, cooling system, feedwater heaters, feedwater pumps, instrumentation, control systems, auxiliary startup power facilities and other components of the Generating Facilities will be made as shall be required to operate the topping turbine and to utilize exhaust steam from the topping turbine.

(12-3-69)

PROVISIONS REQUIRED BY STATUTE OR EXECUTIVE ORDER1. Contract Work Hours and Safety Standards.

This contract, to the extent that it is of a character specified in the Contract Work Hours and Safety Standards Act (Public Law 87-581, 76 Stat. 357-360, as amended) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. C. 35-45), is subject to the following provisions and to all other provisions and exceptions of said Contract Work Hours and Safety Standards Act.

(a) No Contractor or subcontractor contracting for any part of the contract work which may require or involve the employment of laborers or mechanics shall require or permit any laborer or mechanic in any workweek in which he is employed on such work, to work in excess of eight hours in any calendar day or in excess of forty hours in any workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times his basic rate of pay for all hours worked in excess of eight hours in any calendar day or in excess of forty hours in such workweek, whichever is the greater number of overtime hours.

(b) In the event of any violation of the provisions of subsection (a), the Contractor and any subcontractor responsible for such violation shall be liable to any affected employee for his unpaid wages. In addition, such Contractor or subcontractor shall be liable to the United States for liquidated damages. Such liquidated damages shall be computed, with respect to each individual laborer or mechanic employed in violation of the provisions of subsection (a), in the sum of \$10 for each calendar day on which such employee was required or permitted to work in excess of eight hours or in excess of forty hours in a workweek without payment of the required overtime wages.

(c) The Administrator may withhold, or cause to be withheld, from any moneys payable on account of work performed by the Contractor or subcontractor, the full amount of wages required by this contract and such sums as may administratively be determined to be necessary to satisfy any liabilities of such Contractor or subcontractor for liquidated damages as provided in subsection (b).

(d) No contractor or subcontractor contracting for any part of the contract work shall require any laborer or mechanic employed in the performance of the contract to work in surroundings or under working conditions which are unsanitary, hazardous, or dangerous to his health or safety, as determined under construction safety and health standards promulgated by the Secretary of Labor by regulation based on proceedings pursuant to section 553 of title 5, United States Code, provided that such proceedings include a hearing of the nature authorized by said section.

(c) The Contractor shall require the foregoing subsections (a), (b), (c), (d) and this subsection (c) to be inserted in all subcontracts.

(f) The Contractor shall keep and maintain for a period of three (3) years from the completion of this contract the information required by 29 CFR § 516.2(a). Such material shall be made available for inspection by authorized representatives of the Government, upon their request, at reasonable times during the normal work day.

2. Convict Labor. The Contractor shall not employ any person undergoing sentence of imprisonment at hard labor.
3. Equal Opportunity. Unless exempted pursuant to the provisions of Executive Order 11246 of September 24, 1965 and the rules, regulations and relevant orders of the Secretary of Labor thereunder, during the performance of this contract, the Contractor agrees as follows:

(a) The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Administrator setting forth the provisions of this equal opportunity clause.

(b) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(c) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the Administrator, advising the labor union or worker's representative of the Contractor's commitments under this equal opportunity clause and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(d) The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(e) The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor,

or pursuant thereto, and will permit access to his books, records, and accounts by the Administrator and the Secretary of Labor for purposes of investigations to ascertain compliance with such rules, regulations and orders.

(f) In the event of the Contractor's noncompliance with the equal opportunity clause of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(g) The Contractor will include the provisions of paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Administrator may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the Administrator, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

4. Interest of Member of Congress. No Member of or Delegate to Congress, or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom. Nothing, however, herein contained shall be construed to extend to such contract if made with a corporation for its general benefit.

ATTACHMENT 1-4

WNP NO. 1 NET BILLING AGREEMENT

that are operated in conjunction with byproduct steam from the New Production Reactor (NPR) of the Atomic Energy Commission (AEC) on the Hanford Reservation;

WHEREAS the AEC has notified Supply System of its intention to discontinue dual purpose operation of the NPR and Supply System, the Administrator and the Participants, being all the parties to the Hanford Exchange Agreements, have agreed that Supply System shall construct a nuclear steam supply facility and additional generating facilities which can be used in conjunction with the Generating Facilities; and

WHEREAS Supply System, the Administrator and 76 utility participants have executed Hanford Exchange Agreements which provide for the purchase of Project Output from the Hanford Project by the Participants and the exchange of such Project Output with the Administrator for firm electric power and energy; and

WHEREAS Supply System proposes to design, finance, construct, operate and maintain the Project; and

WHEREAS the Participant proposes to purchase the Participant's Share from Supply System for assignment to the Administrator hereunder, and the Administrator proposes to acquire such Participant's Share; and

WHEREAS Supply System and the Participant have each determined that the sale by Supply System to the Participant of the Participant's Share and assignment thereof to the Administrator as herein provided will be beneficial to it by reducing the cost of and increasing the amounts of firm power and energy which will be available to serve its members or customers in the future; and

WHEREAS the Administrator has determined that the acquisition of the Participant's Share as herein provided will assist in attaining the objectives

WHEREAS the Administrator, Supply System, The Montana Power Company, Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company expect to enter into Project Exchange Agreements simultaneously with this agreement, which among other things provide for the purchase of Project Capability from the Project and the exchange of such Project Capability for firm power from the Administrator; and

WHEREAS Supply System is organized under the laws of the State of Washington (Rev. Code of Washington, Ch. 43.52) and is authorized by law to construct, acquire and operate works, plants, and facilities for the generation and/or transmission of electric power and energy and to enter into contracts with the Administrator and public and private organizations for the disposition and distribution of electric power and energy produced thereby; and

WHEREAS the Administrator is authorized pursuant to law to dispose of electric power and energy generated at various Federal hydroelectric projects in the Pacific Northwest and to enter into related agreements;

NOW, THEREFORE, the parties hereto mutually agree as follows:

1. Definition and Explanation of Terms.

(a) "Annual Budget" means the budget adopted by Supply System not less than 45 days prior to the beginning of each Contract Year which itemizes the projected costs of the Project applicable to such Contract Year, or, in the case of an amended Annual Budget, applicable to the remainder of such Contract Year. The Annual Budget, as amended from time to time, shall make provision for all such Supply System's costs, including (1) all obligations of Supply System incurred with respect to the Hanford Project, including its obligations under Supply System Resolution No. 178 and the Bond Resolution, and (2) accruals

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This AGREEMENT, executed February 6, ¹⁹⁷³~~1972~~, by the UNITED STATES OF AMERICA (hereinafter called "the Government"), Department of the Interior, acting by and through the BONNEVILLE POWER ADMINISTRATOR (hereinafter called "the Administrator"), and WASHINGTON PUBLIC POWER SUPPLY SYSTEM (hereinafter called "Supply System"), a nonprofit corporation of the State of Washington, and BENTON RURAL ELECTRIC ASSOCIATION, a nonprofit corporation of the State of Washington (Participant),

W I T N E S S E T H:

WHEREAS Supply System has constructed the Hanford Project which includes Generating Facilities with an electrical capability of 860 megawatts

(b) "Billing Statement" means the written statement prepared by Supply System that shows the amount to be paid to Supply System by the Participant for the Participant's Share for a Contract Year or, in the case of an amended Billing Statement, for the remainder of such Contract Year. Such amount shall be determined as to the Participant by multiplying the amount of the Annual Budget or the amended Annual Budget, as the case may be, less any other funds (including but not limited to amounts payable under the Project Exchange Agreements) which shall be specified in the Annual Budget as being payable from sources other than the payments to be made under the Net Billing Agreements, by the Participant's Percentage. At the end of each Contract Year any amount over or under billed during such year will be reflected in the Billing Statement for the following Contract Year.

(c) "Bonds" means any bond, bonds or other evidences of indebtedness issued in connection with the Project pursuant to the Bond Resolution (1) to finance or refinance Supply System's costs associated with planning, designing, financing, acquiring and constructing the Project pursuant to the Bond Resolution, and (2) for any other purpose related to the Project authorized thereby.

(d) "Bond Resolution" means the resolution or resolutions adopted or supplemented by Supply System, as the same may be amended or supplemented, to authorize the Bonds.

(e) "Contract Year" (1) means the period commencing on the Date of Commercial Operation, or on January 1, 1980, whichever occurs first, and ending at 12 p.m. on the following June 30, and (2) thereafter means the 12-month period commencing each year at 12 p.m. on June 30, except that the last Contract Year shall end on the date of termination of this agreement.

of the Bonneville Project Act and other statutes which pertain to the disposition of electric power and energy from Government projects in the Pacific Northwest by enabling the Government to make optimum use of the Federal Columbia River Power System, and that the integration of the capability of the Project with the generating resources of the Federal Columbia River Power System as provided herein will enable the Administrator to make available additional firm power and energy to meet the needs of his customers; and

WHEREAS the construction of the Project is a part of the Hydro Thermal Power Program for the Pacific Northwest and this agreement is one of a series of agreements implementing such program; and

WHEREAS the Administrator will pool electric power and energy acquired hereunder with other electric power and energy available to the Administrator from the Federal Columbia River Power System so that any costs or losses associated with acquiring such electric power and energy will be borne by the Administrator's ratepayers through rate adjustments if necessary; and

WHEREAS the Administrator and the Participant are parties to agreements which require payments by the Participant to the Administrator which may be used to offset payments by the Administrator to the Participant hereunder under a net billing procedure; and

WHEREAS Supply System and the Administrator propose to enter into the Project Agreement simultaneously with this agreement which will provide among other things for relationships between Supply System and the Administrator with respect to Project construction, operation, maintenance and budgets; and

WHEREAS the Administrator and Supply System propose to enter into agreements with the other Participants containing terms and conditions substantially identical to those specified herein; and

(1) During the period beginning on the date of execution of this agreement and ending at 12 p.m. on June 30, 1996, such fraction shall be the Participant's Percentage specified in Exhibit A multiplied by 0.67530.

(2) During the period beginning at 12 p.m. on June 30, 1996, and continuing for the remainder of the term hereof, the Participant's Share shall be the Participant's Percentage specified in Exhibit A, provided, however, that the decimal fractions determined in (1) or (2) above shall (1) during any period in which a decimal fraction share is assigned to the Participant pursuant to sections 7(b), 7(f), or 12 hereof or pursuant to section 7(b) in the other Net Billing Agreements, be increased by the decimal fraction share or shares so assigned, and (2) be decreased by any reductions under section 12 hereof or under an assignment by the Participant under section 7(b) hereof during any period in which such reductions or assignments are in effect.

(n) "Project" means the nuclear generating plant and related property as described in Exhibit B. Exhibit B may be revised from time to time by mutual agreement of Supply System and the Administrator, after consultation with the Participant, but in any event shall conform to the description of the Project in the Bond Resolution which authorizes the issuance of Bonds in an amount sufficient to pay the costs of acquiring and constructing the Project.

(o) "Project Agreement" means the agreement for the financing, construction ownership and operation of the Project, as the same may be amended, executed by Supply System and the Administrator (Contract No. 14-03-39211).

(p) "Project Capability" means the actual electrical generating capability, if any, of the Project at any particular time (including times when the Project is not operable or operating or the operation thereof is suspended,

and amortizations, resulting from the ownership, operation (including cost of fuel) and maintenance of the Project and repairs, renewals, replacements, and additions to the Project, including but not limited to, the amounts which Supply System is required under the Bond Resolution to pay in each Contract Year into the various funds provided for in the Bond Resolution for debt service and all other purposes and shall include the source of funds proposed to be used; provided, however, that the Annual Budget for any portion of a Contract Year prior to the Date of Commercial Operation or September 1, 1980, whichever occurs first, shall include only such amounts as may be agreed upon by Supply System and the Administrator.

All taxes imposed and required by law to be paid, and which are due and payable in a Contract Year, shall be included in the Annual Budget for that Contract Year as a Project Cost. To the extent Supply System is permitted by law to negotiate for payments in lieu of taxes or other negotiated payments to state or local taxing entities, the Annual Budget shall also include the amounts of such negotiated payments; provided, however, that Supply System shall not agree to such a negotiated payment if in any Contract Year the sum of such negotiated payments to such taxing entities and taxes imposed by law by such taxing entities would exceed the total amount of ad valorem taxes that Supply System would have paid in that year to such taxing entities if the Project or portion thereof, within the boundaries of each such taxing entity, were subject to ad valorem taxes and its valuation for tax purposes were added to the valuation of the property subject to ad valorem taxes by such taxing entity, but with its millage rate reduced so that the amount of ad valorem taxes raised would be unchanged.

Practice, the parties and any Project Consultant shall take into account (1) the fact that Supply System is a municipal corporation and operating agency under the laws of the State of Washington with the statutory duties and responsibilities thereof and (2) the objective to integrate the entire Project Capability with the generating resources of the Federal Columbia River Power System to achieve optimum utilization of the resources of that system taken as a whole, and to achieve efficient and economical operation of that system. Any practice, method or act which pursuant to the Project Agreement is determined to be Prudent Utility Practice shall be deemed to be Prudent Utility Practice hereunder.

2. Exhibits. Exhibits A through C are by this reference incorporated herein and made a part of this agreement. Supply System and the Participant shall each be the "Contractor" as that term is used in Exhibit C.

3. Term of Agreement. This agreement shall be effective upon execution and delivery and, except as provided in section 10(c) and except as to accrued obligations and liabilities, shall terminate on the date the Project Agreement terminates.

4. Financing, Design, Construction, Operation and Maintenance of the Project. Supply System, in good faith and in accordance with the Project Agreement and Prudent Utility Practice, shall use its best efforts to arrange for financing, design, construction, operation and maintenance of the Project.

5. Sale, Purchase and Assignment of Participant's Share.

(a) Sale of Participant's Share. Supply System hereby sells, and the Participant hereby purchases, the Participant's Share. The purchase price to be paid for each Contract Year by the Participant to Supply System for the Participant's Share shall be the amount specified in the Billing Statement.

(f) "Date of Commercial Operation" means the date fixed pursuant to section 1(f) of the Project Agreement.

(g) "Generating Facilities" means the Hanford Project powerhouse with two turbine generator units with a combined nameplate rating of 860 megawatts, related auxiliary equipment, transformation and transmission facilities.

(h) "Hanford Exchange Agreements" means the Exchange Agreements (Contracts No. 14-03-35345 through 14-03-35363 and 14-03-35569 through 14-03-35625, inclusively) executed by 76 utility participants, Supply System and the Administrator providing for the purchase of Project Output from the Hanford Project by the Participants and the exchange of such Project Output with the Administrator for firm power and energy.

(i) "Hanford Project" means the works, plant and facilities constructed by Supply System for the generation and transmission of electric power and energy in conjunction with the Atomic Energy Commission's New Production Reactor pursuant to Supply System's Resolution No. 178.

(j) "Net Billing Agreements" means this agreement and all other agreements for the Project similar to this agreement entered into by Supply System, the Administrator, and each of the Participants (Contracts No. 14-03-39217 through 14-03-39320, inclusive).

(k) "Participants" means those entities which are specified in Exhibit A or which become assignees of all or part of a Participant's Share pursuant to sections 7(b) or 16.

(l) "Participant's Percentage" means the decimal fraction for the Participant specified in Exhibit A adjusted prorata for increases or decreases in the Participant's Share under the proviso in subsection (m) below.

(m) "Participant's Share" means the decimal fraction share of Project Capability purchased by the Participant hereunder determined as follows:

Whenever during a Contract Year the Participant's Percentage changes from that used in preparing the Billing Statement for that Contract Year, an amended Billing Statement shall be prepared for the remainder of that Contract Year reflecting such change and shall be submitted to the Participant and the Administrator.

(b) The Participant shall pay to Supply System each Contract Year the amount specified in the Billing Statement submitted under subsection (a) above. Such payments shall be made as specified below.

The Participant shall pay to Supply System each month in a Contract Year the amount by which the net billing credits and cash payments theretofore received from the Administrator by the Participant for that Contract Year under section 7 exceed the sum of the Participant's previous payments to Supply System for that Contract Year until the amount of the Billing Statement has been paid; provided, however, that in any event the Participant shall pay by the end of the last month in that Contract Year the amount by which the amount in the Billing Statement exceeds the total of the monthly amounts previously paid to Supply System by the Participant in such Contract Year.

Each such payment shall be made on or before the thirtieth day after (1) the date on each of the Administrator's bills to the Participant which reflects a credit to the Participant for such Contract Year pursuant to section 7(a) or (2) the date that payment is received from the Administrator pursuant to section 7(c). Amounts due and not paid by the Participant on or before the close of business of such thirtieth day shall bear an additional charge of two percent of the unpaid amount. Thereafter, a further

interrupted, interfered with, reduced or curtailed, in each case in whole or in part), less Project station use and losses.

(q) "Project Consultant" means an individual or firm, of national reputation having demonstrated expertise in the field of the matter or item referred to it, appointed among other things, for the resolution of a difference regarding a matter or item referred by Supply System. A different Project Consultant may be appointed for each matter or item referred.

(r) "Project Exchange Agreements" means the agreements entered into by Supply System, the Administrator and each of The Montana Power Company, Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company (Contracts No. 14-03-39212 through No. 14-03-39216, inclusive).

(s) "Prudent Utility Practice" at a particular time means any of the practices, methods and acts, which, in the exercise of reasonable judgment in light of the facts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice shall apply not only to functional parts of the Project but also to appropriate structures, landscaping, painting, signs, lighting, other facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of the Project. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts. In evaluating whether any matter conforms to Prudent Utility

in the full amount of the Administrator's billings in that month under the Participant's Bonneville Contracts. A billing credit computed in the same manner shall be allowed in each of the succeeding months (except the last) in that Contract Year until the full amount owed by the Administrator for that Contract Year has been offset against the Administrator's billings to the Participant.

(2) For Contract Years in which there are two or more agreements requiring the Administrator to make payments to the Participant: In the month preceding each such Contract Year and in each of the succeeding months (except the last) in that Contract Year the Participant's billing credits under this agreement shall be offset in the manner specified in (1) above against the payments due from the Administrator under all agreements of the Participant requiring the Administrator to make payments to the Participant, in the proportion that the amount specified in the Billing Statement bears to the sum of the amounts to be paid by the Administrator under all such agreements for that Contract Year.

The total offsets allowed to the Participant hereunder for a Contract Year shall not exceed the sum of (1) the amount specified in the Billing Statement for that year and (2) any amount paid by the Participant for a prior Contract Year which remains unpaid by the Administrator to the Participant under this agreement.

"Participant's Bonneville Contracts" as used in this section means all contracts or agreements between the Participant and the Administrator which require payments by the Participant to the Administrator for sale and exchange of electric power and energy, operation and maintenance of facilities, use of transmission facilities, and emergency and standby power.

The Participant shall make the payments to be made to Supply System under sections 5, 6, and 10, whether or not the Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Project output, and such payments shall not be subject to any reduction whether by offset or otherwise, and shall not be conditioned upon the performance or nonperformance by Supply System or the Administrator or any other Participant under this or any other agreement or instrument.

(b) Assignment of Participant's Share to the Administrator. The Participant hereby assigns, and the Administrator hereby accepts the assignment of, the Participant's Share. In consideration of such assignment, the Administrator shall provide to the Participant the payments, offsets and credits specified in section 7 and section 10 in the manner provided therein, whether or not the Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Project output. Such payments, offsets or credits to be made by the Administrator under this agreement shall not be reduced by offset or otherwise, except as specifically provided in section 7, and shall not be conditioned upon the performance or nonperformance by Supply System, the Participant or any Participant under this or any other agreement or instrument.

6. Payment by the Participant.

(a) Not less than 45 days prior to each Contract Year, or whenever the Annual Budget for such Contract Year is amended, Supply System shall prepare and deliver to the Participant and the Administrator a Billing Statement showing the amount to be paid by the Participant for such Contract Year.

net balances that cannot be net billed shall be paid in cash to the Participant by the Administrator, subject to the availability of appropriations for such purposes.

(d) The Administrator and the Participant shall not enter into any agreements providing for payments to the Participant which the Administrator estimates will cause the aggregate of his billings to the Participant to be less than 115 percent of the Administrator's net billing obligations to the Participant under all agreements providing for net billing.

(e) If all or a portion of the Participant's Share is assigned under this section 7, the Participant shall nevertheless remain liable to Supply System to pay the purchase price for the Participant's Share in accordance with section 5(a) as if such assignment had not been made, and such liability of the Participant shall be discharged only to the extent that the assignee of the portion of the Participant's Share so assigned shall pay to Supply System the purchase price for the portion of the Participant's Share so assigned in accordance with the provisions of this agreement. Supply System may commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of the Participant with respect to such liability.

(f) If assignments pursuant to section 7(b) of the other Net Billing Agreements cannot be made in amounts sufficient to balance dollar obligations of the Administrator and any other Participant, the Participant shall accept on a pro rata basis with other Participants assignment of a portion of such other Participant's Share, to the extent required to eliminate such insufficiency provided, however, that the sum of such assignments to the Participant under

charge of one half percent of the initial amount remaining unpaid shall be added on the last day of each succeeding 30 day period until the amount due is paid in full. Remittances received by mail will be accepted without assessment of the delayed payment charges referred to above provided the postmark indicates the payment was mailed on or before the thirtieth day after the date of the bill. If the thirtieth day after the date of the bill is a Sunday or other nonbusiness day of the Participant, the next following business day shall be the last day on which payment may be mailed without addition of the delayed payment charge.

(c) In the event that Supply System bears any cost under section 10(e) of the Project Agreement the Participant will pay to Supply System an amount equal to the amount of such cost multiplied by the Participant's Percentage, in addition to the payments specified in section 6(b) hereof. Payments under this section 6(c) shall be made within 30 days from the date of mailing of the statement stating the amount of the payments.

7. Payment by the Administrator.

(a) For each Contract Year, the Administrator shall pay to the Participant an amount equal to that set forth in the Billing Statement for that Contract Year. The Administrator's payments shall be effected by means of credits against the Administrator's monthly billings to the Participant under the Participant's Bonneville Contracts, as follows:

(1) For Contract Years in which this is the only agreement requiring the Administrator to make payments to the Participant: In the month preceding each such Contract Year the Administrator shall allow a billing credit in the form of an offset to the Participant

by Supply System for the Participant's account at the point of delivery specified in section 11, for either the expected period of such inability or the remainder of the term hereof, whichever is specified by the Participant when it elects to have such energy delivered to it. The amount of such delivery shall be limited to the amount of the Participant's Share for which payment cannot be made, at the time the Participant elects to have such delivery made to it, by net billing with the Participant or assignees or by direct payment by the Administrator hereunder. The Participant's obligations to assign its Participant's Share to the Administrator and the Administrator's obligations to acquire such share and make payments to the Participant under this agreement shall then be appropriately modified. The Administrator's prior obligations to the Participant not previously liquidated pursuant to the terms of section 7 shall be preserved until satisfied.

(b) If the Participant elects to withdraw all or a portion of its Participant's Share as provided in this section, the Administrator will transmit such share to any point(s) of delivery on the Federal Columbia River Power System designated by the Participant where the Administrator determines such share can be made available, will supply station service and losses related to such share during shutdown of the Project, and will provide forced-outage reserves for such share, under the same terms and conditions as provided in contracts for similar service then being offered to other utilities in the Pacific Northwest owning interests in large thermal projects.

(c) Upon withdrawal of any portion of the Participant's Share under this section, the Participant shall schedule such portion in the same manner as provided for the Administrator in section 8, and the Administrator's rights under section 8 shall be correspondingly reduced.

(b) If for any Contract Year, the Administrator determines that the dollar obligations due the Administrator from the Participant, referred to in subsection (a) above, are or are expected to be insufficient to offset the Administrator's dollar obligations to such Participant under subsection (a) above, and, in the opinion of the Administrator and the Participant, are expected to remain insufficient for a significant period, the Administrator shall use his best efforts to arrange for assignment of all or a portion of the Participant's Share and the associated benefits and obligations (subject to the prior assignment of the Participant's Share to the Administrator hereunder) to another customer or customers of the Administrator for all or a portion of the remaining term of this agreement to the extent required to eliminate the insufficiency, and the Participant shall make the assignment so arranged. The other Participants shall have first right to accept such assignment, pro rata among those exercising such right, before an assignment is made to a customer who is not one of the Participants. If the Administrator is unable to arrange for such assignment, the Participant shall make such assignment to other Participants pro rata pursuant to the counterparts of subsection (f) of this section in the other Net Billing Agreements.

(c) If (1) assignments under subsection (b) above cannot be made in amounts sufficient to bring into balance the respective dollar obligations of the Administrator and (2) an accumulated balance in favor of the Participant from a previous Contract Year is expected by the Administrator to be carried for an additional Contract Year, such balance and any subsequent monthly

shall be prepared by Supply System at the earliest reasonable time. Such costs of salvage, discontinuance, decommissioning, and disposition or sale shall include, but shall not be limited to, all of Supply System's accrued costs and liabilities resulting from Supply System's ownership, construction, operation (including cost of fuel) and maintenance of and renewals and replacements to the Project, all other Supply System costs resulting from its ownership of the Project and the salvage, discontinuance, decommissioning, and disposition or sale thereof, and all amounts which Supply System is required under the Bond Resolution to pay in each year into the various funds provided in the Bond Resolution for debt service and all other purposes until the date that all of the Bonds have been paid or funds set aside for the payment or retirement thereof in accordance with the Bond Resolution.

The monthly accounting statements shall credit against such costs all amounts received by Supply System from the disposition of Project assets, including but not limited to amounts payable under the Project Exchange Agreements. The final accounting statement shall credit the fair market value of any assets related to the Project then retained by Supply System. If the monthly or final accounting statements show that such costs exceed such credits, the Participant shall pay Supply System at times reasonably agreed upon the sum determined by multiplying the amounts shown to be due in the monthly and final accounting statements by the decimal fraction then used in expressing the Participant's Percentage. In any case such payments shall be made at times and in amounts sufficient to cover on a current basis the Participant's Percentage of the amount which Supply System is required under the Bond Resolution to pay in each year into the various funds provided in

this subsection shall not without the consent of the Participant exceed an accumulated maximum of 25 percent of the Participant's Share specified in section 1(m)(2), nor shall any such assignment under this subsection cause the estimate of the payments to be made by the Participant to Supply System under this agreement to exceed the estimate of the Administrator's billings to the Participant for each Contract Year during the period of such assignment, both such estimates to be made by the Administrator.

(g) The estimates by the Administrator under this agreement of billing credits and of payments to be made by the Participant and the Administrator giving rise to such billing credits shall be conclusive.

8. Scheduling. Prior to 4 p.m. on each work day beginning on the day preceding the Date of Commercial Operation (work day meaning a day which the Administrator and Supply System observe as a regular work day) the Administrator shall notify Supply System of the amounts of energy from the Participant's Share he will require for each hour of the following day or days; provided, however, that the Administrator may during any hour request delivery of other amounts of such energy. Supply System's dispatcher, within the capability of the Participant's Share and in accordance with Prudent Utility Practice, shall schedule for delivery to the Administrator at the point of delivery specified in section 11 for each hour in the term hereof the amounts of energy so requested by the Administrator.

9. Participant's Right to Use Project Capability.

(a) If the Administrator is unable to satisfy his obligation to the Participant by net billing, assignment or cash payment under section 7, and determines, in consultation with the Participant, that this inability will continue for a significant period, the Participant may direct that all or a portion of the energy associated with the Participant's Share be delivered

approximately 60 hertz. Amounts so delivered at such point during each month shall be determined from measurements made by the Government's meters, adjusted for losses as agreed upon by the parties hereto, installed to record such deliveries at the place and in the circuits hereinafter specified:

PROJECT POINT OF DELIVERY:

Location: the point in the Vantage substation where the 500 kv facilities of the Government and the Project are connected;

Voltage: 500 kv;

Metering: in the 500 kv circuits at the Project over which such electric power and energy will flow;

Adjustment: for losses between the point of metering and point of delivery.

12. Obligations in the Event of Default. The Participant's Share purchased by the Participant from Supply System and assigned by the Participant to the Administrator under this agreement shall be automatically increased for the remaining term of this agreement pro rata with that of other nondefaulting Participants if, and to the extent that, one or more of the Participants is unable, or fails or refuses for any reason, to perform its obligations under its Net Billing Agreement, and the Participant's Share of the defaulting Participant shall be reduced correspondingly; provided, however, that the sum of such increases for the Participant pursuant to this subsection shall not, without consent of the Participant, exceed an accumulated maximum of 25 percent of the Participant's Share specified in section 1(m)(2), nor shall any such increase under this subsection cause the estimate of the payments to be made by the Participant to Supply System under this agreement to exceed the estimate of the Administrator's billings to the Participant during the period of such increase, which estimates shall be made by the Administrator and shall be conclusive.

Whenever the Participant schedules any portion of its Participant's Share, the Participant and the Administrator shall (1) schedule at least their respective proportionate shares of the minimum capability of the Project as determined by Supply System unless all Participants with similar obligations to schedule and the Administrator agree to a shutdown of the Project; provided, however, that the Administrator may, at his election, require shutdown of the Project if he supplies through exchange arrangements the power and energy the Participant otherwise would schedule from the Project during such period of shutdown, and (2) supply to the Supply System all necessary forecasts of their generation requirements from the Project for ensuing periods as necessary to enable Supply System to prepare the fuel management plan pursuant to section 8 of the Project Agreement.

10. Termination Settlements.

(a) If the Project is ended pursuant to section 15 of the Project Agreement, Supply System shall give notice of termination of this agreement effective upon the date of termination of the Project Agreement. Supply System shall terminate all activities related to construction and operation of the Project, and shall undertake the salvage, discontinuance, decommissioning, and disposition or sale of the Project, as provided in the Project Agreement. After such termination, Supply System shall provide monthly accounting statements to the Administrator and the Participant of all costs associated therewith. Such monthly accounting statements shall continue until all Bonds have been paid or funds set aside for the payment or retirement thereof in accordance with the Bond Resolution or the final disposition of the Project, whichever is later, at which time a final accounting statement

not be subject to termination by any party under any circumstances, whether based upon the default of any other party under this agreement, or any other instrument, or otherwise, except as specifically provided in this agreement.

(b) This agreement shall not be amended, modified, or otherwise changed by agreement of the parties in any manner that will impair or adversely affect the security afforded by the provisions of this agreement for the payment of the principal, interest, and premium, if any, on the Bonds as they respectively become payable so long as any of the Bonds are outstanding and unpaid or funds are not set aside for the payment or retirement thereof in accordance with the Bond Resolution.

(c) If any Net Billing Agreement is amended or replaced so that it contains terms and conditions different from those contained in this agreement, the Administrator shall notify the Participant and upon timely request by the Participant shall amend this agreement to include similar terms and conditions.

15. Hanford Exchange Agreement.

(a) If the Participant is a party to a Hanford Exchange Agreement, the parties hereto agree (i) to the use and employment of the Generating Facilities by Supply System for the purposes and in the manner prescribed in the Bond Resolution, (ii) that the electric power and energy to be produced by the Project, including the electric power and energy to be produced by the Generating Facilities, shall be disposed of to the parties, in the quantities, for the periods and under the terms and conditions prescribed in the Net Billing Agreements and the Project Exchange Agreements, and (iii) that the execution and delivery of this agreement does not affect, limit, modify, alter, release, or discharge their respective rights and obligations under such Hanford

the Bond Resolution for debt service and all other purposes. If the final accounting statement shows that such credits exceed such costs, Supply System shall pay at times reasonably agreed upon an amount determined by multiplying such excess by the Participant's Percentage, such amounts to be divided between the Administrator and the Participant as their interests may appear. Such excess credits shall bear interest from the date of such final accounting statement to the date of payment, at the average of the annual interest rates for each month during such time for three-to-five year issues, United States Government securities (taxable), Money Market Rates, as published by the Board of Governors of the Federal Reserve System in the "Federal Reserve Bulletin" or equivalent publication or the maximum rate lawfully payable by Supply System, whichever is less.

(b) To the extent of the Participant's Share then assigned to the Administrator, the Administrator shall pay the Participant the amounts, if any, paid by the Participant to the Supply System pursuant to this section. Such amounts shall be paid in the manner specified in section 7 and at such times as the parties agree upon.

(c) The provisions of this section 10 and the provisions of sections 5(a) and 5(b) describing the circumstances under which payments are to be made in this section 10 and the provisions of section 13 shall remain in effect notwithstanding termination of this agreement pursuant to section 5.

11. Provisions Relating to Delivery. Deliveries of electric power and energy to the Administrator shall be made at the point of delivery and at the approximate voltage described below. Such electric power and energy shall be in the form of three-phase current, alternating at a frequency of

18. Participants' Review Board.

(a) Composition; election. Not more than 30 days after the execution of this agreement, and thereafter not less than 60 days prior to the commencement of each Contract Year and at such other times prior to June 30, 1980, as the Participants Review Board may determine, the Participants shall elect a Participant's Review Board consisting of nine members. Supply System shall give each Participant not less than 15 days' written notice stating the time and place at which a meeting of representatives of the Participants shall be held for the purpose of holding such election. Each Participant shall designate the person and an alternate (to serve in the absence or disability of such person), to cast its vote(s) for Board members by written notice filed with Supply System. The vote cast in behalf of each Participant shall be proportional to its Participant's Share. Any vacancy on the Board shall be filled by vote of the remaining Board members pending the next Board election.

(b) Board meetings; voting; and rules. Meetings of the Participants' Review Board shall be held at least quarterly during the construction of the Project and at least semi-annually thereafter. Timely written notice of the time and place of such meeting shall be given to the parties. Each member of the Board shall be entitled to one vote, to be cast in person and not by proxy. A majority of the Board shall constitute a quorum, and the majority of those present shall be necessary and sufficient for the adoption of any motion or resolution except as otherwise provided in subsection (c) below. All meetings of the Board shall be open to attendance by any person authorized by any of the Participants. Except as herein provided, the calling and holding of meetings of the Board, and all of its other proceedings, shall be governed by rules adopted from time to time by two-thirds of the entire

If the Participant shall fail or refuse to pay any amounts due to Supply System hereunder, the fact that the other Participants have assumed the obligation to make such payments shall not relieve the Participant of its liability for such payments, and the Participants assuming such obligation, either individually or as a member of a group, shall have a right of recovery from the Participant. Supply System or any Participant as their interests may appear, jointly or severally, may commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of this agreement against the Participant under this subsection.

13. Sources of Participant's Payments. The Participant shall not be required to make the payments to Supply System under this agreement except from the revenues derived by the Participant from the ownership and operation of its electric utility properties and from payments by the Administrator under this agreement.

The Participant covenants and agrees that it will establish, maintain and collect rates or charges for power and energy and other services, facilities and commodities sold, furnished or supplied by it through any of its electric utility properties which shall be adequate to provide revenues sufficient to enable the Participant to make the payments to be made by it to Supply System under this agreement and to pay all other charges and obligations payable from or constituting a charge and lien upon such revenues.

14. Modification and Uniformity of Agreement.

(a) This agreement shall not be binding upon any of the parties hereto if it is not binding upon all of the parties hereto, but this agreement shall

(f) If Supply System modifies or rejects a written recommendation of the Participants' Review Board concerning a matter submitted for review under subsections (c) or (d) above, the Participants' Review Board may refer the matter to the Project Consultant in the manner described in Section 10 of the Project Agreement for his written decision and his decision shall be binding upon the parties. Pending any decision by the Project Consultant under this subsection, Supply System shall proceed in accordance with the Project Agreement. Nothing in this subsection shall affect the procedure for the settlement of any dispute between the Administrator and the Supply System under this agreement or the Project Agreement.

(g) Except as specifically provided in section 10(e) of the Project Agreement, Supply System shall not proceed with any item as proposed by it and not concurred in by the Administrator without approval of the Participants' Review Board.

(h) Supply System shall not, without the consent of the Administrator and the Participants' Review Board, cause the insurance on the Project to be extended to any additional units or generating projects or to lapse to permit the extension of such coverage.

19. Applicability of Other Instruments. It is recognized by the parties hereto that Supply System in the ownership, construction and operation of the Project must comply with the requirements of the Bond Resolution and all licenses, permits, and regulatory approvals necessary for such ownership, construction and operation, and it is, therefore, agreed that this agreement is made, and referrals to the Project Consultant hereunder shall be, subject to the terms and provisions of the Bond Resolution and all such licenses, permits, and regulatory approvals.

Exchange Agreements, or reduce the Participant's obligations to make payments thereunder in the event that sufficient moneys to make such payments are not otherwise available in accordance with the Net Billing Agreements and the Project Exchange Agreements.

(b) Supply System shall transfer to the appropriate funds and accounts under Supply System Resolution No. 178 from the revenues received from the sale of Project Capability amounts sufficient so that no payments by the Participants under the Hanford Exchange Agreements are due under section 5(e) of such Agreements.

16. Assignment of Agreement. This agreement shall inure to the benefit of and shall be binding upon the respective successors and assigns of the parties to this agreement; provided, however, that except as provided in sections 7, 9 and 12 hereof, neither this agreement nor any interest therein shall be transferred or assigned by any one of the parties hereto except with the mutual consent in writing of the other two parties hereto, to any other entity except the United States or an agency thereof. Such consent will not be unreasonably withheld. No assignment or transfer of this agreement shall relieve the parties of any obligation hereunder.

17. Approval by Rural Electrification Administrator. If the Participant is a party to an agreement or other instrument pursuant to which approval of this agreement by the Administrator of the Rural Electrification Administration is required as listed in Exhibit A, this agreement shall not be binding upon any of the parties until it shall have been approved by him or his delegate.

TABLE OF PARTICIPANTS AND PARTICIPANT'S PERCENTAGE

<u>Participant</u>	<u>Reference</u>
City of Albion, Idaho.....	Albion
City of Bandon, Oregon.....	Bandon
Public Utility District No. 1 of Benton County, Washington.....	Benton PUD
*Benton Rural Electric Association.....	Benton REA
*Big Bend Electric Cooperative, Inc.....	Big Bend
*Blachly-Lane County Cooperative Electric Association.....	Blachly-Lane
The City of Blaine, Washington.....	Blaine
The City of Bonners Ferry, Washington.....	Bonners Ferry
City of Burley, Idaho.....	Burley
The City of Canby, Oregon.....	Canby
City of Cascade Locks, Oregon.....	Cascade Locks
*Central Electric Cooperative, Inc.....	Central Elec.
The City of Centralia, Washington.....	Centralia
The Central Lincoln Peoples' Utility District.....	Central Linc.
Public Utility District No. 1 of Chelan County, Washington.....	Chelan
The City of Cheney, Washington.....	Cheney
Public Utility District No. 1 of Clallam County, Washington.....	Clallam
Public Utility District No. 1 of Clark County, Washington.....	Clark
Clatskanie Peoples' Utility District.....	Clatskanie
*Clearwater Power Company.....	Clearwater
*Columbia Basin Electric Cooperative, Inc.....	Columbia Basin
*Columbia Power Cooperative Association, Inc.....	Columbia Power
*Columbia Rural Electric Association, Inc.....	Columbia Rural
Consolidated Irrigation District No. 19.....	Cons. Irrig.
*Consumers Power, Inc.....	Consumers
*Coos-Curry Electric Cooperative, Inc.....	Coos-Curry
City of Coulee Dam, Washington.....	Coulee Dam
Public Utility District No. 1 of Cowlitz County, Washington.....	Cowlitz
The City of Declo, Idaho.....	Declo
Public Utility District No. 1 of Douglas County, Washington.....	Douglas PUD
*Douglas Electric Cooperative, Inc.....	Douglas Elec.
The City of Drain, Oregon.....	Drain
East End Mutual Electric Co., Ltd.....	East End
The City of Ellensburg, Washington.....	Ellensburg
The City of Eugene, Oregon.....	Eugene
*Fall River Rural Electric Cooperative, Inc.....	Fall River
Farmers Electric Co., Ltd.....	Farmers
*Public Utility District No. 1 of Ferry County, Washington.....	Ferry
*Flathead Electric Cooperative, Inc.....	Flathead
The City of Forest Grove, Oregon.....	Forest Grove

membership of the Board which rules may provide that the Board shall have the right to appoint persons of technical, legal, auditing or other special qualifications to committees to carry out reviews and investigations.

(c) Except in the event of an emergency requiring immediate action, copies of all proposed Construction and Annual Budgets and fuel management plans, including amendments thereto, and plans for refinancing the Project shall be submitted by Supply System to the Participants' Review Board within a reasonable time, prior to the time such proposed budgets and plans are to be adopted by Supply System. Such copies shall be submitted to the Participant upon its request.

(d) Except in the event of an emergency requiring immediate action, all bids, bid evaluations and proposed contract awards for amounts in excess of \$500,000 shall be submitted to the Participants' Review Board at least seven days prior to award.

(e) Supply System will consider the recommendations of the Participants' Review Board, giving due regard to utilizing the Project consistent with Prudent Utility Practice and the Supply System's statutory duties. Written recommendation may be made to Supply System whenever such recommendation is approved by the majority of the members of the Participants' Review Board. Such written recommendations shall be forwarded to Supply System within a reasonable time along with supporting data, which time shall not exceed the comparable time, if any, prescribed in the Project Agreement. Supply System shall take action on such recommendations within a reasonable time for adoption, modification or rejection. Supply System, upon taking action, shall notify the Participants' Review Board promptly of such action, and if it modifies or rejects a recommendation, shall give the reason therefor.

<u>Participant (Cont.)</u>	<u>Reference</u>
Riverside Electric Company, Ltd.....	Riverside
City of Rupert, Idaho.....	Rupert
Rural Electric Company.....	Rural
Salem Electric.....	Salem
*Salmon River Electric Cooperative, Inc.....	Salmon
City of Seattle, Washington.....	Seattle
Public Utility District No. 1 of Skamania County, Washington....	Skamania
Public Utility District No. 1 of Snohomish County, Washington....	Snohomish
South Side Electric Lines, Inc.....	South Side
The City of Springfield, Oregon.....	Springfield
The Town of Sumas, Washington.....	Sumas
*Surprise Valley Electrification Corporation.....	Surprise V.
City of Tacoma, Washington.....	Tacoma
*Tanner Electric.....	Tanner
*Tillamook Peoples' Utility District.....	Tillamook
*Umatilla Electric Cooperative Association.....	Umatilla
Unity Light and Power Company.....	Unity
Vera Irrigation District No. 15.....	Vera
*Vigilante Electric Cooperative, Inc.....	Vigilante
Public Utility District No. 1 of Wahkiakum County, Washington....	Wahkiakum
*Wasco Electric Cooperative, Inc.....	Wasco
*Wells Rural Electric Company.....	Wells
*West Oregon Electric Cooperative, Inc.....	West Oregon
Public Utility District No. 1 of Whatcom County, Washington.....	Whatcom

*Approval of Agreement by Rural Electrification Administration required.	

Upon prior written notice to Supply System, the Administrator and all of the other Participants, this Exhibit A may be amended from time to time upon mutual agreement of two or more Participants so as to provide revised Participants' Percentages for such Participants so long as the aggregate of the increases in Participants' Percentages is equal to the aggregate of the decreases in Participants' Percentages; provided, however, that the sum of any such decreases for any Participant pursuant to this paragraph shall not exceed an accumulated maximum of 25 percent of the Participant's Percentage specified in this Exhibit on the date of execution of this agreement nor shall any such increase under this paragraph cause the estimate of the payments to be made by a Participant to Supply System under this agreement to exceed 86.95 percent of the estimate of the Administrator's billings to such Participant during the period of such increase, which estimates shall be made by the Administrator and shall be conclusive; provided, further, that any such increase or decrease shall not affect or impair the tax exempt status of the Bonds. The Administrator shall then prepare a revised Exhibit A which shall be substituted for this Exhibit A and become a part of this agreement.

PARTICIPANT	PARTICIPANT'S PERCENTAGE										EXHIBIT A (WPPSS NO. 1) 1/
	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87			
Drain	0.00046	0.00046	0.00057	0.00099	0.00103	0.00102	0.00103	0.00096			
East End	0.00017	0.00017	0.00015	0.00015	0.00014	0.00013	0.00012	0.00011			
Elensburg	0.00557	0.00557	0.00653	0.00823	0.00836	0.00806	0.00801	0.00780			
Eugene	0.00054	0.00054	0.00068	0.00073	0.00075	0.00071	0.00060	0.00061			
Fall River	0.00012	0.00012	0.00053	0.00119	0.00137	0.00154	0.00171	0.00188			
Farmers	0.00008	0.00008	0.00007	0.00010	0.00009	0.00008	0.00007	0.00005			
Ferry	0.00103	0.00103	0.00112	0.00134	0.00130	0.00120	0.00114	0.00105			
Flathead	0.00172	0.00172	0.00175	0.00170	0.00156	0.00144	0.00135	0.00123			
Forest Grove	0.00019	0.00019	0.00018	0.00082	0.00211	0.00360	0.00416	0.00470			
Franklin	0.00846	0.00846	0.01005	0.01446	0.01468	0.01413	0.01491	0.01330			
Grant	0.00802	0.00802	0.00812	0.00681	0.00630	0.00556	0.00506	0.00486			
Grays Harbor	0.04776	0.04776	0.03460	0.02358	0.02553	0.02597	0.02696	0.02758			
Herny	0.00007	0.00007	0.00029	0.00125	0.00124	0.00123	0.00122	0.00105			
Huyburn	0.00081	0.00081	0.00101	0.00200	0.00201	0.00192	0.00189	0.00187			
Red River	0.00175	0.00175	0.00132	0.00208	0.00214	0.00219	0.00224	0.00224			
Idaho Co.	0.00032	0.00032	0.00036	0.00053	0.00052	0.00051	0.00050	0.00047			
Idaho Falls	0.00258	0.00258	0.00406	0.00922	0.00967	0.00958	0.00974	0.00908			
Ireland	0.01181	0.01181	0.01114	0.00970	0.00931	0.00893	0.00866	0.00860			
Kittitas	0.00173	0.00173	0.00202	0.00237	0.00243	0.00236	0.00237	0.00233			
Klickitat	0.00442	0.00442	0.00495	0.00653	0.00617	0.00530	0.00502	0.00517			
Kootenai	0.00285	0.00285	0.00269	0.00246	0.00235	0.00225	0.00217	0.00212			
Lane	0.00433	0.00433	0.00446	0.00533	0.00538	0.00545	0.00550	0.00537			
Lewis	0.00913	0.00913	0.01056	0.01443	0.01449	0.01381	0.01356	0.01276			
Lincoln (M)	0.00107	0.00107	0.00103	0.00107	0.00102	0.00097	0.00093	0.00087			
Lincoln (W)	0.00077	0.00077	0.00077	0.00056	0.00055	0.00054	0.00053	0.00056			
Lost River	0.00030	0.00030	0.00037	0.00057	0.00058	0.00058	0.00058	0.00056			
Lower Valley	0.00297	0.00297	0.00290	0.00321	0.00307	0.00294	0.00284	0.00266			
Mason 1	0.00140	0.00140	0.00162	0.00198	0.00200	0.00192	0.00190	0.00186			
Mason 3	0.01337	0.01337	0.01485	0.01641	0.01630	0.01541	0.01501	0.01462			
McCleary	0.00033	0.00033	0.00041	0.00086	0.00086	0.00081	0.00080	0.00069			
M. Minnville	0.00148	0.00148	0.00464	0.00742	0.00816	0.00845	0.00837	0.00800			
Midstate	0.00272	0.00272	0.00281	0.00282	0.00296	0.00311	0.00324	0.00336			
Milton-F.	0.00031	0.00031	0.00168	0.00183	0.00221	0.00263	0.00190	0.00238			
Minidoka	0.00002	0.00002	0.00001	0.00002	0.00001	0.00001	0.00001	0.00001			

1/ Participant's Percentages will remain the same as 1986-87 for remaining Contract Years in the term hereof.

<u>Participant (Cont.)</u>	<u>Reference</u>
Public Utility District No. 1 of Franklin County, Washington.....	Franklin
Public Utility District No. 2 of Grant County, Washington.....	Grant
Public Utility District No. 1 of Grays Harbor County, Washington.	Grays Harbor
*Harney Electric Cooperative, Inc.....	Harney
City of Heyburn, Idaho.....	Heyburn
Hood River Electric Cooperative of Hood River County, Oregon.....	Hood River
*Idaho County Light & Power Cooperative Association, Inc.....	Idaho Co.
City of Idaho Falls, Idaho.....	Idaho Falls
*Inland Power & Light Company.....	Inland
*Public Utility District No. 1 of Kittitas County, Washington.....	Kittitas
*Public Utility District No. 1 of Klickitat County, Washington....	Klickitat
*Kootenai Electric Cooperative, Inc.....	Kootenai
*Lane County Electric Cooperative, Inc.....	Lane
Public Utility District No. 1 of Lewis County, Washington.....	Lewis
*Lincoln Electric Cooperative, Inc. (Montana).....	Lincoln (M)
*Lincoln Electric Cooperative, Inc. (Washington).....	Lincoln (W)
*Lost River Electric Cooperative, Inc.....	Lost River
*Lower Valley Power & Light, Inc.....	Lower Valley
*Public Utility District No. 1 of Mason County, Washington.....	Mason 1
Public Utility District No. 3 of Mason County, Washington.....	Mason 3
Town of McCleary, Washington.....	McCleary
City of McMinnville, Oregon.....	McMinnville
*Midstate Electric Cooperative, Inc.....	Midstate
City of Milton-Freewater, Oregon.....	Milton-F.
City of Minidoka, Idaho.....	Minidoka
*Missoula Electric Cooperative, Inc.....	Missoula
City of Monmouth, Oregon.....	Monmouth
*Nespelem Valley Electric Cooperative, Inc.....	Nespelem
*Northern Lights, Inc.....	Northern Lts.
Northern Wasco County People's Utility District.....	Northern Wasco
*Okanogan County Electric Cooperative, Inc.....	Okanogan Elec.
Public Utility District No. 1 of Okanogan County, Washington.....	Okanogan PUD
*Orcas Power and Light Company.....	Orcas
Public Utility District No. 2 of Pacific County, Washington.....	Pacific
Public Utility District No. 1 of Pend Oreille County, Washington.	Pend Oreille
City of Port Angeles, Washington.....	Port Angeles
*Prairie Power Cooperative, Inc.....	Prairie
*Raft River Rural Electric Cooperative, Inc.....	Raft River
*Ravalli County Electric Cooperative, Inc.....	Ravalli
City of Richland, Washington.....	Richland

EXHIBIT B

PROJECT CHARACTERISTICS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1

The Washington Public Power Supply System's Nuclear Project No. 1 is expected to have a net electrical plant capability of approximately 1230 MW.

A new pressurized water reactor nuclear steam supply system similar to other reactors now under construction will replace the NPR as a steam source. It will include, but not be limited to, a nuclear reactor, fuel, control systems, primary coolant loops with steam generators, engineered safeguard systems, radwaste system, service systems, containment building and other auxiliary facilities.

Steam will be fed from this new reactor to a new topping turbine and generator with a nameplate rating of approximately 400 MW housed in an extension of the existing turbine-generator building of the Generating Facilities. New piping will transmit low pressure exhaust steam from the new topping turbine to the existing low pressure turbine complex which is a part of the Generating Facilities. The existing turbines may be modified, including the addition of extra stages of blades; and such modifications, additions and alterations to the condensers, cooling system, feedwater heaters, feedwater pumps, instrumentation, control systems, auxiliary startup power facilities and other components of the Generating Facilities will be made as shall be required to operate the topping turbine and to utilize exhaust steam from the topping turbine.

PARTICIPANT	PARTICIPANT'S PERCENTAGE										EXHIBIT A (WPPSS NO. 1) 1/		
	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1986-87	1986-87	1986-87	1986-87	1986-87
Arlion	0.00004	0.00004	0.00005	0.00007	0.00006	0.00006	0.00006	0.00006	0.00004	0.00006	0.00006	0.00006	0.00004
Bandon	0.00089	0.00089	0.00105	0.00152	0.00162	0.00165	0.00170	0.00166	0.00166	0.00165	0.00165	0.00166	0.00166
Banton PUD	0.03529	0.03529	0.04034	0.04808	0.04979	0.04816	0.04806	0.04965	0.04806	0.04816	0.04806	0.04965	0.04965
Benton REA	0.00427	0.00427	0.00401	0.00374	0.00354	0.00336	0.00322	0.00308	0.00322	0.00336	0.00322	0.00308	0.00308
Big Bend	0.00006	0.00006	0.00039	0.00252	0.00242	0.00232	0.00225	0.00179	0.00225	0.00232	0.00225	0.00179	0.00179
Elachly-Lane	0.00197	0.00197	0.00208	0.00198	0.00208	0.00217	0.00225	0.00234	0.00225	0.00217	0.00225	0.00234	0.00234
Rhaine	0.00087	0.00087	0.00104	0.00134	0.00124	0.00119	0.00118	0.00109	0.00118	0.00119	0.00118	0.00109	0.00109
Farmers Ferry	0.00080	0.00080	0.00094	0.00125	0.00126	0.00121	0.00120	0.00115	0.00120	0.00121	0.00120	0.00115	0.00115
Barley	0.00069	0.00069	0.00091	0.00228	0.00228	0.00217	0.00212	0.00179	0.00212	0.00217	0.00212	0.00179	0.00179
Carby	0.00111	0.00111	0.00156	0.00189	0.00223	0.00244	0.00267	0.00279	0.00244	0.00244	0.00267	0.00279	0.00279
Cascade Locks	0.00039	0.00039	0.00047	0.00057	0.00063	0.00067	0.00071	0.00074	0.00067	0.00067	0.00071	0.00074	0.00074
Central Elec.	0.00697	0.00697	0.00667	0.00566	0.00553	0.00519	0.00483	0.00462	0.00519	0.00519	0.00483	0.00462	0.00462
Centralia	0.00125	0.00125	0.00166	0.00318	0.00328	0.00320	0.00321	0.00298	0.00321	0.00320	0.00321	0.00298	0.00298
Central Linc.	0.02654	0.02654	0.03093	0.03740	0.03967	0.04010	0.04125	0.04169	0.04125	0.04010	0.04125	0.04169	0.04169
Chelan	0.00826	0.00826	0.00836	0.00701	0.00650	0.00573	0.00521	0.00501	0.00573	0.00573	0.00521	0.00501	0.00501
Clenny	0.00426	0.00426	0.00483	0.00554	0.00556	0.00530	0.00522	0.00511	0.00530	0.00530	0.00522	0.00511	0.00511
Clallam	0.00676	0.00676	0.00827	0.01163	0.01202	0.01177	0.01185	0.01157	0.01177	0.01177	0.01185	0.01157	0.01157
Clark	0.14704	0.14704	0.16152	0.15967	0.15855	0.14940	0.14583	0.14673	0.14940	0.14940	0.14583	0.14673	0.14673
Clatskanie	0.00383	0.00383	0.00551	0.00682	0.00845	0.00773	0.00726	0.00613	0.00773	0.00773	0.00726	0.00613	0.00613
Clearwater	0.00339	0.00339	0.00324	0.00336	0.00319	0.00303	0.00291	0.00274	0.00303	0.00303	0.00291	0.00274	0.00274
Columbia Basin	0.00106	0.00106	0.00116	0.00183	0.00130	0.00177	0.00175	0.00161	0.00177	0.00177	0.00175	0.00161	0.00161
Columbia Power	0.00041	0.00041	0.00041	0.00048	0.00047	0.00046	0.00045	0.00042	0.00046	0.00046	0.00045	0.00042	0.00042
Columbia Rural	0.00717	0.00717	0.00713	0.00633	0.00622	0.00612	0.00607	0.00621	0.00612	0.00612	0.00607	0.00621	0.00621
Cons. Irrig.	0.00009	0.00009	0.00009	0.00008	0.00007	0.00006	0.00006	0.00005	0.00006	0.00006	0.00006	0.00005	0.00005
Consumers	0.00918	0.00918	0.00939	0.00791	0.00858	0.00925	0.00980	0.01068	0.00925	0.00925	0.00980	0.01068	0.01068
Coos-Curry	0.00238	0.00238	0.00258	0.00420	0.00415	0.00410	0.00406	0.00408	0.00410	0.00410	0.00406	0.00408	0.00408
Coulee Dam	0.00029	0.00029	0.00036	0.00061	0.00060	0.00056	0.00054	0.00048	0.00056	0.00056	0.00054	0.00048	0.00048
Cowlitz	0.08027	0.08027	0.08339	0.08218	0.08196	0.07692	0.07507	0.07379	0.07692	0.07692	0.07507	0.07379	0.07379
D. Clo	0.00011	0.00011	0.00015	0.00020	0.00022	0.00023	0.00024	0.00026	0.00023	0.00023	0.00024	0.00026	0.00026
Douglas PUD	0.00057	0.00057	0.00051	0.00051	0.00051	0.00051	0.00044	0.00044	0.00051	0.00051	0.00044	0.00044	0.00044
Douglas Elec.	0.00358	0.00358	0.00342	0.00295	0.00303	0.00314	0.00322	0.00331	0.00314	0.00314	0.00322	0.00331	0.00331

1/ Participant's Percentages will remain the same as 1986-87 for remaining Contract Years in the term hereof.

(e) The Contractor shall require the foregoing subsections (a), (b), (c), (d) and this subsection (e) to be inserted in all subcontracts.

(f) The Contractor shall keep and maintain for a period of three (3) years from the completion of this contract the information required by 29 CFR § 516.2(a). Such material shall be made available for inspection by authorized representatives of the Government, upon their request, at reasonable times during the normal work day.

2. Convict Labor. The Contractor shall not employ any person undergoing sentence of imprisonment at hard labor.
3. Equal Opportunity. Unless exempted pursuant to the provisions of Executive Order 11246 of September 24, 1965 and the rules, regulations and relevant orders of the Secretary of Labor thereunder, during the performance of this contract, the Contractor agrees as follows:

(a) The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Administrator setting forth the provisions of this equal opportunity clause.

(b) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(c) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the Administrator, advising the labor union or worker's representative of the Contractor's commitments under this equal opportunity clause and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(d) The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(e) The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor,

EXHIBIT A (MPPSS NO. 1) 1/

1985-87

1985-86

1984-85

1983-84

1982-83

1981-82

1980-81

1979-80

1978-79

1977-78

PARTICIPANT	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1985-87
Missoula	0.00229	0.00229	0.00220	0.00197	0.00187	0.00179	0.00172	0.00168
Monmouth	0.00230	0.00230	0.00327	0.00407	0.00489	0.00546	0.00607	0.00679
Nepelen	0.00071	0.00071	0.00069	0.00070	0.00067	0.00064	0.00062	0.00059
Northern Lts.	0.00282	0.00282	0.00275	0.00262	0.00253	0.00245	0.00238	0.00234
Northern Wasco	0.00145	0.00145	0.00165	0.00164	0.00196	0.00210	0.00228	0.00246
Okanogan Elec.	0.00011	0.00011	0.00017	0.00044	0.00041	0.00041	0.00041	0.00038
Okanogan FUD	0.00280	0.00280	0.00284	0.00440	0.00408	0.00360	0.00327	0.00257
Orcas	0.00309	0.00309	0.00324	0.00348	0.00348	0.00347	0.00349	0.00351
Pacific	0.00713	0.00713	0.00835	0.01088	0.01101	0.01057	0.01046	0.01006
Pend Oreille	0.00087	0.00087	0.00087	0.00074	0.00069	0.00062	0.00057	0.00055
Port Angeles	0.00339	0.00339	0.00410	0.00872	0.00862	0.00810	0.00784	0.00665
Prairie	0.00016	0.00016	0.00015	0.00012	0.00011	0.00009	0.00008	0.00007
Raft River	0.00169	0.00169	0.00183	0.00255	0.00249	0.00244	0.00240	0.00224
Ravalli	0.00252	0.00252	0.00244	0.00217	0.00209	0.00202	0.00197	0.00195
Richland	0.00874	0.00874	0.01127	0.01710	0.01801	0.01796	0.01837	0.01821
Riverside	0.00016	0.00016	0.00015	0.00012	0.00010	0.00009	0.00008	0.00007
Rupert	0.00054	0.00054	0.00070	0.00140	0.00142	0.00137	0.00136	0.00123
Rural	0.00241	0.00241	0.00237	0.00212	0.00208	0.00205	0.00204	0.00208
Salem	0.00483	0.00483	0.00530	0.00490	0.00535	0.00577	0.00612	0.00662
Saimon	0.00030	0.00030	0.00034	0.00050	0.00049	0.00049	0.00049	0.00046
Seattle	0.13782	0.13782	0.13242	0.11291	0.09887	0.09252	0.08835	0.08005
Shannon	0.00191	0.00191	0.00231	0.00337	0.00345	0.00355	0.00355	0.00321
Shoshone	0.20845	0.20845	0.19939	0.18996	0.18591	0.19445	0.19711	0.19584
South Side	0.00047	0.00047	0.00043	0.00041	0.00038	0.00036	0.00034	0.00032
Springfield	0.00013	0.00013	0.00045	0.00168	0.00208	0.00233	0.00258	0.00275
Suas	0.00009	0.00009	0.00012	0.00021	0.00022	0.00022	0.00022	0.00021
Surprise V.	0.00056	0.00056	0.00052	0.00078	0.00071	0.00065	0.00060	0.00049
Tacoma	0.07356	0.07356	0.04655	0.01912	0.02684	0.04477	0.05078	0.05971
Tanner	0.00043	0.00043	0.00045	0.00052	0.00051	0.00051	0.00050	0.00050
Tillamook	0.00414	0.00414	0.00519	0.00862	0.00929	0.00954	0.00990	0.00963
Umatilla	0.00918	0.00918	0.00919	0.00711	0.00789	0.00863	0.00913	0.00997
Unity	0.00157	0.00157	0.00147	0.00133	0.00126	0.00120	0.00115	0.00112
Vera	0.00226	0.00226	0.00290	0.00438	0.00460	0.00458	0.00468	0.00464
Vigilante	0.00037	0.00037	0.00035	0.00065	0.00060	0.00055	0.00051	0.00042
Wahkiakum	0.00145	0.00145	0.00175	0.00234	0.00241	0.00234	0.00255	0.00229
Wasco	0.00125	0.00125	0.00120	0.00129	0.00126	0.00125	0.00123	0.00116
Wells	0.00214	0.00214	0.00188	0.00129	0.00118	0.00109	0.00102	0.00102
West Oregon	0.00127	0.00127	0.00123	0.00114	0.00115	0.00118	0.00119	0.00121
Wicomico	0.00619	0.00619	0.00630	0.00531	0.00494	0.00438	0.00401	0.00387

Participant's Percentages will remain the same as 1986-87 for remaining Contract Years in the term thereof.

ATTACHMENT 1-5

WNP NO. 4 OPTION AND SERVICES AGREEMENT

AND PARTICIPANT AGREEMENT

(12-3-69)

PROVISIONS REQUIRED BY STATUTE OR EXECUTIVE ORDER1. Contract Work Hours and Safety Standards.

This contract, to the extent that it is of a character specified in the Contract Work Hours and Safety Standards Act (Public Law 87-581, 76 Stat. 357-360, as amended) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. C. 35-45), is subject to the following provisions and to all other provisions and exceptions of said Contract Work Hours and Safety Standards Act.

(a) No Contractor or subcontractor contracting for any part of the contract work which may require or involve the employment of laborers or mechanics shall require or permit any laborer or mechanic in any workweek in which he is employed on such work, to work in excess of eight hours in any calendar day or in excess of forty hours in any workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times his basic rate of pay for all hours worked in excess of eight hours in any calendar day or in excess of forty hours in such workweek, whichever is the greater number of overtime hours.

(b) In the event of any violation of the provisions of subsection (a), the Contractor and any subcontractor responsible for such violation shall be liable to any affected employee for his unpaid wages. In addition, such Contractor or subcontractor shall be liable to the United States for liquidated damages. Such liquidated damages shall be computed, with respect to each individual laborer or mechanic employed in violation of the provisions of subsection (a), in the sum of \$10 for each calendar day on which such employee was required or permitted to work in excess of eight hours or in excess of forty hours in a workweek without payment of the required overtime wages.

(c) The Administrator may withhold, or cause to be withheld, from any moneys payable on account of work performed by the Contractor or subcontractor, the full amount of wages required by this contract and such sums as may administratively be determined to be necessary to satisfy any liabilities of such Contractor or subcontractor for liquidated damages as provided in subsection (b).

(d) No contractor or subcontractor contracting for any part of the contract work shall require any laborer or mechanic employed in the performance of the contract to work in surroundings or under working conditions which are unsanitary, hazardous, or dangerous to his health or safety, as determined under construction safety and health standards promulgated by the Secretary of Labor by regulation based on proceedings pursuant to section 553 of title 5, United States Code, provided that such proceedings include a hearing of the nature authorized by said section.

3/21/75

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or pursuant thereto, and will permit access to his books, records, and accounts by the Administrator and the Secretary of Labor for purposes of investigations to ascertain compliance with such rules, regulations and orders.

(f) In the event of the Contractor's noncompliance with the equal opportunity clause of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(g) The Contractor will include the provisions of paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Administrator may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the Administrator, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

4. Interest of Member of Congress. No Member of or Delegate to Congress, or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom. Nothing, however, herein contained shall be construed to extend to such contract if made with a corporation for its general benefit.

3/21/75

WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR
PROJECTS NOS. 4 AND 5 AND SKAGIT PROJECT

AGREEMENT FOR OPTION TO ENTER PARTICIPANTS'
AGREEMENT, RESERVATION OF PROJECT CAPABILITY
AND PERFORMANCE OF SERVICES

This Agreement is made by and between WASHINGTON PUBLIC
POWER SUPPLY SYSTEM ("Supply System"), a municipal corpora-
tion of the State of Washington, and _____
_____, a _____ corpora-
tion organized under the laws of the State of _____
_____ ("Option Participant").

The Public Power Council ("PPC") is an unincorporated
association comprising substantially all of the public
bodies and electric cooperatives in the Pacific Northwest
all of which are statutory preference customers of the
Bonneville Power Administration ("Bonneville"). PPC serves
such preference customers by formulating, or causing to be
formulated, long-term plans to meet their prospective power
needs on a sound environmental and economic basis.

The Executive Committee of the PPC, after reviewing the
long-range loads and resources of the public bodies and
electric cooperatives in the Pacific Northwest, has deter-
mined that they require the construction and acquisition of

was conceived by the Joint Power Planning Council, consisting of about 110 electric cooperatives, public utilities and private utilities in the Pacific Northwest, Bonneville and other Pacific Northwest entities in order to facilitate the coordination of existing and future thermal and hydro electric resources in the Pacific Northwest. Phase 2 of the Hydro Thermal Power Program continues the objectives of that Program without the acquisition of project capability or output by Bonneville under net billing agreements. Projects to be constructed to meet the future load requirements of cooperatives and publicly owned utilities are to be financed on the basis of agreements for sale of project capability or output to such entities. Bonneville has indicated that, subject to any limitations imposed by law, it will furnish transmission, scheduling, load factoring, reserves, exchanges and other services available from the Federal Columbia River Power System to enable the Option Participant to integrate its share of Project Capability with power and energy available to Option Participant from its electric system and from Bonneville and other sources.

Supply System has performed preliminary work with respect to the Projects, including preliminary financing and partial construction and acquisition of Nuclear Project No.

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EXHIBITS

A	Participants' Agreement
B	Option Participants and Option Participants' Shares
C	Project Descriptions

hereto marked Exhibit A; however, it is advisable that the execution thereof be delayed pending the completion of negotiations and the formulation of other agreements, including agreements (i) with Bonneville, relating to certain services to be performed by Bonneville, (ii) with certain Pacific Northwest industries relating to the purchase of surplus energy from the Projects, and (iii) with Pacific Northwest investor-owned utilities relating to purchase of power and energy from the Projects and/or to the joint ownership of Nuclear Project No. 5, the Skagit Project, or both.

2. Time is of the essence with respect to the performance of this Agreement as provided herein in order to keep the Projects on a course of construction and acquisition so as to meet the schedules for operation of the Projects. There is a very strong probability that any appreciable delay would cause substantial losses to Supply System and Option Participant due to the inability to deliver power and energy, increases in construction costs and other causes.

3. The total sum payable by Option Participant under the Agreements is less than 5% of the total estimated minimum

the Projects as provided in this Agreement in order to meet their prospective needs for power and energy. The Executive Committee of the PPC has requested Supply System to undertake the investigation, planning, financing, acquisition and construction of two nuclear electric generating facilities, one to be known as Washington Public Power Supply System Nuclear Project No. 4 ("Nuclear Project No. 4") for construction in conjunction with the Washington Public Power Supply System Nuclear Project No. 1, and the other to be known as Washington Public Power Supply System Nuclear Project No. 5 ("Nuclear Project No. 5") for construction in conjunction with Washington Public Power Supply System Nuclear Project No. 3. The PPC has also requested that Supply System investigate participation in the Puget Sound Power & Light Company's Skagit Project (the "Skagit Project") and that Supply System conduct studies and investigations, and take such further action as may be advisable to identify feasible power plant sites, preferably in Western Washington or Oregon, in order to prepare for the construction of additional power generating facilities.

Nuclear Project No. 4, Nuclear Project No. 5 and the Skagit Project are being undertaken in accordance with the objectives of the Hydro Thermal Power Program. That program

(b) "Development Bonds" means any bonds, notes, or other evidences of indebtedness issued by Supply System for the purposes set forth in Sections 4 and 10 of this Agreement, including bonds or notes issued to pay \$17,500,000 principal amount of revenue notes heretofore issued by Supply System pursuant to Resolutions Nos. 682 and 713 of the Board of Directors of Supply System.

(c) "Development Bond Resolution" means the resolution or resolutions adopted by Supply System referred to in Section 5 of this Agreement.

(d) "Option Participants" means the Option Participant and all other statutory preference customers of Bonneville listed on Exhibit B attached hereto which execute the Agreements.

(e) "Option Participant's Preliminary Option Share" means the decimal fraction share of Project Capability set opposite the name of the Option Participant in Exhibit B attached hereto.

(f) "Option Participant's Final Option Share" means the Option Participant's Preliminary Option Share, adjusted as provided in Sections 3(b) and 9 of this Agreement.

(g) "Participant's Preliminary Share" means the Participant's Preliminary Share as defined in the Participants' Agreement.

4 and Nuclear Project No. 5 and has been undertaking negotiations with Pacific Northwest investor-owned utilities in connection with the Skagit Project; Supply System also is conducting preliminary siting studies and evaluations related to other future power projects.

To obtain funds for such preliminary work, Supply System has issued and sold \$17,500,000 principal amount of revenue notes secured by revenue note agreements with certain members of Supply System and has expended the major portion of the proceeds of such notes in paying engineering, construction, acquisition, environmental and other costs in connection with the Projects, in negotiating and formulating the Participants' Agreement, hereinafter defined, and in preliminary work related to the development of additional generating facilities, particularly activities related to the identification and acquisition of additional power plant sites.

The governing body of Option Participant and the Board of Directors of Supply System now find that:

1. Supply System in consultation with the PPC and the Option Participants has developed a form of Participants' Agreement for the purchase and sale of shares of the capability of the Projects, a copy of which Agreement is attached

for any reason whatsoever), less Project station use and losses.

(1) "Prudent Utility Practice" at a particular time means any of the practices, methods and acts, which, in the exercise of reasonable judgment in light of the facts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice shall apply not only to functional parts of a Project but also to appropriate structures, landscaping, painting, signs, lighting, or facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of a Project. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts. In evaluating whether any matter conforms to Prudent Utility Practice, the parties shall take into account (i) the fact that Supply System is a municipal corporation and operating agency under the laws of the State of Washington with the

cost of construction of the Projects. The Option Participant's share of such sum constitutes a fair and reasonable amount to pay for the option to enter into the Participants' Agreement and for the services to be rendered by Supply System hereunder. ---

4. It is necessary and advisable for Option Participant to enter into this Agreement in order to meet its prospective needs for power and energy on an environmentally and economically sound basis.

5. Supply System has available qualified professional and other personnel to render the services hereinafter described.

6. Supply System has Project Capability available for sale to Option Participant under the Participants' Agreement.

THEREFORE IN CONSIDERATION OF THE MUTUAL PROMISES
HEREIN CONTAINED, IT IS AGREED AS FOLLOWS:

Section 1. Definitions.

The singular of any term defined in this Agreement shall encompass the plural, and the plural the singular, unless the context indicates otherwise.

(a) "Agreement" means this Agreement and all agreements substantially identical to this Agreement entered into by Supply System and the Option Participants.

Section 3. Option and Reservation of Project
Capability for Option Participant.

(a) Supply System hereby grants to Option Participant the option to execute the Participants' Agreement and, in accordance with the provisions thereof, Supply System shall reserve for Option Participant the Option Participant's Final Option Share.

(b) If the sum of the Option Participants' Preliminary Option Shares of the Option Participants who have executed and delivered the Agreements is greater than 1.0, the Option Participant's Preliminary Option Share shall be automatically decreased, pro rata with such other Option Participants' Preliminary Option Shares, so that the total Option Participants' Preliminary Option Shares so reserved shall equal 1.0. If the sum of the Option Participants' Preliminary Option Shares of the Option Participants who have executed and delivered the Agreements by June 1, 1975, is less than 1.0, Supply System may agree with any Option Participant to an increase in its Preliminary Option Share or may execute Agreements with any other statutory preference customers of Bonneville, in order to bring the total of such shares to 1.0. In such event a new Exhibit B shall be prepared by Supply System and shall be distributed to the Option Participants forthwith.

(h) "Participants' Agreement" means the agreement attached hereto as Exhibit A or an agreement substantially in the form thereof.

(i) "Power Sales Agreements" means the agreements for the sale and purchase of power and energy, including capability, from the Projects which may be entered into by Supply System and any purchasers thereof other than Participants, as defined in the Participants' Agreement.

(j) "Projects" means Supply System's ownership interests in Washington Public Power Supply System Nuclear Project No. 4, Washington Public Power Supply System Nuclear Project No. 5 and the Puget Sound Power & Light Company's Skagit Project, or any unit thereof, if Supply System enters into an ownership agreement relating thereto, as each such Project is described in Exhibit C attached hereto; provided, that any ownership interest of Supply System in the Skagit Project, or any unit thereof, shall not exceed 15%.

(k) "Project Capability" means the amounts of electric power and energy, if any, which the Projects are capable of generating at any particular time (including times when any or all of the Projects are not operable or operating or the operation thereof is suspended, interrupted, interfered with, reduced or curtailed, in each case in whole or in part

affording Option Participant the opportunity to execute and deliver the Participants' Agreement within 90 days after delivery of the notice. Upon failure of Option Participant to execute and deliver to Supply System such Participants' Agreement within said time, Supply System may terminate all Option Participant's rights under this Section by giving Option Participant notice of such termination.

(e) If any Project is terminated pursuant to Section 10 hereof, Option Participant shall retain Option Participant's Final Option Share as to Projects which have not been terminated.

(f) It is recognized by the parties hereto that Bonneville may determine to render the services referred to at page 3 of the Participants' Agreement pursuant to separate agreement(s) to be formulated by Bonneville and Option Participant, rather than execute the Participants' Agreement. In the event that such services are to be rendered under a separate agreement, the Participants' Agreement shall be modified accordingly, for execution by Supply System and Option Participant.

(g) Supply System shall use its best efforts to enter into Power Sales Agreements for the sale of Surplus Energy (i.e., electric power and energy generated by the Projects

statutory duties and responsibilities thereof and (ii) the objective to integrate the Project Capability with the generating resources, primarily of the Option Participants, including such resources and electric power and energy purchased under contract, and secondarily of the Federal Columbia River Power System, to achieve optimum utilization of the resources and achieve efficient and economical operation of each system, primarily as to the Option Participants and secondarily as to the Federal Columbia River Power System.

Section 2. Term of Agreement.

This Agreement shall be effective upon execution and delivery of Agreements by Supply System and Option Participants whose Option Participants' Preliminary Option Shares total 1.0 or more. This Agreement terminates on the date that the Development Bonds are paid, or provision is made for their payment as provided in the Development Bond Resolution; provided that the rights of the Option Participant provided under Section 3 relating to the option to enter into the Participants' Agreement shall terminate upon the failure of such Option Participant to enter into a Participants' Agreement after notice to such Option Participant pursuant to Section 3(d).

set forth below:

Nuclear Project No. 4	March 1982
Skagit Project, Unit 1	July 1982
Nuclear Project No. 5	March 1983
Skagit Project, Unit 2	July 1984

2. Make advance payments to the United States Energy Resources Development Agency for rights or services relating to nuclear fuel and payments to other persons for reservation of rights to acquire personal or real property of any nature in connection with any of the Projects.

3. After execution and delivery of Participants' Agreements as provided in Section 3, Supply System shall proceed with the orderly financing of the Projects and shall use its best efforts to issue and sell Bonds (as defined in the Participants' Agreement) no later than December 1, 1976, to provide, among other things, for the payment of the principal of and interest and premium, if any, on the Development Bonds, all as provided in the Participants' Agreement.

4. Perform preliminary work in connection with the development of future electric generating and associated facilities, in addition to the Projects, to serve the prospective power needs of the Option Participants, including, but not

Such Preliminary Option Share, adjusted as above provided, shall be Option Participant's Final Option Share, subject to further adjustment pursuant to Section 9. As promptly as practicable after all the Agreements have been executed and delivered, Supply System shall furnish the Option Participants a schedule listing the names of the Option Participants and their respective Option Participants' Final Option Shares.

(c) Supply System will proceed with diligence to complete signatory copies of the Participants' Agreement for execution by the parties. Such signatory copies shall set forth in Exhibit A to be attached thereto as the Participant's Preliminary Share of the Option Participant, an amount equal to the Option Participant's Final Option Share multiplied by 1.2.

(d) As the related agreements referred to at page 5 hereof are formulated, the description of the Projects will be defined in the Participants' Agreement, consistent with the descriptions thereof in Exhibit C attached hereto. After review by the Executive Committee of the PPC, but no later than August 1, 1976, Supply System will deliver, or cause to be delivered, to each Option Participant (i) signatory copies of the Participants' Agreement, and (ii) a notice

Section 6. Payments by Option Participants.

(a) In the event that Supply System issues and sells Development Bonds pursuant to Section 5 and gives Option Participant notice prior to December 1, 1976, that Supply System is unable to issue and sell revenue bonds as provided in Section 4(a)(3), Option Participant shall pay to Supply System Option Participant's Final Option Share of the principal of and interest and premium, if any, which become due on December 1, 1977, and on each June 1 and December 1 thereafter, on all of the Development Bonds then outstanding. Such payments shall be made not less than 90 days prior to December 1, 1977, and 90 days prior to each December 1 and June 1 thereafter until all of the Option Participant's Final Option Share of the principal of and interest and premium, if any, on the Development Bonds has been fully paid or provision is made for the payment or retirement of the Development Bonds as provided in the Development Bond Resolution, whichever is earlier. On or before December 1, 1976, and each December 1 thereafter, Supply System shall prepare and deliver to Option Participant a billing statement showing the amount to be paid by Option Participant for the following year. Supply System will apply to the payment of the

which is in excess of the total power and energy requirements of the Option Participants) for the period ending June 30, 1989.

(h) Supply System shall not proceed with any arrangements to include in the Projects the acquisition or construction of any ownership interest in any nuclear generating unit if such interest will result in a maximum anticipated peak generating capability of the Projects available to Supply System of more than 2,600 MW.

Section 4. Services to be Performed and Actions to be Taken by Supply System.

(a) Supply System will use its best efforts to perform, or cause to be performed, the following services and take the following actions, in connection with the option granted under the preceding Section, all in accordance with Prudent Utility Practice:

1. Arrange for the ownership, financing, acquisition and construction of the Projects and render such other services and take such further actions provided for in the Participants' Agreement as Supply System may deem feasible, within the limits of the monies made available for such purposes hereunder, all with the objective of placing the Projects into continuous operation on the respective dates

to make full payment when due. The obligation of the Option Participant to make payments provided for in this Agreement shall continue in effect notwithstanding the execution and delivery by it of a Participants' Agreement.

Failure to mail or delay in mailing the aforementioned notices shall not affect the obligation of the Option Participant to make the required payments at the times they are due.

(c) Any amount not paid or mailed by Option Participant on or before the close of business on any due date shall bear an additional charge of two percent (2%) of the unpaid amount. Thereafter a further charge of one percent (1%) of the sum of the initial amount remaining unpaid and said additional charge shall be added on the last day of each succeeding thirty day period until the amount due is paid in full. If the due date falls on a Sunday or other non-business day of Option Participant, the amount may be paid or mailed on the next following business day without addition of such delayed payment charge.

Section 7. Sources of Payments by Option Participant; Covenants.

Option Participant shall not be obligated to make any payments under this Agreement except from revenues derived

limited to, planning, siting, environmental, financial and economic surveys and studies and acquisition of options to acquire real estate and rights to acquire fuel; provided that Supply System shall not expend more than \$5,000,000 of the Development Bond proceeds for such purposes.

(b) Supply System shall not be obligated to expend monies in connection with this Agreement in excess of those made available to it from the proceeds of the Development Bonds referred to in Section 5.

Section 5. Supply System Development Bonds.

Supply System will use its best efforts to issue and sell revenue bonds (the "Development Bonds") in an amount sufficient to enable it to perform all terms of this Agreement. Such Bonds shall be issued and sold in accordance with a bond resolution (the "Development Bond Resolution") substantially as set forth in the draft thereof dated March 26, 1975, on file with the Option Participant; provided, that in no event shall such Development Bonds exceed the principal sum of One Hundred Million Dollars (\$100,000,000).

except as provided in Section 18 of the Participants' Agreement Supply System shall use its best efforts to dispose of additional Participants' Preliminary Shares to bring the total of such shares to 1.0, first, to any other Option Participants desiring to purchase a share of Project Capability on a pro rata basis, second, to the extent of any remainder, to any other statutory preference customers of Bonneville desiring to purchase a share of Project Capability on a pro rata basis, and third, any balance remaining, to other entities, all under such rules as Supply System may formulate after consultation with the Executive Committee of the PPC.

Section 9. Obligations in the Event of Default.

(a) Upon failure of the Option Participant to make any payment in full when due, as provided in Section 6, or to perform any obligation herein, Supply System may make demand upon the Option Participant, and if said failure is not cured within 10 days from the date of such demand it shall constitute a default at the expiration of such period.

(b) If the Option Participant in good faith disputes the legal validity of said demand, it shall make such payment or perform such obligation within said 10 day period under protest directed to Supply System. Such protest shall specify the reasons upon which the protest is based.

principal of and interest and premium, if any, on the Development Bonds any sums available to it for that purpose from any other source, including sums received by Supply System from the disposition of Supply System's ownership share of any Project assets and funds received pursuant to the Participants' Agreement. In the event that all Projects are terminated and there is remaining any sum after payment of all outstanding Development Bonds, Supply System shall refund such sum to the Option Participants in proportion to Option Participants' Final Option Shares.

(b) Option Participant shall make each payment to Supply System as provided in the billing statement referred to in Subsection (a) of this Section or any amended billing statement prepared to carry out Section 9, which payments shall not be subject to any reduction, whether by offset or otherwise, for any reason whatsoever, or be conditioned upon the performance or non-performance by Supply System, Option Participant or any other Option Participant under this or any other agreement or instrument, or the failure of any party to enter into the Participants' Agreement or any of the related agreements referred to at page 5 hereof, the remedies of Option Participant being limited to specific performance, mandamus or other appropriate remedy, exclusive of refusal

fails or refuses for any reason to perform its obligations under its Agreement, and the Option Participant's Final Option Share of such defaulting Option Participant(s) shall be reduced correspondingly; provided, that the sum of such increases for the Option Participant pursuant to this subsection shall not exceed, without consent of the Option Participant, an accumulated maximum of 25% of the Option Participant's Final Option Share determined in accordance with the first two sentences of Section 3(b).

(e) If the Option Participant shall fail or refuse to pay any amounts due to Supply System hereunder, the fact that other Option Participants have assumed the obligation to make such payments shall not relieve the Option Participant of its liability for such payments, and the Option Participants assuming such obligation, either individually or as a member of a group, shall have a right to recovery from the Option Participant. Supply System or any Option Participant as their interests may appear, jointly or severally, may commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of this Agreement against the Option Participant.

by it from the ownership and operation of its electric utility properties. Option Participant covenants and agrees that it will establish, maintain and collect rates or charges for power and energy and other services, facilities and commodities sold, furnished or supplied by it through any of its electric utility properties which shall be adequate to provide revenues sufficient to enable it to make the payments to be made by it to Supply System under this Agreement and to pay all other charges and obligations payable from or constituting a charge and lien upon such revenues.

The foregoing covenants by Option Participant, to make said payments and to establish, maintain and collect rates or charges, shall be enforceable by any other Option Participant or Supply System in any appropriate claim or action, including mandamus or specific performance, in any court of competent jurisdiction. Any judgment or decree against Option Participant for failure to make payment under this Agreement shall include all court costs and disbursements and reasonable attorney's fees.

Section 8. Redisposition of Option Participant's Final Option Share.

If Option Participants whose Participant's Preliminary Shares total 1.0 or more do not execute Participants' Agreements,

System by Option Participants entitled to eighty percent (80%) or more of the Option Participants' Final Option Shares, that Supply System reduce or defer expenditures on, or terminate any Project(s), or unit(s) thereof, Supply System shall comply with such requests.

Section 11. Reports.

Supply System shall furnish the PPC and Option Participant with periodic progress reports, not less often than quarterly, relating to its performance of this Agreement, and of its expenditures of, or the incurring of liabilities payable from, the proceeds of the Development Bonds, and shall furnish the PPC and Option Participant such other reports, evaluations, plans, analyses, studies, statements, accounts, records, drawings, specifications and approvals and other documentation and material as may be requested by it.

Supply System shall keep separate and accurate records and accounts of all actions taken under this Agreement which records and accounts shall be the subject of annual audit by a firm of certified public accountants of national reputation. Copies of such firm's report on such audit shall be furnished to the PPC and Option Participant promptly after receipt thereof by Supply System.

(c) If the Option Participant is a nonprofit or cooperative corporation, upon default on the part of any other such Option Participant(s) which is a nonprofit or cooperative corporation, the Option Participant's Final Option Share shall be automatically increased for the remaining term of this Agreement pro rata with that of other such nondefaulting Option Participant(s) to the extent that such defaulting Option Participant(s) fails or refuses for any reason to perform its obligations under its Agreement, and the Option Participant's Final Option Share of such defaulting Participant(s) shall be reduced correspondingly; provided, that the sum of such increases for the Option Participant pursuant to this Subsection shall not exceed, without consent of the Option Participant, an accumulated maximum of 25% of the Option Participant's Final Option Share determined in accordance with the first two sentences of Section 3(b).

(d) If the Option Participant is a municipal corporation, upon default on the part of any other such Option Participant(s) which is a municipal corporation, the Option Participant's Final Option Share shall be automatically increased for the remaining term of this Agreement pro rata with that of other such nondefaulting Option Participant(s) to the extent that such defaulting Option Participant(s)

below, namely:

Washington Public Power
Supply System
P. O. Box 968
Richland, WA 99352

Public Power Council
P. O. Box 1307
Vancouver, WA 98660

or such other address given in a notice to the parties by the PPC or by one party to the other party as provided in this Section.

Section 14. Assignment of Agreement.

This Agreement shall inure to the benefit of and shall be binding upon the respective successors and assigns of the parties hereto; provided, however, that neither this Agreement nor any interest therein or in any Participants' Agreement shall be transferred or assigned by either party except with the consent in writing of the other party hereto. Such consent will not be unreasonably withheld.

Section 15. Approval by Rural Electrification Administrator and Other Agencies.

If Option Participant is a party to an agreement or other instrument pursuant to which approval of this Agreement by the Administrator of the Rural Electrification Administration is required, this Agreement shall not be binding upon any of the parties until it shall have been approved by him or his delegate. If Option Participant is a

Section 10. End of the Project(s).

(a) A Project or unit thereof shall terminate and Supply System shall cause the Project or unit thereof to be salvaged, discontinued, decommissioned, and disposed of or sold in whole or in part to the highest bidder(s) or disposed of or sold in such other manner as Supply System may determine after consultation with the Executive Committee of the PPC if Supply System determines that it is unable to construct, or proceed as owner of, such Project or unit thereof due to licensing or other causes which are beyond its control.

(b) After such termination, Supply System shall undertake the decommissioning of such Project and may pay the costs of such decommissioning from Development Bond proceeds. The cost of decommissioning shall include, but shall not be limited to, all of Supply System's accrued costs and liabilities resulting from Supply System's ownership and construction, including cost of fuel, of such Project and the salvage, discontinuance and disposition or sale thereof. Supply System shall credit against such costs all amounts received by Supply System from the disposition of any assets of such Project.

(c) In the event that a request is delivered to Supply

(b) This Agreement shall not be amended, modified, or otherwise changed by agreement of the parties in any manner that will impair or adversely affect the security afforded by the provisions of this Agreement for the payment of the principal-of and interest and premium, if any, on the Development Bonds as they respectively become payable so long as any of the Development Bonds are outstanding and unpaid or funds are not set aside for the payment or retirement thereof in accordance with the Development Bond Resolution.

(c) If any Agreement is amended or repealed so that it contains terms and conditions different from those contained in this Agreement, Supply System shall notify the Option Participant and, upon timely request by the Option Participant, shall amend this Agreement to include similar terms and conditions.

Section 18. Severability.

It is the paramount purpose of the parties that Supply System shall cause each Project, or unit thereof, singly or in combination with any other Project(s) or unit, to be placed into operation as scheduled. The parties agree that any event or condition which may occur which delays or prevents the construction or operation of, any of the Projects

Section 12. Waiver of Rights Under RCW 43.52.380 and Revenue Note Agreements.

The execution of this Agreement by an Option Participant which is a member of Supply System constitutes a waiver of any preference right that such Option Participant may have under RCW 43.52.380 to purchase an amount of power and energy of the Projects in excess of that provided for in this Agreement.

An Option Participant who is a member of Supply System and a party to a Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974, Agreement and a Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974-A, Agreement further agrees that this Agreement supersedes its rights to capability or output under said agreements.

Section 13. Mailing of Notices.

Any notice, delivery, approval, demand or protest under this Agreement shall be deemed given or made when delivered in writing, in person or by registered or certified mail, postage prepaid, return receipt requested, addressed to the Option Participant at the address of its principal place of business as shown in the records of Supply System and/or to Supply System and PPC at their respective addresses noted

Ernest G. Kelly

ATTEST:

(Title)

By _____
(Title)

(SEAL)

party to any other agreement or instrument pursuant to which approval of this Agreement by any agency is required and the Option Participant has so notified Supply System prior to Supply System's execution of this Agreement, this Agreement shall not be binding upon either of the parties until it shall have been approved by such agency.

Section 16. Applicability of Other Instruments.

It is recognized that Supply System must comply with the requirements of the Development Bond Resolution and of all certificates, licenses, permits and other governmental approvals, regulations and standards applicable to the Projects; it is therefore agreed that this Agreement is made subject to the terms and provisions of the Development Bond Resolution and all such certificates, licenses, permits and other governmental approvals, regulations and standards.

Section 17. Modification and Uniformity of Agreements.

(a) This Agreement shall not be subject to termination by any party under any circumstances, whether based upon the default of any party to this Agreement, or any other instrument, or upon any other basis, except as specifically provided in this Agreement.

DRAFT
3/21/75

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECTS NOS. 4 AND 5 AND SKAGIT PROJECT
PARTICIPANTS' AGREEMENT

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or units thereof shall not delay the construction of any other Project(s) or unit.

If any section, paragraph, clause or provision of this Agreement or its application to any Project or entity shall be finally adjudicated by a court of competent jurisdiction to be invalid, the remainder of this Agreement or its application to any other Project or entity shall be unaffected by such adjudication. In such event, all of the remaining provisions of this Agreement and their application to any other Project or entity shall remain in full force and effect as though such section, paragraph, clause or provision or any part thereof so adjudicated to be invalid had not been included herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in several counterparts.

DATED this _____ day of _____, 1975.

ATTEST:

WASHINGTON PUBLIC POWER
SUPPLY SYSTEM

Secretary

By _____
Managing Director

(SEAL)

DRAFT
3/21/75

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECTS NOS. 4 AND 5 AND SKAGIT PROJECT
PARTICIPANTS' AGREEMENT

THIS AGREEMENT is executed by the Washington Public Power Supply System (Supply System), a municipal corporation of the State of Washington; the United States of America, Department of the Interior, acting by and through the Bonneville Power Administrator (Bonneville); and _____
_____, a _____
_____ corporation of the State of _____
_____ (Participant).

WITNESSETH

Supply System is organized under the laws of the State of Washington (Rev. Code of Washington, Ch. 43.52) and is authorized by law to construct, acquire, own and operate works, plants, systems and facilities for the generation and/or transmission of electric power and energy and to enter into contracts with Bonneville and with public and private organizations for the disposition of electric power and energy produced thereby.

share of the Project Capability and have a right to purchase a share of the capability of any other generating plants undertaken by Supply System pursuant to this Agreement. Supply System and the Participant have each determined that the construction and operation of the Projects as herein provided will accomplish economies of size and that the sale by Supply System to the Participant of the Participant's Share and the purchase thereof by the Participant as herein provided will be beneficial to the Participant by increasing the amount of firm power and energy which will be available to serve its customers in the future in an efficient, economical and environmentally sound manner. The Participant and Supply System have heretofore entered into an agreement entitled "Washington Public Power Supply System Nuclear Projects Nos. 4 and 5 and Skagit Project Agreement for Option to Enter Participants' Agreement, Reservation of Project Capability and Performance of Services" (the "Option and Services Agreement") dated _____, 1975, under which, among other things, the Participant obtained an option to enter into this Agreement.

Bonneville, subject to any limitations imposed by law, intends (i) to furnish, under separate contract, transmission, scheduling, load factoring, reserves, exchanges and other

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(a) "Annual Budget" means the budget adopted by Supply System pursuant to Section 8(b) with respect to the Projects and which itemizes the estimated costs of each Project, or unit thereof, commencing with (i) the Date of Continuous Operation of the Plant related to such Project, or unit thereof, or (ii) July 1, 198__*, or (iii) the date one year after the date of termination of a Project as provided in Section 13, whichever is earliest, exclusive of costs of construction and costs of fuel, applicable to the respective Contract Year, or, in the case of an amended Annual Budget, applicable to the remainder of such Contract Year. The Annual Budget, as amended from time to time, shall make provision for all such Supply System's costs, including accruals and amortizations, resulting from the ownership, operation and maintenance of the Projects, repairs, renewals, replacements, and additions thereto and costs of termination thereof as provided in Section 13, together with the amounts over or under billed in accordance with subsection (b) below. The Annual Budget shall include, but not be limited to, (i) the amounts which Supply System

*This date will be from two to three years after the latest date specified in Section 4(a)(iv) to take into account (i) potential delays affecting the Dates of Continuous Operation and (ii) the Projects which are ultimately included under this Agreement pursuant to the provisions of the Option and Services Agreement.

The Projects hereinafter referred to are being undertaken in accordance with the objectives of the Hydro Thermal Power Program. That program was conceived by the Joint Power Planning Council, which represents about 110 electric cooperatives, public utilities and private utilities in the Pacific Northwest. Bonneville and other Pacific Northwest entities in order to facilitate the coordination of existing and future thermal and hydro electric resources in the Pacific Northwest. Phase 2 of the Hydro Thermal Power Program continues the objectives of that Program without the acquisition of project capability or output by Bonneville under net billing agreements. Projects to be constructed to meet the future load requirements of cooperatives and publicly owned utilities are to be financed on the basis of agreements for sale of project capability or output to such entities.

Attached hereto, as Exhibit B, are descriptions of certain generating Plants, sometimes referred to as "Washington Public Power Supply System Nuclear Project No. 4" ("Nuclear Project No. 4"), "Washington Public Power Supply System Nuclear Project No. 5" ("Nuclear Project No. 5"), and "Puget Sound Power & Light Company's Skagit Project, Units 1 and 2" ("the Skagit Project"). It is the intent of this Agreement that each of the Participants shall purchase a

payments to be made under all Participants' Agreements and (ii) the costs of fuel to be paid by the Participant in accordance with Section 9. At the end of each Contract Year any amount over or under billed during such year shall be reflected in the Annual Budget for the following Contract Year; any amounts over or under billed during the portion of the Contract Year preceding the adoption of an amended Annual Budget shall be reflected in such amended Annual Budget to the extent practicable.

(c) "Bonds" means any bonds, notes or other evidences of indebtedness issued in connection with the financing of any of the Projects pursuant to the Bond Resolution, including bonds or notes issued to pay the principal of and interest and premium, if any, on the outstanding Development Bonds, (i) for the purpose of financing or refinancing Supply System's costs associated with the planning, designing, acquisition and construction of any of the Projects pursuant to the Bond Resolution and (ii) for any other purpose authorized by Section 6.17* of the Bond Resolution.

*See paragraph 6(g) of the summary referred to in footnote * on page 8.

services available from the Federal Columbia River Power System to enable the Participant to integrate its Participant's Share of Project Capability with power and energy available to the Participant from its own electric system and from Bonneville and other sources and (ii) to act as trustee-agent as to certain other rights and obligations for certain Participants.

It is understood that the Participant may designate Bonneville, in writing, as its agent to perform on its behalf any obligation of the Participant under this Agreement, any covenant or undertaking herein being deemed performed if performed by Bonneville fully in accordance with this Agreement; provided that any such agency designation by the Participant shall not affect in any respect any of its obligations hereunder.

NOW, THEREFORE, the parties hereto mutually agree as follows:

1. Definitions.

The singular of any term defined in this Agreement shall encompass the plural, and the plural the singular, unless the context indicates otherwise.

in Section 13, whichever is earliest, and the last Contract Year shall end at 2400 hours Pacific Standard Time on the date of termination of this Agreement.

(g) "Date of Continuous Operation" as to each Plant means (i) the date fixed by Supply System as the point in time when the Plant is ready to be operated on a continuous basis, or (ii) in the case of any Plant jointly owned, such date as may be fixed in conformity with the applicable ownership agreement between the Plant owners when such Plant is ready to be operated on a continuous basis.

(h) "Development Bonds" means the bonds heretofore issued and sold by Supply System pursuant to Resolution No. _____* adopted by the Board of Directors of Supply System on _____, 1975.

(i) "Elective Capital Additions" means additions and betterments that are neither necessary to achieve design capability nor required by governmental agencies having jurisdiction.

(j) "Federal System" means the Federal Columbia River Power System.

*It is expected that this resolution will be adopted in June, 1975.

is required under the Bond Resolution to pay in each Contract Year into the various funds provided for in the Bond Resolution from the Revenue Fund, as therein defined, for debt service and all other purposes and (ii) in the event other funds, including proceeds of sale of the Bonds, are not available, amounts necessary to pay the principal of, and interest and premium, if any, on any Development Bonds outstanding. The Annual Budget shall identify the source of all funds proposed to be expended.

(b) "Billing Statement" means the written statement prepared by Supply System and delivered to Participant that shows the amount to be paid, including the cost of fuel, to Supply System by the Participant for the Participant's Share for a Contract Year, or for the remainder of such Contract Year in the case of an amended Billing Statement adopted to reflect an amended Annual Budget or a change in the Participant's Share. Such amount shall be the sum of (i) the amount determined by multiplying the Participant's Share by the amount of the Annual Budget or the amended Annual Budget, as the case may be, less any other funds, including any amounts payable under the Power Sales Agreements, which shall be specified in the Annual Budget, or an amended Annual Budget, as being payable from sources other than the

(o) "Participant's Share" means the Participant's Preliminary Share adjusted as provided in Sections 5, 17 and 18 of this Agreement.

(p) "Plant" means one of the generating plants described in Exhibit B*, attached hereto.

(q) "Power Sales Agreements" means the agreements for the sale and purchase of power and energy, including project capability, from the Projects entered into by Supply System and any purchasers other than the Participants of power and energy or output from the Projects, substantially in the form of the drafts dated _____** on file with the Participant.

(r) "Projects" means Supply System's ownership interest in the generating plants and related properties described in Exhibit B*, attached hereto, which in any event shall conform to the description of the Projects in the Bond Resolution which authorizes the issuance of Bonds in an amount sufficient to pay the cost of acquiring and constructing the Projects.

*This exhibit will be completed and attached later pursuant to the provisions of the Option and Services Agreement.

**Drafts of these agreements will be submitted to Option Participant prior to its entering into the Participants' Agreement and thereafter a copy of the form of such agreements will be filed with the Option Participant.

(d) "Bond Resolution" means the resolution or resolutions adopted or supplemented by Supply System, as the same may be amended or supplemented, to authorize the Bonds. A copy of the draft dated _____, 19__*, of the first Bond Resolution has been filed with the Participant. The first Bond Resolution to be adopted by the Board of Directors of Supply System shall be substantially in the form and content of said draft Resolution. All modifications shall be reviewed by the Participants' Committee as provided in Section 15.

(e) "Construction Budget" means the Supply System's construction budget referred to in Section 8(a) and any amended construction budget as therein provided.

(f) "Contract Year" means the 12-month period commencing 2400 hours Pacific Standard Time on June 30 of each year during the term of this contract and ending 2400 hours on the June 30 next following, provided, that the first Contract Year shall commence at 2400 hours Pacific Standard Time on the date immediately preceding (i) the earliest of the Dates of Continuous Operation of any of the Plants or (ii) on July 1, 19__**, or (iii) the date one year after the date of termination of a Project as provided

*A summary of the draft to be filed is now on file with the Option Participant.

**See footnote on page 5.

reliability, safety and expedition. Prudent Utility Practice shall apply not only to functional parts of a Plant but also to appropriate structures, landscaping, painting, signs, lighting, or facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of a Plant. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts. In evaluating whether any matter conforms to Prudent Utility Practice, the parties and any Project Consultant shall take into account (i) the fact that Supply System is a municipal corporation and operating agency under the laws of the State of Washington with the statutory duties and responsibilities thereof and (ii) the objectives to integrate the Project Capability with the generating resources, primarily of the Participants, including such resources and electric power and energy purchased under contract, and secondarily of the Federal System, to achieve optimum utilization of the resources and achieve efficient and economical operation of each system, primarily as to the Participants and secondarily as to the Federal System. Nothing in this Agreement shall be construed as an obligation of Bonneville to operate its

(k) "Minimum Capability" means the minimum electrical generating capability of a Plant as determined by Supply System or, in the case of any jointly owned Plant, the minimum electrical generating capability of a Plant as determined in accordance with the appropriate ownership agreement to be as near as may be, but not less than, the minimum generating capability for each Plant permitted by the manufacturer's recommendation or by the terms of the United States Nuclear Regulatory Commission ("NRC") operating license, whichever is higher.

(l) "Participants" means those entities which are specified in Exhibit A*, attached hereto, and which enter into a Participants' Agreement.

(m) "Participants' Agreements" mean this Agreement and all other agreements substantially identical to this Agreement entered into by Supply System, Bonneville and the Participants.

(n) "Participant's Preliminary Share" means the decimal fraction share of Project Capability set opposite the name of the Participant in Exhibit A.*

*This exhibit will be completed and attached later pursuant to the provisions of the Option and Services Agreement.

4. Financing, Design, Construction, Operation and Maintenance of the Projects.

(a) Supply System, in good faith and in accordance with Prudent Utility Practice, shall use its best efforts:

(i) To arrange for the financing, design, acquisition, construction, operation and maintenance of the Plants;

(ii) To obtain, or arrange for obtaining, permits and other rights and regulatory approvals necessary for the financing, design, acquisition, construction, operation and maintenance of the Plants;

(iii) To issue and sell Bonds to finance the costs of construction of the Projects, as such costs are defined in the Bond Resolution, to pay or provide for the payment of the principal, interest, and premium, if any, on the outstanding Development Bonds and to finance the costs of any capital additions, renewals, repairs, replacements, or modifications to the Projects, not otherwise provided for, all as provided in the Bond Resolution, provided, that in each such case Bonds may then be legally issued and sold.

(iv) To complete, or arrange for the completion of, all appropriate planning and engineering studies

(s) "Project Capability" means the amounts of electric power and energy, if any, which the Projects are capable of generating at any particular time (including times when any or all of the Projects are not operable or operating or the operation thereof is suspended, interrupted, interfered with, reduced or curtailed, in each case in whole or in part for any reason whatsoever), less Project station use and losses.

(t) "Project Consultant" means an individual or firm, of national reputation having demonstrated expertise in the field of the matter or item referred to it, appointed among other things, for the resolution of a difference regarding a matter or item referred by Supply System. A different Project Consultant may be appointed for each matter or item referred.

(u) "Prudent Utility Practice" at a particular time means any of the practices, methods and acts, which, in the exercise of reasonable judgment in light of the facts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent

be automatically decreased, pro rata with other such Participants' Preliminary Shares, so that the total Participants' Shares shall equal 1.0. If the sum of the Participants' Preliminary Shares of the Participants who have executed and delivered the Participants' Agreements by _____, * 1975, is less than 1.0, Supply System may agree with any Participant to an increase in its Preliminary Share or may execute Participants' Agreements with any other statutory preference customers of Bonneville, in order to bring the total of such shares to 1.0. In such event a new Exhibit A shall be prepared by Supply System and shall be distributed to the Participants forthwith.

The purchase price to be paid for each Contract Year by the Participant to Supply System for its Participant's Share shall be the amount specified in the Billing Statement.

6. Payments by the Participant; Sources of Such Payments.

(a) Not less than 90 days prior to each Contract Year, Supply System shall prepare and deliver to the Participant a Billing Statement showing the amount to be paid

*This date will be at least 90 days after the date of delivery of signatory copies of the Participants' Agreement pursuant to Section 3(d) of the Option and Services Agreement.

resources in a manner which would lessen the amount of electric power and energy available to it from such resources.

2. Exhibits.*

Exhibits A through D are by this reference incorporated herein and made a part of this Agreement, namely:

Exhibit A - Table of Participants and Participants' Shares;

Exhibit B - Description of Plants;

Exhibit C - Point(s) of Delivery for Projects;

Exhibit D - Provisions Required by Statute or Executive Order.

3. Term of Agreement.

This Agreement shall be effective upon execution and delivery of Participants' Agreements by Supply System and Participants whose Participants' Preliminary Shares total 1.0 or more. This Agreement shall terminate when all Projects are terminated as provided in Section 13 except (i) as provided in Section 13 and (ii) as to accrued obligations and liabilities, including the retirement of all Bonds.

*These exhibits will be completed and attached later pursuant to the provisions of the Option and Services Agreement.

provided that the postmark indicates that the payment was mailed on or before such day. If the twenty-fifth day of the month is a Sunday or other nonbusiness day of the Participant, the next following business day shall be the last day on which payment may be mailed without addition of said charges.

In any event the Participant shall pay by the twenty-fifth day of the last month in each Contract Year the difference, if any, between the total amounts paid by Participant to Supply System during that Contract Year and the total amount billed to it by Supply System as herein provided.

(c) The Participant shall not be required to make any payments to Supply System under this Agreement except from the revenues derived by the Participant from the ownership and operation of its electric utility properties. The Participant covenants and agrees that it will establish, maintain and collect rates or charges for power and energy and other services, facilities and commodities sold, furnished or supplied by it through any of its electric utility properties which shall be adequate to provide revenues sufficient to enable the Participant to make the payments to be made by it to Supply System under this Agreement and to

and to construct and acquire, or arrange for the construction and acquisition of, the Plants in accordance with Prudent Utility Practice. Supply System shall use its best efforts to schedule the Date of Continuous Operation of each Plant as near as may be to the date for each Plant set forth below:

Nuclear Project No. 4	March 1982
Skagit Project, Unit 1	July 1982
Nuclear Project No. 5	March 1983
Skagit Project, Unit 2	July 1984

(b) Supply System shall operate and maintain the Plants, or cause the Plants to be operated and maintained, in accordance with Prudent Utility Practice and so as to meet the requirements of government agencies having jurisdiction.

5. Sale and Purchase of Participant's Share.

Supply System hereby sells, and the Participant hereby purchases, its Participant's Share of Project Capability. The Participant's Share shall be the Participant's Preliminary Share; provided that if the sum of the Participants' Preliminary Shares of the Participants who shall have executed and delivered Participants' Agreements is greater than 1.0, the Participant's Preliminary Share shall

Participant shall be at a point of delivery as agreed to by Supply System and the Participant. Such electric power and energy shall be in the form of three-phase current, alternating at a frequency of approximately 60 Hertz. Amounts so delivered at such points during each month shall be determined from measurements adjusted for losses, if any, as agreed upon by Supply System and Bonneville or the Participant, made by meters installed to record such deliveries at the place and in the circuit agreed upon by Supply System and Bonneville or the Participant, all as may be appropriate.

8. Budget and Accounting Procedures.

(a) The parties hereby approve Supply System's Construction Budgets in connection with each of the Projects, a copy of each of which is on file with the parties.* By April 1 of each year until completion of construction of each Project, Supply System shall prepare and deliver to the Participant and the Participants' Committee an amended Construction Budget for each Project, describing the items of construction and the estimated amounts to be expended therefor in each quarter from the succeeding July 1 to

*Copies of such budgets will be filed with the Participant at the time it authorizes entry into the Participants' Agreement.

by the Participant for such Contract Year. Whenever during a Contract Year the Annual Budget is amended or Participant's Share is changed from that used in the Billing Statement for that Contract Year, an amended Billing Statement shall be prepared for the remainder of that Contract Year reflecting such amendment or change and shall be delivered to the Participant.

(b) On or before the 25th day of each month of each Contract Year the Participant shall pay to Supply System the amount specified in the Billing Statement, divided by the number of months in the respective Contract Year, or in the case of an Amended Billing Statement, the amount specified in such Amended Billing Statement divided by the number of months remaining in such Contract Year.

Amounts due and not paid by the Participant on or before the close of business on the 25th day of the month shall bear an additional charge of two percent of the unpaid amount. Thereafter, a further charge of one percent of the sum of the initial amount remaining unpaid and said additional charge shall be added on the twenty-fifth day of each succeeding month until the initial amount due and the additional charge are paid in full. Remittances received by mail will be accepted without assessment of said charges,

get for the Projects for the period from such date following July 1. Thereafter, on or before April 1 each Contract Year Supply System shall deliver to the Participant and the Participants' Committee a similar Annual Budget for the next succeeding Contract Year, which budgets shall take into account the cumulative difference between income and expenditures for the prior Contract Year and provide for adjustment, as necessary, of the appropriate working cash fund.

All taxes and payments in lieu of taxes with respect to the Projects imposed and required by law to be paid by Supply System, and which are due and payable in a Contract Year, shall be included in the Annual Budget for that Contract Year as a Project cost. To the extent Supply System is permitted by law to negotiate for payments in lieu of taxes or other negotiated payments to state or local taxing entities, the Annual Budget shall also include, for each Project, the amounts of such negotiated payments; provided, that Supply System shall not agree to any such negotiated payment if in any Contract Year the sum of such negotiated payments and taxes and payments in lieu of taxes imposed by law, applicable to any Project, would exceed the total amount of ad valorem taxes applicable to that Project

pay all other charges and obligations payable from or constituting a charge and lien upon such revenues.

The Participant shall make the payments to be made to Supply System under this Agreement whether or not any of the Projects is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the output of any Project for any reason whatsoever in whole or in part. Such payments shall not be subject to any reduction, whether by offset or otherwise, and shall not be conditioned upon the performance or nonperformance by Bonneville, Supply System or any other Participant under this or any other agreement or instrument, the remedy for any non-performance being limited to mandamus, specific performance or other legal or equitable remedy.

7. Provisions Relating to Delivery.

Deliveries of electric power and energy for the account of the Participant shall be made to the transmission grid of the Federal System at the respective points of delivery and at the approximate voltage described in Exhibit C, attached hereto, to be prepared by Supply System pursuant to agreements entered into with Bonneville. In the absence of such an agreement with Bonneville, deliveries to the

Committee prior to such time, or (ii) with respect to any jointly-owned Plant, upon approval by the appropriate Plant owners' committee.

(c) Accounting.

Supply System shall keep up-to-date books and records showing all financial transactions and other arrangements made in carrying out the terms of this Agreement. Such books and records shall contain information supporting the allocation of Supply System's indirect costs associated with each Project. The method of allocating or prorating such costs as between the Projects and other activities in which Supply System may have an interest shall be based upon Prudent Utility Practice. Such books and records shall be retained by Supply System for three years and shall be made available for inspection and audit by the Participant and the Participants' Committee at any reasonable time.

All accounts shall be kept so as to permit conversion to the system of accounts prescribed for electric utilities by the Federal Power Commission.

Any contract with any consultant or contractor of Supply System providing for reimbursement of costs or expenses of any kind shall require the keeping and maintenance of books, records, documents, and other evidence

estimated date of completion of such Project. Supply System shall deliver amended Construction Budgets to the Participant and the Participants' Committee from time to time to reflect substantial changes in construction schedules, plans, specifications, or costs. Amended Construction Budgets for a succeeding year and amended Construction Budgets for a current year shall become effective (i) with respect to each Project within 30 days, and 15 days, respectively, after delivery, except for any item disapproved by the Participants' Committee before such time, or (ii) in the event a Plant is jointly owned, upon approval by the appropriate Plant owners' committee, as the case may be.

A monthly Construction Budget report shall be prepared by Supply System and filed with the Participants' Committee showing by major plant accounts or contracts, the cumulative amounts committed and the cumulative expenditures.

(b) Except as provided in Section 13, at least 90 days prior to (i) the earliest Date of Continuous Operation, or (ii) July 1, 198___*, or (iii) the date one year after the date of termination of a Project as provided in Section 13, whichever occurs first, Supply System shall deliver to the Participant and the Participants' Committee a proposed

*See footnote on page 5

Plan will be submitted with each Annual Budget beginning with the first such budget. Each Fuel Plan shall be prepared after consideration of the fuel supply arrangements, power generating requirements and other operational aspects of each Plant.

Supply System shall consult with the Participants' Committee and shall prepare the initial Fuel Plans consistent with the foregoing subsection (a). As to each Plant (i) for which there is no fuel fabrication commitment, or (ii) for which the initial fuel fabrication commitment has been completed less than four months prior to the submittal date for the initial Fuel Plan, the Fuel Plan shall be limited to a description of the present and proposed Fuel contract arrangements. All other Fuel Plans shall describe in detail each contemplated action and payment and the dates thereof separately for each Participant, the amount of net energy available from the Projects in each Contract Year (Annual Energy Availability) and, separately for each Plant core usage, average burnup and estimated fueling dates. It shall include a cash flow analysis of forecasted expenditures and credits for each Participant for each major component of the Fuel cycle by years, for the

which Supply System would have paid in that year to such taxing entities if the Project or portion thereof, within the boundaries of each such taxing entity, were subject to ad valorem taxes and its valuation for tax purposes were added to the valuation of the property subject to ad valorem taxes by such taxing entity, but with its millage rate reduced so that the amount of ad valorem taxes raised would be unchanged.

Notwithstanding any other provision of this Agreement, costs may be incurred by Supply System in an emergency or to protect the safety of any of the Projects or the public, and any such costs, not otherwise provided for, shall be added to the Annual Budget as incurred. Promptly after any such addition to the Annual Budget, and prior to expenditures of any other funds not contemplated in the effective Annual Budget, Supply System shall deliver an amended Annual Budget reflecting such additions to the Participant and the Participants' Committee.

The Annual Budget and any amended Annual Budget shall become effective (i) with respect to each Project, within 30 days and 15 days, respectively, after delivery except for any item disapproved by the Participants'

Committee for approval its determination for that Plant of (i) the next fueling date (Forecast Refueling Date), (ii) the kilowatt-hours of net energy available to each Participant to the Forecast Refueling Date (Energy Entitlement), (iii) the estimated cost per kilowatt-hour of each Participant's Energy Entitlement and (iv) the outage schedule for maintenance. Supply System shall periodically review such determinations with the Participants' Committee, revise such determinations as necessary and submit them to the Participants' Committee for approval.

(d) Supply System shall order for each Project at least the amount of Fuel necessary to ensure operation of such Project at Minimum Capability to the Forecast Refueling Date for such Project; provided, however, that to the extent any Participant has arranged, pursuant to Section 10(d) for the delivery of alternative capacity and energy to the Participants requesting operation, Supply System may order only the amount of Fuel for such Project such that the available capacity and energy output from all Projects plus the alternate capacity and energy so arranged for is at least equal to the amount of capacity and energy the requesting Participants are entitled to from the Projects until the Forecast Refueling Date of the respective Plant.

pertaining to the costs and expenses incurred or claimed under such contract to the extent and in such detail as will properly reflect all costs related to this Agreement and shall require such books, records, documents and evidence to be made available to the Participants' Committee at all reasonable times for review and audit for a period of three years after final settlement of the applicable contracts.

9. Fuel.

(a) For each Project for which Supply System has operational responsibility, Supply System shall use its best efforts to arrange for Fuel in amounts such that each Participant, acting singly or as a member of a group of Participants, may utilize its Participant's Share of the Project Capability in a manner which such Participant estimates will be best suited to its individual system needs.

(b) On or before July 1, 1977, and annually thereafter by each July 1 until the earliest Date of Continuous Operation of any of the Plants for which the Supply System has operational responsibility, Supply System shall prepare and submit to the Participants' Committee for approval a ten-year Fuel Management Plan ("Fuel Plan") for each Plant for which Supply System has Fuel commitments and operational responsibility. Each year thereafter, the Fuel

deliver to the Participant, a detailed final accounting for such Fuel batch of all costs, payments and energy and for any credits or deficits attributable to any Participant.

(g) Supply System shall include on the Billing Statement for each Contract Year (i) a provisional charge for Fuel equal to the estimated net cost to Supply System, as shown in the cash flow included in the current Fuel Plan in accordance with Section (b) above, for providing the amount of Fuel required to generate the Participant's Annual Energy Availability for such Contract Year, and (ii) any credits or debits attributable to the Participant necessary to adjust the provisional payment for the previous Contract Year to net actual Fuel costs for such year. Such adjustments shall take into account, among other things, the difference between estimated and actual Fuel cost recovery from the reprocessing of any Fuel batch during such year and any difference between the Participant's Annual Energy Availability and Participant's actual energy use from the Projects, but shall not take into account any energy adjustments between Participants made under Sections 9(e) and 10(d).

10. Scheduling.

(a) Within the constraints of Section 9 and of this Section 10, each Participant shall be entitled to

entire ten-year period, and cash flow by months, for the first five years of that period.

Each Participant shall furnish to Supply System, as requested, forecasts of its generating requirements from the Projects. Supply System shall use such forecasts in preparing each Fuel Plan. For the ten-year period of each Fuel Plan the net energy available to the Participants shall, to the extent practicable (i) equal the Participants' forecasted generating requirements for such period, and (ii) be available at times and in amounts sufficient to meet the Participants' forecasted generating requirements from the Projects. Supply System shall amend the Fuel Plan as reasonably required to reflect changes in conditions unforeseen at the time the Fuel Plan was prepared, and shall submit such amended Fuel Plan to the Participants' Committee for approval. Supply System shall arrange to secure Fuel and refuel each Plant or, to the extent possible under any respective Plant ownership agreement, cause a Plant to be refueled, in a manner which implements the Fuel Plan to the extent reasonably practicable.

(c) At the time of fueling or refueling of any Plant, Supply System shall submit to the Participants'

submit same to the Participants' Committee for approval as to the time and duration thereof as far in advance as practicable. Notwithstanding the foregoing, any Plant may be shut down to meet requirements of the NRC or other governmental agency having jurisdiction or to avoid hazard to the Plant or to any person or property.

(d) Except as otherwise provided herein, each Participant shall schedule energy from the Projects in such a manner that its Energy Entitlement is adequate to maintain its Participant's Share of Minimum Capability until the next Forecast Refueling Date; provided, that a Participant may require that one or more Plants not be operated during any period by arranging for delivery of alternative capacity and energy at such points of delivery to the Participants requesting operation equivalent to the amount of capacity and energy which would have been available to such Participants from their Participants' Shares during such period, and such requesting Participants shall pay the supplying Participant a percentage of the amount of incremental savings which the requesting Participants realize from the displacement of energy from the Projects, which percentage and amount of savings shall be as agreed by the Participants involved;

(e) Any Participant may require that the Forecast Refueling Date of a Plant be advanced or delayed and/or may use the Energy Entitlement of other Participants if such Participant (i) makes arrangements for delivery of alternative capacity and energy at the Plant point of delivery equivalent to the amount of capacity and energy which would have been available to such other Participants from their Participant's Share if the Forecast Refueling Date for such Plant had not been advanced or delayed or such Energy Entitlement had not been used by the requiring Participant, or (ii) makes other arrangements acceptable to the affected Participants including, but not limited to, payments for Fuel used and/or making a portion of such requiring Participant's Share of Project Capability available for use by other Participants; provided, that neither the advancing or delaying of such Forecast Refueling Dates nor the use of another Participant's Energy Entitlement shall (i) adversely affect the availability of capacity and energy to which any other Participant otherwise would have been entitled from such Project, or (ii) adversely affect any other Participant's costs for such capacity and energy.

(f) After reprocessing of a Fuel batch removed from the core of a Plant, Supply System shall make and

(f) Federal System and Reactive Power Scheduling.

It is the intent of the parties hereto that the voltage level at the points of delivery related to the Plants and the Federal System be controlled in accordance with good operating practice. The parties hereto shall jointly plan and operate their systems so that the flow of reactive power accompanying or resulting from deliveries of electric power and energy hereunder will not adversely affect the transmission system of any party or any other Participant.

At the request of Bonneville with respect to periods when any of the Plants are generating electricity, Supply System shall supply, or make arrangements to supply, reactive power to, or absorb reactive power from, the Federal System at the appropriate point of delivery during any hour in amounts (expressed in reactive kilovolt amperes) up to 25 percent of the Project Capability of a particular Project.

Under unusual or emergency conditions on the Federal System, Supply System will, at the request of Bonneville, (1) supply to, or absorb from, the Federal System additional amounts from the Plants of reactive power and (2) adjust the hourly schedules for Project Capability between Plants to the extent determined practicable by Supply System.

receive, as scheduled by it, all or any part of its Participant's Share. Supply System promptly shall notify each Participant and Bonneville, as appropriate, of any significant change in Project Capability.

(b) By 4:00 p.m. on each regular working day, each Participant acting singly or as a member of a group of Participants or Bonneville, as appropriate, shall submit its hourly schedule for the following day to Supply System except that such schedule shall be submitted for a holiday, Saturday, Sunday, and for the first following regular working day by 4:00 p.m. on the regular working day immediately preceding. Such hourly schedules may be changed at any time; provided, that if the total requested changes in the level of operation of the Plants require a rate of change of the output of any Plant in excess of the lower of that prescribed either by the manufacturer's warranty or by the NRC operating license, each Participant whose scheduled rate of change is in excess of its Participant's Share of the lower of the prescribed limit shall be limited proportionately so that the total rate of change of such Plant does not exceed such lower of the prescribed rate of change for that Plant.

(c) In addition to forecasted refueling outages, Supply System shall schedule generating plant outages and

proceeds of such insurance received by Supply System for loss or damage to any Project shall be used to repair such Project.

12. Training.

Supply System shall carry out a familiarization and training program to maintain adequate staff for the Projects and the expenses thereof shall be part of the direct or indirect costs of construction or costs of operation as appropriate.

13. End of the Projects; Termination Settlement.

(a) As to any Plant solely owned by Supply System:

(i) A Project shall be terminated and Supply System shall cause it to be salvaged, discontinued, decommissioned, and disposed of or sold in whole or in part to the highest bidder(s) or disposed of in such other manner as Supply System and the Participants' Committee may agree when:

(A) Supply System determines that it is unable to construct, operate or proceed as owner of such Project due to licensing, or operating conditions or other causes which are beyond its control.

provided further, that requiring non-operation of any Plant will not (i) adversely affect the availability of capacity and energy to which any other Participant otherwise would have been entitled from such Project, or (ii) adversely affect any other Participant's costs for such capacity and energy.

If fulfilling the schedules submitted by the Participants would require operation of the Plants at an operating level below the Minimum Capability of any Plant, Supply System shall immediately notify all Participants. Unless otherwise agreed by the Participants as provided in the preceding paragraph, the Participants whose schedules are greater than their Participants' Shares of such Minimum Capability shall take energy as provided by such schedules, and the other Participants shall adjust their amounts to be taken proportionally to their Participants' Shares in an amount equal to the remainder of such Minimum Capability.

(e) When testing of Plant facilities requires generation, each Participant shall make provision for acceptance of its Participant's Share of such generation. Supply System will notify Participants of test schedules as far in advance as practicable.

but shall not be limited to, all of Supply System's accrued costs and liabilities resulting from Supply System's ownership, construction, operation (including cost of fuel), maintenance of and renewals and replacements to such Project and the costs of salvage, discontinuance and disposition or sale thereof.

(iii) The final accounting statement shall credit to the Participants, and deduct from any amount otherwise chargeable to them, the fair market value of any assets related to any Project then retained by Supply System. If the final accounting statement(s) show that the costs referred to in Subsection (ii) above exceed such credits after application by Supply System of all other funds available for such purpose, the Participant shall pay Supply System a sum determined by multiplying the amount shown to be due in Supply System's final accounting statement(s) by the Participant's Share.

(b) As to any Plant jointly owned by Supply System, subject to the agreement between the owners of such Plant, Supply System shall comply with the provisions of Subsections (a)(ii) and (iii) of this Section in substantially the same manner as if the properties and facilities comprising the Plants were wholly owned by Supply System.

(g) Deviations. The parties shall hold deviations from schedule to a minimum and shall correct therefor as promptly as possible under conditions approximately equivalent to the conditions under which the deviation occurred. The amounts scheduled for delivery shall be deemed delivered.--

(h) The parties shall coordinate their operating plans to the extent practicable so that Plant availability, Plant maintenance schedules and Plant Fuel Plans are consistent with the operating plans of the Participants and Bonneville. To the extent that Bonneville develops an operating plan which includes the use of Project Capability pursuant to agreements with the Participants it shall do so in consultation with Supply System.

11. Insurance.

Supply System shall maintain in force, for the benefit of the Projects and the Participants as their respective interests shall appear, as a Project expense, such insurance as will satisfy the requirements of the Bond Resolution and any other applicable statutes, and such other insurance as Supply System may provide with the written concurrence of Participants holding two-thirds or more of the total Participants' Shares. Subject to Section 13, any

may be adjusted from time to time upon prior agreement between Supply System and Bonneville to take into account substantial changes in the overall operation and maintenance procedures during such Contract Year.

15. Project Committees.

The following Project Committees are hereby established:

(a) Participants' Committee. The Participants' Committee shall serve as the Committee for each Plant solely owned by Supply System and shall also perform such other duties as herein provided and which are not within the scope and authority of any other Project Committee.

(i) Not more than 30 days after the date of this Agreement, and thereafter not less than 30 nor more than 60 days prior to July 1 of each succeeding third year, the Participants shall form the Participants' Committee which shall be composed of not less than two nor more than seven members. Supply System shall give each Participant not less than 15 days' notice stating the time and place at which a meeting of representatives of the Participants shall be held for such purpose. Prior to the time of such meeting the Participant shall deliver a notice to Supply System of

(B) Supply System with the written concurrence of members of the Participants' Committee representing two-thirds or more of the total Participants' Shares of Project Capability determines that such Project is not capable of producing energy consistent with Prudent Utility Practice.

(C) The Participants' Committee directs Supply System to terminate a Project pursuant to Section 19(a).

The date of termination shall be the earliest of the dates of the termination under subsections (A), (B) and (C) above.

(ii) After such termination, Supply System shall undertake the decommissioning of such Project. Supply System shall make monthly accounting statements to the Participant of all costs associated therewith. Such monthly accounting statements shall continue until such Project has been salvaged, discontinued, decommissioned and finally disposed of hereunder, at which time a final accounting statement shall be made by Supply System and such final accounting statement shall be made at the earliest reasonable time. The costs of decommissioning shall include,

Shares shall constitute a quorum. All meetings of the Committee shall be open to attendance by any person authorized by any of the Participants. Except as herein provided, the calling and holding of meetings of the Committee, and all of its other proceedings, including the giving of notices, shall be governed by rules adopted from time to time by members of the Committee entitled to vote two-thirds or more of the Participants' Shares.

(iii) Except in the event of an emergency requiring immediate action, with respect to a Plant solely owned by Supply System, Supply System shall deliver to each member of the Participants' Committee a copy of each of the items listed below relating to the Plant together with a statement identifying the general nature of the action proposed to be taken by Supply System thereon (referred to hereinafter as "proposal"). Whenever appropriate, Supply System shall also deliver itemized cost estimates and other details sufficient to support a comprehensive review, including but not limited to, a copy of all supporting reports, analyses, recommendations or other documents pertaining thereto. Copies thereof shall be delivered to the Participant upon its request.

(c) Upon termination of all of the Projects, Supply System shall make monthly accounting statements to the Participant until all Bonds have been paid or funds set aside for the payment or retirement thereof in accordance with the Bond Resolution.

(d) The provisions of this Section and the provisions of Section 6 shall remain in effect notwithstanding termination of this Agreement pursuant to this Section.

14. Determination of Costs Associated With Nuclear Projects Nos. 1, 3, 4 and 5.

(a) Bonneville and Supply System, subject to review by the Participants' Committee, shall determine in advance of the completion of construction the method of allocation of plant construction costs between Nuclear Projects Nos. 1 and 4 and Nuclear Projects Nos. 3 and 5 in a manner which will provide for the sharing by each said plant in the savings which result from joint construction.

(b) In consultation with the Participants' Committee and, where appropriate, Plant owners, Bonneville and Supply System shall determine in advance of each Contract Year the method of allocation of operation and maintenance costs which are not directly chargeable to a particular plant operated by Supply System. Such method of allocation

designated proposal of Supply System, within 15 days after delivery of such proposal the proposal shall be deemed approved. The notice of disapproval shall segregate the items in the Supply System proposal so that the exact items of difference are identified; items in the proposal not specifically disapproved shall become effective immediately. Further, such notice of disapproval shall describe in what particular the proposal or item is not consistent with Prudent Utility Practice and recommend what would meet that standard.

(v) Any proposal made by Committee members pursuant to Subsection (iii) above shall require approval of Committee members representing 80% or more of the Participants' Shares, and any such proposal so approved shall be deemed finally approved unless Supply System delivers a notice to each Committee member stating that it disapproves of such proposal, within 15 days after approval by such 80% or more. Such notice shall comply with Subsection (iv) above.

(vi) Review of any proposal by the Participants' Committee and any disapproval or recommendation referred to in Subsections (iv) and (v) shall be based solely

its designation of the person or entity (the "Representative") and an alternate (to serve in the absence or disability of any such Representative) to cast its vote for its Participants' Committee members. Each Representative shall be entitled to cast a vote equal to the Participants' Shares of the Participant(s) who designate such Representative and more than one Representative may vote for the same person or entity to be a Committee member. The persons or entities, up to seven, who receive the highest votes shall be members of the Committee; provided, where more than three Participants' Committee members are so chosen, no person or entity shall serve who is chosen by Representatives entitled to vote less than 3% of the Participants' Shares. Any vacancy on the Participants' Committee shall be filled by vote of the Representatives who selected such Committee member.

(ii) Meetings of the Participants' Committee shall be held at least quarterly during the construction of the Project and at least semi-annually thereafter. Committee meetings may be called by Supply System or the Committee Chairman and timely notice of the time and place of such meetings shall be given to each Committee member. Each member of the Committee, or an alternate designated in writing by him, shall be entitled to a vote equal to the amount of the Participants' Shares represented by him. Members representing more than 50% of the Participants'

functions and shall charge the reasonable costs of any such services to such Project. Supply System shall pay such expenses and costs from the revenues of such Project or from Bond proceeds.

(ix) Supply System shall submit the following additional Matters relating to the Projects to the Participants' Committee for recommendation and may proceed on such Matters only upon approval by Participants holding 80% or more of the Participants' Shares:

Substantial change of the site of the Project in conformity with Section _____ of the Bond Resolution.

Substantial change of the type or supplier of a nuclear steam supply system or turbine generators.

Extension of insurance to any additional unit or generating project.

Elective Capital Additions to a Project.

(x) The Participants' Committee shall maintain liaison with any review board established under any "Trust-Agency Agreement", which the Participant may execute with Bonneville and with the respective ownership committee(s) established under any ownership agreement to which Supply System hereafter becomes a party.

Determination of Minimum Capability.

Any proposal made by Participants' Committee members representing Participants' Shares voting rights of 20% or more.

Construction budgets and changes therein (Section 8(a)).

Award of any contract or approval of any change order, in either case in excess of \$2,000,000, or such other contracts as determined by the Participants' Committee.

Budgets of annual costs and revisions thereof (Section 8(b)).

Fuel Plan, changes therein, and determinations relating thereto (Section 9).

Operating schedules (Section 10).

Insurance coverage, including limits and choice of insurers (Section 11).

Estimates of costs of repair or damage to the Project if in excess of \$5,000,000, recommendation whether to repair in whole or in part or to remove from service and construction budget for repair of Project.

Sales of salvage materials in excess of such minimum amount as is established by the Participants' Committee.

Change of an architect-engineer.

Bond Resolutions.

(iv) Unless notice is delivered to Supply System by Committee members representing 20% or more of the Participants' Shares, stating that they disapprove of a

Any designation of such an additional Project No. 5 Committee member by a Participant may be rescinded by written notice by such Participant to Supply System and the votes of such additional remaining Project No. 5 Committee member shall be ratably adjusted, provided, however, that if such notice reduces the Participants' Shares which such Project No. 5 Committee member represents to less than 15% of the total Participants' Shares, his appointment shall be rescinded by Supply System.

(c) Skagit Project Committee.

The Skagit Project Committee shall be the Committee established pursuant to Section ___ of the Skagit Project Ownership Agreement. Supply System, to the extent practicable, shall refer any matter on a Skagit Project Committee agenda to the Participants' Committee for review prior to the vote of the Skagit Project Committee. If Participants' Committee members representing more than 50% of the Participants' Shares vote to take a particular position on a matter to be presented to the Skagit Project Committee, Supply System shall cast its vote on such Committee in a manner which is consistent with such position or may refer such matter to the Project Consultant as provided

on whether the Supply System proposal or item is consistent with Prudent Utility Practice.

(vii) Whenever a written disapproval and recommendation are delivered as provided in Subsections (iv) and (v) above, the party submitting the proposal may change it to conform with such recommendation or make a new proposal and shall in either case follow the procedures set forth above for a proposal or within seven days after receipt of such disapproval shall appoint a Project Consultant acceptable to the Committee and Supply System to review the proposal or item in the manner described in Section 16. If Supply System and the Committee shall not agree upon the selection of the Project Consultant, Supply System shall promptly request the Chief Judge of the United States District Court for the judicial district of Washington in which the Project is located to appoint the Project Consultant.

(viii) Supply System shall consider the recommendations of the engineering, accounting, legal and professional personnel engaged by Participants' Committee to monitor and audit such Project, to make periodic reports to the Committee and to perform such other reasonable services as may aid the Committee in the performance of its review

recommendation of the Project Consultant or as the parties otherwise agree and shall become effective as and when modified.

(b) All costs incurred by Supply System for or by reason of employing a Project Consultant under this Agreement shall be a cost of the respective Project.

(c) If any proposal or item referred to the Project Consultant has not been resolved and will affect the continuous operation of the respective Project, Supply System shall continue to operate the Project.

(d) The words "item" or "proposal" as used in this Section means the item or proposal described including the cost specified therefor.

17. Obligations in the Event of Default.

(a) Upon failure of the Participant to make any payment in full when due under this Agreement or to perform any obligation herein, Supply System may make demand upon the Participant, and if said failure is not cured within 10 days from the date of such demand it shall constitute a default at the expiration of such period.

(b) If the Participant in good faith disputes the legal validity of said demand, it shall make such payment or perform such obligation within said 10 day period under

(b) Project No. 5 Committee.

In the event Nuclear Project No. 5 is jointly owned, the Project No. 5 Committee shall be the Committee established pursuant to Section ___ of the Nuclear Project No. 5 Ownership Agreement.

Pursuant to said section Supply System shall appoint a member of the Project No. 5 Committee to vote its Ownership Share of the Project; provided, that Supply System shall appoint additional members if a Participant or group of Participants holding 15% or more of the Participants' Shares deliver to Supply System a notice designating a person or entity to be a member of the Project No. 5 Committee. In the event of more than three such designations Supply System shall appoint the three designees representing the largest amounts of Participants' Shares. No Participant may make more than one such designation. In the event of such additional appointments each so appointed member's vote shall be calculated by multiplying the Participants' Shares represented by such member by .35; provided, further, that if such member or members representing 28% or more of the Participants' Shares vote to refer a matter to the Special Board pursuant to Section ___ of said Ownership Agreement, Supply System shall also vote to so refer the matter.

perform its obligations under its Participants' Agreement, and the Participant's Share of such defaulting Participant(s) shall be reduced correspondingly; provided, that the sum of such increases for the Participant pursuant to this Subsection shall not exceed, without consent of the Participant, an accumulated maximum of 25% of the Participant's Share.

(e) If the Participant shall fail or refuse to pay any amounts due to Supply System hereunder, the fact that other Participants have assumed the obligation to make such payments shall not relieve the Participant of its liability for such payments, and the Participants assuming such obligation, either individually or as a member of a group, shall have a right to recovery from the Participant. Supply System or any Participant as their interests may appear, jointly or severally, may commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of this Agreement against Participant.

18. Contingent Adjustment of Participants' Shares.

Notwithstanding anything in this Agreement to the

in Subsection (a)(vi) of this Section and Section 16. Supply System shall arrange to have a person elected by its Participants' Committee present at meetings of the Skagit Project Committee.

16. Project Consultant.

(a) The Project Consultant shall consider all written arguments and factual materials which have been submitted to it by either party within the ten days following its appointment, and as promptly as possible after the expiration of such period, make a written determination as to whether the proposal or item of Supply System would or would not have been consistent with Prudent Utility Practice. If the Project Consultant determines that the proposal or item referred to it was not consistent with Prudent Utility Practice it shall, at the same time, recommend what would, under the same circumstances, have met such test, including proposals of Committee members pursuant to Section 15(a)(v).

Proposals or items found by the Project Consultant to be consistent with Prudent Utility Practice shall become immediately effective. Proposals or items found by the Project Consultant to be inconsistent with Prudent Utility Practice shall be modified to conform to the

(ii) replacements or repairs ("Betterments and Repairs"), exceeds \$3,000,000 for any Plant for any Contract Year as estimated by Supply System, relating to a Plant which has become continuously operable, Supply System shall submit to the Participants' Committee its plan, including but not limited to a financing plan and budget of expenditures for each such Betterments and Repairs; provided, if such estimated aggregate cost of any such Betterments and Repairs exceeds 20 percent of the then depreciated value of the Plant, members of the Participants' Committee representing 80% or more of the Participants' Shares may direct that Supply System proceed to end the Project in accordance with Section 13 and the applicable ownership agreements. If Supply System and the Participants' Committee cannot agree upon such estimated costs, such estimated costs shall be referred to and determined by the Project Consultant. If the Participants' Committee does not so direct Supply System to proceed to end the Project within 90 days from the date such estimated costs have been so agreed upon or determined, Supply System shall proceed with its plan and budget of expenditures for such Betterments and Repairs. Each such plan and budget, or updated or amended budget, relating

protest directed to Supply System. Such protest shall specify the reasons upon which the protest is based.

(c) If the Participant is a nonprofit or cooperative corporation, upon default on the part of any other such Participant(s) which is a nonprofit or cooperative corporation, the Participant's Share shall be automatically increased for the remaining term of this agreement pro rata with that of other such nondefaulting Participant(s) to the extent that such defaulting Participant(s) fails or refuses for any reason to perform its obligations under its Participants' Agreement, and the Participant's Share of such defaulting Participant(s) shall be reduced correspondingly; provided, that the sum of such increases for the Participant pursuant to this Subsection shall not exceed, without consent of the Participant, an accumulated maximum of 25% of the Participant's Share.

(d) If the Participant is a municipal corporation, upon default on the part of any other such Participant(s) which is a municipal corporation the Participant's Share shall be automatically increased for the remaining term of this Agreement pro rata with that of other such nondefaulting Participant(s) to the extent that such defaulting Participant(s) fails or refuses for any reason to

pursuant to Section 6.17 of the Bond Resolution* (the "Project Development Proceeds") for preliminary work in connection with the development of two additional electric generating plants, and associated facilities, to serve the prospective needs of the Participants for power and energy resources, including, but not limited to, planning, engineering, siting, environmental, financial and economic surveys and studies, and other preliminary work necessary to comply with the State Environmental Policy Act (Revised Code of Washington, Chapter 43.21C), the statute entitled "Thermal Power Plant Site Location" (Revised Code of Washington, Chapter 80.50) and all other statutes, regulations, orders and standards of any governmental bodies having jurisdiction; provided that, pursuant to a proposal approved by members of the Participants' Committee representing 80% or more of the Participants' Shares, Supply System may expend Project Development Proceeds (1) for such preliminary work for further additional electric generating plants, and associated facilities, to serve the prospective needs of the participants for additional power and energy resources and (2) for purchase, condemnation, acquisition and construction of any electric generating plants and associated facilities.

*See paragraph 6(g) of the summary referred to in footnote * on page 8.

Arbitrary, the Participants which are not municipal corporations ("non-municipal Participants") shall not be entitled under this Agreement to any amount of power and energy of the Projects, including Project Capability, which when added to the amount of power and energy from the Projects, including Project Capability, to which Bonneville may be entitled under any agreement with Participants which are municipal corporations ("municipal Participants") would exceed the total of 25% of the power and energy from the Projects including Project Capability. If, but for this section, such non-municipal Participants and Bonneville would be entitled to more than said twenty-five percent (25%), such entitlement shall be reduced pro rata among the non-municipal Participants so that such entitlement, when added to that of Bonneville shall not exceed the total of such twenty-five percent (25%). In such event the Participants' Shares of municipal Participants shall be increased pro rata by the aggregate amount of such reduction.

19. Replacements, Repairs, Betterments and Capital Additions.

(a) Whenever the aggregate costs of (i) betterments or capital additions either necessary to achieve design capability or required by governmental agencies and

reduce the costs of construction or operation of the Projects or pursuant to and subject to the limitations of this Section.

(L) Supply System covenants and agrees that it will enter into Purchase Agreements for any project developed with Project Development Proceeds and proceed to issue and sell bonds or notes to finance such projects as soon as reasonably practicable.

(c) Supply System shall reserve or cause to be reserved for each Participant a share (the "Reserved Share") of the power and energy of any project developed with any Project Development Proceeds. The Reserved Share of the Participant shall be equal to a fraction having a denominator represented by the estimated amount of growth in power and energy requirements for all Participants for the period beginning on January 1, 19____, and ending on the December 31 preceding the estimated date of continuous operation of such project and a numerator represented by the estimated amount of such growth of the Participant. Such estimates shall be made by Supply System with the approval of members of the Participants' Committee representing _____% or more of the Participants' Shares.

thereto shall be submitted to the Participants' Committee and shall become effective at the time and in the manner provided in Section 8.

(b) Notwithstanding any other provisions of this Agreement, Supply System without prior approval of the Participants' Committee, shall not expend or obligate, moneys exceeding \$2,000,000 in any Contract Year for Elective Capital Additions.

(c) If in any Contract Year the amounts for costs of operation or construction in the applicable Annual Budget for Betterments and Repairs and Elective Capital Additions (less the amount of applicable reserves, if any, as provided in the Bond Resolution plus the proceeds of insurance, if any, available by reason of loss or damage to one or more Projects) exceed by 10% the applicable Annual Budget, less such costs, and not including such reserves and insurance proceeds, Supply System in good faith shall use its best efforts to issue and sell Project Bonds to pay such excess in accordance with Section 4.

20. Reservation of Interest in Future Projects.

(a) Supply System may expend not to exceed Fifty Million Dollars (\$50,000,000) of the proceeds of the Bonds

based upon the default of any other party under this Agreement, or any other instrument, or otherwise, except as specifically provided in this Agreement.

(b) This Agreement shall not be amended, modified, or otherwise changed by agreement of the parties in any manner that will impair or adversely affect the security afforded by the provisions of this Agreement for the payment of the principal, interest, and premium, if any, on the Bonds as they respectively become payable so long as any of the Bonds are outstanding and unpaid or funds are not set aside for the payment or retirement thereof in accordance with the Bond Resolution.

(c) If any Participants Agreement is amended or replaced so that it contains terms and conditions different from those contained in this Agreement, Supply System shall notify the Participant and upon timely request by the Participant shall amend this Agreement to include similar terms and conditions.

22. Approval by Rural Electrification Administrator and Other Agencies.

If the Participant is a party to an agreement or other instrument pursuant to which approval of this Agreement by the Administrator of the Rural Electrification

Any agreements ("Purchase Agreements") entered into for the purchase and sale of shares of power and energy of any project developed with any Project Development Proceeds shall contain the requirements that:

(i) In the event that such a project is terminated before proceeds of bonds or notes sold to finance such project are received by Supply System, the purchasers under the Purchase Agreements shall be obligated to pay any amounts expended or committed from Project Development Proceeds for the project after the effective date of said Purchase Agreements plus the amount of any interest paid or accrued by Supply System on the portion of Project Development Proceeds expended for a project, such amounts to be due within _____ years after the date of termination.

(ii) In the event that proceeds of bonds or notes secured by Purchase Agreements for such project are received by Supply System, Supply System shall apply an amount from such bond or note proceeds equal to the amount expended from Project Development Proceeds for the project as provided in Subsection (iii) below.

(iii) Supply System shall expend any amounts paid it under Subsections (i) and (ii) above either to

ATTACHMENT 1-4

WNP NO. 1 NET BILLING AGREEMENT

(d) The Reserved Share of each Participant shall be made available by Supply System under a form of Purchase Agreement which will treat all Participants for whom power and energy are reserved hereunder on equal terms.

(e) Except as otherwise provided in this Section, the form of Purchase Agreement and all other matters reasonably required to implement this Section shall be governed by rules adopted by Supply System and approved by members of the Participants' Committee representing _____% or more of the Participants' Shares.

(f) Supply System shall use its best efforts promptly to secure a written waiver from each of its members to any preference right that the member may have under and pursuant to RCW 43.52.380 to purchase an amount of such reserved capability or output in excess of that provided for in this Agreement. The execution of this Agreement by a Participant who is a member of Supply System constitutes such waiver.

21. Modification and Uniformity of Agreements.

(a) This Agreement shall not be binding upon any of the parties hereto if it is not binding upon all of the parties hereto, but this Agreement shall not be subject to termination by any party under any circumstances, whether

11-16-72

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1

AGREEMENT

executed by the

UNITED STATES OF AMERICA

DEPARTMENT OF THE INTERIOR

acting by and through the

BONNEVILLE POWER ADMINISTRATOR

and

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

and

BENTON RURAL ELECTRIC ASSOCIATION

(Net Billing Agreement)

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Administration is required as listed in Exhibit A, this Agreement shall not be binding upon any of the parties until it shall have been approved by him or his delegate. If Participant is a party to any other agreement or instrument pursuant to which approval of this Agreement by any agency is required and Participant so notifies Supply System prior to Supply System's execution of this Agreement, this Agreement shall not be binding upon any of the parties until it shall have been approved by any such agency.

23. Notices.

Any notice, demand, approval, proposal, protest, direction or request provided for in this Agreement to be delivered, given or made to the Participant shall not be deemed delivered, given or made unless delivered in writing in person or by registered or certified mail, postage prepaid, return receipt requested, addressed to the person and at the address designated in writing filed with Supply System by the Participant. The Participant may change such designation, at any time and from time to time, by giving notice to Supply System as above provided. Any such notice, demand or request to be delivered, given or made to Supply System and Bonneville shall be deemed delivered, given or

made if delivered in writing, in person, or sent by mail as above provided to the following addresses:

Managing Director	Bonneville Power
Washington Public	Administration
Power Supply System	P. O. Box 3621
P. O. Box 968	Portland, OR 97208
Richland, WA 99352	

or such other addresses designated as provided above.

24. Relationship to Other Instruments.

It is recognized by the parties hereto that Supply System in the ownership, construction, acquisition and operation of the Plants must comply with the requirements of any ownership agreements relating thereto, the Bond Resolution and all licenses, permits and regulatory approvals necessary for such ownership, construction, acquisition and operation, and it is therefore agreed that this Agreement is made, and referrals to or any review or other action by the Participants' Committee hereunder shall be subject to the terms and provisions of said ownership agreements, the Bond Resolution and all such licenses, permits, and regulatory approvals.

Each Participant that executes with Bonneville a "Trust-Agency Agreement" shall provide therein that nothing contained in that Agreement is to be construed as affecting any of the obligations or liabilities of the parties under this Agreement. Except as to the obligations under Sections

6 and 9 of the Option and Services Agreement, this Agreement supersedes such Agreement.

25. Saverability.

Notwithstanding any provision of this Agreement relating to the review, determination, approval, disapproval or other action by any Committee, Project Consultant or Bonneville, it is, nevertheless, understood and agreed that the essential purpose of the Participant entering into this Agreement is to obtain from the Supply System its Participant's Share in order to serve its customers in the future. Accordingly, if any section, paragraph, clause or provision of this Agreement (including any relating to any review, determination, approval, disapproval, or any other action, by any committee, project consultant or Bonneville) or its application to any Plant, Project or entity shall be finally adjudicated by a court of competent jurisdiction to be invalid, the remainder of this Agreement or its application to any other Plant, Project or entity shall be unaffected by such adjudication and all of the remaining provisions of this Agreement or its application to any other Plant, Project or entity shall remain in full force and effect as

though such section, paragraph, clause or provision or any part thereof so adjudicated to be invalid had not been included herein.

The parties agree that any event or condition which may occur which delays or prevents the construction or operation of, any of the Plants shall not delay the construction of any other Plant.

26. Assignment of Agreement.

This Agreement shall inure to the benefit of, and shall be binding upon the respective successors and assigns of the parties to this Agreement; provided; however, that neither this Agreement, nor any interest therein, shall be transferred or assigned by Supply System to any entity without written consent of the Participants' Committee, nor assigned by the Participant, except as provided herein, without the written consent of Supply System.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement this _____ day of _____, 1975.

WASHINGTON PUBLIC POWER
SUPPLY SYSTEM

ATTEST:

Title _____

By _____
Managing Director

(SEAL)

UNITED STATES OF AMERICA
Department of the Interior

By Bonneville Power Administrator

Participant's Name

ATTEST:

Title _____

(SEAL)

By _____
Title _____

OPTION PARTICIPANTS AND OPTION PARTICIPANTS' SHARES

<u>Participant</u>	<u>Participant's Share</u>
Light Company	0.00010
andon, Oregon	0.00070
Utility District No. 1 of Benton County, Washington	0.05250
on Rural Electric Association	0.00690
g Bend Electric Cooperative, Inc.	0.00530
*Blachly-Lane County Cooperative Electric Association	0.00470
The City of Blaine, Washington	0.00070
The City of Bonners Ferry, Idaho	0.00200
City of Burley, Idaho	0.00200
The City of Canby, Oregon	0.00540
City of Cascade Locks, Oregon	0.00070
*Central Electric Cooperative, Inc.	0.01000
The City of Centralia, Washington	0.00680
The Central Lincoln Peoples' Utility District	0.02760
Public Utility District No. 1 of Chelan County, Washington	0.00800
The City of Cheney, Washington	0.00130
Public Utility District No. 1 of Clallam County, Washington	0.01420
Public Utility District No. 1 of Clark County, Washington	0.10190
Clatskanie Peoples' Utility District	0.00810
Clearwater Power Company	0.00330
*Columbia Basin Electric Cooperative, Inc.	0.00400
*Columbia Power Cooperative Association, Inc.	0.00090
*Columbia Rural Electric Association, Inc.	0.00670
*Consumers Power, Inc.	0.01400
*Coos-Curry Electric Cooperative, Inc.	0.00600
City of Coulee Dam, Washington	0.00070
Public Utility District No. 1 of Cowlitz County, Washington	0.09440
Public Utility District No. 1 of Douglas County, Washington	0.00010
*Douglas Electric Cooperative, Inc.	0.00530
The City of Drain, Oregon	0.00070

East End Mutual Electric Co., Ltd.	0.00050
The City of Ellensburg, Washington	0.00650
Elmhurst Mutual Power & Light Company	0.00600
Fall River Rural Electric Cooperative, Inc.	0.00670
Farmers Electric Co., Ltd.	0.00050
*Public Utility District No. 1 of Ferry County, Washington	0.00070
*Flathead Electric Cooperative, Inc.	0.00290
The City of Forest Grove, Oregon	0.00740
Public Utility District No. 1 of Franklin County, Washington	0.03020
Glacier Electric Cooperative, Inc.	0.00180
Public Utility District No. 1 of Grant County, Washington	0.00600
Public Utility District No. 1 of Grays Harbor County, Washington	0.04560
*Harney Electric Cooperative, Inc.	0.00200
City of Heyburn, Idaho	0.00270
Hood River Electric Cooperative of Hood River County, Oregon	0.00310
*Idaho County Light & Power Cooperative Association, Inc.	0.00050
City of Idaho Falls, Idaho	0.00940
*Inland Power & Light Company	0.02320
*Public Utility District No. 1 of Kittitas County, Washington	0.00270
*Public Utility District No. 1 of Klickitat County, Washington	0.01010
*Kootenai Electric Cooperative, Inc.	0.00670
*Lane County Electric Cooperative, Inc.	0.00800
Public Utility District No. 1 of Lewis County, Washington	0.02090
*Lincoln Electric Cooperative, Inc. (Montana)	0.00050
*Lincoln Electric Cooperative, Inc. (Washington)	0.00190
*Lost River Electric Cooperative, Inc.	0.00140
*Lower Valley Power & Light, Inc.	0.00870
*Public Utility District No. 1 of Mason County, Washington	0.00160
Public Utility District No. 3 of Mason County, Washington	0.01010
Town of McCleary, Washington	0.00130
City of McMinnville, Oregon	0.01010
*Midstate Electric Cooperative, Inc.	0.00730
City of Milton-Freewater, Oregon	0.00070
*Missoula Electric Cooperative, Inc.	0.00600
City of Monmouth, Oregon	0.00200

*Nespelem Valley Electric Cooperative, Inc.	0.00050
*Northern Lights, Inc.	0.00530
Northern Wasco County People's Utility District	0.00340
Ohop Mutual Light Company	0.00090
*Okanogan County Electric Cooperative, Inc.	0.00050
Public Utility District No. 1 of Okanogan County, Washington	0.01420
*Orcas Power and Light Company	0.00670
Public Utility District No. 2 of Pacific County, Washington	0.00880
Parkland Light & Water Company	0.00140
Public Utility District No. 1 of Pend Oreille County, Washington	0.00410
City of Port Angeles, Washington	0.00480
*Prairie Power Cooperative, Inc.	0.00090
*Raft River Rural Electric Cooperative, Inc.	0.00400
*Ravalli County Electric Cooperative, Inc.	0.00240
City of Richland, Washington	0.02030
City of Rupert, Idaho	0.00340
Rural Electric Company	0.00090
Salem Electric	0.00470
*Salmon River Electric Cooperative, Inc.	0.00090
City of Seattle, Washington	0.11470
Public Utility District No. 1 of Skamania County, Washington	0.00270
Public Utility District No. 1 of Snohomish County, Washington	0.13490
South Side Electric Lines, Inc.	0.00050
The City of Springfield, Oregon	0.01820
Town of Steilacoom, Washington	0.00150
The Town of Sumas, Washington	0.00020
*Surprise Valley Electrification Corporation	0.00230
City of Tacoma, Washington	0.11060
*Tanner Electric	0.00100
*Tillamook Peoples' Utility District	0.00810
*Umatilla Electric Cooperative Association	0.05450
Unity Light and Power Company	0.00140
Vera Irrigation District No. 15	0.00270
*Vigilante Electric Cooperative, Inc.	0.00300
Public Utility District No. 1 of Wahkiakum County, Washington	0.00130

*Wasco Electric Cooperative, Inc.	0.00140
*Wells Rural Electric Company	0.00050
*West Oregon Electric Cooperative, Inc.	0.00140
Public Utility District No. 1 of Whatcom County, Washington	<u>0.00030</u>
	1.20000

*Approval of Agreement by Rural Electrification Administration required.

EXHIBIT C

PROJECT DESCRIPTIONS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

Nuclear Project No. 4

The Washington Public Power Supply System's Nuclear Project No. 4 comprises a nuclear generating plant and associated facilities having an installed nameplate rating of approximately 1,250 MW. The Supply System will have sole ownership of Nuclear Project No. 4. The Project will be located within the United States Energy Resources Development Agency's Hanford Reservation in Benton County, Washington, about 2.5 miles west of the Columbia River at river mile 352 in Section 3, 4, 33 and 34, Townships 11 North and 12 North, Range 28 East, Willamette Meridian, Benton County, State of Washington, such site being about 0.7 miles east and 0.3 miles north of the Washington Public Power Supply System Nuclear Project No. 2 presently under construction, about 12 miles north of the City of Richland, Washington.

Nuclear Project No. 5

The Washington Public Power Supply System's Nuclear Project No. 3 comprises a nuclear generating plant and associated facilities having an installed nameplate rating

of approximately 1,240 MW. The Supply System will have an ownership interest in Nuclear Project No. 5 of at least a seventy percent (70%) and up to one hundred percent (100%). The Project will be located in Section 17 of Township 17 North, Range 6 West, Willamette Meridian, Grays Harbor County, State of Washington, about 3 miles south of Satsop, Washington, and about 17 miles east of Aberdeen, Washington.

Skagit Project

The Puget Sound Power & Light Company's Skagit Project comprises two nuclear generating plants and associated facilities, each having an installed nameplate rating of approximately 1,270 MW. The Supply System may have an ownership interest up to fifteen percent (15%) of the Skagit Project.

The Skagit Project shall be located in Township 35 North, Range 5 East, Willamette Meridian, Skagit County, State of Washington, about 5 miles east of the City of Sedro Woolley, Washington, and about 12 miles northeast of the City of Mount Vernon, Washington.

Each of said projects, or units thereof, shall include, but shall not be limited to, a nuclear steam supply system, reactor coolant system and all related containment structures and safety features, including all instrumentation, control and auxiliary system required therefor; turbine-generator, condensers, circulating water systems, including

cooling towers or cooling ponds and related facilities, electrical and mechanical systems and all other equipment, facilities or appurtenances thereto; all electrical facilities required to deliver the output of the projects to the Federal Columbia River Power System or an Option Participant's transmission system and to the transmission facilities of the companies, as to be provided in the Participants' Agreement and the ownership agreements, if any, respectively, all structures, railroad sidings, shops, warehouses, construction facilities, offices, dwellings and all other structures, fixtures, equipment or facilities used or useful in the construction, maintenance, operation and administration of the projects and all necessary water rights, development rights, permits and licenses, leases, easements and rights-of-way.

ATTACHMENT 1(h)-1

UPDATED EXHIBIT A "FINANCIAL QUALIFICATIONS" OF AMENDMENT NO. 1

EXHIBIT A
FINANCIAL QUALIFICATIONS
OF THE SUPPLY SYSTEM

1. Estimated Cost of the Project

1.1 WNP- 1

The Supply System estimates the total cost of the WNP- 1 facility, including the design, equipment, construction, transmission and substation facilities, administration and overhead, interest during construction, licensing, personnel training and preoperational testing and other associated costs and reserves therefore, to be \$990,000,000. This estimate includes costs escalated to September 1980, and assumes a 7% interest rate for interest during construction computations. A Preliminary Construction Budget has been prepared and is included in Schedule II.

Total direct construction costs, not including fuel, taxes, contingencies and escalation, are estimated to be \$451,886,000.

Contingencies and escalation are estimated at \$152,275,000. Engineering and Construction Management costs are estimated at \$58,845,000 and Owners' Direct Costs are estimated at \$48,000,000.

Net interest during construction, based on an assumed interest rate of 7% on revenue bonds issued by the Supply System to finance the costs of the facility, is estimated to be \$184,750,000. Other costs associated with facility construction, including acquisition of an initial nuclear core, result in a total Bond Issue of \$990,000,000.

1.2 WNP- 4

The Supply System estimates the total cost of the WNP- 4 facility, including the design, equipment, construction, transmission and substation facilities, administration and overhead, interest during construction, licensing, personnel training and preoperational testing and other associated costs and reserves therefore, to be \$1,009,000,000. This estimate includes costs escalated to March, 1982 and assumes a 7% interest rate for interest during construction computations. A Preliminary Construction Budget has been prepared and is included in Schedule II.

Total direct construction costs, not including fuel, taxes, contingencies and escalation, are estimated to be \$447,868,000.

Contingencies and escalation are estimated at \$187,727,000. Engineering and Construction Management costs are estimated at \$32,725,000 and Owners' Direct Costs are estimated at \$30,000,000.

Net interest during construction, based on an assumed interest rate of 7% on revenue bonds issued by the Supply System to finance the costs of the facility, is estimated to be \$204,337,000. Other costs associated with facility construction, including acquisition of an initial nuclear core, result in a total Bond Issue of \$1,009,000,000.

2. Estimated Cost of Initial Nuclear Fuel Fabrication

The Supply System issued invitations for bids on the initial nuclear fuel in connection with bids for the Nuclear Steam Supply Systems for WNP- 1 and WNP- 4. On the basis of the bid evaluations, the Nuclear Steam Supply Systems were awarded to Babcock and Wilcox Company, Inc. Included in the WNP- 1 and WNP- 4 bids was an amount of \$7,604,065 for fabrication of the initial nuclear fuel for each facility.

3. Financing of Construction

3.1 WNP- 1

The entire capability of the WNP- 1 facility will be sold by the Supply System to 104 statutory preference customers (the "Participants") and five private utility customers (the "Companies") of the Bonneville Power Administration ("Bonneville") and assigned by such customers to Bonneville pursuant to the Net Billing Agreements and certain agreements (the "Exchange Agreements"), respectively.

Each of the 104 customers termed "Participants" under the contracts, is a consumer-owned utility in the Pacific Northwest region of which 28 are municipalities, 29 are public utility districts and 47 are cooperatives. These Participants will purchase 67.53% of the facility's capability during the period 1980 to 1996 and 100% of the facility's capability thereafter. Each Participant in turn has agreed to assign its share of the facility's capability to Bonneville. The Net Billing Agreements provide that each Participant will receive a credit on its Bonneville power billings to the same extent that it makes payments to the Supply System for its share of the facility's costs. The Companies have agreed to purchase 32.47% of the facility's capability during the period 1980 to 1996 and exchange their share of the facility's capability with Bonneville which will supply a certain amount of power to the Companies with payment to be made by the Companies to the Supply System.

Based upon the contractual commitments of each of the Participants and the Companies to pay their respective portions of the facility's costs, the Supply System will issue revenue bonds in an amount sufficient to pay the net project construction costs. It is expected that the bonds will be issued in series, in about \$150,000,000 increments. As customary, there will be a resolution as to the particulars of the financing. Such resolution will reiterate the prior approvals for undertaking the project.

The Net Billing Agreements and Exchange Agreements referred to above provide the basic security for the financing of the facility. Copies of the contracts and a more detailed description of these marketing and financing arrangements are set forth in Schedule I hereto. Copies of the most recently available financial statements for the participants are given in Schedule II appended hereto.

To provide funds for preliminary expenses necessary to obtain the Construction Permit from the Atomic Energy Commission and site certification from the State of Washington, the Supply System issued and sold its \$77,000,000 Nuclear Project No. 1 Revenue Notes on May 22, 1974. These notes, sold for an effective interest rate of 6.05%, will mature on December 15, 1976 (see Schedule I). The Supply System presently plans to sell all or a portion of the permanent bonds required to finance construction of the facility as soon as practicable after the construction permit and site certification have been obtained, now anticipated to be in mid-1975, and to refund the Notes at that time.

3.2 WNP- 4

On April 11, 1974 the Executive Committee of the Public Power Council unanimously adopted a motion requesting that WPPSS undertake the investigation and planning required for the financing and construction of WPPSS Nuclear Projects Nos. 4 and 5 (WNP- 4 and -5). The Public Power Council is composed of participants from the publicly-owned utility systems in the Pacific Northwest. The Council was established to provide a mechanism for these utilities to plan their long range power supply.

The WNP- 4 facility's output will be offered to the statutory preference customers as identified above. They will contract for specific fractions of the plants lifetime output and will provide a covenant to adjust rates as needed to meet their project obligations. The power sales contract will either be directly between WPPSS and each utility or through BPA acting as a designated agent for individual utilities. It is expected that these contracts specifying particular fractions of plant output will be completed by the end of calendar year 1975. In the interim, preliminary expenses will be met by use of proceeds from short term notes backed by the general credit of Members of WPPSS. Such Members have already agreed to obligations totaling \$2.5 million and an additional \$15 million has been raised in this manner prior to execution of the power sales contracts. (These monies are in support of WNP- 4 and WNP- 5, and additional site studies for future plants and the actual portion needed for WNP- 4 is approximately 60%). When the power sales contracts are complete, one issue of interim short term notes, now estimates at \$35 million, backed by these contracts, will be used to refund the initial advances and to provide funding for WNP- 4 and possibly WNP- 5 to the point in time (shortly after award of construction permits) when long term bonds will be issued. The bonds will pledge revenues and are expected to be issued in \$100 million increments.

3.3 General

The Supply System has retained Blyth Eastman Dillion & Co., 14 Wall Street, New York, N. Y., as Financial Consultants to render advice as to financing methods, timing, bond market conditions and other matters related to the most effective means of revenue bond financing the costs of construction.

The Supply System has also retained Wood, King, Dawson, Love & Sabatine, Attorneys, 48 Wall Street, New York, N. Y., as Bond Counsel to review contracts, bond resolutions and proposed financing, and assist the Supply System in arranging financing.

The WPPSS Financial Consultants have advised the Supply System (Exhibit G) that the securities required for Project financing should be readily marketable and should be very well received into the financial community.

4. Previous Bond Financing, Interest Costs and Bonds Outstanding

The Supply System has previously successfully financed two generating projects now in operation by issuance and sale of tax exempt revenue bonds. The Packwood Lake Hydro-Electric Project Bonds in the amount of \$10,500,000 were sold in 1962. The Hanford Electric Generating Plant Bonds in the amount of \$122,000,000 were sold in 1963. Completion Bonds for the Packwood Project, in the amount of \$3,200,000 were sold in 1965.

The Packwood Lake Hydro-Electric Project is located near the town of Packwood in Lewis County, Washington. The Project utilizes the outflow of Packwood Lake in a drop of 1850 feet to the Cowlitz River. The Project has a rated capacity of 31,500 kilowatts. The power produced is delivered to power purchasers over the BPA transmission system. Packwood Lake Hydro-Electric Project Bonds bear an effective interest rate of 3.66% and are payable solely out of revenues from the Project.

The 860,000-kilowatt Hanford Electric Generating Plant, also called Hanford No. 1, was financed by the issuance of \$122,000,000 of Hanford Project Electric Revenue Bonds, Series of 1963, on April 1, 1963. These bonds are payable solely from revenues of the Project and are secured by Exchange Agreements with seventy-six participating utilities of the Pacific Northwest, both publicly and privately owned. Under contractual arrangements similar to those employed on the WNP- 1 facility, the participating utilities agreed to purchase the entire output of the Hanford Electric Generating Plant and to exchange that entitlement with the Bonneville Power Administration.

The Hanford Generating Project utilizes by-product steam produced in the dual-purpose N-Reactor of the United States Atomic Energy Commission. The Project first generated power on April 6, 1966, and by the end of 1973 had generated in excess of 23,000,000,000 kilowatt-hours of energy.

The effective interest cost of the Hanford No. 1 bonds was 3.26%. As of June 8, 1973, approximately \$62,720,000 in bonds is outstanding on the Project.

The Supply System is in the process of constructing the WPPSS Nuclear Project No. 2, formerly called Hanford No. 2, (Docket 50-397), scheduled for commercial operating in September 1977. Initial financing of this 1100 MWe nuclear plant was accomplished by revenue notes. Revenue notes for \$10,000,000 were sold in January 1971, at an effective interest rate of 3.55%, and additional notes for \$40,000,000 were sold in December 1972, at an effective interest rate of 3.50%. Permanent financing of this project will be by a series of bond issues the first of which was in the principle amount of \$150,000,000 issued on July 1, 1973 with an effective interest rate of 5.65%.

The Supply System is applying to the AEC for approval to construct and operate WPPSS Nuclear Project No. 3*, scheduled for commercial operation in September 1981. By an initial sale of revenue notes in the amount of \$2,000,000, at an effective interest rate of 4.05% funds were borrowed to support site studies and preparation of environmental impact studies. That \$2,000,000 issue of revenue notes was preceded by an earlier issue of \$1,500,000 which provided a portion of the funding for the WNP- 1 facility.

In October 1973 the Supply System borrowed \$29,000,000 in revenue notes at an effective interest rate of 4.368% to mature June 15, 1976. This \$29,000,000 was used to retire previous issues and to provide funding for WPPSS Nuclear Project No. 3 until a construction permit is received.

The Supply System in April, 1974 obtained funds to pay for the initial phases of planning for future WPPSS generating facilities. This issue of \$2,500,000 of revenue notes, having an effective interest rate of 4.70% will mature December 15, 1975.

The Supply System does not issued general obligation bonds. The governing body of the Supply System authorizes the issuance of bonds for each project based upon a "plan and system" which commits the facilities and assets of that project to the revenue bonds issued to finance the construction.

The bonds issued by the Supply System have all been offered under the laws of the State of Washington. Each issue has been rated by bond rating agencies. Packwood bonds were rated "A" by Moodys. Hanford No. 1 bonds were rated "A-1" by Moodys. In the issuance of Nuclear Project No. 2 Revenue Notes, Standard & Poor rated the Notes as "AA" and Moodys rates these notes as "MIG-1". The Nuclear Project No. 1 Revenue Notes were rated "MIG-1" by Moodys and "AA" by Standard & Poor. The rating on the series 1973 Nuclear Project No. 2 bond issue was "AA" by Moodys and "A-1" by Standard & Poor. In early 1975, Moodys and Standard & Poor upgraded Nuclear Project No. 2 bonds to "AAA".

*And WPPSS Nuclear Project No. 5 at the same site scheduled for commercial operation in March, 1983.

5. Nuclear Insurance

The Supply System will have arranged to acquire nuclear liability insurance as required by law from the Nuclear Energy Liability Insurance Association (NELIA) and Mutual Atomic Energy Liability Underwriters (MAELU) or such other nuclear liability insurance as may be in accordance with 10 CFR 140 prior to arrival of nuclear fuel at the Project site.

CONSTRUCTION BUDGET

WPPSS NUCLEAR PROJECTS NUMBERS ONE AND FOUR

Page 1

<u>FPC Account</u>	<u>Account Name</u>	<u>WNP- 1</u>	<u>WNP- 4</u>
321	Structures and Improvements	\$149,681,000	\$149,061,000
322	Reactor Plant Equipment	\$149,926,000	\$149,926,000
323	Turbo Generating Plant	\$ 88,706,000	\$ 86,720,000
324	Accessory Electric Equipment	\$ 46,486,000	\$ 46,485,000
325	Miscellaneous Power Plant Equipment	\$ 3,623,000	\$ 3,623,000
	(a) Total Nuclear Production Costs	\$438,422,000	\$435,824,000
353	Station Equipment	\$ 4,335,000	\$ 3,251,000
354	Towers and Fixtures	\$ 250,000	
399	Other Tangible Property	\$ 8,879,000	\$ 6,793,000
	(b) Transmission, Distribution, and General Plant Costs	\$ 13,464,000	\$ 10,044,000
.120	Nuclear Fuel	\$ 44,005,000	\$ 63,060,000
	(c) Nuclear Fuel Inventory Cost for First Core	\$ 44,005,000	\$ 63,060,000
	SALES TAX	\$ 24,795,000	\$ 25,446,000
	Total Direct Construction Cost (Excluding Fuel)	\$451,886,000	\$445,868,000
	Contingencies and Escalation	\$152,275,000	\$187,727,000
	Engineering and Construction Management	\$ 58,845,000	\$ 32,725,000
	Performance Bonds	\$ 1,000,000	\$ 1,000,000
	Turbine Generator Cancellation Fee	\$ 1,000,000	\$ -0-

CONSTRUCTION BUDGET

WPPSS NUCLEAR PROJECTS NUMBERS ONE AND FOUR

Page 2

<u>FPC</u> <u>Account</u>	<u>Account</u> <u>Name</u>	<u>WNP- 1</u>	<u>WNP- 4</u>
	Owner's Direct Cost	\$ 48,000,000	\$ 30,000,000
	Payment to Atomic Energy Commission	\$ 5,400,000 <u>B/</u>	-0-
	Subtotal (Excluding Fuel)	\$743,201,000	\$697,320,000
	Capitalized Interest During Construction		
	Gross Interest	\$242,811,000	\$277,991,000
	Less Estimated Income From Temporary Investment	<u>\$(58,061,000)</u>	<u>\$(73,654,000)</u>
	NET	\$184,750,000	\$204,337,000 ^c
	Financing, Legal and Miscellaneous Expense Including Bond Discount	\$ 18,044,000	\$ 13,837,000
	TOTAL BOND ISSUED	\$990,000,000	\$1,009,000,000

B/ The Supply System has entered into a contract with the AEC which provides for payment of \$5,400,000 for the AEC's costs of deactivating NPR.

ATTACHMENT 2-1

WNP NO. 1 DRAFT REVENUE BOND RESOLUTION

RESOLUTION NO. _____

A RESOLUTION PROVIDING A PLAN AND SYSTEM FOR THE ACQUISITION AND CONSTRUCTION BY WASHINGTON PUBLIC POWER SUPPLY SYSTEM OF A UTILITY SYSTEM CONSISTING OF A NUCLEAR GENERATING PLANT AND ASSOCIATED FACILITIES TO BE KNOWN AS THE WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 1, AND PROVIDING FOR THE ISSUANCE OF REVENUE BONDS FOR SAID PURPOSE.

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RESOLUTION NO. _____

A RESOLUTION PROVIDING A PLAN AND SYSTEM FOR THE ACQUISITION AND CONSTRUCTION BY WASHINGTON PUBLIC POWER SUPPLY SYSTEM OF A UTILITY SYSTEM CONSISTING OF A NUCLEAR GENERATING PLANT AND ASSOCIATED FACILITIES TO BE KNOWN AS THE WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 1, AND PROVIDING FOR THE ISSUANCE OF REVENUE BONDS FOR SAID PURPOSE

WHEREAS, Washington Public Power Supply System (hereinafter referred to as the "System"), has heretofore been duly organized as a joint operating agency and a municipal corporation of the State of Washington, under the laws of the State of Washington (Revised Code of Washington, Chapter 43.52), and is authorized among other things, to acquire, construct, own, maintain, operate, develop and regulate plants, works and facilities for the generation and transmission of electric power and energy and to contract for the sale, exchange, transmission or use of electric energy with any person, firm or corporation, including political subdivisions and agencies of any state, or of the United States, at fair and non-discriminatory rates; and

WHEREAS, the System pursuant to Resolutions Nos. 104 and 106 adopted by its Board of Directors on December 15, 1961, and January 19, 1962, respectively, acquired and now owns and operates the Packwood Lake Hydroelectric Project, and has issued revenue bonds of the System to pay the cost of acquiring and constructing such project, which bonds are payable solely from the revenues derived therefrom; and

WHEREAS, the System, pursuant to Resolution No. 178, adopted by its Board of Directors on April 15, 1963 (hereinafter referred to as "Resolution No. 178"), acquired and now owns and operates the Hanford Project (hereinafter defined), and has issued revenue bonds of the System to pay the cost of acquiring and constructing such project, which bonds are payable solely from the revenues derived therefrom; and

WHEREAS, said Resolutions Nos. 104, 106 and 178, each provides that the System may issue its revenue bonds to pay the cost of acquiring and constructing a separate utility system and pledge the revenues derived therefrom to the payment of said bonds issued to pay

the _____ting said separate utility system;
and _____
_____tor (hereinafter defined) has noti-
fied _____ Project will be inoperable when the
AEC _____s to operate its new production re-
actor _____ion (the "NPR") for the purposes of the
AEC _____eam energy; and that in the absence of
a _____ physical condition of the NPR, the re-
quire _____ other significant factors formulating the
basis _____ respect to the NPR made by independent con-
sult _____ the Administrator, the Administrator, at the
approval _____d be required to direct the System to discon-
tinue the _____ of the Hanford Project in accordance with the
provisions of _____ 5(1) of the Hanford Project Exchange Agree-
ments (hereinafter defined); and

WHEREAS, the Board of Directors of the System has caused
to be made and submitted to it various studies and reports with re-
spect to the most practical and economical means for the continued
utilization of the Existing Power Facilities (hereinafter defined)
for the production, transformation and transmission of power and
energy, consistent with the System's obligations under the Operating
and Construction Contract (hereinafter defined), the Hanford Project
Exchange Agreements and Resolution No. 178 authorizing and securing
the bonds _____ pursuant thereto; and

WHEREAS, the Board of Directors of the System has determined
that it is _____ and advisable to provide for the use and employ-
ment of the _____ Power Facilities in connection with the System's
Washington _____ Power Supply System Nuclear Project No. 1 (the "WPPSS
No. 1 Pro _____ the manner prescribed in the plan and system for
the WPPSS _____ project set forth in Article III of this Resolution; and
_____ the System has entered into a contract with the
United St _____ America, Department of the Interior, acting by and
through _____ ator, with respect to the construction and
operation _____ WPPSS No. 1 Project by the System; and

WHEREAS, the WPPSS No. 1 Project is part of the Hydro-Thermal Lower Program for the Pacific Northwest; and

WHEREAS, the System has entered into contracts (hereinafter defined as the "WPPSS No. 1 Project Exchange Agreements") with the Administrator and certain of the WPPSS No. 1 Project Participants whereby, among other things, the System agrees to sell and said Participants agree to purchase a portion of the WPPSS No. 1 Project capability; and said Participants and the Administrator have agreed to exchange said Participants' respective shares of said capability for electric power and energy delivered by the Administrator in accordance with the terms of said Agreements; and

WHEREAS, the System has entered into contracts (herein defined as the "WPPSS No. 1 Project Net Billing Agreements") with the Administrator and the other WPPSS No. 1 Project Participants whereby, among other things, the System agrees to sell and said Participants agree to purchase the balance of the capability of the WPPSS No. 1 Project, the WPPSS No. 1 Project Participants agree to assign their respective shares of said capability to the Administrator and the Administrator agrees to acquire all of said shares of the Participants. The System and each of the WPPSS No. 1 Project Participants which is a party to said WPPSS No. 1 Project Net Billing Agreements have determined that the sale by the System to such Participant of its share of the capability of the WPPSS No. 1 Project and the assignment thereof by such Participant to the Administrator will be beneficial to it by reducing the cost of and increasing the amounts of firm power and energy which will be available to serve its members or customers in the future; and

WHEREAS, the Administrator has determined that the exchange of power as provided in the WPPSS No. 1 Project Exchange Agreements and the acquisition of the WPPSS No. 1 Project Participants' shares of capability of the WPPSS No. 1 Project as provided in the WPPSS No. 1 Project Net Billing Agreements will assist in attaining the objectives of the Bonneville Project Act and other statutes which pertain to the disposition of electric power and energy from projects of the United States of America in the Pacific Northwest by enabling the United States of America to make optimum use of the Federal Columbia River Power System,

and that the integration of the capability of the WPPSS No. 1 Project with the generating resources of the Federal Columbia River Power System will enable the Administrator to make available additional firm power and energy to meet the needs of his customers; and

WHEREAS, the System has heretofore obtained all approvals, permits and licenses from governmental agencies or authorities, both state and federal, having jurisdiction in the premises as are required to enable it to proceed with the construction of the WPPSS No. 1 Project; and

WHEREAS, the System has heretofore issued _____
_____ Million Dollars (\$_____) principal amount of revenue notes for the purpose of paying the cost of preliminary work and expenses in connection with the WPPSS No. 1 Project, all of which notes are presently outstanding and unpaid; and

WHEREAS, the System now deems it advisable to proceed with the construction of the WPPSS No. 1 Project and to issue its revenue bonds for the purpose of paying the cost of such construction and to provide for the payment of the aforesaid revenue notes,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF WASHINGTON PUBLIC POWER SUPPLY SYSTEM:

ARTICLE I
CERTAIN DEFINITIONS

SECTION 1.1. Definitions. As used in this Resolution the following words and phrases shall have the meanings hereinafter set forth unless the context shall clearly indicate that another meaning is intended:

(a) The term "Board" shall mean the Board of Directors of the Washington Public Power Supply System, including the Executive Committee thereof when acting under authority delegated to it by the Board, or if said Board shall be abolished, the board, body, commission or agency succeeding to the principal functions thereof or to whom the powers and duties granted or imposed by this Resolution shall be given by law.

(b) The term "Bond Fund Trustee" shall mean the trustee appointed pursuant to Section 8.2 hereof, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to this Resolution.

(c) The term "Bonds" shall mean the Washington Public Power Supply System Nuclear Project No. 1 Revenue Bonds of the System issued pursuant to and under the authority of Section 4.1 of this Resolution. The term "197_ Bonds" shall mean the \$_____ Washington Public Power Supply System Nuclear Project No. 1 Revenue Bonds, Series of 197_, of the System initially issued pursuant to and under the authority of Section 4.12 of this Resolution. The term "bonds issued pursuant to this Resolution" shall mean the Bonds and all additional bonds issued pursuant to and under authority of Section 10.7 of this Resolution.

(d) The term "Bondholder" or "holder of a bond" shall mean any person who shall be the bearer of any Coupon Bond or Bonds or coupon bonds or bonds issued pursuant to this Resolution, or the registered owner of any Bond or Bonds or bond or bonds issued pursuant to this Resolution without coupons.

(e) The term "Capitalized Fuel" shall mean all Fuel the cost of which, as recorded on the Date of Commercial Operation, is included as a cost of construction under the Federal Power Commission

Uniform System of Accounts in effect on January 1, 1970.

(f) The term "Construction Fund Trustee" shall mean the trustee appointed pursuant to Section 8.1 hereof, its successor or successors and any other corporation which may at any time be substituted in its place pursuant to this Resolution.

(g) The term "Consulting Engineer" shall mean at any time the consulting engineer or engineering firm appointed pursuant to Section 10.11 hereof.

(h) The term "Cost of Construction" shall mean all costs paid or incurred by the System in connection with the planning, acquisition and construction of the WPPSS No. 1 Project, as such costs are defined in Section 7.11 of this Resolution.

(i) The term "Date of Commercial Operation" shall mean the date fixed by the System and the Administrator pursuant to the Project Agreement as the point in time when the WPPSS No. 1 Project is ready to be operated on a commercial basis pursuant to schedules agreed to by said parties.

(j) The term "Dual Purpose Operation" shall have the same meaning as in the Hanford Project Exchange Agreements.

(k) The term "Existing Power Facilities" shall mean the power house with two turbine generator units with a combined name-plate rating of 860 megawatts and related auxiliary equipment, transformation and transmission facilities, heretofore acquired and constructed by the System in connection with the Hanford Project.

(l) The term "Fuel" shall mean any nuclear fuel, fuel assemblies and components, and rights relating thereto, including any and all nuclear material therefor, together with all associated and related property incident to the acquisition, processing, reprocessing and disposal of the nuclear fuel used or usable in connection with the acquisition, construction, maintenance and operation of the WPPSS No. 1 Project.

(m) The term "Government Obligations" shall mean direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

(n) The term "Hanford Project" shall mean the works, plants and facilities heretofore acquired and constructed by the Supply

System for the generation, transformation and transmission of electric power and energy in conjunction with the United States Atomic Energy Commission's New Production Reactor, pursuant to the System's Resolution No. 178.

(o) The term "Hanford Project Exchange Agreements" shall mean the agreements dated April 12, 1963, for the sale by the Supply System of power and energy from the Hanford Project to the Hanford Project Participants, and the exchange thereof for firm energy and capacity with the Bonneville Power Administrator, and entered into among the United States of America, Department of the Interior, acting by and through the Administrator, the Supply System, and each of the Hanford Project Participants.

(p) The term "Hanford Project Participants" shall mean the public utility districts and other wholesale power purchasers, both public and private, listed in subparagraph H, of Section 1.1 of Resolution No. 178, which are parties to Hanford Project Exchange Agreements.

(q) The term "Investment Securities" shall mean any of the following, if and to the extent that the same are legal for the investment of funds of the System:

1. Government Obligations;
2. General Obligation bonds of any state of the United States of America rated by nationally recognized bond rating agencies in either of the two highest rating categories assigned by any such rating agency.
3. Bonds, debentures, notes or participation certificates issued by the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks or the Federal National Mortgage Association;
4. Public Housing Bonds or Project Notes issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions to be paid by the United States of America, or any agency thereof; and

5. Bank time deposits evidenced by certificates of deposit issued by any bank, trust company, or national banking association located in the State of Washington, which is a member of the Federal Reserve System, provided that such bank time deposits in any bank, trust company, or banking association do not exceed at any one time in the aggregate twenty-five per centum (25%) of the total of the capital stock and surplus of any such bank, trust company or banking association.

(r) The term "1963 Bonds" shall mean the System's Hanford Project Electric Revenue Bonds, Series of 1963, issued pursuant to and under the authority of the System's Resolution No. 178, for the purpose of acquiring and constructing the Hanford Project, and for the other purposes prescribed in said Resolution No. 178, at any time outstanding and unpaid from and after the effective date of this Resolution.

(s) "Operating and Construction Contract" shall mean Contract No. AT (45-1)-1355, entered into by and between the United States of America, represented by the AEC, and the System, dated April 11, 1963, as supplemented from time to time, with respect to the construction and operation of the Hanford Project by the System.

(t) The term "Period of Construction", for the purposes of this Resolution, shall mean the period of time beginning with the date of adoption of this Resolution and ending on the date of filing of the report by the Construction Engineer pursuant to Section 9.6 hereof.

(u) The term "Project Agreement" shall mean the "Washington Public Power Supply System Nuclear Project No. 1 Agreement" (Contract No. 14-03-39211), dated _____, 197_, by and between the United States of America, Department of the Interior, acting by and through the Administrator, and the System, with respect to the construction and operation of the WPPSS No. 1 Project by the System.

(v) The term "Resolution" shall mean this Resolution, except when used in Articles XII and XIII hereof, in which case the term "Resolution" shall have the meaning as defined in Section 12.1 hereof

(w) The term "Resolution No. 178" shall mean Resolution No. 178, adopted by the Board on April 15, 1963.

(x) The term "Series of Bonds" or "Bonds of a Series" shall mean a series of Bonds authorized by this Resolution or by a Series Resolution.

(y) The term "Series Resolution" shall mean a resolution supplemental to the Resolution authorizing the issuance of a Series of Bonds.

(z) The term "WPPSS No. 1 Project" shall mean the Washington Public Power Supply System Nuclear Project No. 1 of the System as more fully described in Article III hereof (said Project being also known as the "NSSS Project"), and all additions, betterments and improvements thereto and extensions thereof, but shall not include the Packwood Lake Hydroelectric Project acquired pursuant to Resolutions Nos. 104 and 106, adopted by the Board on December 15, 1961, and January 19, 1962, respectively, or the Hanford Project, or the Washington Public Power Supply System Nuclear Project No. 2, being acquired and constructed by the System pursuant to Resolution No. 537, adopted by the Board on December 4, 1970, or any generation, transmission and distribution facilities hereafter constructed or acquired by the System as a separate utility system.

(aa) The term "WPPSS No. 1 Project Exchange Agreements" shall mean the agreements dated _____, 197_, for the sale by the System of power and energy from the WPPSS No. 1 Project to Pacific Power and Light Company, Portland General Electric Company, Puget Sound Power and Light Company, The Montana Power Company, and The Washington Water Power Company, and the exchange thereof for firm energy and capacity with the Administrator, and entered into by and between the United States of America, Department of the Interior, acting by and through the Administrator, the System, and each of the aforesaid electric utility companies.

(bb) The term "WPPSS No. 1 Project Net Billing Agreements" shall mean the agreements, dated _____, 197_, for the sale by the System of power and energy from the WPPSS No. 1 Project to certain of the WPPSS No. 1 Project Participants and the assignment thereof to the Administrator, and entered into by and between the

United States of America, Department of the Interior, acting by and through the Administrator, the System, and each of the WPPSS No. 1 Project Participants with the exception of those mentioned in subsection (cc) following under the caption "Private Utilities".

(cc) The term "WPPSS No. 1 Project Participants" shall mean the parties to the WPPSS No. 1 Project Exchange Agreements and the WPPSS No. 1 Project Net Billing Agreements listed below:

ARTICLE II

Findings and Determinations with Respect to the Hanford Project and the Existing Power Facilities

SECTION 2.1. Inoperability of the NPR. The Bonneville Power Administrator, after reviewing studies prepared by independent consulting engineers retained by the said Administrator and approved by the System, has notified the System that the Hanford Project will be inoperable when the AEC ceases to operate the NPR for the purposes of the AEC and the production of steam energy; that such inoperability will continue for the period necessary to make repairs, replacements and modifications to the NPR so as to enable the System to obtain an operating license, if, in fact, such repairs, replacements and modifications would qualify the NPR as a commercially licensable project; that the costs of the required repairs, replacements and modifications have been demonstrated to be beyond the scope of economic feasibility; and that in the absence of a substantial change in the physical condition of the NPR, the requirements of the AEC, or other significant factors constituting the basis of the studies of the said independent consulting engineers, the Administrator cannot approve the expenditure of funds for the purpose of making such repairs, replacements and modifications, and at the appropriate time, the Administrator would be required to direct the System to discontinue the operation of the Hanford Project in accordance with the provisions of section 5 (i) of the Hanford Project Exchange Agreements.

The Board hereby accepts and concurs in the findings and determinations of the Bonneville Power Administrator.

SECTION 2.2. Reports and Other Surveys. The Board has caused to be made and submitted to it, and has been furnished with, various engineering reports, surveys, economic and legal studies and reports with respect to (i) the engineering and economic feasibility of continuing the operation of the Hanford Project from and after the date the AEC ceases to operate the NPR for the purposes of the AEC, as provided for in the Operating and Construction Contract, and (ii) the most practical and economical means for the continued

utilization of the Existing Power Facilities for the production, transformation and transmission of electric power and energy, consistent with the System's obligations under the Operating and Construction Contract, the Hanford Project Exchange Agreements and Resolution No. 178, so as to (a) enable the System to assist in meeting the present and prospective needs of the Hanford Project Participants and the WPPSS No. 1 Project Participants, including those which are members of the System, for electricity for all uses, (b) conserve the valuable public resource of the Existing Power Facilities and prevent in the public interest the economic waste which will result from the abandonment and consequent idleness of the Existing Power Facilities from and after the date the AEC ceases to operate the NPR in a dual purpose mode if an alternate source of steam energy is not provided, and (c) enable the System to discharge its public functions and responsibilities in an efficient and economical manner.

SECTION 2.3. Agreement with AEC. The System has heretofore on _____, 197_, entered into agreements with the United States of America, represented by the United States Atomic Energy Commission designated Supplemental Agreement No. 3, Contract No. AT (45-1)-1355 and Supplemental Agreement No. 3, Contract No. AT (45-1)-1357 which, among other things, settle and provide for the discharge of all obligations and liabilities of the AEC and the System under the Operating and Construction Contract, and continue the lease of the land on which the Existing Power Facilities are located so as to permit the System to operate the Existing Power Facilities with an alternate source of steam energy.

The Board hereby finds and determines that in authorizing the execution and delivery of the said Supplemental Agreements, it recognized the System's duties and obligations to the holders of the 1963 Bonds under Resolution No. 178, and that the execution and delivery by the System of said Supplemental Agreements in no way impairs or adversely affects the rights of the holders of the 1963 Bonds, or the security for the payment of the principal of and interest on the 1963 Bonds afforded by the provisions of the Operating and Construction Contract.

SECTION 2.4. Findings and Determinations with Respect to the Hanford Project. In order to assist in providing for the present and prospective needs of the Hanford Project Participants and the WPPSS No. 1 Project Participants, including those participants which are members of the System, for electricity for all uses, and to conserve the valuable public resources of the Existing Power Facilities and prevent in the public interest the economic waste which will result if an alternative source of steam energy is not provided for the turbine generators constituting a part of the Existing Power Facilities, the Board after due consideration and analysis of the said engineering reports, surveys, economic and legal studies, hereby finds and determines that it is necessary and advisable in the public interest and in the interests of economical and efficient operation of the System and the discharge of its public duties and responsibilities to provide for the use and employment of the Existing Power Facilities in connection with the System's WPPSS No. 1 Project as set forth in Article III of this Resolution; and the Board hereby further finds, determines and declares that from and after the date upon which the Hanford Project becomes inoperable, the Existing Power Facilities, including the said turbine generators, shall and will be modified, renovated and adapted and thereafter shall and will be used and employed by the System as prescribed in said plan and system hereinafter set forth in Article III of this Resolution.

SECTION 2.5. Findings and Determinations with Respect to the Hanford Project Exchange Agreements. The Board hereby further finds and determines that, by executing and delivering the respective WPPSS No. 1 Project Exchange Agreements and the WPPSS No. 1 Project Net Billing Agreements, the System, the United States of America, Department of the Interior, acting by and through the Administrator, and the Hanford Project Participants (being all the parties to the Hanford Project Exchange Agreements) have agreed (1) to the use and employment of the Existing Power Facilities by the System for the purpose and in the manner prescribed in

Article III hereof, (ii) that the electric power and energy to be produced pursuant to said plan and system, including the electric power and energy to be produced by the Existing Power Facilities, may and shall be disposed of to the parties, in the quantities, for the periods and under the terms and conditions prescribed in said WPPSS No. 1 Project Exchange Agreements and WPPSS No. 1 Project Net Billing Agreements, and (iii) that the execution and delivery of said WPPSS No. 1 Project Exchange Agreements and WPPSS No. 1 Project Net Billing Agreements by the said parties in no way affects, limits, modifies, alters, releases or discharges their respective rights and obligations under the Hanford Project Exchange Agreements, or reduces the payments which the Hanford Project Participants are obligated to make thereunder in order to safeguard and protect the security for the payment of the 1963 Bonds afforded by the provisions of said Hanford Project Exchange Agreements in the event that sufficient moneys to make such payments are not otherwise available for such purpose pursuant to the WPPSS No. 1 Project Exchange Agreements, the WPPSS No. 1 Pro. Net Billing Agreements and Section 7.2 of this Resolution.

SECTION 2.6. Opinions of Counsel. Simultaneously with the adoption of this Resolution, the System has been furnished with the opinions of Messrs. Houghton, Cluck, Coughlin & Riley, Seattle, Washington, and Messrs. Wood Dawson Love & Sabatine, New York, New York, that this Resolution has been duly adopted by the Board, and that the provisions hereof are valid and binding in accordance with their terms.

ARTICLE III

THE PLAN AND SYSTEM

SECTION 3.1. Findings and Determinations. The Board has caused various engineering reports and surveys and economic and environmental studies to be made and submitted to it with respect to the present and prospective needs of the WPPSS No. 1 Project Participants, including such Participants which are members of the System, for electricity for all uses, and the Board, after due consideration and analysis of said engineering reports and surveys and economic and environmental studies, hereby finds and determines that the construction of the WPPSS No. 1 Project is necessary and advisable in order to provide for the present and prospective power and energy needs of the WPPSS No. 1 Project Participants, that the construction of the WPPSS No. 1 Project by the System and the disposition of the power and energy therefrom, as provided in the WPPSS No. 1 Project Exchange Agreements and the WPPSS No. 1 Project Net Billing Agreements, will result in substantial economies and advantages to the WPPSS No. 1 Project Participants, the people of the State of Washington, and the Pacific Northwest, and that the WPPSS No. 1 Project is economically feasible and urgently required to conserve the resources of the region.

The Board hereby further finds and determines that in selecting the site for the WPPSS No. 1 Project, it has considered the effect of said Project on the environment, ecology of the land and its wildlife, and the ecology of state waters and their aquatic life, and that the WPPSS No. 1 Project will have minimal adverse effects on the environment, ecology of the land and its wildlife, and the ecology of state waters and their aquatic life.

The Board further finds and determines that the power and energy which will be produced at the WPPSS No. 1 Project can be disposed of at prices sufficient, with all other available revenues, to retire all bonds issued to pay the Cost of Construction of the WPPSS No. 1 Project, to establish the reserves as herein provided, to retire the outstanding revenue notes of the System heretofore issued in connection with the WPPSS No. 1 Project, and to pay the cost of operation and maintenance thereof and renewals, replacements and repairs thereto.

The Board hereby also finds and determines that the public interest, welfare, convenience and necessity require the acquisition and construction by the System of the nuclear generating plant and associated facilities to be known as the WPPSS No. 1 Project as a separate utility system for the purpose of supplying the power needs of the WPPSS No. 1 Project Participants which are members of the System and the inhabitants thereof and any other persons, including public or private corporations, within or without their limits, with electricity for all uses.

SECTION 3.2. Plan and System. The System hereby specifies and adopts the plan and system hereinafter set forth for the acquisition, by purchase or condemnation, and construction of the following nuclear electric generating plant and associated facilities as a separate utility system constituting the WPPSS No. 1 Project of the System, to wit:

A. The System shall acquire and construct a nuclear electric generating plant and associated facilities on and adjacent to the site of the Hanford Project in Benton County, Washington, on the federal reservation known as the Hanford Works of the AEC located in southeastern Washington along the Columbia River, approximately _____ miles northwest of the City of Richland, Washington. Said plant and associated facilities shall include, but shall not be limited to, a nuclear steam supply system; a topping turbine with a nameplate rating of approximately 336 megawatts; the turbine generators which are a part of the Existing Power Facilities with such modifications, additions and alterations thereto as shall be required to utilize exhaust steam from the topping turbine; such other components of the Existing Power Facilities as are used or useful for the generation, transformation and transmission of electric power and energy; reactor coolant system and all related containment structures and safety features including all instrumentation, control and auxiliary systems required therefor; condensers, circulating water systems, all necessary cooling systems

Section 3.2

and related facilities, electrical and mechanical systems and all other equipment, facilities or appurtenances thereto; all electrical facilities required to deliver the output of the WPPSS No. 1 Project to the Federal Columbia River Power System's transmission system at such point or points as may be determined by the System and the Administrator; all structures, railroad siding, shops, warehouses, construction facilities, office dwellings and all other structures, fixtures, equipment or facilities used or useful in the construction, maintenance, operation and administration of the WPPSS No. 1 Project, and all necessary water rights, development rights, permits, approvals and licenses, leases, easements and rights of way.

B. The System shall obtain all permits and licenses required by any regulatory agency or governmental authority having jurisdiction and any other licenses, permits, approvals, easements or legal rights of any kind required for, used or useful in connection with the acquisition, construction, maintenance and operation of the WPPSS No. 1 Project.

C. The System shall acquire, by lease or purchase, all nuclear fuel, fuel assemblies and components, and rights relating thereto, including any and all nuclear material therefor, together with all associated and related property incident to the acquisition, processing, reprocessing and disposal of the nuclear fuel used or usable in connection with the acquisition, construction, maintenance and operation of the WPPSS No. 1 Project.

D. The System shall acquire all tools, equipment, spare parts, automotive equipment, instruments, operators' dwellings, warehouses and other associated and related property necessary in connection with the acquisition and construction, maintenance, operation and administration of the WPPSS No. 1 Project.

E. The System shall acquire all lands, rights in land, leases, easements, permits and other physical property related to or necessary for use in connection with the WPPSS No. 1 Project, together with all and singular, the tenements, hereditaments and appurtenances

belonging or in anywise appertaining to the aforesaid Project, or any part thereof.

F. Any additional works, plants or facilities subsequently acquired or constructed by the System for the same uses, whether or not physically connected therewith, which, if so authorized by resolution of the Board, may become additions or betterments to or extensions of the WPPSS No. 1 Project.

G. The System shall cause to be made any and all surveys, studies, appraisals and financial and engineering investigations necessary or incidental to the location, acquisition and construction of the electric works, plants and facilities of the WPPSS No. 1 Project and the placing of the same into operation, including all such surveys, studies, investigations and other work necessary to comply with all environmental laws and with all environmental orders, regulations and standards of any federal or state agency having jurisdiction over the WPPSS No. 1 Project now or hereafter in effect.

SECTION 3.3. Modification of Plan and System. The System may modify details of the foregoing plan and system, including modifications to make provisions for the installation of additional facilities, provided that if such modification occurs during the Period of Construction, the System shall have filed with the Construction Fund Trustee and the Bond Fund Trustee certificates of the System and of the Construction Engineer as to the matters set forth below, and if such modification occurs after the Period of Construction, the System shall have filed with the Bond Fund Trustee certificates of the System and the Consulting Engineer as to the matters set forth below. Such certificates of the System, the Construction Engineer and the Consulting Engineer shall provide that in the opinion of the signers, such modification (i) does not substantially change the plan and system specified in Section 3.2 of this Resolution, and (ii) is proper and necessary for the efficient and economical operation and maintenance of the WPPSS No. 1 Project.

The Board finds and determines that the acquisition and

Section 3.3

construction of the WPPSS No. 1 Project will properly and advantageously contribute to the conduct of the business of the System in an efficient and economical manner.

SECTION 3.4. Cost of Plan and System. The estimated cost of the plan and system herein specified and adopted for the acquisition and construction of the WPPSS No. 1 Project, including as a part of such cost funds necessary to be paid or set aside for Capitalized Fuel, for working capital for the operation thereof, for the payment of expenses heretofore and hereafter incurred in the acquisition and construction thereof, and the repayment of revenue notes of the System heretofore issued for the purpose of paying the cost of preliminary work and expenses in connection with the WPPSS No. 1 Project, is hereby declared, as near as may be, to be the sum of _____ Million Dollars (\$_____).

SECTION 3.5. Sufficiency of Revenues. The gross revenues and proceeds to be derived by the System from the operation of the WPPSS No. 1 Project at the rates and charges to be fixed for the power and energy furnished thereby will be sufficient, in the judgment of the Board, to meet all expenses of operation and maintenance of the WPPSS No. 1 Project and to make all necessary repairs, replacements and renewals thereof and to permit the setting aside out of such gross revenues, in the special fund created pursuant to the provisions of Section 7.3 of this Resolution, of such amounts as may be required to pay the principal of and interest on the Bonds as the same become due and payable.

Section 3.4
Section 3.5

ARTICLE IV

AUTHORIZATION AND ISSUANCE OF BONDS

SECTION 4.1. Authorization of Bonds. There is hereby created and established an issue of Bonds of the System to be known as the "Washington Public Power Supply System Nuclear Project No. 1 Revenue Bonds" (the "Bonds"), which Bonds may be issued pursuant to the terms, conditions and limitations of this Resolution in series, in such amounts and from time to time, as may be required to pay the Cost of Construction, to establish reserves as herein provided, to retire the outstanding principal amount of revenue notes of the System issued in connection with the WPPSS No. 1 Project, and for the other purposes herein authorized and set forth.

SECTION 4.2. Authorization of 197 Bonds. There is hereby authorized to be issued a series of _____ Million Dollars (\$ _____) principal amount of Bonds, Series of 197_ (the "197_ Bonds"), which shall bear interest at the rates and shall mature on _____ 1, in numerical order, lowest numbers first, in each of the years and in the amounts as shown below:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
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[It is contemplated that the principal maturities of the 197_ Bonds at applicable rates of interest, together with any mandatory sinking fund payments will, beginning in the year 19__, be so arranged as to (i) result in substantially equal annual debt service payments, or (ii) conform, at the time the 197_ Bonds are issued, to the actual or contemplated requirements of the Administrator for net billing payments under the hydro-thermal power program.]

The 197_ Bonds maturing on _____ 1, 20__, shall be redeemed by sinking fund installments which shall be accumulated in the Bond Retirement Account in the Bond Fund (hereinafter created and established) in amounts sufficient to redeem on _____ 1

Section 4.1
Section 4.2

of each year the principal amount of such 197_ Bonds specified for each of the years shown below:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
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The 197_ Bonds shall be issued either in coupon form (hereinafter in this Article called "197_ Coupon Bonds"), registrable as to principal only, or in the form of fully registered Bonds (hereinafter in this Article called "197_ Registered Bonds"), or a combination of both forms, and may contain such variations, amounts and insertions as are incidental to such differences of numbering, denominations and forms, including variations in the provisions for the registration and transfer of said 197_ Bonds. 197_ Coupon Bonds shall be issued in the denomination of \$5,000. 197_ Registered Bonds may be issued in the denomination of \$5,000, or any multiple of \$5,000. 197_ Coupon Bonds and 197_ Registered Bonds initially issued shall be dated _____, 197_. 197_ Registered Bonds issued upon exchanges and transfers of 197_ Registered Bonds and upon exchanges of 197_ Coupon Bonds for 197_ Registered Bonds, as hereinafter provided, shall be dated so that no gain or loss of interest shall result from such exchange or transfer. Each 197_ Registered Bond shall bear interest from the date thereof. 19_ Coupon Bonds shall be numbered from 1 upwards, and 197_ Registered Bonds shall be numbered from R-1 upwards.

Interest on the 197_ Bonds shall be payable semi-annually on _____ 1 and _____ 1 of each year, beginning _____ 1, 19__, but, except as to any 197_ Registered Bond only upon presentation and surrender of the respective interest coupons attached as they severally become due. Each of such coupons shall be numbered in order of its respective maturity. 197_ Coupon Bonds may be registered as to principal only in accordance with the provisions of Section 5.3 of this Resolution.

The principal of and interest on the 197_ Bonds shall be payable at the principal office of _____ in the City of Seattle, Washington, or at the option of the holders thereof at the principal office of _____ in the City of Chicago, Illinois, or at the principal office of _____ in the City of New York, New York, which banks are hereby appointed as Paying Agents for the 197_ Bonds.

SECTION 4.3. Redemption of 197 Bonds. At the option of the System, the 197_ Bonds shall be subject to redemption prior to maturity on or after _____, 19__, as a whole at any time, or in part from time to time on any interest payment date and in inverse order of their maturities (and in the event that less than all of the 197_ Bonds of a maturity are called for redemption, the particular 197_ Bonds of such maturity to be redeemed shall be selected by lot), upon published notice as provided in Article VI of this Resolution, at the redemption prices with respect to each 197_ Bond expressed as a percentage of the principal amount of the 197_ Bonds to be redeemed, set forth below, together with the interest accrued thereon to the date fixed for redemption:

<u>Period During Which Redeemed</u> <u>(Both Dates Inclusive)</u>	<u>Redemption</u> <u>Prices</u>
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provided, however, that the System further reserves the right to redeem the 197_ Bonds maturing on _____ 1, 20__, prior to the maturity thereof, upon published notice as provided in Article VI of this Resolution, in part, on any interest payment date on and after _____ 1, 19__, but only (a) upon payment of the principal amount thereof from the amounts credited to the Bond Retirement Account in the Bond Fund pursuant to paragraph C of Section 7.3 of this Resolution, and (b) upon payment of _____ per cent (%) of the principal amount thereof from excess

moneys available therefor in the Bond Retirement Account in the Bond Fund resulting from the payments therein pursuant to Sections 7.14 and 10.8 of this Resolution, in each case together with accrued interest to the date of redemption. The System further reserves the right to redeem all of the 197_ Bonds, at its option, as a whole, or in part in the inverse order of their maturities (and in the event that less than all of the 197_ Bonds of a maturity are called for redemption, the particular 197_ Bonds of such maturity to be redeemed shall be selected by lot), at any time on or before _____ 1, ____ upon published notice as provided in Article VI of this Resolution, if the WPPSS No. 1 Project is terminated as provided in subparagraph (a) of Section 15 of the Project Agreement, at the principal amount of the Bond or Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption.

SECTION 4.4. Authorization of Series of Bonds Other Than 197_ Bonds. Subsequent to the issuance of the 197_ Bonds, the System may issue hereunder at one time or from time to time an additional Series or additional Series of Bonds by means of a Series Resolution or Resolutions, but only upon compliance with the following conditions:

(1) There shall have been delivered to the System a certificate of the Bond Fund Trustee that no default exists in the payment of the principal of or interest and premium, if any, on any Bond and all mandatory sinking fund redemptions, if any, required to have been made shall have been made; and

(2) There shall have been delivered to the Bond Fund Trustee a certificate of the Secretary of the Board that (i) no default exists in the payment of the principal of or interest on the 1963 Bonds; (ii) there has been no amendment of, or modification to, the WPPSS No. 1 Project Net Billing Agreements, the WPPSS No. 1 Project Exchange Agreements and the Project Agreement which will reduce the aggregate amount of the payments provided for therein or which will release any party thereto from its obligations thereunder or which will in any manner impair or adversely affect the rights of the System or of the holders from time to time of the Bonds; and (iii) the WPPSS No. 1 Project Net Billing Agreements, the WPPSS No. 1 Project Exchange Agreements and the Project Agreement are in full force and effect.

Each Series of Bonds, other than the 197_ Bonds, shall be dated, numbered and bear interest at the rate or rates per annum and be payable, both as to principal and interest, at such time or times at place or places as shall be prescribed in the Series Resolution or Resolutions providing for the issuance thereof; provided that the express maturity date of such Bonds which are term Bonds shall be _____, 20___. The Series Resolution authorizing the issuance of each Series of Bonds may also provide that the Bonds of such Series shall be redeemable prior to their respective maturities at the option of the System at such time or times and upon such terms and conditions as the System may prescribe. Unless or except as otherwise provided in the Series Resolution providing for the issuance thereof, the Bonds of each Series shall be issued either in coupon form (hereinafter, together with the 197_ Coupon Bonds, called "Coupon Bonds") of the denomination of \$5,000, registrable as to principal only, or in the form of fully registered bonds (hereinafter, together with the 197_ Registered Bonds, called "Registered Bonds" of the denominations of \$5,000, or any multiple of \$5,000, or a combination of both forms.

The Series Resolution or Resolutions shall contain an appropriate series designation, shall specify the authorized principal amount of such Series of Bonds, shall provide that the interest on such Series of Bonds shall be payable on _____ 1 and _____ 1, and the principal payments and sinking fund payments for the retirement of term Bonds in advance of maturity shall be payable on _____ 1, and shall specify such other provisions as may be required to be set forth therein by other provisions of this Resolution, and not inconsistent or in conflict with the provisions hereof, as may be deemed necessary or advisable by the System.

The System hereby covenants and agrees that it will take all lawful measures required to issue and sell from time to time or at one time additional Series of Bonds to the extent required to enable the System to pay the remaining balance of the Cost of Construction, including, but without limitation, interest accruing on such Series of Bonds and the 197_ Bonds until September 1, 1980.

ARTICLE V

GENERAL TERMS AND PROVISIONS OF BONDS

SECTION 5.1. Execution and Payment of Bonds. The 197_ Bonds and, unless or except as otherwise provided in the Series Resolution providing for the issuance thereof, all other Series of Bonds shall be executed on behalf of the System with the facsimile signature of the President of the Board and attested with the manual signature of the Secretary of the Board or Treasurer of the System, and the facsimile seal of the System shall be imprinted on each of the Bonds, and the coupons thereto attached, if any, shall be executed with the facsimile signatures of said President and Secretary. In case any of the officers who shall have signed, attested, authenticated, registered or sealed any of the Bonds or interest coupons, shall cease to be such officers before the Bonds and interest coupons so signed, attested, authenticated, registered or sealed shall have been actually issued and delivered, such Bonds and interest coupons shall be valid nevertheless and may be issued by the System with the same effect as though the persons who had signed, attested, authenticated, registered or sealed such Bonds and interest coupons had not ceased to be such officers. All Bonds shall be payable as to interest, principal and premium, if any, in any coin or currency of the United States of America which at the time of payment thereof is legal tender for public and private debts; and, except as otherwise provided in Section 5.7 hereof, with respect to the payment of interest on Registered Bonds, shall be payable at the principal office of the paying agents of the System for such Series of Bonds, designated herein for the 197_ Bonds and to be designated in the Series Resolution adopted by the Board with respect to the Bonds of such series (hereinafter referred to collectively as the "Paying Agents").

SECTION 5.2. Bonds are Negotiable Instruments. All of the Bonds and the interest coupons attached thereto shall be negotiable instruments to the extent provided by Section 54.24.120 of the Revised Code of Washington. Coupon Bonds, except while registered as to

principal otherwise than to bearer, shall pass by delivery. The registration of any Coupon Bond as to principal only shall not affect the negotiability of the coupons thereto appertaining, which shall remain payable to bearer and pass by delivery, whether or not the Bond to which any coupon appertains is registered. The System, the Bond Fund Trustee, the Paying Agents and any other person may treat the bearer (or if such Bond be registered, the registered owner) of any Coupon Bond, the registered owner of any Registered Bond, the bearer of any Coupon Bond registered as payable to bearer and the bearer of any coupon whether or not the Bond to which said coupon appertains is registered as to principal, as the absolute owner of such Bond or coupon, as the case may be, for the purpose of making payment thereof and for all other purposes, and neither the System nor the Bond Fund Trustee nor the Paying Agents shall be bound by any notice or knowledge to the contrary, whether such Bond or coupon shall be overdue or not. All payments of or on account of interest to any bearer of any coupon, or to any registered owner of any Registered Bond (or to his assigns), and all payments of or on account of principal to any bearer of any Coupon Bond (or if such Bond be registered, to the registered owner, or to any bearer of such Bond registered to bearer), or to any registered owner of any Registered Bond (or to his assigns) shall be valid and effectual and shall be a discharge of the System, the Bond Fund Trustee and the Paying Agents, in respect of the liability upon the Bonds or coupons or claims for interest, as the case may be, to the extent of the sum or sums paid.

SECTION 5.3. Registration Books; Registration of Coupon Bonds as to Principal Only. The System will cause to be kept at the principal office of the Bond Fund Trustee, as Registrar, at all times while any of the Bonds shall be outstanding and unpaid, books for the registration and transfer of such Bonds. Upon presentation to the Registrar for such purposes by any bearer of any Coupon Bond, the System will, under such reasonable regulations as (with the approval of the Registrar) it may prescribe from time to time, cause such Registrar to register in such books, in the name of the bearer or his nominee,

the ownership, as to principal only, of any such presented Coupon Bond and such registration shall be noted on the Bond. After such registration and notation, no transfer of any such Coupon Bond registered otherwise than as payable to bearer shall be valid unless evidenced by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his duly authorized agent; but any such Coupon Bond so registered may be discharged from registration, and transferability by delivery may be restored, by a like transfer to bearer similarly registered and noted, and after such transfer to bearer such Bond shall be a bearer Bond. Any such Coupon Bond may again, from time to time, in like manner, be registered as to principal only or be transferred to bearer.

SECTION 5.4. Transfer of Registered Bonds. Any Registered Bond may be transferred pursuant to its provisions at the principal office of the Registrar by surrender of such Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his duly authorized agent, and thereupon the System will issue and deliver at the office of such Registrar (or send by registered mail to the owner thereof at his expense), in the name of the transferee or transferees, a new Registered Bond of the same series, form, interest rate, principal amount and maturity, dated so that there shall result no gain or loss of interest as a result of such transfer. To the extent of denominations authorized in respect of any such Bond by the terms thereof, or by the terms of this Resolution or the Series Resolution providing for the issuance thereof, one such Registered Bond may be transferred for several such Registered Bonds of the same series, form, interest rate and maturity, and for a like aggregate principal amount, and several such Registered Bonds of the same series may be transferred for one or several such Registered Bonds, respectively, of the same series, form, interest rate and maturity and for a like aggregate principal amount.

SECTION 5.5. Exchange of Bonds. The bearer of any Coupon Bond which at the time is not registered, or is registered as payable to bearer, and the registered owner of any Registered Bond or any Coupon Bond registered as to principal otherwise than to bearer, unless and except as is otherwise provided in the Series Resolution providing for the issuance thereof, may, at any time, providing such Bond shall not have been called for redemption, surrender the same at the principal office of the Registrar, in the case of Coupon Bonds with all unexpired coupons attached, and in the case of Registered Bonds or Coupon Bonds registered as to principal, with instruments of transfer satisfactory to the Registrar, and shall be entitled to receive in exchange therefor an equal aggregate principal amount of Bonds of the same series, interest rate and maturity, of any one or more of the forms, the issuance of which has been herein provided for; and the System will issue and deliver at the principal office of such Registrar (or send by registered mail to the owner thereof at his expense) the Bonds necessary to make such exchange.

Whenever Registered Bonds with proper instruments of transfer shall be surrendered to the Registrar for exchange for Coupon Bonds of the same series, interest rate and maturity, the System will issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at his expense) in exchange a like principal amount of Coupon Bonds of the same series, interest rate and maturity, in bearer form, and bearing coupons so that no gain or loss of interest shall result from such exchange. Nothing herein contained shall be deemed to authorize the execution and delivery of Registered Bonds of a Series of Bonds, except in the denomination of \$5,000, or any multiple of \$5,000, except as otherwise provided with respect to any Series of Bonds in the Series Resolution authorizing the issuance thereof.

SECTION 5.6. Disposition of Bonds Surrendered in Exchange of Transfer; Charges for Exchange and Transfer. In every case of an exchange of Bonds, and of a transfer of any Registered Bond or Coupon Bond registered as to principal, the surrendered bonds and coupons,

if any, shall be held by the Registrar and a certificate evidencing such exchange or transfer shall be transmitted promptly to the System. All Registered Bonds surrendered for exchange or transfer shall be cancelled. Unless or except as otherwise provided in the Series Resolution authorizing the issuance of a Series of Bonds, Coupon Bonds will be held by the Registrar, who shall make provision satisfactory to the System for the safekeeping of such Coupon Bonds. As a condition of any such exchange or of any registration or transfer, the System at its option may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge that may be imposed thereon. All Bonds executed and delivered in exchange for or upon transfer of Bonds so surrendered shall be valid obligations of the System evidencing the same debt as the Bonds surrendered, and shall be entitled to all the benefits and protection of this Resolution to the same extent as the Bonds in exchange for, or upon transfer of which, they were executed and delivered.

Anything herein to the contrary notwithstanding, the System will, without any charge to the holder of any Registered Bond initially issued, upon written request of such holder, deliver or cause to be delivered at the office of the Registrar in exchange for such Registered Bond, Coupon Bonds with appropriate coupons attached, of the denomination provided by this Resolution or the Series Resolution authorizing the issuance of such Bonds, in an equal aggregate principal amount and of the same series, interest rate and maturity. For the purpose of this paragraph, a Registered Bond issued pursuant to Section 6.4 hereof upon a partial redemption of a Registered Bond initially issued hereunder or upon a partial redemption of a Registered Bond previously issued upon such a partial redemption shall be deemed to have been initially issued hereunder.

SECTION 5.7. Payment of Bonds and Interest. The Bonds of each Series and coupons appertaining thereto may be presented for payment at the principal office of any of the Paying Agents for such Series of Bonds. All Bonds and interest coupons upon the payment

thereof shall be cancelled by the Paying Agents. A certificate evidencing such cancellation and any cancellation pursuant to Section 5.6 hereof shall be transmitted to the Bond Fund Trustee monthly, and the Bond Fund Trustee shall, prior to the twentieth day of each month, furnish to the System, copies of all certificates evidencing cancellation of all Bonds and interest coupons in the preceding month, together with a statement as to the Bonds and interest coupons paid in said preceding month.

The principal of and interest on all Coupon Bonds and the principal of all Registered Bonds of a Series of Bonds shall be payable at the principal office of any one of the Paying Agents for such Series of Bonds. Payments of the interest on the Coupon Bonds shall be made only upon presentation and surrender of the coupons, if any, representing such interest. The same, respectively, become due and payable. Payment of the interest on each Registered Bond shall be made by the Bond Fund Trustee on each interest payment date to the person whose name appears on the registration books of the System as the registered owner thereof. A check or draft mailed to such registered owner at his address as it appears on such registration books.

SECTION 5.8. Lost, Destroyed or Mutilated Bonds. In case any Bond or any coupon thereto appertaining shall at any time become mutilated or be lost, stolen or destroyed, the System in the case of such mutilated Bond or Coupon shall, and in the case of such a lost, stolen or destroyed Bond or coupon in its discretion may, execute and deliver a new Bond or coupon of the same series, interest rate and maturity and of like tenor and effect in exchange or substitution for and upon the surrender and cancellation of such mutilated bond or coupons appertaining thereto, or in lieu of or in substitution for such destroyed, stolen or lost Bond or coupons, or if such stolen, destroyed or lost Bond or coupons shall have matured, instead of issuing a substitute therefor, the System may at its option pay the same without the surrender thereof. Except in the case where a mutilated Bond or coupon is surrendered, the applicant for the issuance of a substitute Bond or coupons, shall furnish to the System evidence satisfactory to Section 5.8

it of the theft, destruction or loss of the original Bond or coupon and of the ownership thereof, and also such security and indemnity as may be required by the System, and no such substitute Bond or coupon shall be issued unless the applicant for the issuance thereof shall reimburse the System for the expenses incurred by the System in connection with the preparation, execution, issuance and delivery of the substitute Bond or coupon and any such substitute Bond or coupon shall be equally and proportionately entitled to the security of this Resolution with all other Bonds and coupons issued hereunder; whether or not Bonds or coupons alleged to have been lost, stolen, or destroyed shall be found at any time or enforceable by anyone. The System shall advise the Bond Fund Trustee and the Paying Agents of the issuance of substitute Bonds or coupons. All Bonds and coupons so surrendered to the System shall be cancelled by it.

SECTION 5.9. Limitation on Duty of System to Register, Exchange or Transfer Bonds. The System shall not be required (a) to issue, transfer or exchange Registered Bonds for a period of ten (10) days next preceding any interest payment date therefor, (b) to issue, register, discharge from registration, transfer or exchange any Bonds for a period of ten (10) days next preceding any selection of Bonds to be redeemed thereafter or for a period of ten (10) days thereafter or (c) to issue, register, discharge from registration, transfer or exchange any Bonds which have been designated for redemption within a period of thirty (30) days next preceding the date fixed for redemption.

SECTION 5.10. Destruction of Bonds on Payment, Exchange or Transfer. All Coupon Bonds and interest coupons paid by any Paying Agent or the Bond Fund Trustee shall be cancelled and shall be destroyed by such Paying Agent or Bond Fund Trustee, as the case may be, pursuant to such regulations, consistent with the laws of the State of Washington, as the Bond Fund Trustee (with approval of the System) shall prescribe. All Registered Bonds cancelled on account of payment, transfer or exchange shall be delivered to the Bond Fund Trustee and shall be disposed of by the Bond Fund Trustee in accordance with the instructions of the System.

ARTICLE VI

REDEMPTION OF BONDS

SECTION 6.1. Time of Redemption. The Bonds which are subject to redemption prior to maturity shall be redeemed upon the terms and conditions specified in this Resolution. The 197_ Bonds shall be subject to redemption at the times and upon the payment of the redemption prices specified in Section 4.3 hereof, and all other Series of Bonds shall be subject to redemption at the times and upon payment of the redemption prices specified in the Series Resolution or Resolutions authorizing the issuance of such bonds.

SECTION 6.2. Selection of Bonds for Redemption. If less than all of a Series of Bonds are to be redeemed at any time, they shall be redeemed in the inverse order of maturities, and if less than an entire maturity is to be redeemed, the Bond Fund Trustee shall determine by lot, in any manner deemed by it to be fair, the serial numbers of the particular Bonds of such maturity so to be redeemed.

SECTION 6.3. Notice of Redemption. Notice of any redemption shall be given by the System, or by the Bond Fund Trustee in the name of the System, by publication of a notice, which notice shall specify the title, series, maturities, letters and numbers or other distinguishing marks of the Bonds to be redeemed, the redemption date and the place or places where the amount due upon such redemption will be payable and, in the case of Registered Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that upon the date fixed for redemption there shall become due and payable upon each Bond to be redeemed the principal amount thereof plus the premium, if any, due thereon upon the said redemption date, together with interest accrued to the redemption date, and that from and after the redemption date interest thereon, or on the portion of any Registered Bond to be redeemed in part (unless the System shall default in the payment of the Bonds, or of the portion of any Registered Bond, so to be redeemed in part) shall cease to accrue and become payable. Such notice shall be

published at least once on any business day of the week in daily financial papers, or in daily newspapers of general circulation printed in the English language, published in each of the cities of Seattle, Washington, Chicago, Illinois, and New York, New York, the date of publication to be not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption. If, because of the temporary or permanent suspension of the publication or general circulation of any financial paper or newspaper in any particular city, the Bond Fund Trustee deems it impossible to publish any such notice of redemption in such city in the manner herein provided, then there shall be made in lieu thereof such publication as shall be approved by the Bond Fund Trustee, and the same shall constitute a sufficient publication of such notice. The Bond Fund Trustee shall also mail a copy of such notice, postage prepaid, not less than twenty-five (25) days nor more than sixty (60) days before the redemption date to the registered owners of Bonds which are to be redeemed in whole or in part at their last addresses, if any, appearing upon the registry books, but such mailing shall not be a condition precedent to such redemption, and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of Bonds. The System shall give written notice to the Bond Fund Trustee of its election to redeem Bonds at least forty-five (45) days prior to the redemption date, or such shorter period as shall be acceptable to the Bond Fund Trustee, and if notice of redemption is to be published by the Bond Fund Trustee, such notice shall contain all the information necessary to enable the Bond Fund Trustee to publish the notice of redemption in the manner aforesaid. As to Bonds which are redeemable by the Bond Fund Trustee without action being taken by the System under the terms of this Resolution, the Bond Fund Trustee shall proceed to publish notice of redemption of such Bonds at the time specified in this Resolution without further direction from the System. Whenever notice of redemption has been duly given as herein provided, the Bond Fund Trustee shall, not later than five (5) days prior to the date fixed for redemption in such notice, transfer to the Paying Agent or Paying Agents for the Bonds so to

be redeemed amounts in cash which, in addition to other moneys, if any, held by such Paying Agent or Paying Agents for such purpose, will be sufficient to redeem on the redemption date, all the Bonds so to be redeemed.

SECTION 6.4. Payment of Redeemed Bonds; When Interest on Bonds Called for Redemption Ceases to Accrue. Notice having been given by publication in the manner provided in Section 6.3 hereof, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date designated in said notice, and the Paying Agents shall make payment thereof upon presentation and surrender thereof at the offices of the Paying Agents specified in such notice, together with, in the case of Bonds registered otherwise than to bearer and for which payment is requested by a person other than the registered owner, a written instrument of transfer duly executed by the registered owner, or his duly authorized attorney, and, in the case of Coupon Bonds, with the pertinent coupons maturing subsequent to the redemption date. In the event there shall be drawn for redemption less than all of the Bonds represented by a Registered Bond, the System shall execute and the Paying Agents shall deliver upon the surrender of such Bond without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, either Coupon Bonds or a Registered Bond or Bonds, of the same series, interest rate and maturity, in either the denomination of such unredeemed balance or in any of the authorized denominations as shall be requested by the registered owner of the Registered Bond so surrendered; provided, however, that the System may, by agreement with the holder of any Registered Bond, make payment of the redemption price of a portion of such Registered Bond directly to the registered owner thereof without presentation or surrender thereof upon such terms and conditions as the System may consent to in such agreement. The Bond Fund Trustee and each Paying Agent shall be advised by the System of each such agreement and shall be entitled to rely thereon, and to make payments in accordance therewith, until notified by the System of the termination of such agreement.

If moneys for the redemption of all the Bonds, or portions thereof, to be redeemed on any redemption date, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on the date fixed for the redemption thereof, and if notice of redemption of said Bonds shall have been published as provided in this Article, then from and after the redemption date, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable, and the coupons for interest pertaining thereto maturing subsequent to the redemption date shall be void and all Bonds or portions thereof so called for redemption shall be payable solely from the moneys set aside for the payment thereof with the Paying Agents, and said Bonds or portions thereof shall no longer be secured by the lien on and pledge of the revenues of the Hanford NSSS Project; provided, however, that such lien and pledge shall continue in full force and effect as to the portion of any Registered Bond not called for redemption. If moneys shall not be available on the redemption date specified for the payment of any Bonds, or portion of Registered Bonds, for the payment of such Bonds, or portions thereof, as shall have been called for redemption, such Bonds, or portions thereof, shall continue to bear interest until paid at the rate they would have borne had they not been called for redemption and shall continue to be secured by the lien on and pledge of the revenues of the WPPSS No. 1 Project herein created for the security and payment thereof.

SECTION 6.5. Redeemed bonds Not to be Reissued. No bonds or coupons shall be issued in lieu of Bonds or coupons paid or surrendered upon any exchange or transfer except as expressly provided by this Resolution.

ARTICLE VII

CREATION OF SPECIAL FUNDS AND ACCOUNTS
AND PAYMENTS THEREFROM

SECTION 7.1. Revenue Fund. There is hereby created a special fund of the System to be known as the "Washington Public Power Supply System Nuclear Project No. 1 Revenue Fund" (hereinafter referred to as the "Revenue Fund"), the existence of which shall be continued for so long as any bonds issued pursuant to this Resolution are outstanding and unpaid. Upon and after the issuance of any bonds issued pursuant to this Resolution, the System covenants and agrees that it will pay into the Revenue Fund as promptly as practicable after receipt thereof all income, revenues, receipts and profits derived by the System through the ownership and operation by it of the WPPSS No. 1 Project and all other moneys required to be deposited in the Revenue Fund pursuant to this Resolution (other than amounts expressly required by this Resolution to be deposited in any other fund); and further covenants and agrees that all such income, revenues, receipts, profits and other moneys shall be trust funds in the hands of the System and shall be used and applied as provided by this Resolution, solely for the purpose of making the payments required by Section 7.2 hereof, paying the principal of and premium, if any, and interest on the bonds issued pursuant to this Resolution, of operating and maintaining the WPPSS No. 1 Project, and to pay all costs, charges and expenses in connection therewith, and for the purpose of making repairs, renewals and replacements to, and additions, betterments and improvements to and extensions of the WPPSS No. 1 Project, and for the purpose of paying all other charges or obligations against said revenues, income, receipts, profits and other moneys of whatever nature now or hereafter imposed thereon by law or contract, to the payment of which for such purposes said revenues, income, receipts, profits and other moneys are hereby pledged.

The pledge of the income, revenues, receipts, profits and other moneys hereby made by the System shall be valid and binding from the time of the adoption of this Resolution. The said income, revenues, receipts, profits and other moneys so pledged and hereafter

received by the System shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of the aforesaid pledge shall be valid and binding as against any parties having claims of any kind in tort, contract or otherwise against the System irrespective of whether such parties have notice of the foregoing pledge.

Moneys in the Revenue Fund not required for immediate disbursement for the purposes for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the System solely in, and obligations deposited in said Fund shall be, Government Obligations maturing, or subject to redemption at the option of the holder thereof, at or prior to the estimated time for the disbursement of such moneys. All income resulting from the investment or reinvestment of said funds, except income accruing to the Prepayment Account, shall, prior to September 1, 1980, be paid over, at least semi-annually, to the Construction Fund Trustee for deposit in the Construction Fund, and on and after September 1, 1980, shall accrue to and be deposited in the Revenue Fund.

There is hereby created a Prepayment Account in the Revenue Fund (hereinafter referred to as the "Prepayment Account"). The System covenants and agrees that it will set aside and pay into said Account all payments made by the WPPSS No. 1 Project Participants to the System pursuant to the provisions of the WPPSS No. 1 Project Net Billing Agreements and the WPPSS No. 1 Project Exchange Agreements prior to September 1, 1980. Moneys in said Account may be applied in the same manner and for the same purposes as moneys in the Revenue Fund.

Moneys in the Prepayment Account not required for immediate disbursement shall to the fullest extent practicable and reasonable, be invested and reinvested by the System solely in, and obligations deposited in said Account shall be, Government Obligations maturing, or subject to redemption at the option of the holder thereof, at or prior to the estimated time for the disbursement of such moneys. All income resulting from the investment or reinvestment of said Account shall be retained in said Account.

Nothing contained in this Section 7.1 shall be construed to require the deposit into the Revenue Fund of any of the revenue income, receipts, profits or other moneys of the System derived by the System through the ownership or operation of the said Packwood Lake Hydroelectric Project or the said Hanford Project or the Washington Public Power Supply System Nuclear Project No. 2, or of any other electric utility properties of the System acquired or constructed as a separate system hereafter created or established from funds other than the proceeds of bonds issued pursuant to this Resolution.

SECTION 7.2. Payments to Revenue Fund Created Pursuant to Resolution No. 178. The special fund of the System known as the "Hanford Project Revenue Fund" created pursuant to Section 6.1 of Resolution No. 178, shall be continued in existence for so long as any of the bonds issued pursuant to said Resolution No. 178 are outstanding and unpaid. The System covenants and agrees that commencing on July 1, 1980, or the date upon which the AEC discontinues Dual Purpose Operation of the NPR, whichever occurs later, and for so long as any bonds issued pursuant to Resolution No. 178 are outstanding and unpaid, it will pay from the Revenue Fund into said Hanford Project Revenue Fund, from time to time, from the income, revenues, receipts and profits derived by the System from the ownership and operation by it of the WPPSS No. 1 Project, amounts sufficient to enable the System to pay from the Hanford Project Revenue Fund all the obligations of the System payable from moneys on deposit in said fund as the same become due and payable. Without limiting the generality of the foregoing, the System shall pay into the Hanford Project Revenue Fund amounts sufficient to enable the System (a) to make when due the payments from the Hanford Project Revenue Fund to the Hanford Project Revenue Bond Fund created pursuant to Section 6.2 of Resolution No. 178, required by said section; (b) to make when due the payments from the Hanford Project Revenue Fund to the Hanford Project Reserve and Contingency

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Fund created pursuant to Section 6.4 of Resolution No. 178, required by said section; (c) to maintain the working capital for the Hanford Project at an amount equal to \$1,000,000; and (e) to pay all other Project Annual Costs (as defined in the Hanford Exchange Agreements).

So long as any bonds issued pursuant to Resolution No. 178 remain outstanding and unpaid, the payments required to be made pursuant to this section shall constitute a prior and paramount charge and lien over all other charges or claims whatsoever against the Revenue Fund and the revenues, income, receipts, profits and other moneys pledged thereto.

SECTION 7.3. Bond Fund. There is hereby created a special fund of the System to be known as the "Washington Public Power Supply System Nuclear Project No. 1 Bond Fund" (hereinafter referred to as the "Bond Fund"). The Bond Fund shall be held and administered by the Bond Fund Trustee appointed as provided for in Section 8.2 hereof, and shall to the extent not otherwise provided in Section 7.3D, be used solely for the purpose of paying the principal of and premium, if any, and interest on the Bonds, and of retiring the Bonds prior to maturity in the manner herein provided. The System hereby obligates and binds itself irrevocably to set aside and to pay (to the extent not otherwise provided) out of the revenues, income, receipts, profits and other moneys of the WPPSS No. 1 Project theretofore paid into the Revenue Fund to the Bond Fund Trustee, in trust for the account of the Bond Fund, after first making the payments required by Section 7.2 of this Resolution, certain fixed amounts, without regard to any fixed proportion of said revenues, income, receipts, profits and other moneys, sufficient to pay the principal of and premium, if any, and interest on all the Bonds from time to time outstanding as the same respectively become due and payable. Such fixed amounts to be paid to the Bond Fund Trustee and into the Bond Fund shall be as follows and in the following order of priority, to wit:

A. There is hereby created for the purpose of paying the interest on outstanding Bonds as the same becomes due and payable an Interest Account in the Bond Fund (hereinafter referred to as the "Interest Account"), and not later than the 25th day of September, 1980, and on or before the 25th day of each calendar month thereafter, the System shall pay or cause to be paid into the Bond Fund to the credit of the Interest Account an amount such that, if the same amount were so paid and credited to the Interest Account on the 25th day of each succeeding calendar month thereafter prior to the next date upon which an installment of interest falls due on the Bonds, the aggregate of the amounts so paid and credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Bonds then outstanding.

B. There is also hereby created for the purpose of paying outstanding serial Bonds as they mature a Principal Account in the Bond Fund (hereinafter referred to as the "Principal Account"), and not later than the 25th day of September, 1980, or the 25th day of the twelfth month prior to the date upon which an installment of principal of the serial Bonds falls due, whichever is later, and on or before the 25th day of each succeeding calendar month thereafter, the System shall pay, or cause to be paid, into the Bond Fund to the credit of the Principal Account an amount such that, if the same amount were so paid and credited to the Principal Account on the 25th day of each succeeding calendar month thereafter and prior to the next date upon which an installment of principal falls due on the serial Bonds, the aggregate of the amounts so paid and credited to the Principal Account would on such date be equal to the installment of principal then falling due.

C. There is also hereby created for the purpose of meeting the specified sinking fund installment requirements of any outstanding term Bonds a Bond Retirement Account in the Bond Fund (hereinafter referred to as the "Bond Retirement Account"), and

on or before the 25th day of the twelfth month prior to the date upon which the first sinking fund installment is payable with respect to the term Bonds of each Series of Bonds, including the 197_ Bonds, and on or before the 25th day of each succeeding calendar month thereafter, the System shall pay, or cause to be paid, into the Bond Fund to the credit of the Bond Retirement Account for the purpose of retiring the term Bonds of such Series, an amount such that, if the same amount were so set aside and credited to the Bond Retirement Account for such purpose on the 25th day of each calendar month thereafter, and prior to the next date upon which a sinking fund installment falls due, the aggregate of the amounts so paid and credited to the Bond Retirement Account for the purpose of retiring the term Bonds of such Series would be sufficient to redeem the 197_ Bonds due _____ 1, 20__, in the principal amounts and at the times specified in Section 4.2 of this Resolution and to redeem term Bonds of other Series of Bonds in the principal amounts and at the times specified in the Series Resolution or Resolutions authorizing the issuance of such Series of Bonds.

The Bond Fund Trustee shall apply the moneys paid into the Bond Fund for credit to the Bond Retirement Account to the retirement of the term Bonds in accordance with the schedule set forth in this Resolution for the retirement of the 197_ Bonds due _____, 20__, or the Series Resolution or Resolutions authorizing the issuance of such term Bonds; provided, however, that the System may, with moneys paid into the Bond Retirement Account designated as applicable to the retirement of the term bonds of any Series of Bonds, prior to forty (40) days before a redemption date specified for such term Bonds, apply such moneys to the purchase of such term Bonds at prices not in excess of the cost of redemption on the next ensuing redemption date, in which event the principal amount of said term Bonds required to be redeemed on the next ensuing redemption date shall be reduced by the principal amount of such term Bonds so purchased. Any such purchase

of term Bonds by the Bond Fund Trustee may be made with or without tenders of such term Bonds pursuant to public notice, and in such manner as the Bond Fund Trustee shall, in its discretion, deem to be in the best interest of the System; provided, that the System may direct the Bond Fund Trustee in any method to be followed in purchasing Bonds.

D. There is also hereby created a Reserve Account in the Bond Fund (hereinafter referred to as the "Reserve Account"). From the proceeds of the sale of Bonds of each Series there shall be deposited in the Reserve Account an amount of cash equal to the largest amount of interest required to be paid with respect to the Bonds of such Series during any six-month period from the date of such Bonds to the final maturity dates thereof. So long as any of the Bonds are outstanding, such Reserve Account shall thereafter be maintained at all times at the aggregate of said amounts by additional payments from the Revenue Fund as may from time to time become necessary.

Prior to September 1, 1980, any moneys and value of Government Obligations in the Bond Fund to the credit of the Reserve Account therein received by reason of investment or reinvestment of moneys in said Reserve Account in excess of the minimum amount of moneys and value of Government Obligations required to be maintained therein shall be transferred at least semi-annually by the Bond Fund Trustee to the Construction Fund Trustee and deposited to the credit of the Construction Fund.

If, on any June 30 following September 1, 1980, the moneys and value of Government Obligations in the Reserve Account or the reserve account for any series of additional bonds shall exceed the amount of moneys and value of Government Obligations then required to be maintained therein, the amount of such excess shall be applied to satisfy any deficiency in the Reserve Account or in any of the other such reserve accounts (pro rata in proportion to

the respective deficiencies if such excess is insufficient to satisfy all such deficiencies) and the balance, if any, of such excess shall be transferred to the Revenue Fund as of such June 30.

The terms "value of Government Obligations" or "value of Investment Securities" and words of like import as used herein shall be determined as of June 30 in each year and shall constitute (a) as to obligations which mature within six (6) months from the date of purchase thereof, the par value of such obligations, and (b) as to obligations which mature more than six (6) months after the date of purchase thereof, the lesser of (i) the amortized cost of such obligations, or (ii) the bid quotation price thereof as reported in The Wall Street Journal as of said date, or in the event such newspaper is not published or such price is not reported in said newspaper, in a newspaper of general circulation or a financial journal published in the Borough of Manhattan, City and State of New York, selected by the Bond Fund Trustee, or (iii) the price at which such obligations are then redeemable by the holder at his option. The computation made under this paragraph shall include accrued interest.

E. Moneys in the Bond Fund shall be transmitted by the Bond Fund Trustee to the Paying Agents not less than five (5) days prior to the date upon which any interest or principal is due on Bonds, either at the maturity date thereof or redemption date prior to maturity, in amounts sufficient to meet such maturing installments of principal, interest and redemption premium, if any, when due. In the event that there shall be a deficiency in the Interest Account, the Principal Account or the Bond Retirement Account in the Bond Fund, the Bond Fund Trustee shall promptly make up such deficiency from the Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of Government Obligations held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency. The System covenants and agrees that any deficiency created in

the Reserve Account or the reserve account for any series of additional bonds, by reason of any such withdrawal for payment into the Interest, Principal or Bond Retirement Accounts, or the interest, principal or bond retirement accounts for such additional bonds, shall be made up from moneys in the Revenue Fund first available after making provision for the payments into such Interest, Principal and Bond Retirement Accounts, or such interest, principal or bond retirement accounts for such additional bonds.

Whenever the assets of the Bond Fund shall be sufficient to provide moneys to retire all Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further payments need be made into the Bond Fund.

The Bond Fund shall be drawn upon for the purpose of paying the principal of and interest, and redemption premium, if any, on the Bonds. Moneys set aside from time to time with the Paying Agents for the payment of such principal, interest and redemption premium shall be held in trust for the holders of the Bonds and appurtenant coupons in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Bond Fund shall be held in trust for the benefit of the holders of all Bonds at the time outstanding, equally and ratably.

SECTION 7.4. Bonds Charge Only Against Bond Fund and Moneys Pledged Thereto; Bonds Prior Charge Over Other Charges and Claims Against Bond Fund. The Bonds and the interest thereon shall be a valid claim of the holder thereof only against the Bond Fund and the amount of the revenues, income, receipts, profits and other moneys of the WPPSS No. 1 Project pledged to the Bond Fund, and shall constitute a prior charge over all other charges or claims whatsoever against the Bond Fund and such revenues, income, receipts, profits and other moneys pledged thereto, subject only to the prior charge on said revenues, income, receipts and profits for the payment of the amounts specified

in Section 7.2 hereof, and the Board hereby finds and determines that in creating the Bond Fund due regard has been given to the cost of the operation and maintenance of the WPPSS No. 1 Project and amounts required for the payment of taxes, assessments, or other governmental charges, lawfully imposed against the properties or revenues of the WPPSS No. 1 Project, or payments in lieu thereof, and that it has not obligated the System to set aside into the Bond Fund a greater amount of the revenues and proceeds of the WPPSS No. 1 Project than in its judgment will be available over and above such cost of maintenance, operation and taxes, assessments, or other governmental charges or payments in lieu thereof.

SECTION 7.5. Fuel Fund. There is hereby created a special fund of the System to be known as the "Washington Public Power Supply System Nuclear Project No. 1 Fuel Fund" (hereinafter referred to as the "Fuel Fund") and said Fund shall be held in trust by the System. Beginning on the Date of Commercial Operation all payments for Fuel shall be made from the Fuel Fund. After making the payments hereinabove provided for into the Hanford Project Revenue Fund and the Bond Fund, and paying or making provision for the payment of the reasonable and necessary costs of operating and maintaining the WPPSS No. 1 Project, including taxes or assessments lawfully imposed against the same, or payments in lieu thereof, the System shall transfer moneys from the Revenue Fund to the Fuel Fund for the purpose of paying the costs and expenses of acquiring or leasing Fuel for the WPPSS No. 1 Project in the amounts as follows:

- (1) The amount included in the annual budget for Fuel adopted pursuant to the Project Agreement.
- (2) All amounts received by the System from Fuel credits including the proceeds of sale of Fuel creditable to operations.
- (3) Additional amounts as may be necessary to avoid a deficiency in the Fuel Fund.

If the WPPSS No. 1 Project is terminated in accordance with Section 15 of the Project Agreement, the unobligated balance in the Fuel Fund shall be transferred into the Revenue Fund as of the date of termination.

SECTION 7.6. Reserve and Contingency Fund. There is hereby created a special fund of the System to be known as the "Washington Public Power Supply System Nuclear Project No. 2 Reserve and Contingency Fund" (hereinafter referred to as the "Reserve and Contingency Fund") and said Fund shall be held in trust by the System. On or before September 1, 1980, or the Date of Commercial Operation, whichever is earlier, the System shall deposit in the Reserve and Contingency Fund the sum of Three Million Dollars (\$3,000,000).

After making the payments hereinabove provided for into the Hanford Project Revenue Fund and the Bond Fund and into any separate bond fund established for additional bonds, and paying or making provisions for the payment of the reasonable and necessary cost of operating and maintaining the WPPSS No. 1 Project, including taxes or assessments lawfully imposed against the same, or payments in lieu thereof, and after making the payments hereinabove provided for into the Fuel Fund, the System shall, on or before September 25, 1980, and on or before the 25th day of each month thereafter, pay out of the Revenue Fund into the Reserve and Contingency Fund an amount equal to ten per cent (10%) of the aggregate of (i) the amounts required to be paid not later than the 25th day of such month into the Interest Account, the Principal Account and the Bond Retirement Account in the Bond Fund, plus (ii) the amounts required to be paid in such month into the interest accounts, the principal accounts and the bond retirement accounts in the bond funds established for additional bonds, without regard in each case to any amounts which may be in the Bond Fund or the bond fund established for additional bonds resulting from the investment or reinvestment of the Bond Fund or bond funds established for additional bonds.

Moneys in the Reserve and Contingency Fund shall be used from time to time to make up any deficiencies in the Interest Account, Principal Account or Bond Retirement Account in the Bond Fund for which funds are not available in the Construction Fund or the Reserve Account, or to make up any deficiencies in the interest account, principal account, or bond retirement account in any bond fund established for additional bonds for which funds are not available in any construction fund or reserve account for such bonds, and such moneys in the Reserve and

Contingency Fund are hereby pledged as additional payments into the Bond Fund or any such bond fund to the extent required to make up any such deficiencies. To the extent not required for any such deficiency, moneys in the Reserve and Contingency Fund may be applied on and after the Date of Commercial Operation to any one or more of the following:

(1) to pay the cost of renewals and replacements to the WPPSS No. 1 Project;

(2) to pay the cost of normal additions to and extensions of the WPPSS No. 1 Project; and

(3) to pay extraordinary operation and maintenance costs, and contingencies, including extraordinary costs of Fuel and the cost of preventing or correcting any unusual loss or damage (including major repairs) to the WPPSS No. 1 Project.

If, as of June 30 in any year, moneys and value of Investment Securities in the Reserve and Contingency Fund shall exceed the amount of the then commitments or obligations incurred by or the then requirements of the System for any of the foregoing purposes, plus Three Million Dollars (\$3,000,000), the amount of such excess shall be paid as follows: (1) if such June 30 is prior to September 1, 1980, into the Construction Fund and (2) if such June 30 is thereafter, into the Reserve Account and the reserve account for any series of additional bonds to the extent of any deficiency therein (pro rata in proportion to the respective deficiencies if such excess is insufficient to satisfy all such deficiencies) and the balance, if any of such excess shall be paid as of June 30 into the Revenue Fund.

SECTION 7.7. Surplus Moneys. If on any June 30 following September 1, 1980, or the Date of Commercial Operation, whichever is earlier, there shall exist in the Revenue Fund, after giving effect to any transfers pursuant to Sections 7.2, 7.3, 7.5 and 7.6 hereof, an amount which shall exceed the System's required amount of working capital, the amount of such excess shall be applied to reduce annual

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power costs to the WPPSS No. 1 Participants under the WPPSS No. 1 Project Net Billing Agreements; provided that upon agreement of the parties to the Project Agreement all or any part of such excess may be applied to paying the cost of making repairs, renewals and replacements, additions, betterments and improvements to and extensions of the WPPSS No. 1 Project, the purchase of Bonds and bonds issued pursuant to this resolution, the redemption of Bonds and bonds issued pursuant to this resolution or for other purposes in connection with the WPPSS No. 1 Project. For the purpose of this Section 7.7, the System's "required amount of working capital" shall be \$_,000,000, or such lesser amount (but not less than \$_,000,000) or such greater amount as may be decided upon by the System and the Administrator with the approval of the Consulting Engineer.

The amount which exists in the Revenue Fund as of any June 30, shall be deemed to be the amount of the then excess of the current assets in the Revenue Fund over the current liabilities thereof determined in accordance with the Uniform System of Accounts prescribed by the Federal Power Commission for Public Utilities and Licensees in effect on January 1, 1970; provided that such current liabilities as of any June 30 shall not include the payments required to be made for the next following twelve-month period into the Bond Fund or any bond fund established for additional bonds.

SECTION 7.8. Investment of Funds. Moneys held for the credit of the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund, shall, to the fullest extent practicable and reasonable, be invested by the Bond Fund Trustee in Government Obligations which shall mature not later than five (5) days prior to the respective dates when the moneys held for the credit of such Account will be required for the purposes intended.

Moneys in the Reserve Account in the Bond Fund not required for immediate disbursement for the purposes for which said Account is created, shall, to the fullest extent practicable and reasonable, be

invested and reinvested by the Bond Fund Trustee at the direction of the System solely in, and obligations deposited in said Reserve Account shall be, Government Obligations maturing, or subject to redemption at the option of the holder thereof, within seven (7) years from the date of such investment (but maturing prior to the final maturity date of the Bonds). The Bond Fund Trustee shall not be liable for any depreciation in value of any such investments.

Moneys in the Fuel Fund and Reserve and Contingency Fund not required for immediate disbursement for the purposes for which said Funds are created shall, to the fullest extent practicable and reasonable be invested and reinvested by the System solely in, and obligations deposited in said Funds shall be, Investment Securities, maturing or subject to redemption at the option of the holder thereof, within two (2) years, from the date of such investment with respect to the Fuel Fund, and within seven (7) years from the date of such investment, with respect to the Reserve and Contingency Fund (but maturing prior to the final maturity date of the Bonds).

All income resulting from the investment or reinvestments of the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund shall accrue to and be deposited in the Revenue Fund. All income resulting from the investment or reinvestment of the Reserve Account in the Bond Fund, Fuel Fund and Reserve and Contingency Fund shall prior to September 1, 1980 accrue to and be deposited in the Construction Fund; after September 1, 1980, such income shall accrue to and be deposited in the Revenue Fund.

All moneys held or set aside by the System in the Revenue Fund, Fuel Fund or Reserve and Contingency Fund shall, until otherwise invested or applied as provided in this Resolution, be deposited by the System in its name, for the account of the Revenue Fund, the Fuel Fund or the Reserve and Contingency Fund, as the case may be. In such depository or depositories as the System shall at any time or from time to time appoint for the purpose. Any depository so appointed shall be a state bank or trust company or national banking association located in the State of Washington and qualified under the laws of said State to

receive deposits of public moneys, having a capital stock and surplus in excess of Ten Million Dollars (\$10,000,000), and all moneys so deposited shall be secured to the extent and in the manner permitted by applicable state or federal laws for the securing of deposits of public moneys.

SECTION 7.9. Construction Fund. There is hereby created a special fund of the System to be known as the "Washington Public Power Supply System Nuclear Project No. 1 Construction Fund" (hereinafter referred to as the "Construction Fund") which shall be held in trust by the Construction Fund Trustee for the benefit of the System and the holders of the Bonds, as their interests may appear. There is also hereby created in the Construction Fund special accounts to be known as the "Construction Interest Account" and the "Fuel Account".

A. Immediately upon the issuance and delivery of the 197_ Bonds and any additional Series of Bonds, there shall be paid into the Construction Fund such amount of the proceeds derived from the sale of the 197_ Bonds and such additional Series of Bonds as is to be applied to the payment of the Cost of Construction. Moneys so deposited in the Construction Fund shall be applied to pay the Cost of Construction. Any balance of the moneys remaining in the Construction Fund at the issuance of the report of the Construction Engineer pursuant to Section 9.4 hereof and not set aside or appropriated by the System to be applied to any remaining balance of the Cost of Construction, shall be disbursed as hereinafter in Section 7.14 hereof provided.

B. From the proceeds derived from the 197_ Bonds there shall be deposited:

1. With the Construction Fund Trustee for credit to the Construction Interest Account an amount equal to the accrued interest on said Bonds paid as a part of the purchase price thereof;

2. With the Construction Fund Trustee for credit to the Construction Interest Account an amount equal to the interest to accrue on said Bonds from the date thereof to September 1,

1980, less the amount of the accrued interest paid into said Account pursuant to subparagraph 1 above which shall be used to pay interest on said Bonds during such period;

3. With the Bond Fund Trustee for credit to the Reserve Account in the Bond Fund an amount equal to the largest amount required to be paid or set aside in the Interest Account of the Bond Fund with respect to the 197_ Bonds during any six-month period from the date of such Bonds to the final maturity date thereof;

4. With the System for deposit in the Revenue Fund the amount of _____ Million Dollars (\$,000,000) to be used as working capital in connection with the WPPSS No. 1 Project;

5. With the System for deposit in the Reserve and Contingency Fund the amount of _____ Dollars (\$ _____) to be used for the purpose of such Fund as provided by Section 7.6 hereof;

6. With the Bond Fund Trustee amounts sufficient to pay, and to be used solely for the payment of, the \$,000,000 principal amount of outstanding Washington Public Power Supply System Revenue Notes heretofore issued by the System for the purpose of paying the cost of preliminary work and expenses in connection with the WPPSS No. 1 Project;

7. With the Construction Fund Trustee for the credit to the Fuel Account in the Construction Fund the amount of _____ Dollars (\$ _____). All costs of Capitalized Fuel shall be paid from this account;

8. With the Construction Fund Trustee for credit to the Construction Fund the balance of such Bond proceeds which shall be applied to the Cost of Construction.

C. From the proceeds derived from the sale of each Series of Bonds other than the 197_ Bonds, there shall be deposited:

1. With the Construction Fund Trustee for credit to the Construction Interest Account an amount equal to the accrued interest on said Bonds paid as a part of the purchase price thereof;

2. With the Construction Fund Trustee for credit to the Construction Interest Account an amount equal to the interest to accrue on such Series of Bonds, from the date thereof to September 1, 1980, less the amount of the accrued interest paid into said Account pursuant to subparagraph 1 above, which shall be used to pay interest on the Bonds during such period;

3. With the Bond Fund Trustee for credit to the Reserve Account in the Bond Fund an amount equal to the largest amount required to be paid or set aside in the Interest Account in the Bond Fund with respect to said Series of Bonds during any six-month period from the date of such Bonds to the final maturity date thereof;

4. With the System for deposit in the Revenue Fund such amounts as are determined by the System to be required for working capital;

5. With the System for deposit in the Reserve and Contingency Fund such amounts as are determined by the System;

6. With the Construction Fund Trustee for credit to the Fuel Account in the Construction Fund such amounts as are determined by the System;

7. With the Construction Fund Trustee for credit to the Construction Fund the balance of such Bond proceeds, which shall be applied to the Cost of Construction.

In any event, by no later than September 1, 1980, or the Date of Commercial Operation, whichever occurs earlier, there shall be deposited in the Reserve and Contingency Fund from the proceeds of Bonds the amount required by Section 7.6 hereof unless such amounts have been deposited in the Reserve and Contingency Fund from other available moneys.

D. Moneys in the Construction Interest Account shall be used for the purpose of paying interest on the Bonds. On or before the 25th day of the month next preceding the maturity of an installment of interest on the Bonds, the Construction Fund Trustee shall transfer from the Construction Interest Account to the Bond Fund Trustee for deposit in the Interest Account in the Bond Fund an amount which together with any moneys theretofore received or held by the Bond Fund Trustee for that purpose, shall be sufficient to pay such next maturing installment of interest on said Bonds. If at any time moneys in the Construction Interest Account and other available moneys are inadequate for such purpose, the Construction Fund Trustee shall transfer

from the Construction Fund to the Construction Interest Account such amount of moneys as is required to permit such transfer to the Bond Fund Trustee.

E. Except as provided in paragraph F of this Section 7.9, all moneys received by the System by reason of the breach or default of contractors in connection with the construction of the WPPSS No. 1 Project and the proceeds of salvage sales, shall be paid to the Construction Fund Trustee for deposit in the Construction Fund.

F. All moneys received by the System by reason of any breach or default of contractors in connection with Capitalized Fuel and from Fuel credits, including the proceeds of sale of Fuel, prior to the Date of Commercial Operation, shall be paid into the Construction Fund for credit to the Fuel Account.

G. The Construction Fund Trustee shall transfer to the Fuel Account in the Construction Fund to the extent of available funds, additional amounts as necessary to supplement available funds to pay the cost of Capitalized Fuel.

SECTION 7.10. Investment of Moneys in Construction Fund. The Construction Fund Trustee may, and at the direction of the System shall, invest the moneys in the Construction Fund from time to time in Investment Securities, which Investment Securities shall mature, or which shall be subject to redemption at the option of the holder thereof, in not more than five (5) years from date of purchase. Any investment made by the Construction Fund Trustee and any direction given by the System shall be made or given with due regard to the latest estimate of the Construction Engineer filed with or certified to the Construction Fund Trustee pursuant to Section 9.3 and Section 9.7 of this Resolution with respect to the amounts needed from time to time to pay Cost of Construction and the estimated dates of such payment. All interest earned by reason of such investments shall accrue to the Construction Fund. In the event moneys that are invested are needed in the Construction Fund to meet obligations thereof for which funds are not otherwise available, then the Construction Fund Trustee shall sell, or present for redemption, said investments to the extent required to provide for such purpose. The Construction Fund Trustee shall not be liable for any depreciation in the value of any of such investments or deposits made at the direction of the System.

SECTION 7.11. Cost of Construction. Payment of the Cost of Construction shall be made from the moneys in the Construction Fund. For the purpose of this Resolution, the Cost of Construction shall include all costs of constructing, acquiring and installing the WPPSS No. 1 Project as generally described in Section 3.2 hereof, including costs of incorporating the Existing Power Facilities in the WPPSS No. 1 Project and making them ready for operation as a part of the WPPSS No. 1 Project and shall include, but not be limited to, the following:

A. Paying or reimbursing the cost of preliminary surveys, investigations, engineering and other expenses and fees properly incurred for the WPPSS No. 1 Project.

B. The cost of obtaining any and all permits and licenses required by any governmental agency or authority having jurisdiction and any other licenses, permits, approvals or legal rights of any kind required for, or used or useful in the acquisition and construction of the WPPSS No. 1 Project and the placing of the same in operation.

C. Obligations incurred for labor and materials and to contractors, builders and to material suppliers in connection with the acquisition and construction of the WPPSS No. 1 Project, for machinery and equipment for the restoration or relocation of property necessary in connection with such construction, for the removal or relocation of structures and for the clearing of lands, and for the cost of Capitalized Fuel.

D. The cost of acquiring by purchase, if such purchase shall be deemed expedient, and the amount of any deposit in court or award or final judgment in or any settlement or compromise of any proceeding to acquire by condemnation or by the exercise of the power of eminent domain such lands, property, rights of way, franchises, easements or other interests in land as may be deemed by the System to be used or useful for the acquisition, construction, maintenance and operation of the WPPSS No. 1 Project, options and partial payments thereon, and the amount of any damages incident to or consequent upon the construction, acquisition and operation of said Project, and the cost of such payments to other public agencies as may be necessary or required by the Project

Section 7.11.

Agreement.

E. Interest on the Bonds accruing until September 1, 1980.

F. The fees and expenses of the Construction Fund Trustee for all services rendered under this Resolution during the Period of Construction, and of the Bond Fund Trustee and of the Paying Agents for all services rendered under this Resolution until September 1, 1980; taxes or other municipal or governmental charges lawfully levied or assessed against the WPPSS No. 1 Project and any taxes levied against property acquired therefor or payments required in lieu thereof, except sales taxes, in each case to the Date of Commercial Operation; sales taxes during the Period of Construction; and premiums on insurance in connection with the construction of the WPPSS No. 1 Project during the Period of Construction.

G. The cost to the System of the performance of the duties of the Construction Engineer and the Consulting Engineer and other engineering and professional services rendered to the System in connection with the acquisition and construction of the WPPSS No. 1 Project and the placing of the said Project in operation, or the issuance of Bonds therefor.

H. Payment to the AEC of the sum of Five Million Four Hundred Thousand Dollars (\$5,400,000) in settlement of the AEC's costs of deactivating the NPR pursuant to the agreement between the System and the AEC designated Supplemental Agreement No. 3, Contract No. AT (45-1)-1355 referred to in Section 2.3 hereof.

I. Paying, or reimbursing the System for, expenses incident and properly allocable to the acquisition and construction of the WPPSS No. 1 Project and the placing of the same in operation, including per diem compensation or salaries of the Board, legal, engineering, financing, accounting and other professional expenses and fees, cost of printing and preparing and issuing the Bonds, wages of office and clerical employees, administrative management expenses, pension requirements, health and hospitalization insurance and all other items of expense not specified elsewhere in this section which are incident and properly allocable to the acquisition and construction of the WPPSS No. 1 Project and placing the same in operation (including the premiums on any insurance and fidelity bonds required or obtained during construction), including miscellaneous fees and costs in connection

with the acquisition of lands, rights of way, property rights, franchises, easements, cost of abstracts of title, title insurance, cost of surveys and appraisals.

Notwithstanding any other provision of this Resolution (a) prior to the Date of Commercial Operation, the cost of all repairs, renewals and replacements to the WPPSS No. 1 Project shall constitute a Cost of Construction; (b) premiums paid for insurance maintained by the System pursuant to the requirements of this Resolution and the Project Agreement for the period ending with the Date of Commercial Operation shall constitute items chargeable to Cost of Construction, and for subsequent periods shall constitute expenses of operation; and (c) from and after the Date of Commercial Operation the costs and expenses, including taxes, and payments in lieu thereof of the System in connection with the operation and maintenance of the WPPSS No. 1 Project shall not be included in Cost of Construction.

In any event, amounts in the Construction Fund shall be applied to the payment when due of principal of and interest on the Bonds to the extent that other moneys are not available therefor and such amounts are hereby pledged as additional payments to the Bond Fund to the extent required for any such deficiency.

SECTION 7.12. Manner of Paying Costs of Construction.

Except for payment from the Construction Fund otherwise in paragraph D of Section 7.9 and in Section 7.13 specifically provided, and for payments or reimbursements specified in paragraph A of Section 7.11, transfers or payments from the Construction Fund shall be made in accordance with the provisions of this Section 7.12. Upon preparation of vouchers approved by the Auditor, the Board shall approve and direct the payment of all amounts due and owing on account of Cost of Construction, and, by written order signed by the President or Vice President and Secretary or Assistant Secretary of the System, direct the Construction Fund Trustee to make such payments, provided, that no individual shall sign in more than one capacity, and each such order shall state with respect to such payment:

- (1) the item number of the payment;
- (2) the name of the person, firm or corporation to whom the payment is due;

(3) the amount to be paid;

(4) that an obligation in the stated amount has been incurred by the System and that each item thereof is a proper and reasonable charge against the Construction Fund, and that such amount has not been theretofore paid; and

(5) that there has not been filed with or served upon the System any notice of any lien, right to lien, or attachment upon or claim affecting the right to receive payment of any of the moneys payable to the person, firm or corporation named in such order which has not been released or will not be released simultaneously with the payment of such obligations and, in the event any assignment of the right to receive payment has been made and notice thereof has been given to the System and the System has accepted such assignment, the order directing payment shall recite that fact and direct payment to be made to the assignee thereof as shown by the records of the System.

Each such order for the payment of work, materials, equipment or supplies (except the administrative expenses of the System) shall also be accompanied by a certificate signed by the Construction Engineer, certifying that an obligation in the stated amount has been incurred by the System, and that each item thereof is a proper charge and in a reasonable amount against the Construction Fund and has not been theretofore paid, and that, insofar as such obligation was incurred for work, materials, equipment or supplies, such work was actually performed, or such materials, equipment or supplies were actually installed in furtherance of the construction of the WPPSS Project No. 1 or delivered at the site of said Project for that purpose, or delivered for storage or fabrication at a place or places approved by the Construction Engineer and under the control of the System, or is a progress payment due on equipment being fabricated to order.

Upon receipt of any such order and accompanying certificate, if required, the Construction Fund Trustee shall pay such obligation from the Construction Fund. If for any reason the System should desire,

Prior to payment of any item in an order not to pay such item the System shall give notice of such decision to the Construction Fund Trustee. The Construction Fund Trustee, in making any disbursement, shall pay each such obligation or deliver to the Board a check or draft for the payment thereof payable to the order of the payee to whom payment is due, as set forth in the order of the system directing such disbursement.

The proper officers of the System are hereby authorized and directed to execute and deliver in the name of the System any and all documents, papers, receipts, orders and releases that are required or convenient to enable the System to effect acquisition and construction of the WPPSS No. 1 Project, and to pay from Bond proceeds any and all amounts of moneys required to perform fully the obligations of the System with respect thereto.

SECTION 7.13. Revolving Fund. Immediately after the deposit with the Construction Fund Trustee of the moneys specified in subparagraphs 7 and 8 of paragraph B of Section 7.9, the Construction Fund Trustee shall set aside from such moneys in the Construction Fund the sum of _____ Dollars (\$_____) and deposit said sum to the credit of the System in a special account in the name of the System to be used as a revolving fund (hereinafter referred to as the "Revolving Fund") for payment of those items of costs referred to in Section 7.11, which cannot conveniently be paid in the manner specified in Section 7.12. The Revolving Fund shall be reimbursed from time to time for such items of cost paid by the System by payments from the Construction Fund by the Construction Fund Trustee upon being furnished with the documents evidencing the propriety of the payments to be reimbursed as provided in Section 7.12. Moneys in the Revolving Fund shall be deemed to be part of the Construction Fund until disbursed as provided in this Section 7.13. Upon approval by the Auditor, moneys in the Revolving Fund shall be disbursed by check or draft signed by the Treasurer or other officer of the System designated by the Board who shall supply, at the expense of the Construction Fund, a fidelity

bond to the Construction Fund Trustee in the principal amount of
_____ Dollars (\$_____).

SECTION 7.14. Distribution of Moneys in Construction Fund.

As soon as practicable after the Construction Engineer shall have filed the reports required by Sections 9.4 and 9.5 hereof, any balance then remaining in the Construction Fund including the Revolving Fund authorized by Section 7.13 hereof shall be used and applied by the Construction Fund Trustee as follows and in the following order:

First, to pay to the Bond Fund Trustee for credit to the Interest Account in the Bond Fund that amount, if any, of the interest to be paid on the Bonds to and including September 1, 1980; and to the extent of any remainder of such balance,

Second, to set aside in the Construction Fund the amounts specified in such report pursuant to clauses (c), (d), (e) and (f) of Section 9.5 hereof, and to apply the same to the payment of Cost of Construction in accordance with the provisions of Section 7.12 hereof; and to the extent of any remainder of such balance,

Third, to pay to the Bond Fund Trustee for deposit in the Reserve Account the amount of any deficiency in such Account; and to the extent of the remainder of such balance,

Fourth, to pay to the Bond Fund Trustee such remainder for credit to the Bond Retirement Account.

As soon as practicable after the Construction Engineer shall have filed the report required by Section 9.6 hereof, the Construction Fund Trustee shall pay to the Bond Fund Trustee the amount specified in such report pursuant to clause (b) of such section for deposit in the Reserve Account to the extent of any deficiency in any such Account, and to the extent of any remainder of such amount the Construction Fund Trustee shall pay to the Bond Fund Trustee such remainder for credit to the Bond Retirement Account.

SECTION 7.15. Payment of Funds in Construction Fund to Bond Fund Trustee. In the event the System terminates the WPPSS No. 1 Project pursuant to subparagraph (a) of Section 15 of the Project Agreement,

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the Construction Fund Trustee shall, at the direction of the System, pay over and deliver to the Bond Fund Trustee such moneys and Investment Securities in the Construction Fund and the Construction Interest Account as shall be directed by the System.

SECTION 7.16. Moneys in Construction Fund Pending the Application Thereof. The moneys in the Construction Fund and in the Construction Interest Account therein, pending their application as provided in this Resolution, shall be held in trust and shall be subject to a prior and paramount lien and charge in favor of the holders of the Bonds, and the holders of the Bonds shall have a valid claim on such moneys for the further security of said bonds until paid out or transferred as herein provided.

ARTICLE VIII

APPOINTMENT, QUALIFICATION, RESIGNATION,
REMOVAL, POWERS, DUTIES AND LIABILITIES
OF THE TRUSTEES AND PAYING AGENTS

SECTION 8.1. Construction Fund Trustee. _____

Bank in the City of _____, _____, is hereby appointed Construction Fund Trustee. The Construction Fund Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Resolution as such Construction Fund Trustee by executing and delivering to the System a written acceptance of the provisions of this Resolution. The System may remove the Construction Fund Trustee for cause, and the Construction Fund Trustee shall be removed at the request of and upon the affirmative vote of the holders of more than fifty per cent (50%) of the principal amount of the Bonds then outstanding. In the event of the removal, resignation, disability or refusal to act of the Construction Fund Trustee, the System will thereupon appoint a successor Construction Fund Trustee, which shall be a bank or trust company in _____, _____, or _____, _____, with a capital and surplus in excess of _____ Dollars (\$_____), and such successor shall have all the powers and obligations of the Construction Fund Trustee under this Resolution theretofore vested in its predecessor.

SECTION 8.2. Bond Fund Trustee. _____

Bank in the City of _____, _____, is hereby appointed Bond Fund Trustee. The Bond Fund Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Resolution as such Bond Fund Trustee by executing and delivering to the System a written acceptance of the provisions of this Resolution. The Bond Fund Trustee may be removed at the request of and upon the affirmative vote of the holders of more than fifty per cent (50%) of the principal amount of Bonds outstanding. In the event of the removal, resignation, disability or refusal to act of the Bond Fund Trustee, a successor may be appointed by the holders of more than fifty per cent (50%) of the principal amount of Bonds outstanding, excluding any Bonds

held by or for the account of the System, and such successor shall have all the powers and obligations of the Bond Fund Trustee under this Resolution theretofore vested in its predecessor, or in any Bondholders Committee created under Article XII; provided, that unless a successor Bond Fund Trustee shall have been appointed by the holders of Bonds as aforesaid, the System by a duly executed written instrument signed by a majority of the Board shall forthwith appoint a Bond Fund Trustee to fill such vacancy until a successor Bond Fund Trustee shall be appointed by the holders of Bonds as authorized in this section. Any successor Bond Fund Trustee appointed by the System shall, immediately and without further act, be superseded by a Bond Fund Trustee appointed by the holders of Bonds. A successor Bond Fund Trustee shall be a bank or trust company in the City of _____, State of _____, with a capital and surplus in excess of _____ Million Dollars (\$ _____).

SECTION 8.3. Resignation of Trustees. The Bond Fund Trustee or the Construction Fund Trustee may at any time resign and be discharged of its duties and obligations under this Resolution by giving not less than 60 days written notice to the System and publishing notice thereof, specifying the date when such resignation shall take effect, once in each week for three successive calendar weeks in the manner provided in Section 12.2 hereof, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the System in the case of the Construction Fund Trustee, or by the System or the Bondholders as above provided in the case of the Bond Fund Trustee, in which event such resignation shall take effect immediately on the appointment of such successor.

SECTION 8.4. Appointment of Paying Agents, Each Paying Agent to Hold Money in Trust. The System shall appoint Paying Agents for each Series of Bonds, which shall be banks or trust companies in each of the cities of Seattle, Washington, Chicago, Illinois, and New York, New York, and the Bonds and the interest thereon shall be

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payable at the principal offices of said Paying Agents in said cities. Each Paying Agent shall hold in trust for the benefit of the Bondholders and the Bond Fund Trustee all sums held by such Paying Agent for the payment of the principal of and interest on the Bonds. Anything in this section to the contrary notwithstanding, the System may, at any time, for the purpose of obtaining a satisfaction and discharge of this Resolution, or for any other reason, cause to be paid to the Bond Fund Trustee all sums held in trust by any Paying Agent hereunder as provided by this section, which sums shall be held by the Bond Fund Trustee upon the trusts herein contained, and such Paying Agent shall thereupon be released from all further liability with respect to such sums.

SECTION 8.5. Action by Bond Fund Trustee in Payment of Bonds.

The appropriate accounts of the Bond Fund shall be drawn upon by the Bond Fund Trustee for the purpose of paying the principal of, interest and premium, if any, on the Bonds or transferring moneys to the Paying Agents for that purpose.

SECTION 8.6. Duties and Obligations of the Trustees.

The duties and obligations of each trustee appointed by or pursuant to the provisions of this Resolution prior to the occurrence of an Event of Default (hereinafter defined), and subsequent to the curing of such Event of Default, shall be determined solely by the express provisions of this Resolution, and such trustee shall not be liable for any action of any other trustee and shall not otherwise be liable except for the performance of its duties and obligations as specifically set forth herein and to act in good faith in the performance thereof, and no implied duties or obligations shall be incurred by such trustee other than those specified herein, and such trustee shall be protected when acting in good faith upon the advice of counsel, who may be counsel to the System. In case an Event of Default has occurred which has not been cured, such trustee shall exercise such of the rights and powers vested in it by this Resolution and use the same degree of care and skill in the exercise thereof as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. The Bond Fund

Trustee shall not be deemed to have knowledge of any Event of Default not known to such trustee.

SECTION 8.7. Evidence on Which Trustees and Paying Agents May Act. Subject to the provisions of Section 8.6 hereof, the trustees may conclusively rely, as to the correctness of the statements, conclusions and opinions expressed therein, upon any certificate, report, opinion or other document furnished to such trustee pursuant to any provisions of this resolution. Except as otherwise expressly provided in this Resolution, any request, consent, certificate, demand, notice, order, appointment or other direction made or given by the System to any trustee or the Paying Agents shall be deemed to have been sufficiently made or given by the proper party or parties if executed on behalf of the System by an officer of the Board.

SECTION 8.8. When Trustees Not Required to Act. None of the provisions contained in this Resolution shall require any trustee to spend or risk its own funds or otherwise incur individual financial responsibility in the performance of any of its duties or in the exercise of any of its rights or powers, if there are reasonable grounds for believing that the repayment thereof is not reasonably assured to it under the terms of this Resolution.

SECTION 8.9. Compensation of Trustees and Paying Agents. The Bond Fund Trustee, the Construction Fund Trustee, and the Paying Agents shall be entitled to reasonable compensation for all services rendered by them in the execution, exercise and performance of any of the powers and duties to be exercised or performed by the Bond Fund Trustee, the Construction Fund Trustee and the Paying Agents, respectively, pursuant to the provisions of this Resolution or any Series Resolution, which compensation shall not be limited by any provisions of law in regard to the compensation of a trustee of an express trust, and the System will pay or reimburse the Bond Fund Trustee, the Construction Fund Trustee and the Paying Agents upon

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request for all expenses, disbursements and advances incurred or made by the Bond Fund Trustee, the Construction Fund Trustee or Paying Agents, as the case may be, in accordance with any of the provisions hereof (including the reasonable compensation and expenses and disbursements of counsel for the Bond Fund Trustee, the Construction Fund Trustee or Paying Agents, as the case may be, and of any persons not regularly in the employ thereof) Subject to the provisions of Section 8.6 hereof, the Bond Fund Trustee shall be entitled to indemnity from the System against any loss, liability or expense incurred on the part of the Bond Fund Trustee arising out of or in connection with the acceptance or administration of the powers and duties of the trust created pursuant to the provisions of this Resolution, including the cost and expense of defending against any claim or liability in the premises, and, to the extent permitted by law, the Bond Fund Trustee shall have a lien or claim for payment of such compensation, expenses and disbursements of counsel, losses, liabilities and expenses prior to that of the holders of the Bonds upon any funds held by it under this Resolution.

SECTION 8.10. No Liability of Bond Fund Trustee for Correctness of Recitals. The Bond Fund Trustee shall not be responsible in any manner whatsoever for the correctness of the recitals, statements and representations herein or in the Bonds or in the coupons, all of which are made by the System solely. The Bond Fund Trustee makes no representation as to the value or condition of the WPPSS No. 1 Project or any part thereof, or as to the right, title and interest of the System in the WPPSS No. 1 Project or as to the lien created by this Resolution, or as to the validity of this Resolution or of the Bonds issued hereunder, and the Bond Fund Trustee shall incur no liability or responsibility in respect of any such matters. The Bond Fund Trustee shall not have any responsibility as to the amount of Bonds issued or outstanding at any time.

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SECTION 8.11. Evidence on Which Trustees

of Trustees to Deal in Bonds and Any Other Obligations of the System.

Subject to the provisions of Section 8.6, in case at any time it shall be necessary or desirable for any trustee to make any investigation respecting any fact preparatory to taking or not taking any action or doing or not doing any thing, and in any case in which this Resolution provides for permitting or taking any action, such trustee may rely upon any certificate required or permitted to be filed with it under the provisions of the Resolution, and any such certificate shall be evidence of such fact to protect it in any action that it may or may not take or in respect of anything it may or may not do, by reason of the supposed existence of such fact.

Any trustee and its directors, officers, employees or agents, may in good faith buy, sell, own and hold any of the Bonds or coupons issued under the provisions of this Resolution, and may join in any action which any Bondholder may be entitled to take with like effect as if such trustee were not a trustee under the Resolution. Any trustee may in good faith hold any other form of indebtedness of the System, own, accept or negotiate any drafts, bills of exchange, acceptances of obligations thereof, make disbursements therefor and enter into any commercial or business arrangement therewith. No trustee shall be deemed to have any conflict of interest solely by reason of any such transaction.

ARTICLE IX
THE CONSTRUCTION ENGINEER

SECTION 9.1. Appointment of Construction Engineer. The appointment of United Engineers & Constructors, Inc. as Construction Engineer for the System by Resolution No. 467 of the Executive Committee of the System is hereby confirmed, and the System covenants that it will retain, on a continuous basis United Engineers & Constructors, Inc., or some other construction engineer or engineering firm of national reputation, recognized for knowledge, skill and experience in the design, construction and operation of nuclear generating facilities, until the report has been rendered by the Construction Engineer as provided in Section 9.6 hereof.

SECTION 9.2. Construction Engineer Not to be Employed as Consulting Engineer. The System will not employ the Construction Engineer as Consulting Engineer for the WPPSS No. 1 Project and will not, so long as any of the Bonds are outstanding, now or hereafter employ the Construction Engineer in any capacity in connection with the WPPSS No. 1 Project except that of Construction Engineer.

SECTION 9.3. Duties of Construction Engineer. The System shall cause the Construction Engineer to:

A. Prepare and submit to the System such drawings, designs, plans, specifications, surveys and reports as are necessary for the proper acquisition and construction of the WPPSS No. 1 Project, and approve and supervise any necessary modifications in the design, plans and specifications thereof; and prepare and deliver to the System all certificates referred to in this Resolution required to be furnished by the Construction Engineer;

B. Prepare and submit to the System, the Construction Fund Trustee, the Bond Fund Trustee, and to such Bondholders as may file with the System a request in writing for copies

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thereof, quarterly reports of progress during the Period of Construction, including data as to the date of expected completion and the comparison of estimated construction time and the Cost of Construction as compared with the estimates made prior to the issuance and sale of any Bonds hereunder, and an estimate of the amounts that will be needed from time to time to pay the Cost of Construction and the estimated dates of such payments;

C. Continuously supervise and inspect the acquisition and construction of the WPPSS No. 1 Project in accordance with the usual accepted practices of such inspection and supervision;

D. Upon completion and testing as required by the specifications of the WPPSS No. 1 Project, certify to the System to that effect and to the further effect that the WPPSS No. 1 Project is ready for normal continuous operation.

SECTION 9.4. Report When WPPSS No. 1 Project Ready For Normal Continuous Operation. As soon as practicable after the date as of which the Construction Engineer shall determine that (i) the WPPSS No. 1 Project conforms to the plans and specifications as may be modified from time to time and is ready for normal continuous operation; (ii) that the acquisition, construction and installation of the WPPSS No. 1 Project has been completed in every material respect; and (iii) that the costs (including contingencies), as estimated by the Construction Engineer, of all work remaining to be done in order to complete such acquisition, construction and installation (hereinafter in this Article IX called "remaining work") will not exceed \$_____, the System shall cause the Construction Engineer to file a report to that effect with the System, the Bond Fund Trustee and the Construction Fund Trustee.

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SECTION 9.5. Details of Report When WPPSS No. 1 Project Ready for Normal Continuous Operation or the Date of Commercial Operation, Whichever is Later. As soon as practicable after the date referred to in Section 9.4 hereof, or the Date of Commercial Operation, whichever is the later, the System shall cause the Construction Engineer to file with the System, the Bond Fund Trustee and the Construction Fund Trustee a report setting forth as of such later date, the following in reasonable detail:

(a) the total Cost of Construction exclusive of claims of contractors and others which are the subject of actual or prospective dispute or controversy (hereinafter in this Article IX called "dispute or controversy") and exclusive of the cost (including contingencies), as estimated by the Construction Engineer, of the remaining work;

(b) the portion of the total Cost of Construction specified pursuant to the foregoing clause (a) which has been paid in full;

(c) the portion of the total Cost of Construction specified pursuant to the foregoing clause (a) which remains to be paid, including all amounts which are not the subject of dispute or controversy but are dependent upon the satisfaction of any agreements or conditions precedent to such payment;

(d) the aggregate amount of the claims of contractors and others which are the subject of dispute or controversy;

(e) the cost (including contingencies), as estimated by the Construction Engineer and as approved by the System of the remaining work;

(f) such amount, if any, as the Construction Engineer shall determine is necessary or desirable to be set aside in the Construction Fund for contingencies, including any further modifications which may be required under Section 3.3 hereof, in order to avoid the possible necessity of issuance or further issuance of Bonds.

SECTION 9.6. Report on Final Completion of the WPPSS No. 1 Project. As soon as practicable after the date as of which the Construction Engineer shall determine that the acquisition, construction and installation of the WPPSS No. 1 Project has been fully completed and that the total Cost of Construction has been fully paid and satisfied (including but without limitation final payment or satisfaction of each dispute or controversy and payment in full for all remaining work), the System shall cause the Construction Engineer to file a report with the System, the Bond Fund Trustee and the Construction Fund Trustee to that effect, setting forth (a) the basis of such determination in reasonable detail and (b) the amount remaining in the Construction Fund after such full payment and satisfaction.

SECTION 9.7. Estimate of Cost of Construction and Estimate of Date of Payment. At or prior to the issuance and delivery of any Bonds issued for the purpose of paying the Cost of Construction, the System shall cause the Construction Engineer to file with the Construction Fund Trustee and with the System an estimate of the amounts that will be needed from time to time to pay the Cost of Construction and the estimated dates of such payments.

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ARTICLE X
COVENANTS TO SECURE BONDS

The System hereby covenants and agrees with the purchasers and holders of all bonds issued pursuant to this Resolution as follows:

SECTION 10.1. Certain Covenants by the System with Respect to Resolution No. 178. On and after the date of the first delivery of any Bonds pursuant to this Resolution:

1. The System shall not issue any bonds or other evidences of indebtedness under Resolution No. 178 so long as the obligations of such Resolution are satisfied under this Resolution;
2. The System will faithfully and punctually discharge all of its duties and obligations under and pursuant to its Resolution No. 178 insofar as these have not been discharged by reason of (i) the exercise by the Administrator of his rights under Section 5(i) of the Hanford Project Exchange Agreements, (ii) the execution of Supplemental Agreement No. 3, Contract No. AT(45-1) 1355 by the System and AEC, and (iii) by the provisions of this Resolution;
3. The System will make all payments and deposits to be made under the provisions of said Resolution No. 178 at the times and in the manner prescribed therein from the moneys to be provided for that purpose pursuant to Section 7.2 of this Resolution;
4. The System shall apply amounts set aside in the Hanford Project Bond Fund solely for the payment of the principal of, premium, if any, and interest on the 1963 Bonds;
5. The System shall apply amounts held as reserves in the Bond Reserve Account in the Hanford Project Bond Fund solely for the payment of the principal of, premium, if any, and interest on the 1963 Bonds;
6. If on any December 31 following July 1, 1980 there shall exist in the Hanford Project Revenue Fund, an amount determined in accordance with Section 6.6 of Resolution No. 178, which shall exceed the System's required amount of working capital, the amount of such excess shall be applied to reduce the

amounts required to be deposited in the Hanford Project Revenue Fund pursuant to Section 7.2 of this Resolution. For so long as the System is not in default in making the payments to the Hanford Project Revenue Fund required by Section 7.2 of this Resolution, the working capital for the Hanford Project shall not exceed \$1,000,000.

7. The System shall not amend Resolution No. 178 in any manner which adversely affects or diminishes the rights of the Bondholders under this Resolution.

Section 10.2. To Complete the WPPSS No. 1 Project; To Maintain the Properties of the WPPSS No. 1 Project; To Keep the WPPSS No. 1 Project in Good Repair. The System in accordance with the provisions of the Project Agreement will (i) proceed with all reasonable diligence to and will construct to completion the WPPSS No. 1 Project and will complete such construction at the earliest practical time, (ii) fulfill all of its obligations with respect to such construction and will thereafter at all times operate the properties of the WPPSS No. 1 Project and the business in connection therewith in an efficient manner and at reasonable cost, (iii) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the WPPSS No. 1 Project, and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition, and (iv) from time to time make, or cause to be made, subject to Section 15(c) of the Project Agreement, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

Section 10.3. Use of WPPSS No. 1 Project Capability, Power and Energy; Sufficiency of Revenues. So long as any of the bonds issued pursuant to this Resolution are outstanding and unpaid, the System agrees (1) that the WPPSS No. 1 Project capability and all power and energy produced by the WPPSS No. 1 Project will be disposed of solely for the benefit and account of the WPPSS No. 1 Project and pursuant to the provisions of the WPPSS No. 1 Project Exchange Agreements and the WPPSS No. 1 Project Net Billing Agreements; and (2) that, whether or not the

generation or transmission or power and energy by the WPPSS No. 1 Project is suspended, interrupted or reduced for any reason whatever, the gross revenues received in cash from rates and charges for such Project capability and power and energy sold, furnished or supplied through the facilities of the WPPSS No. 1 Project will, in the aggregate, be sufficient (to the extent not otherwise specifically provided for in this Resolution)

(a) to make when due all payments which the System is obligated to set aside and pay into the Hanford Project Revenue Fund pursuant to Section 7.2 hereof;

(b) to pay all costs of, and all charges and expenses in connection with, the proper operation and maintenance of and repairs, renewals and replacements to the WPPSS No. 1 Project in order to keep the WPPSS No. 1 Project in good operating condition and all taxes, assessments or other governmental charges lawfully imposed on the WPPSS No. 1 Project or the revenues therefrom, or payments in lieu thereof;

(c) to make when due all payments which the System is obligated to set aside and to pay (i) to the Bond Fund Trustee for the account of the Bond Fund pursuant to Section 7.5 hereof and (ii) into the special fund or funds created for the payment of the principal of, premium, if any, and interest on all additional bonds issued in accordance with Section 10.7 hereof;

(d) to make when due all payments which the System is obligated to pay into the Reserve and Contingency Fund pursuant to Section 7.6 hereof;

(e) to pay the cost of prevention or correction of any unusual loss or damage to, and for major repairs, renewals and replacements to, the WPPSS No. 1 Project, in order to keep the WPPSS No. 1 Project in good operating condition, and for additions, betterments and improvements thereto and extensions thereof, less that part, if any, of such cost as is provided for by insurance, by amounts available therefor in the Reserve and Contingency Fund and by proceeds of sale of additional bonds issued in accordance with Section 10.7 hereof; and

(f) to pay or discharge when due all other charges or obligations against the gross revenues of the WPPSS No. 1 Project of

whatever nature and whether now or hereafter imposed by law or by contract;

provided that, for the purpose of this section, proceeds if insurance policies, if any, payable to the System because of loss or revenue caused by delay in the completion of the construction of the WPPSS No. 1 Project, or because the operation thereof is suspended, interrupted or reduced, shall be deemed to be gross revenues from the sale of power and energy.

SECTION 10.4. To Fix, Establish, Maintain and Collect Sufficient Rates and Charges. The System shall fix, establish, maintain and collect rates and charges for the WPPSS No. 1 Project capability, electric power and energy and other services, facilities and commodities, sold, furnished or supplied through the facilities of the WPPSS No. 1 Project, including power and energy delivered therefrom to or for the account of the System, which shall be fair and non-discriminatory and adequate, whether or not the generation or transmission of power and energy by the WPPSS No. 1 Project is suspended, interrupted or reduced for any reason whatever, to provide the System with revenues sufficient to pay the costs of the proper operation, maintenance and repair of the WPPSS No. 1 Project; and also for the payment of all costs, expenses and charges specified in Section 10.3 above, and any and all other amounts which the System may now or hereafter become obligated to pay or set aside from said revenues by law or contract.

SECTION 10.5. Not to Amend WPPSS No. 1 Project Exchange Agreements, WPPSS No. 1 Project Net Billing Agreements and Project Agreement. So long as any of the bonds issued pursuant to this Resolution are outstanding and unpaid, the System will not (i) voluntarily consent to or permit any rescission of, nor will it consent to any amendment to nor otherwise take any action under or in connection with any of the WPPSS No. 1 Project Exchange Agreements and the WPPSS No. 1 Project Net Billing Agreements which will reduce the payments provided for therein or which will in any manner impair or adversely affect the rights of the System or of the holders from time to time of the bonds issued pursuant to this Resolution, and the System shall per-

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form all of its obligations under the WPPSS No. 1 Project Exchange Agreements and the WPPSS No. 1 Project Net Billing Agreements and take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the bonds issued pursuant to this Resolution afforded by the provisions of such Agreements; or (ii) voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or modification of, nor otherwise take any action under or in connection with the Project Agreement which will in any manner impair or adversely affect the rights of the System or of the holders from time to time of the bonds issued pursuant to this Resolution. The System shall perform all of its obligations under the Project Agreement and shall take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the bonds issued pursuant to this Resolution afforded by the provisions of the Project Agreement.

SECTION 10.6. Not to Furnish Facilities of the WPPSS No. 1 Project Free of Charge; Enforcement of Accounts Due. So long as any bonds issued pursuant to this Resolution are outstanding and unpaid, the System will not furnish or supply electric energy or any other commodity, service or facility furnished by or in connection with the operation of the WPPSS No. 1 Project, free of charge to any other system of the System or any person, firm or corporation, public or private, and the System will promptly enforce the payment of any and all accounts owing to the System by reason of the ownership and operation of the WPPSS No. 1 Project.

SECTION 10.7. Additional Obligations. The System will not hereafter create any other special fund or funds for the payment of revenue bonds, warrants or other obligations or issue any bonds, warrants or other obligations payable out of or secured by a pledge of the revenues or properties of the WPPSS No. 1 Project, or create any additional obligations which will rank on a parity with or in priority over the charge and lien on such revenues or properties for the payments into the Bond Fund, except that additional bonds may be issued payable from said revenues on a parity with the Bonds

hereby authorized, and secured by an equal charge and lien on such revenues, in such principal amount as may be required for any one or more of the following purposes:

(a) To comply with any order or decision of any state of federal governmental agency or authority with authority to issue or make and enforce an order or decision, requiring the installation of additional facilities or modifications at or in the WPPSS No. 1 Project;

(b) To comply with Section 11(c) of the Project Agreement for the issuance of additional bonds to pay for renewals, repairs and replacements, and for capital additions and betterments necessary to achieve design capability, or required by any governmental agency or authority; and

(c) To refund at anytime any or all of the then outstanding bonds issued under this Resolution; provided that the amount required to be paid into the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund, and the interest accounts, principal accounts and bond retirement accounts in any bond funds for additional bonds issued pursuant to this Resolution, to pay the principal of and interest on bonds issued pursuant to this Resolution in any year in which any bonds issued pursuant to this Resolution not refunded are to be outstanding, shall not be greater than the amount which would have been payable into the Interest Account, Principal Account and Bond Retirement Account and such interest accounts, principal accounts and bond retirement accounts if the bonds issued pursuant to this Resolution to be refunded were not so refunded.

The System shall not issue any additional bonds pursuant to the Resolution, unless prior to or simultaneously with the issuance of such bonds the System shall have in effect valid written contracts for the sale of the WPPSS No. 1 Project capability and power and energy of the WPPSS No. 1 Project, which, in the opinion of the Board (as evidenced by a resolution thereof, certified by its Secretary, filed with

the Bond Fund Trustee) and of the Consulting Engineer (as evidenced by a certificate filed with the Bond Fund Trustee) will produce revenues, at least sufficient, whether or not the generation or transmission of power and energy by the WPPSS No. 1 Project is suspended, interrupted or reduced for any reason whatever, to enable the System to meet all its obligations under this Resolution, including the timely payment of all costs, expenses and charges specified in Section 10.3.

The contracts referred to in the preceding paragraph shall be for terms extending at least to the final maturity date of the Bonds, provided, however, that some of such contracts may terminate prior to said date if in the opinion of the Board and the Consulting Engineer, evidenced as aforesaid, such contracts and the contracts not terminating prior to such date will in the aggregate produce the revenues required by the preceding paragraph; and unless the power purchasers thereunder shall be the other parties to the WPPSS No. 1 Project Exchange Agreements or the WPPSS No. 1 Project Net Billing Agreements, such contracts shall be with purchasers which, in the opinion of the Consulting Engineer as evidenced by a certificate filed with the System and the Bond Fund Trustee, have the ability and financial responsibility to meet their obligations under such contracts. Such contracts shall contain terms with respect to payments for the WPPSS No. 1 Project capability and power and energy, and the items of annual power costs to be included in the price for such capability and power and energy to such purchasers, no less favorable to the System than the terms of the WPPSS No. 1 Project Exchange Agreements and the WPPSS No. 1 Project Net Billing Agreements. Upon or prior to the issuance of such additional bonds, there shall be filed with the Bond Fund Trustee a written opinion of counsel to the System that such contracts are valid and binding upon the parties thereto and are in accordance with existing law.

The supplemental resolution or resolutions authorizing the issuance of any such additional bonds shall:

1. Designate each such issue as a separate series by reference to the year of issuance;
2. Provide that, within the limitations in paragraph 7 below, such bonds shall be either term bonds, serial bonds, or a combination of term and serial bonds;

3. Provide that the interest on such bonds shall be payable on _____ 1 and _____ 1 of each year, and the principal payments and sinking fund payments for the retirement of term bonds in advance of maturity, shall be payable on either of said dates;

4. Designate the Bond Fund Trustee as bond fund trustee for such bonds;

5. Create a separate bond fund for such additional bonds containing an interest account, principal account (if serial bonds are authorized), bond retirement account (if term bonds are authorized), and reserve account; and provide for the transfer to such accounts of moneys from the Revenue Fund in the amount necessary to pay the principal, interest, and redemption premiums, if any, on such additional bonds when due;

6. Provide that the respective amounts to be paid into such separate bond fund for the retirement of such additional bonds in each year shall commence within five (5) years from the date of such bonds;

7. Provide that the final maturity date for such bonds issued for purposes specified in clauses (a) and (b) of this section shall be (i) the final maturity date of any bonds issued pursuant to this Resolution theretofore issued if the service life of the facilities financed from the proceeds of such bonds as determined by the Consulting Engineer at the time of issuance, does not extend beyond such date or (ii) not earlier than such date, but not later than the expiration of the service life of such facilities, as so determined by the Consulting Engineer at the time of issuance of the additional bonds, if such service life extends beyond such date.

8. Provide that from the proceeds of such additional bonds an amount equal to the maximum amount of interest to become due on such additional bonds in any six-month period from the date of such additional bonds to the final maturity dates thereof shall be deposited in the reserve account established in such separate bond fund, and that said reserve account shall thereafter be maintained at all times at said amount.

9. Provide that the proceeds of such bonds, if not required for the purpose of refunding outstanding bonds issued pursuant to this

resolution, shall be deposited in a construction fund to be held by a construction fund trustee and that payments therefrom shall be made upon compliance with terms and conditions substantially the same as are provided by Section 7.12 of this Resolution for the withdrawal of moneys from the Construction Fund.

Nothing herein contained shall prevent the System from issuing revenue bonds, notes or warrants or other evidences of indebtedness which are a charge upon all or any portion of the revenues of the WPPSS No. 1 Project junior or inferior to the payments to be made into the Bond Fund and the bond funds created for additional bonds.

SECTION 10.8. Not to Encumber or Dispose of Project Properties.

The System will not sell, mortgage, lease or otherwise dispose of any of the WPPSS No. 1 Project properties, or permit the sale, mortgage, lease or other disposition thereof, except as hereinafter provided in this section.

1. The System may sell, lease or otherwise dispose of such properties, provided that simultaneously with such sale or other disposition thereof, provision is made for the payment of cash into the Hanford Project Revenue Fund and the Bond Fund and any other special funds of the System created for the purpose of paying bonds issued pursuant to this Resolution sufficient to retire, and to pay the interest to accrue prior to such retirement on the 1963 Bonds and all bonds issued pursuant to this Resolution then outstanding in full in accordance with the requirements of Resolution No. 178, this Resolution and any resolution authorizing such bonds.

2. The System may sell, lease or otherwise dispose of any portion of the works, plants and facilities of the WPPSS No. 1 Project and any real and personal property comprising a part thereof which is unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the operation of the WPPSS No. 1 Project, provided however, that if the original cost of the properties

so to be disposed of was in excess of \$100,000, the Consulting Engineer shall first certify that the properties to be disposed of are unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the operations of the WPPSS No. 1 Project. Moneys received by the System as the proceeds of any such sale, lease or other disposition of a portion of the properties of the WPPSS No. 1 Project shall to the extent of \$50,000 be transferred to the Reserve and Contingency Fund, and used for the purposes specified in Section 7.6 for the use of other moneys in said Reserve and Contingency Fund, and any moneys received from such partial disposition of property in excess of \$50,000 shall be paid into the Bond Retirement Account and the bond retirement accounts created for additional bonds issued pursuant to this Resolution, in the proportion which the outstanding principal amount of the Bonds and of the additional bonds of each series bears to the total outstanding principal amount of the Bonds and additional bonds of all series and used for the purchase or redemption of Bonds and additional bonds; provided, however, that if such sale, lease or other disposition of a portion of the properties of the WPPSS No. 1 Project is in connection with replacement of such properties, all moneys received from such partial disposition of property shall be transferred to the Reserve and Contingency Fund; and provided further, however, that any moneys received by the System as proceeds of any such sale, lease or other disposition of any Fuel, including any and all nuclear material tools, equipment, instruments and spare parts, together with all associated and related property necessary to the acquisition, furnishing, processing, reprocessing, and disposal of the Fuel, shall be paid into the Revenue Fund and transferred to the Fuel Fund.

3. In the event that the ownership of the properties of the WPPSS No. 1 Project or any part thereof, shall be transferred from the System through the operation of law, any moneys received by the System as a result of any such transfer shall be paid into the Bond Retirement Account and the bond retirement accounts created for additional bonds issued pursuant to this Resolution, in the proportion which the out-

standing principal amount of the Bonds and of the additional bonds of each series bears to the total outstanding principal amount of the Bonds and the additional bonds of all series and used for the purchase or redemption of bonds and additional bonds.

Notwithstanding the provisions of paragraphs 2 and 3 of this Section 10.8, moneys received by the System prior to September 1, 1980 or the Date of Commercial Operation, whichever is later, as a result of any sale, lease, transfer or other disposition specified in such paragraphs, shall be transferred to the Construction Fund.

SECTION 10.9. Insurance. The System will keep, or cause to be kept, the works, plants and facilities comprising the properties of the WPPSS No. 1 Project and the operation thereof insured to the extent available at reasonable cost with responsible insurers with policies payable to the System for the benefit of the WPPSS No. 1 Project, the WPPSS No. 1 Project Participants and the Administrator under the WPPSS No. 1 Project Net Billing Agreements, as their interests may appear, against risks of direct physical loss, damage or destruction of the WPPSS No. 1 Project, at least to the extent that similar insurance is usually carried by electric utilities operating like properties, against accidents, casualties, or negligence, including liability insurance and employer's liability, and such other insurance as the parties to the Project Agreement may agree upon pursuant to subsection (a) of Section 12 of the Project Agreement. During the Period of Construction, in the event of any loss or damage to the properties of the WPPSS No. 1 Project covered by such insurance, the System will transfer the insurance proceeds received by the System covering such damage or loss to the Construction Fund; after the Period of Construction the proceeds of insurance covering loss or damage to Fuel shall be deposited in the Fuel Fund. In the case of loss, including loss of revenue, caused by delay in completion, or by suspension or interruption of generation or transmission of power and energy, the proceeds received by the System of any insurance policy or policies covering such loss occurring prior to September 1, 1980, shall be paid into the Construction Fund and the proceeds received by the System of any insurance policy or policies covering such loss after September 1, 1980 shall

be paid into the Revenue Fund and used to reduce payments by the WPPSS No. 1 Project Participants under the WPPSS No. 1 Project Net Billing Agreements. The System may agree to purchase additional insurance in accordance with subsection (b) of Section 12 of the Project Agreement. Any proceeds from such additional insurance shall be disbursed as directed by the Administrator. Within sixty (60) days after the close of each twelve-month period beginning with the twelve-month period following the Date of Commercial Operation, the System shall file, or cause to be filed, with the Bond Fund Trustee a certificate of the Consulting Engineer describing in reasonable detail the insurance then in effect pursuant to the requirements of this section stating whether, in its opinion, such insurance then in effect reasonably complies with the provisions hereof. A copy of each such certificate shall be forwarded to any holder of Bonds who shall file with the System a written request therefor.

SECTION 10.10. Books of Account; Annual Audit. The System shall keep proper books of account for the WPPSS No. 1 Project, showing as a separate utility system the accounts of the WPPSS No. 1 Project in accordance with the rules and regulations prescribed by any governmental agency authorized to prescribe such rules, including the Division of Municipal Corporations of the State Auditor's office of the State of Washington, or other state department or agency succeeding to such duties of the State Auditor's office, and in accordance with the Uniform System of Accounts prescribed from time to time by the Federal Power Commission, or other federal agency having jurisdiction over electric public utility companies owning and operating properties similar to the electric properties operated by the System, whether or not the System is required by law to use such system of accounts. Within one hundred twenty (120) days after each June 30, the System shall cause such books of accounts to be audited by independent certified public accountants of national reputation licensed, registered or entitled to practice and practicing as such under the laws of the State of Washington, who, or each of whom, is in fact independent and does not have any interest, direct or indire

in any contract with the System other than his contract of employment to audit books of account of the System, and who is not connected with the System as an officer or employee of the System. A copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of the WPPSS No. 1 Project as of the close of each fiscal year, and summarizing in reasonable detail the income and expenses for such year, including the transactions relating to the Construction Fund, the Revenue Fund, the Hanford Project Revenue Fund, the Bond Fund, the Fuel Fund and the Reserve and Contingency Fund and any and all special funds and accounts created in respect of additional bonds issued pursuant to this Resolution, and the amounts expended for maintenance and for renewals, replacements and gross capital additions to the properties of the WPPSS No. 1 Project shall be filed promptly with the Bond Fund Trustee and sent to any Bondholder filing with the System a written request for a copy thereof.

SECTION 10.11. Consulting Engineer. The System will, as prescribed in this section, retain a nationally recognized independent engineer or engineering firm on a continuous basis for the purpose of providing the System immediate and continuous engineering counsel with respect to the WPPSS No. 1 Project (the consulting engineer or engineering firm employed pursuant to the paragraph being referred to in this Resolution as the "Consulting Engineer"). The System will not employ said Consulting Engineer as Construction Engineer for the WPPSS No. 1 Project, and will not, so long as any of the Bonds are outstanding, now or hereafter employ the Consulting Engineer in any capacity in connection with the WPPSS No. 1 Project except that of Consulting Engineer. Any Consulting Engineer employed pursuant to this section shall be selected with the special reference to his knowledge and experience in advising on the operation of generating facilities and in the marketing of power therefrom. The System covenants and agrees that it will initially employ R.W. Beck and Associates as such Consulting Engineer for a period of four years

from the date of the adoption of this Resolution, and will thereafter renew such employment or may employ other Consulting Engineers for three-year periods so long as any bonds issued pursuant to this Resolution are outstanding. In addition to the other duties of the Consulting Engineer pursuant to this Resolution, the Consulting Engineer shall, not later than eighteen (18) months after the Date of Commercial Operation, and each three (3) years thereafter, make a physical examination of the WPPSS No. 1 Project, and prepare a report based upon such examination and survey of the System's management, operation and maintenance of the WPPSS No. 1 Project. Each such report shall be in sufficient detail to show whether the System, in operating the WPPSS No. 1 Project, has satisfactorily performed and complied with the covenants set forth in this Resolution with respect to the efficient management of the properties of the WPPSS No. 1 Project and its business, the sufficiency of the amounts being charged and collected for services under the requirements of this Resolution, the proper maintenance of the properties of the WPPSS No. 1 Project, and the making of necessary repairs, renewals, replacements and improvements, and recommendations therefor. If the System in any material way shall have failed to perform or comply with the covenants and agreements contained in this Resolution, such report shall specify the details of such failure. In the making of such report, the Consulting Engineer shall accept the audit report of the independent certified public accountants referred to in Section 10.9 hereof. Copies of each such report shall be placed on file with the Bond Fund Trustee and with the System at its office in Richland, Washington, and shall be sent to any holder of Bonds filing with the System a written request for a copy thereof.

The Consulting Engineer shall pass upon the economic soundness and feasibility of any contemplated renewals, replacements, additions, betterments and improvements to and extensions of, the WPPSS No. 1 Project involving the expenditure of \$100,000 or more, and he shall embody his findings in a certificate to be filed with the Bond Fund Trustee and the System. Such certificate shall specify

the source from which funds are to be derived for such expenditures and shall designate the expenditure as a renewal, replacement or capital addition.

In the event of any loss or damage to the properties of the WPPSS No. 1 Project in excess of \$100,000, whether or not covered by insurance, the Consulting Engineer shall ascertain the amount of such loss or damage and shall issue and deliver to the System a certificate setting forth the amount and nature of such loss or damage and recommendations as to whether or not the properties affected by such loss or damage should be replaced. A copy of such certificate shall be filed with the Bond Fund Trustee and forwarded to any holder of Bonds who shall file with the System a written request therefor.

SECTION 10.12. To Make Economically Sound Improvements and Extensions to the Project. The System will not expend any of the income, revenues, receipts, profits and other moneys derived by it from the ownership or operation of the WPPSS No. 1 Project for any renewals, replacements, additions, betterments and improvements to, and extensions of, the WPPSS No. 1 Project, which are not economically sound or which will not properly and advantageously contribute to the conduct of the business of the WPPSS No. 1 Project in an efficient and economical manner unless required to do so by or pursuant to law to permit the continued operation of the WPPSS No. 1 Project.

SECTION 10.13. To Pay Principal, Premium and Interest of Bonds. The System will duly and punctually pay or cause to be paid, but only from the revenues of the WPPSS No. 1 Project and moneys pledged hereunder to the Bond Fund, and from the proceeds of the sale or other disposition (whether voluntary or involuntary) of properties of the WPPSS No. 1 Project, the principal of and premium, if any, and interest on each and every bond and each and every bond issued pursuant to this Resolution on the dates and at the places and in the manner provided in said Bonds and such other bonds and in the coupons thereto attached, according to the true intent and meaning thereof, and will faithfully

do and perform and fully observe and keep any and all covenants, undertakings stipulations and provisions contained in the Bonds and such other bonds and in the coupons thereto attached, and in this Resolution, any Series Resolution and each supplemental resolution authorizing such other bonds.

Section 10.14. Paying Agents. The System shall at all times maintain one or more offices or agencies in the City of Seattle, Washington, in the City of Chicago, Illinois, and in the City of New York, New York, where Bonds and coupons may be presented for payment, registration, transfer or exchange, and where notices, demands and other documents may be served upon the System in respect of the bonds and coupons or of this Resolution.

Section 10.15. Protection of Security. The System is duly authorized under all applicable law to create and issue the Bonds and to adopt this Resolution and to pledge the revenues and other moneys, securities and funds purported to be pledged by this Resolution in the manner and to the extent provided in this Resolution. The revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by this Resolution, except as otherwise expressly provided herein and all corporate action on the part of the System to that end has been duly and validly taken. The bonds and the provisions of this Resolution are and will be valid and legally enforceable obligations of the System in accordance with their terms and the terms of this Resolution. The System shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the revenues and other moneys, securities and funds pledged under this Resolution and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

SECTION 10.16. Authority of System to Construct and Maintain the WPPSS No. 1 Project. The System has good right and lawful power to construct, reconstruct, improve, maintain, operate and repair the WPPSS No. 1 Project, and to fix, establish, maintain and collect rates and charges for WPPSS No. 1 Project capability, electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the WPPSS No. 1 Project as provided in this Resolution.

SECTION 10.17 Payment of Taxes, Assessments and Other Governmental Charges and Payments in Lieu Thereof; Payment of Claims. The System will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or payments made in lieu thereof, lawfully imposed upon the properties constituting the WPPSS No. 1 Project or the revenues, income, receipts, profits and other moneys derived by the System therefrom when the same shall become due; and all lawful claims for labor and materials and supplies which, if not paid, might become a lien or charge upon the said properties, or any part thereof, or upon the income, revenues, receipts, profits and other moneys derived by the System from the operation thereof, or which might in any way impair the security of the obligations issued by the System payable from said revenues, except those assessments, charges or claims which the System shall in good faith contest by proper legal proceedings.

SECTION 10.18. Taking Any Further Action Necessary. The System will at any and all times, insofar as it may be authorized so to do by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, revenues and other funds hereby pledged or assigned to the payment of the obligations issued by the System payable from the revenues of the WPPSS No. 1 Project, including the Bonds and appurtenant coupons, or intended so to be, or which the System may hereafter become bound to pledge or assign.

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Section 10.19. Arbitrage Bond Provision. The System will make no use of the proceeds of the sale of any issue of bonds issued pursuant to this Resolution which, if such use had been reasonably expected on the date of issue of such bonds, would have caused such bonds to be "arbitrage bonds", as defined in subsection (d)(2) of Section 103 of the U. S. Internal Revenue Code of 1954, subject to treatment under subsection (d)(1) of said Section 103. The System shall comply with the requirements of subsection (d) of Section 103 of said Internal Revenue Code and the applicable regulations of the Internal Revenue Service adopted thereunder, throughout the term of such bonds.

ARTICLE XI
SUPPLEMENTAL RESOLUTIONS

SECTION 11.1. Adoption of Supplemental Resolutions and Purposes Thereof. The System may adopt at any time and from time to time a resolution or resolutions supplemental to this Resolution for any one or more of the following purposes, and any such supplemental resolution shall become effective in accordance with its terms upon the filing of a certified copy thereof with the Bond Fund Trustee and the opinion of counsel for the System that such supplemental resolution has been duly adopted and the provisions thereof are valid and binding upon the System, to-wit:

(1) To provide for the issuance of an additional Series or Series of Bonds pursuant to Section 4.4 hereof and to prescribe the terms and conditions pursuant to which such bonds may be issued, paid or redeemed;

(2) To provide for the issuance of additional bonds pursuant to Section 10.7 hereof, and to prescribe the terms and conditions pursuant to which such bonds may be issued, paid or redeemed;

(3) To add additional covenants and agreements of the System for the purpose of further securing the payment of bonds issued pursuant to this Resolution, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the System contained in this Resolution;

(4) To prescribe further limitations and restrictions upon the issuance of bonds and the incurring of indebtedness by the System payable from the revenues of the WPPSS No. 1 Project which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect.

(5) To surrender any right, power or privilege

reserved to or conferred upon the System by the terms of this Resolution;

(6) To confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of this Resolution of the revenues of the WPPSS No. 1 Project or of any other moneys, securities or funds;

(7) To modify any of the provisions of this Resolution in any other respects; provided that such modification shall not be effective until after the Bonds shall cease to be outstanding, and any bonds issued under such resolution shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(8) With the consent of the Bond Fund Trustee, to cure any ambiguity or defect or inconsistent provision in this Resolution or to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with this Resolution as theretofore in effect.

SECTION 11.2. Supplemental Resolution Modifying Resolution Subject to Consent of Bondholders. The provisions of this Resolution may be modified at any time or from time to time by a resolution supplemental hereto, subject to the consent of Bondholders in accordance with and subject to the provisions of Article XIII hereof, such amendment to become effective upon the filing with the Bond Fund Trustee of a certified copy thereof.

SECTION 11.3. Supplemental Resolution Affecting Trustees and Other Fiduciaries. No resolution changing, amending or modifying any of the rights or obligations of the Bond Fund Trustee, the Construction Fund Trustee or any other fiduciary may be adopted by the System or be consented to by Bondholders without the written consent of such trustees, or fiduciaries. The Bond Fund Trustee or

any other fiduciary affected thereby is hereby authorized to accept the delivery of certified copies of any resolution amending the provisions of this Resolution and shall be fully protected in relying upon a certification by the Secretary of the System that such resolution has been adopted in full compliance with the terms and provisions of this Resolution.

ARTICLE XII
DEFAULTS AND REMEDIES

SECTION 12.1. Events of Default. The Board hereby finds and determines that the continuous operation of the WPPSS No. 1 Project and the collection, deposit and disbursement of the revenues therefrom in the manner provided in this Resolution and in any supplemental resolution authorizing the issuance of additional bonds pursuant to the provisions of Section 10.7 of this Resolution payable from the revenues of the Project pari passu with the Bonds (which additional bonds, together with the Bonds, are hereinafter in this Article XII and in Article XIII referred to collectively as the "Bonds") are essential to the payment and security of the Bonds and the failure or refusal of the System to perform the covenants and obligations contained in this Resolution and any supplemental resolution will endanger the necessary continuous operation of the WPPSS Project No. 1 and the application of the revenues therefrom to the purposes set forth in this Resolution. The Resolution and each supplemental resolution adopted pursuant to Article XI hereof are hereinafter in this Article XII and in Article XIII referred to collectively as the "Resolution". The System further covenants and agrees with the purchasers and holders from time to time of the Bonds in order to protect and safeguard the covenants and obligations undertaken by the System securing the Bonds, that if one or more of the following events (herein called "Event of Default") shall happen, that is to say:

(1) The System shall default in the performance of any obligations with respect to payments into the Revenue Fund;

(2) Default shall be made in the due and punctual payment of the principal and premium, if any, on any of the Bonds when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;

(3) Default shall be made in the due and punctual payment of any installment of interest on any Bond or any sinking fund installment therefor when and as such installment

Section 12.1

of interest or sinking fund installment shall become due and payable, and such default shall continue for a period of thirty (30) days;

(4) The System shall default in the observance and performance of any other of the covenants, conditions and agreements on the part of the System contained in the Resolution and such default or defaults shall have continued for a period of ninety (90) days;

(5) The System shall (except as herein permitted) sell, transfer, assign or convey any properties constituting the WPPSS No. 1 Project or interests therein, or any part or parts thereof, or shall make any agreement for such sale or transfer (except as expressly authorized by Section 10.8 hereof) or shall voluntarily forfeit or allow any of the leases, licenses, franchises, permits, approvals, privileges, easements or rights of way necessary or desirable in the operation of the WPPSS No. 1 Project to lapse or terminate prior to the expiration date thereof by neglect or default;

(6) An order, judgment or decree shall be entered by any court of competent jurisdiction (a) appointing a receiver, trustee or liquidator for the System or the whole or any substantial part of the WPPSS No. 1 Project, (b) approving a petition filed against the System under the provisions of Chapter IX of an Act to Establish a Uniform System of Bankruptcy Throughout the United States, Approved July 1, 1898, as amended, (c) granting relief to the System under any amendment to said Bankruptcy Act which shall give relief substantially similar to that afforded by said Chapter IX, or (d) assuming custody or control of the System or of the whole or any substantial part of the WPPSS No. 1 Project under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated), within sixty

(60) days from the date of the entry of such order, judgment or decree;

(7) The System shall (a) admit in writing its inability to pay its debts incurred in the ownership and operation of the WPPSS No. 1 Project generally as they become due, (b) file a petition in bankruptcy or seeking a composition of indebtedness, (c) consent to the appointment of a receiver of its creditors, (d) consent to the appointment of a receiver of the whole or any substantial part of the WPPSS No. 1 Project, (e) file a petition or an answer seeking relief under any amendment to said Bankruptcy Act which shall give relief substantially the same as that afforded by said Chapter IX, or (f) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the System or of the whole or any substantial part of the WPPSS No. 1 Project;

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Bond Fund Trustee (by notice in writing to the System), or the holders of not less than 20% in principal amount of the Bonds then outstanding (by notice in writing to the System and the Bond Fund Trustee), may declare the principal of all the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained and to the contrary notwithstanding. The right of the Bond Fund Trustee or of the holders of not less than 20% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but (i) before any judgment or decree for the payment of moneys due shall have been obtained or entered and has been discharged, (ii) before possession and control of the business and properties of the WPPSS No. 1 Project have been taken

and are then held by the Bond Fund Trustee or the holders of Bonds pursuant to Sections 12.3 and 12.4 hereof, and (iii) before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with the reasonable and proper charges, expenses and liabilities of the Bond Fund Trustee and the holders of Bonds and their respective agents and attorneys and all other sums then payable by the System under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the System or provisions satisfactory to the Bond Fund Trustee shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Bond Fund Trustee or provision deemed by the Bond Fund Trustee to be adequate shall be made therefor, then and in every such case the holders of a majority in principal amount of the Bonds then outstanding, by written notice to the System and to the Bond Fund Trustee, may rescind such declaration and annul such default in its entirety, or, if the Bond Fund Trustee shall have acted without a direction from the holders of not less than a majority in principal amount of the Bonds outstanding at the time of such request, and if there shall not have been theretofore delivered to the Bond Fund Trustee written direction to the contrary by the holders of not less than a majority in principal amount of the Bonds then outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

SECTION 12.2. Books of the System Open to Inspection. The System covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the System and all other records relating to the WPPSS No. 1 Project shall

at all times be subject to the inspection and use of the Bond Fund Trustee and any bondholders' committee representing the holders of at least 25% of the principal amount of Bonds outstanding and of their respective agents and attorneys, including the engineer or firm of engineers appointed pursuant to Section 12.3.

The System covenants that if an Event of Default shall happen and shall not have been remedied, the System will continue to account, as a trustee of an express trust, for all revenues and other moneys, securities and funds pledged under this Resolution.

Section 12.3. Rights of Holders of Bonds Upon Default; Application of Revenues. The System covenants that if an Event of Default shall happen and shall not have been remedied, the System and the Construction Fund Trustee, upon demand of the Bond Fund Trustee, shall pay over to the Bond Fund Trustee (i) forthwith, all moneys, securities and funds then held by the System and pledged under the Resolution, and all moneys, securities and funds then held by the Construction Fund Trustee, and (ii) as promptly as practicable after receipt thereof, all income, revenues, receipts and profits derived from the ownership and operation of the Project (all such moneys in this Article being collectively called "Revenues").

During the continuance of an Event of Default, the Revenues received by the Bond Fund Trustee, or by a Bondholders' Committee created as hereinafter provided, whether pursuant to the provisions of the preceding paragraph, or as the result of taking possession of the business and properties of the WPPSS No. 1 Project, shall be applied by the Bond Fund Trustee or Bondholders' Committee, as the case may be, first to the payment of the amounts required to be paid into the Hanford Project Revenue Fund established pursuant to Resolution No. 178, second to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Bond Fund Trustee or Bondholders' Committee, as the case may be (including the cost of securing the services of any engineer or firm of engineers selected by the Bond Fund Trustee, or Bondholders' Committee, for the purpose of rendering advice with

respect to the operation, maintenance, repair and replacement of the WPPSS No. 1 Project necessary to prevent any loss of Revenues, and with respect to the sufficiency of the rates and charges for power and energy sold, furnished or supplied by the WPPSS No. 1 Project, and thereafter to the payment of the reasonable and necessary cost of operation, maintenance, repair and replacement of the WPPSS No. 1 Project and the principal of and interest on the Bonds.

In the event that at any time the funds held by the Bond Fund Trustee and the Paying Agents for the Bonds shall be insufficient for the payment of the principal of and premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons which have theretofore become due at maturity or by call for redemption) and all Revenues and other moneys received or collected for the benefit or for the account of holders of the Bonds by the Bond Fund Trustee shall be applied as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference, and

Second, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Bond Fund Trustee and the holders of Bonds, their respective agents and attorneys, and all other sums payable by the System under the Resolution including the principal and premium, if any, of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the System, or provision satisfactory to the Bond Fund Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Bond Fund Trustee or provision deemed by the Bond Fund Trustee to be adequate shall be made therefor, the Bond Fund Trustee shall pay over to the System all moneys, securities, fund and Revenues then remaining unexpended in the hands of the Bond Fund Trustee (except moneys, securities, funds or Revenues deposited or pledged with the Bond Fund Trustee), and thereupon the System and the Bond Fund Trustee shall be restored, respectively, to their former positions and rights under this Resolution, and all Revenues shall thereafter be applied as provided in Article VII. No such payment over to the System by the Bond Fund Trustee or resumption of the application of Revenues as provided in Article VII shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

SECTION 12.4. Suits by Bond Fund Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Bond Fund Trustee, whether in its own name or as trustee of an express trust, or as attorney in fact for the holders of all the Bonds and the coupons appurtenant thereto, or in any one or more of such capacities, by its agents and attorneys shall be entitled and empowered to proceed forthwith to institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the System as trustee of an express trust, or in the enforcement of any other legal or equitable right as the Bond Fund Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights, or to perform any of its duties under the Resolution. The Bond Fund Trustee shall be entitled and empowered either in its own name or as a trustee of an express trust, or as an attorney in fact for the holders of the Bonds and the coupons appurtenant thereto, or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Bond Fund Trustee and of the holders of the Bonds and of the coupons appurtenant thereto allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings relative to the System. For this purpose the Bond Fund Trustee is hereby irrevocably appointed the true and lawful attorney in fact of the respective holders of the Bonds and of the coupons appurtenant thereto (and the successive holders of the Bonds and of the coupons appurtenant thereto by taking and holding the same shall be conclusively deemed to have so appointed the Bond Fund Trustee) with authority to make and file in the respective names of the holders of the Bonds any such proof of debt, amendment of proof of debt, claim, petition or other document in any such proceedings, and to receive payment of any sums becoming distributable on account thereof, and to execute any such other papers and

documents and to do and perform any and all acts and things for and on behalf of the holders of the Bonds and of the coupons appurtenant thereto as may be necessary or advisable in the opinion of the Bond Fund Trustee in order to have the respective claims of the Bond Fund Trustee and of the holders of the Bonds and of said coupons allowed in any such proceeding and to receive payment of and on account of such claims, provided, however, that nothing contained herein shall be deemed to give the Bond Fund Trustee any right to accept or consent to any plan of reorganization or compromise or otherwise take any action of any character in any such proceeding to waive or change in any way any right of any holder of Bonds or coupons appurtenant thereto.

All rights of action under the resolution may be enforced by the Bond Fund Trustee without the possession of any of the Bonds or coupons or the production thereof on the trial or other proceedings.

The holders of not less than a majority in principal amount of the Bonds at the time outstanding, may direct the time, method and place of conducting any proceeding for any remedy available to the holders of Bonds or the Bond Fund Trustee, or exercising any trust or power conferred upon the Bond Fund Trustee, provided that the Bond Fund Trustee shall be provided with reasonable security and indemnity and shall have the right to decline to follow any such direction only (i) if the Bond Fund Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or (ii) if the Bond Fund Trustee in good faith shall determine that the action or proceeding so directed would involve the Bond Fund Trustee in personal liability, or (iii) that the action or proceeding so directed would be unjustly prejudicial to the holders of Bonds not parties to such direction.

At any time after the occurrence of an Event of Default and prior to the curing of such Event of Default whether or not the principal of and premium, if any, and interest accrued on all the outstanding Bonds shall have been declared immediately due and payable as a result of such Event of Default, the Bond Fund Trustee as a matter of right against the System, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, to the extent permitted by law, be

entitled to take possession and control of the business and properties of the WPPSS No. 1 Project. Upon taking such possession, the Bond Fund Trustee shall operate and maintain the WPPSS No. 1 Project, make any necessary repairs, renewals and replacements in respect thereof, prescribe rates and charges for WPPSS No. 1 Project capability, power and energy sold, furnished or supplied through the facilities of the WPPSS No. 1 Project, collect the gross revenues resulting from the operation of the WPPSS No. 1 Project, and perform all of the agreements and covenants contained in all contracts which the System is at the time obligated to perform. At any such time the Bond Fund Trustee shall be entitled to the appointment of a receiver of the business and property of the WPPSS No. 1 Project, of the moneys, securities and funds of the System pledged under the Resolution, and of the Revenues, and of the income therefrom with all such powers as the court or courts making such appointment shall confer, including the power to perform and enforce all contracts, to the same extent that the System shall then be entitled and obligated to do; provided, however, that, notwithstanding the happening of an Event of Default, the rights, and obligations of the purchasers under the WPPSS No. 1 Project Exchange Agreements and the WPPSS No. 1 Project Net Billing Agreements not in default shall not be affected by such happening of an Event of Default. Notwithstanding the appointment of any receiver, the Bond Fund Trustee shall be entitled to retain possession and control of and to collect and receive income from any moneys, securities, funds and Revenues deposited or pledged with it under the Resolution or agreed or provided to be delivered to or deposited or pledged with it under the Resolution.

The Bond Fund Trustee may without the happening of an Event of Default and, at the request of the holders of not less than a majority of the Bonds then outstanding and upon being furnished with reasonable security and indemnity, shall take such steps and institute such suits, actions or proceedings in its own name, or as trustee, or in the name of the System, all as the Bond Fund Trustee may deem appropriate, for the protection and enforcement of the rights of the holders of Bonds and the coupons appurtenant thereto, to collect any amounts due and owing the System, or by injunction, mandamus, foreclosure or other appropriate

proceeding in law and in equity to obtain other appropriate relief and may enforce the specific performance of any covenant, agreement or condition contained in the Resolution, or in the Bonds, or in any contract to which the System is a party including the WPPSS No. 1 Project Net Billing Agreements and the WPPSS No. 1 Project Exchange Agreements.

SECTION 12.5. Suits by Individual Bondholders. Except as otherwise specifically provided in this section, no holder of any of the Bonds or coupons shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given to the Bond Fund Trustee written notice of the happening of an Event of Default, as provided in this Article, and the holders of at least 20% in principal amount of the Bonds then outstanding shall have filed a written request with the Bond Fund Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted under this Resolution or to institute such action, suit or proceeding in its own name, and unless such bondholder shall have offered to the Bond Fund Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Fund Trustee for a period of sixty (60) days after the receipt by it of such notice, request and offer of indemnity shall have refused to comply with such request; it being understood and intended that, except as above provided, no one or more holders of Bonds or coupons shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in compliance with the conditions precedent to the initiation of such litigation as herein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all holders of the outstanding Bonds and coupons.

In the event that the Bond Fund Trustee shall have failed or

refused to comply with the aforesaid request after having been offered such security and indemnity, the holders of not less than twenty per cent (20%) in principal amount of the Bonds then outstanding may call a meeting of the holders of Bonds for the purpose of electing a Bondholders' Committee. Such meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Bondholders pursuant to Article XIII hereof. At such meeting the holders of not less than a majority of the principal amount of the Bonds must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present, at such meeting, the Bondholders present in person or by proxy may, by a majority of the votes cast, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholders present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee at such Bondholders' meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it herein, and may provide for the termination of the existence of the Bondholders' Committee elected by the Bondholders in the manner herein provided, and their successors, as a committee are hereby declared to be trustees for the holders of all the Bonds then outstanding, and are empowered to exercise in the name of the Bondholders' Committee as trustee, all the rights and powers conferred in this Article XII on the Bond Fund Trustee or any Bondholder.

Nothing in the Resolution or in the Bonds or in the coupons contained shall affect or impair the obligation of the System, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective holders thereof, or affect or impair the rights of action, which are also absolute and unconditional, of any holder to enforce the payment of his Bonds, or to reduce to judgment his claim against the System for the payment of the principal and interest on his Bonds, with-

out reference to, or consent of, the Bond Fund Trustee or any other holder of Bonds.

SECTION 12.6. Remedies Granted in Resolution Not Exclusive.

No remedy by the terms of this Resolution conferred upon or reserved to the Bond Fund Trustee or the holders of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law or in equity or by statute on or after the date of adoption of the Resolution.

SECTION 12.7. Waivers of Default. No delay or omission of

the Bond Fund Trustee or of any holder of Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein, and every power and remedy given by this Article to the Bond Fund Trustee or to the holders of Bonds may be exercised from time to time and as often as may be deemed expedient by the Bond Fund Trustee or by such holders.

Prior to a declaration accelerating the maturity of the Bonds as provided in Section 12.1, the holders of not less than 66-2/3% in principal amount of the Bonds at the time outstanding, or their attorneys in fact duly authorized, may on behalf of the holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 12.8. Waiver of Extension Laws. The System will not

at any time insist upon or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Resolution, or in the Bonds, but all benefit or advantage of any such law or laws is hereby expressly waived by the System.

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SECTION 12.9. Notice of Defaults. The Bond Fund Trustee shall within ninety (90) days after the occurrence of an Event of Default give to the Bondholders in the manner provided in Section 13.2 hereof, notice of all defaults known to the Bond Fund Trustee, unless defaults shall have been cured before the giving of such notice (the term "default" or "defaults" for the purpose of this Section 12.9 being hereby defined to be any Event or Events of Default specified in Section 12.1); provided that, except in the case of default in the payment of principal of and premium, if any, and interest on any of the Bonds or in the payment of any sinking fund installment, the Bond Fund Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or responsible officers, of the Bond Fund Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders.

ARTICLE XIII

AMENDMENTS AND BONDHOLDERS' MEETINGS

SECTION 13.1. Call of Bondholders' Meetings. The System, the Bond Fund Trustee or the holders of not less than twenty per cent (20%) in principal amount of the Bonds then outstanding may at any time call a meeting of the holders of the Bonds. Every such meeting shall be held at such place in the City of New York, State of New York, or in the City of Chicago, State of Illinois, as may be specified in the notice calling such meeting. Written notice of such meeting, stating the place and time of the meeting and in general terms the business to be submitted, shall be mailed to the Bondholders by the System, the Bond Fund Trustee or the Bondholders calling such meeting not less than thirty (30) nor more than sixty (60) days before such meeting, and shall be published at least once a week for four (4) successive calendar weeks on any day of the week, the date of first publication to be not less than thirty (30) days nor more than sixty (60) days preceding the meeting, provided, however, that the mailing of such notice shall in no case be a condition precedent to the validity of any action taken at any such meeting. Any meeting of Bondholders shall, however, be valid without notice if the holders of all Bonds then outstanding are present in person or by proxy or if notice is waived before or within thirty (30) days after the meeting by those not so present.

SECTION 13.2. Notices to Bondholders. Except as otherwise provided in this Resolution, any provision in this Resolution for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid (a) to each registered owner of any of the Bonds then outstanding at his address, if any, appearing upon the registry books of the System, (b) to each owner of any of such Bonds payable to bearer who shall have filed with the System or the Bond Fund Trustee an address for notices and (c) to the Bond Fund Trustee. Any provision in this Resolution contained for publication of a notice or other matter shall require the publication thereof in

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The Daily Bond Buyer in the City of New York, State of New York (or in lieu of publication in The Daily Bond Buyer in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the Borough of Manhattan, the City of New York, State of New York), and also in daily newspapers printed in the English language and customarily published on each business day of general circulation in each of the Cities of Seattle, Washington, and Chicago, Illinois. If, because of the temporary or permanent suspension of the publication or general circulation of any financial paper or newspaper in any particular city, the System deems it impossible to publish any such notice in such city in the manner herein provided, then there shall be made in lieu thereof such publication as shall be decided upon by the System, and the same shall constitute a sufficient publication of such notice.

SECTION 13.3. Proxies; Proof of Ownership of Bonds, Execution of Instruments by Bondholders. Attendance and voting by Bondholders at such meetings may be in person or by proxy. Owners of Registered Bonds or Coupon Bonds registered as to principal, may, by an instrument in writing under their hands, appoint any person or persons, with full power of substitution, as their proxy to vote at any meeting for them.

In order that holders of Bonds payable to bearer and their proxies may attend and vote without producing their Bonds, the Bond Fund Trustee may make and from time to time vary such regulations as it shall think proper for the deposit of Bonds with or exhibit of Bonds to any bank, bankers or trust companies, wherever situated, and for the issue by them to the persons depositing or exhibiting such Bonds, or certificates in form approved by the Bond Fund Trustee which shall constitute proof of ownership entitling the holders thereof to be present and vote at any such meeting in the same way as if the persons so present and voting, either personally or by proxy, were the actual bearers of the Bonds in respect of which such certificates shall have been issued and any regulations so made shall be binding and effective. Copies of such regulations shall be kept on file by the Bond Fund Trustee and

Section 13.3

Paying Agents. Officers or nominees of the System, and officers or nominees of the Bond Fund Trustee may be present or represented at such meeting and take part therein, but shall not be entitled to vote thereat, except as such officers or nominees are Bondholders or proxies for Bondholders (including the Bond Fund Trustee).

Any registered owner of Bonds and any holders of a certificate provided for in this section shall be entitled in person or by proxy to attend and vote at such meeting as holder of the Bonds registered or certified in his name without producing such Bonds (unless the Bonds described in such certificate shall be registered in the name of or be produced by some other person at such meeting), and such persons and their proxies shall, if required, produce such proof of personal identity as shall be satisfactory to the Secretary of the meeting. All proxies presented at such meeting shall be delivered to the Inspector of Votes and filed with the Secretary of the meeting. All other persons seeking to attend or vote in such meeting must produce the Bonds claimed to be owned or represented at such meeting.

The vote at any such meeting of the holder of any Bond entitled to vote thereat shall be binding upon such holder and upon every subsequent holder of such Bond (whether or not such subsequent holder has notice thereof).

Any request, direction, consent or other instrument in writing required or permitted by this Resolution to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Bondholders in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument shall be sufficient for any purpose of this Resolution, and shall be conclusive in favor of the Bond Fund Trustee with regard to any action taken by it under such instrument, if made in the following manner: (1) the fact and date of the execution by any person of any such instrument may be proved by either (A) an acknowledgment executed by a notary public or other officer empowered to take acknowledgments of deeds to be recorded in the particular jurisdiction, or (B) an affidavit of a witness to such execution sworn

to before such a notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such acknowledgment or affidavit shall also constitute sufficient proof of his authority.

The foregoing shall not be construed as limiting the Bond Fund Trustee to such proof, it being intended that the Bond Fund Trustee may accept any other evidence of the matters herein stated which to it may seem sufficient. Any request of consent of the holder of any bond shall bind every future holder of the same bond in respect of anything done by the Bond Fund Trustee in pursuance of such request, direction or consent.

The right of a proxy for a Bondholder to act may be proved (subject to the Bond Fund Trustee's right to require additional proof) by a written proxy executed by such Bondholder as aforesaid.

SECTION 13.4. Appointment of Officers at Bondholders' Meeting. Persons named by the Bond Fund Trustee, or elected by the holders of a majority in principal amount of the Bonds represented at the meeting in person or by proxy in the event the Bond Fund Trustee is not represented at such meeting, shall act as temporary Chairman and temporary Secretary of any meeting of Bondholders. A permanent Chairman and a permanent Secretary of such meeting shall be elected by the holders of a majority in principal amount of the Bonds represented at such meeting in person or by proxy. The permanent Chairman of the meeting shall appoint two (2) Inspectors of Votes who shall count all votes cast at such meeting, except votes on the election of Chairman and Secretary as aforesaid, and who shall make and file with the Secretary of the meeting and with the System and with the Bond Fund Trustee their verified report of all such votes cast at the meeting.

SECTION 13.5. Quorum at Bondholders' Meetings. The holders of not less than the principal amount of the Bonds required for any action to be taken at such meeting must be present at such meeting in

Section 13.4
Section 13.5

person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting; provided, however, that if such meeting is adjourned by less than a quorum for more than ten (10) days, notice thereof shall be published by the System at least five (5) days prior to the adjourned date of the meeting.

SECTION 13.6. Vote Required to Amend Resolution. Any amendment of the provisions of the Resolution in any particular except the percentage of Bondholders the approval of which is required to approve such amendment, may be made by a supplemental resolution of the System and a resolution duly adopted by the affirmative vote at a meeting of Bondholders duly convened and held, or with written consent as hereinafter provided in Section 13.8 hereof, (i) of the holders of not less than sixty-six and two-thirds per cent (66-2/3%) in principal amount of the Bonds outstanding when such meeting is held or such consent is given, (ii) of the holders of not less than sixty-six and two-thirds per cent (66-2/3%) in principal amount of Bonds so outstanding which are adversely affected by any amendment which does not equally affect all other Bonds so outstanding, (iii) in case the amendment changes the amount or date of payment of any payment into a special fund established for the payment of any Bonds, of the holders of at least sixty-six and two-thirds per cent (66-2/3%) in principal amount of the Bonds of the particular series, maturity and interest rate entitled to such payment outstanding at the time such meeting is held or such consent is given, and (iv) in case the modification or amendment changes the terms of any sinking fund installment, of the holders of at least sixty-six and two-thirds per cent (66-2/3%) in principal amount of the Bonds of the particular series and maturity entitled to such sinking fund installment and outstanding at the time such consent is given; provided, however, that no such amendment shall permit a change in the date of payment of the principal of any Bonds or of any installment of interest thereon or a reduction in the principal or redemption price thereof or the rate of

interest thereon, without the consent of the holder of each such Bond, or shall change or modify any of the rights or obligations of the Construction Fund Trustee, the Bond Fund Trustee, or any Paying Agent, without its written assent thereto.

SECTION 13.7. Obtaining Approval of Amendment at Bondholders' Meeting. The System may at any time adopt a resolution amending the provisions of the Resolution to the extent that such amendment is permitted by the provisions of Section 13.6 hereof, to take effect when and as provided in this section. Upon the adoption of such resolution, a copy thereof, certified by the Secretary of the System, shall be filed with the Bond Fund Trustee. At any time thereafter such resolution may be submitted by the System for approval to a meeting of the Bondholders duly convened and held in accordance with the provisions of the Resolution. A record in duplicate of the proceedings of each meeting of the Bondholders shall be prepared by the permanent Secretary of the meeting and shall have attached thereto the original reports of the Inspectors of Votes and affidavits by a person or persons having knowledge of the facts, showing a copy of the notice of the meeting and setting forth the facts with respect to the mailing and publication thereof under the provisions of the Resolution. Such a record shall be signed and verified by the affidavits of the permanent Chairman and the permanent Secretary of the meeting, and one duplicate thereof shall be delivered to the System and the other to the Bond Fund Trustee for preservation by the Bond Fund Trustee. Any record so signed and verified shall be proof of the matters therein stated. If the resolution of the System making such amendment shall be approved by a resolution duly adopted at such meeting of Bondholders by the affirmative vote of the holders of the required percentages of Bonds, a notice stating that a resolution approving such amendment has been so adopted and briefly summarizing such amendment shall be mailed by the System to the Bondholders (but failure so to mail copies of such resolution shall not affect the validity of such resolution) and shall be published twice in the manner provided in Section 13.2 hereof, with an interval of not less than seven (7) days

between such publications, the first publication to be made not more than fifteen (15) days after the date of the adoption of such resolution. Proof of such mailing and publication by the affidavit or affidavits of a person or persons having knowledge of the facts shall be filed with the Bond Fund Trustee. Such resolution of the System making such amendment shall be deemed conclusively to be binding upon the System, the Construction Fund Trustee, the Bond Fund Trustee, the Paying Agents, and the holders of all Bonds and coupons pertaining thereto at the expiration of thirty (30) days after the filing with the Bond Fund Trustee of the proof of the first publication of the notice provided for in this section, except in the event of a final decree of a court of competent jurisdiction setting aside such resolution or annulling the action taken hereby in a legal action or equitable proceeding for such purpose commenced within such period; provided that the Bond Fund Trustee, the Construction Fund Trustee, any Paying Agents, and the System during such thirty (30) day period and any such further period during which such action or proceeding may be pending, shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such resolution as they may deem expedient. Nothing in the Resolution contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Bondholders or of any right conferred hereunder to make such call, any hindrance or delay in the exercise of any rights conferred upon or reserved to the Construction Fund Trustee, the Bond Fund Trustee, the Paying Agents, or the Bondholders under any of the provisions of the resolution.

SECTION 13.8. Alternate Method of Obtaining Approval of Amendments. The System may at any time adopt a resolution amending the provisions of the Resolution, or of any Bonds, to the extent that such amendment is permitted by the provisions of this Article, to take effect when and as provided in this section. Upon adoption of such resolution, a copy thereof, certified by the Secretary of the System, shall be delivered to and held by the Bond Fund Trustee for the inspection of the Bondholders. A copy of such resolution (or summary thereof in form

approved by the Bond Fund Trustee) together with a request to Bondholders for their consent thereto in form satisfactory to the Bond Fund Trustee, shall be mailed by the System to Bondholders and notice thereof shall be published once in each calendar week for four (4) successive calendar weeks on any day of the week in the manner provided in Section 13.2 hereof (but failure to mail copies of such resolution and request shall not affect the validity of the resolution when consented to as in this section provided). Such resolution shall not be effective unless and until there shall have been filed with the Bond Fund Trustee the written consents of the percentages of holders of outstanding Bonds specified in Section 13.6 hereof and a notice shall have been published as hereinafter in this section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 13.3 hereof. A certificate or certificates of the Bond Fund Trustee that it has examined such proof and that such proof is sufficient shall be conclusive that the consents have been given by the holders of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the holder of the Bonds giving such consent and on every subsequent holder of such Bonds (whether or not such subsequent holder has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving consent, or a subsequent holder, by filing such revocation with the Bond Fund Trustee prior to the date when the notice hereinafter in this section provided for is first published. The fact that a consent has not been revoked may likewise be proved by a certificate of the Bond Fund Trustee. A notice, stating the substance of the resolution and stating that the resolution has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this section, may be given to the Bondholders by mailing such notice to the Bondholders, and shall be given by publishing the same twice in the manner provided in section 13.2 hereof, with an interval of not less than seven (7) days between such publications, the first publication to be made not more than fifteen

(15) days after the holders of the required percentages of Bonds shall have filed their consent to the resolution. The System shall file with the Bond Fund Trustee proof of giving such notice. A record, consisting of the papers required by this section to be filed with the Bond Fund Trustee, shall be proof of the matters therein stated, and the resolution shall be deemed conclusively to be binding upon the System, the Construction Fund Trustee, the Bond Fund Trustee, the Paying Agents, and the holders of all Bonds and coupons at the expiration of thirty (30) days after the filing with the Bond Fund Trustee of the proof of the first publication of the notice last provided for in this section, except in the event of a final decree of a court of competent jurisdiction setting aside such consent or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period; provided that the Bond Fund Trustee, the Construction Fund Trustee, any Paying Agents, and the System during such thirty (30) day period and any such further period during which such action or proceeding may be pending, shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such resolution as they may deem expedient.

SECTION 13.9. Amendment of Resolution In Any Respect By Approval of All Bondholders. Notwithstanding anything contained in the foregoing provisions of this Article, the rights and obligations of the System and of the holders of the Bonds and coupons pertaining thereto, and the terms and provisions of the Bonds and of the Resolution, may be amended in any respect with the consent of the System, by the affirmative vote of the holders of all said Bonds then outstanding at a meeting of Bondholders called and held as hereinabove provided, or upon the adoption of a resolution by the System and the consent of the holders of all of the Bonds then outstanding, such consent to be given as provided in Section 13.8 except that no notice to Bondholders either by mailing or publication shall be required, and the amendment shall be effective immediately upon such unanimous vote or written consent of all of the Bondholders.

SECTION 13.10 Exclusion of Bonds Owned by System. Bonds owned or held by or for the account of the System shall not be deemed outstanding for the purpose of any vote or consent or other action or and calculation of outstanding Bonds in the Resolution provided for, and shall not be entitled to vote or consent or take any other action in the Resolution provided for.

SECTION 13.11. Endorsement of Amendment on Bonds. Bonds delivered after the effective date of any action amending the Resolution taken as hereinabove provided may, and, if the Bond Fund Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the System and the Bond Fund Trustee as to such action, and in that case, upon demand of the holder of any Bond outstanding at such effective date and presentation of his Bond for the purpose at the principal office of the Bond Fund Trustee, suitable notation shall be made on such Bond by the Bond Fund Trustee as to any such action. If the System shall so determine, new Bonds so modified as in the opinion of the System and its counsel to conform to such Bondholders' action shall be prepared, delivered and upon demand of the holder of any Bond then outstanding shall be exchanged without cost to such Bondholder for Bonds then outstanding hereunder, upon surrender of such Bonds with all unmatured coupons pertaining thereto.

ARTICLE XIV
FORMS OF BONDS

SECTION 14.1. Forms of Bonds. The form of Coupon Bond, the interest coupons to be attached to the Coupon Bonds, the form of Registration to appear thereon, the form of Registered Bonds, the form of assignment to appear thereon, the form of endorsement of partial payment to appear thereon, and the form of State Auditor's Certificate of Registration on all the Bonds shall be in substantially the following forms, respectively, with such modifications, additions and deletions as may be necessary or advisable to reflect the details of issuance of such Bonds, the provisions of this Resolution and the Series Resolution authorizing the same, or otherwise required or permitted by the provisions of this Resolution or such Series Resolution:

[Form of Coupon Bond]

UNITED STATES OF AMERICA

STATE OF WASHINGTON

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1
REVENUE BOND, SERIES OF _____

No. _____

\$5,000

WASHINGTON PUBLIC POWER SUPPLY SYSTEM, a municipal corporation of the State of Washington (hereinafter called the "System"), for value received, hereby promises to pay to the bearer, or if this bond be registered as to principal, to the registered owner hereof, on the first day of _____, _____, the sum of Five Thousand Dollars (\$5,000) and to pay interest on such principal sum from the date hereof at the rate of _____ per centum (_____%) per annum, payable _____, _____, and semi-annually thereafter on the first day of _____ and the first day of _____ in each year until the maturity of this bond, or, if default should be made in payment of the principal hereof when the same shall become due and payable, at the legal rate of interest until the payment in full of such principal sum, but, in the case of the interest due on or before maturity, only upon the presentation and surrender of the respective

Section 14.1

interest coupons representing such interest hereto attached, as they severally mature.

Principal of and interest and premium, if any, on this bond are payable solely out of the special fund of the System known as the "Washington Public Power Supply System Nuclear Project No. 1 Revenue Bond Fund" (hereinafter referred to as the "Bond Fund"). Payment of such principal, interest and premium will be made at the principal office of _____, in the City of Seattle, Washington or, at the option of the holder hereof, or of such coupons, as the case may be, at the principal office of _____ in the City of Chicago, Illinois, or at the principal office of _____, in the City of New York, New York, as Paying Agents of the System, in such coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

This bond is one of a duly authorized series of Bonds of like designation herewith, aggregating _____ Dollars (\$_____) in principal amount. This bond and the bonds of the series of which it is one are issued under the authority of and in full compliance with the Constitution and statutes of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, and under and pursuant to Resolution No. _____ of the System adopted by the Board of Directors of the System on the _____ day of _____, 19__ (hereinafter referred to as the "Bond Resolution"), and a Series Resolution duly adopted by said Board on the _____ day of _____, 19__.

This bond and the series of which it is one constitute part of a duly authorized issue of bonds (hereinafter referred to as the "Bonds") issued, or to be issued, by the System under the Bond Resolution for the purpose of acquiring by purchase, condemnation, and construction a nuclear electric generating plant and associated facilities as a separate utility system of the System constituting and to be known as the Washington Public Power Supply System Nuclear Project No. 1 (hereinafter referred to as the "Project").

Copies of the Bond Resolution are on file at the principal office of the System and at the principal office of each of the Paying Agents, and reference thereto and to any and all modifications and amendments thereof if hereby made for a more complete description of the revenues available for the payment of the principal of and premium, if any, and interest on the Bonds and the rights and remedies of the holders of the Bonds with respect thereto, the terms and conditions upon which the Bonds have been issued, and the terms and provisions upon which this Bond shall no longer be secured by the Bond Resolution or deemed to be outstanding thereunder if moneys or certain specified securities shall have been deposited with the Bond Fund Trustee, appointed pursuant to the Bond Resolution, or any Paying Agent therefor sufficient and held in trust solely for the payment hereof.

Under the Bond Resolution the System is obligated to set aside and pay into the Bond Fund out of the revenues of the Project, including all additions, betterments and improvements thereto and extensions thereof, after first making all payments required by the System to be made to the Hanford Project Revenue Fund created and established pursuant to Resolution No. 178, adopted by the Board of Directors of the System on April 15, 1963, pursuant to the Bond Resolution, certain fixed amounts sufficient to pay the principal of and interest and premium, if any, on all Bonds at any time outstanding as the same become due and payable, all as is more fully provided in the Bond Resolution. The Bonds and the interest thereon constitute the only charge against the Bond Fund and subject to the aforesaid payments to the Hanford Project Revenue Fund, the amount of the revenues pledged to said Bond Fund

In case an event of default (defined in the Bond Resolution) shall occur, the principal of the Bonds at such time outstanding may be declared due and payable by the Bond Fund Trustee or by the holders of 20% in principal amount of such Bonds, but such declaration may, under certain circumstances, be annulled.

In and by the Bond Resolution, the System covenants to establish, maintain and collect rates or charges for Project capability, electric energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Project which shall be fair and non-discriminatory and adequate to provide revenues sufficient for the fixed amounts which the System is obligated to set aside in the Bond Fund to pay the principal of and interest and premium, if any, on this Bond and the issue of Bonds of which this Bond is a part, and for the proper operation and maintenance of the Project, and all necessary repairs thereto and replacements and renewals thereof.

The Bonds of the series of Bonds of which this Bond is a part are subject to redemption prior to maturity, at the option of the System, on or after _____, 1, 19__, as a whole at any time, or in part from time to time on any interest payment date in the inverse order of their maturities (and in the event that less than all of the Bonds of a maturity are called for redemption, the particular Bonds of such maturity to be redeemed shall be selected by lot), at the redemption prices with respect to each Bond, expressed as a percentage of the principal amount of the Bond to be redeemed, set forth below, together with the interest accrued thereon to the date fixed for redemption:

<u>Period During Which Redeemed</u> <u>(Both Dates Inclusive)</u>	<u>Redemption</u> <u>Prices</u>
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provided, however, that the System further reserves the right to redeem the Bonds of the series of Bonds of which this Bond is a part maturing on _____1, 20__, in part on any interest payment date on and after _____1, 19__, but only (a) upon payment of the principal amount thereof from the amounts credited to the Bond Retirement Account in the Bond Fund pursuant to paragraph C of Section 7.3 of the Bond Resolution, and (b) upon payment of _____% of the principal amount thereof from excess moneys available therefor in the Bond Retirement

Account in the Bond Fund resulting from the payments therein pursuant to Sections 7.14 and 10.8 of the Bond Resolution, in each case together with interest accrued thereon to the date fixed for redemption; and provided further, that the System further reserves the right to redeem all of the Bonds of the series of Bonds of which this Bond is a part, at its option, as a whole, or in part in the inverse order of their maturities, at any time on or before _____ 1, ___ (and in the event that less than all of the Bonds of a maturity are called for redemption, the particular Bonds of such maturity to be redeemed shall be selected by lot), if the Project is terminated as provided in subparagraph (a) of Section 15 the Project Agreement referred to in the Bond Resolution, upon payment of the principal amount of the Bond to be redeemed, together with accrued interest thereon to the date fixed for redemption

In the event the System should exercise its option to redeem any of the Bonds, notice of such redemption shall be given by publication of a notice at least once in daily financial papers, or in daily newspapers of general circulation printed in the English language, published in the cities of Seattle, Washington, Chicago, Illinois, and New York, New York, such publications to be made in each case not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption. Notice of redemption having been given by publication as aforesaid, the Bonds so called for redemption shall on the date specified in such notice become due and payable at the applicable redemption price herein provided, and from and after the date so fixed for redemption (unless the System shall default in the payment of the Bonds so called for redemption), interest on said Bonds so called for redemption shall cease to accrue.

This Bond may be registered as to principal only, in accordance with the provisions endorsed hereon, and this Bond and the interest coupons attached hereto shall have all the qualities and incidents of a negotiable instrument to the extent provided by Section 54.24.120 of the Revised Code of Washington.

The Bonds of the series of Bonds of which this Bond is one are issuable as Coupon Bonds, registrable as to principal only, in the denomination of \$5,000, and as Registered Bonds without coupons in the

denomination of \$5,000, or any multiple of \$5 000 The Coupon Bonds and the Registered Bonds without coupons are interchangeable for an equal aggregate principal amount of Bonds of the same series, interest rate and maturity upon presentation thereof for such purpose by the holder or registered owner at the principal office of the Bond Fund Trustee, and upon payment of charges and otherwise as provided in the Bond Resolution.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this Bond, together with all other obligations or indebtedness of the System, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, Washington Public Power Supply System by its Board of Directors, has caused this Bond to be executed in its name with the facsimile signature of the President of its Board of Directors, and attested by the manual signature of the Secretary of its Board of Directors or Treasurer of the System thereunto duly authorized, and the facsimile seal of said System to be hereon imprinted, and the interest coupons hereto attached to be executed by the facsimile signatures of the said President and Secretary, all as of the first day of _____, 19__.

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
By _____
President

ATTEST

Secretary (Treasurer)

(SEAL)

[Form of Coupon]

No. _____ \$ _____

On the first day of _____, _____, unless the Bond herein-
after mentioned shall have been duly called for previous redemption and

payment of the redemption price duly made or provided for, Washington Public Power Supply System, a municipal corporation of the State of Washington, will pay to bearer at the principal office of _____, in the City of Seattle, Washington, or, at the option of the holder hereof, at the principal office of _____, in the City of Chicago, Illinois, or at the principal office of _____, in the City of New York, New York but solely out of the special fund applicable to the payment thereof as provided in said Bond, the sum of _____ Dollars (\$ _____), in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts, being the interest then due on its Washington Public Power Supply System Nuclear Project No. 1 Revenue Bond, Series of _____, dated _____, 19____, and numbered _____.

President

Secretary

[Form of Registration]

This Bond may be registered as to principal only in the name of the holder on books of registration to be kept in the principal office of the Bond Fund Trustee located in the City of New York, New York, such registration to be noted in the registration blank below. After such registration no transfer hereof shall be valid unless made on said books and similarly noted hereon, but such registration may be made to bearer and thereupon transferability by delivery shall be restored. The registration of this Bond as to principal only shall not affect the coupons which shall at all times be transferable merely by delivery.

(Notice: No writing on this bond except by Registrar)

<u>Date of Registration</u>	<u>Name of Registered Owner</u>	<u>Signature of Registrar</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

[Form of Registered Bond Without Coupons]

UNITED STATES OF AMERICA

STATE OF WASHINGTON

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 1
REVENUE BOND, SERIES OF _____

No. R- _____ \$ _____

WASHINGTON PUBLIC POWER SUPPLY SYSTEM, a municipal corporation of the State of Washington (hereinafter called the "System"), for value received, hereby promises to pay to _____ or registered assigns, on the first day of _____, _____, the principal sum of _____, Dollars (\$ _____), and to pay interest on the unpaid principal amount hereof, which interest shall be paid by check or draft drawn upon the Paying Agent of the System located in the City of New York, New York, and mailed to the registered owner at his address as it appears on the bond registration books of the System, at the rate of _____ per centum (_____ %) per annum from the date hereof, payable _____, and semi-annually thereafter on the first day of _____ and the first day of _____ of each year until the payment of such principal sum in full, or if default should be made in the payment of the principal hereof when the same shall become due and payable, at the legal rate of interest until the payment in full of such principal sum.

Principal of and interest and premium, if any, on this bond are payable solely out of the special fund of the System known as the "Washington Public Power Supply System Nuclear Project No. 1 Revenue Bond Fund" (hereinafter referred to as the "Bond Fund"). Payment of such principal, interest and premium will be made at the principal office of _____ in the City of Seattle, Washington, or, at the option of the holder hereof, at the principal office of _____ in the City of Chicago, Illinois, or at the principal office of _____ in the City of New York, New York, as Paying Agents of the System, in such coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

This bond is one of a duly authorized series of bonds of like designation herewith, aggregating _____ Dollars in principal amount. This bond and the bonds of the series of which it is one are issued under the authority of and in full compliance with the Constitution and statutes of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, and under and pursuant to Resolution No. _____ of the System adopted by the Board of Directors of the System on the _____ day of _____, 19____ (hereinafter referred to as the "Bond Resolution"), and a Series Resolution duly adopted by said Board on the _____ day of _____, 19____.

This bond and the series of which it is one constitute part of a duly authorized issue of bonds (hereinafter referred to as the "Bonds") issued, or to be issued, by the System under the Bond Resolution for the purpose of acquiring by purchase, condemnation, and construction a nuclear electric generating plant and associated facilities as a separate utility system of the System constituting and to be known as the "Washington Public Power Supply System Nuclear Project No. 1" (hereinafter referred to as the "Project").

Copies of the Bond Resolution are on file at the principal office of the System and at the principal office of each of the Paying Agents, and reference thereto and to any and all modifications and amendments thereof is hereby made for a more complete description of the revenues available for the payment of the principal of and premium, if any, and interest on the Bonds and the rights and remedies of the holders of the Bonds with respect thereto, the terms and conditions upon which the Bonds have been issued, and the terms and provisions upon which this Bond shall no longer be secured by the Bond Resolution or deemed to be outstanding thereunder if moneys or specific securities shall have been deposited with the Bond Fund Trustee appointed pursuant to the Bond Resolution, or any Paying Agent therefor sufficient and held in trust solely for the payment thereof.

Under the Bond Resolution the System is obligated to set aside and pay into the Bond Fund out of the revenues of the Project, including all additions, betterments and improvements thereto and

extensions thereof, after first making all payments required by the System to be made to the Hanford Project Revenue Fund created and established pursuant to Resolution No. 178, adopted by the Board of Directors of the System on April 15, 1963, pursuant to the Bond Resolution, certain fixed amounts sufficient to pay the principal of and interest and premium, if any, on all Bonds at any time outstanding as the same becomes due and payable, all as is more fully provided in the Bond Resolution. The Bonds and the interest thereon constitute the only charge against the Bond Fund and, subject to the aforesaid payments to the Hanford Project Revenue Fund, the amount of the revenues pledged to said Bond Fund.

In case an event of default (defined in the Bond Resolution) shall occur, the principal of the Bonds at such time outstanding may be declared due and payable by the Bond Fund Trustee or by the holders of 20% in principal amount of such Bonds, but such declaration may, under certain circumstances, be annulled.

In and by the Bond Resolution, the System covenants to establish, maintain and collect rates or charges for Project capability, electric energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Project which shall be fair and non-discriminatory and adequate to provide revenues sufficient for the fixed amounts which the System is obligated to set aside in the Bond Fund to pay the principal of and interest and premium, if any, on this Bond and the issue of Bonds of which this Bond is a part, and for the proper operation and maintenance of the Project, and all necessary repairs thereto and replacements and renewals thereof.

The Bonds of the series of Bonds of which this Bond is a part are subject to redemption prior to maturity, at the option of the System on or after _____, 19___, as a whole at any time, or in part from time to time on any interest payment date in the inverse order of their maturities (and in the event that less than all of the Bonds of a maturity are called for redemption, the particular Bonds of such maturity to be redeemed shall be selected by lot), at the redemption prices with respect to each Bond, expressed as a percentage of the principal

amount of the Bond to be redeemed, set forth below, together with the interest accrued thereon to the date fixed for redemption:

<u>Period During Which Redeemed</u> <u>(Both Dates Inclusive)</u>	<u>Redemption</u> <u>Prices</u>
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provided, however, that the System further reserves the right to redeem the Bonds of the series of Bonds of which this Bond is a part maturing on _____ 1, 20__, in part on any interest payment date on and after _____ 1, 19__, but only (a) upon payment of the principal amount thereof from the amounts credited to the Bond Retirement Account in the Bond Fund pursuant to paragraph C of Section 7.3 of the Bond Resolution, and (b) upon payment of _____% of the principal amount thereof from excess moneys available therefor in the Bond Retirement Account in the Bond Fund resulting from the payments therein pursuant to Section 7.14 and 10.8 of the Bond Resolution, in each case together with the interest accrued thereon to the date fixed for redemption; and provided further that the System further reserves the right to redeem all of the Bonds of the series of Bonds of which this Bond is a part, at its option as a whole, or in part in the inverse order of their maturities at any time on or before _____ 1, ____ (and in the event that less than all of the Bonds of a maturity are called for redemption, the particular Bonds of said maturity to be redeemed shall be selected by lot), if the Project is terminated as provided in subparagraph (a) of Section 15 the Project Agreement referred to in the Bond Resolution, upon payment of the principal amount of the Bond to be redeemed together with accrued interest thereon to the date fixed for redemption.

In the event the System should exercise its option to redeem any of the Bonds, notice of such redemption shall be given by publication of a notice at least once in daily financial papers, or in daily newspapers of general circulation printed in the English language, published in the cities of Seattle, Washington, Chicago, Illinois, and New York, New York, such publication to be made in each case not less than thirty (30) nor more than sixty (60) days prior to the date fixed for

redemption. Notice of redemption having been given by publication as aforesaid, the Bonds so called for redemption shall on the date specified in such notice become due and payable at the applicable redemption price herein provided, and from and after the date so fixed for redemption (unless the System shall default in the payment of the Bonds so called for redemption), interest on said Bonds so called for redemption shall cease to accrue.

If this Bond be of a denomination in excess of \$5,000, portions of the principal sum hereof in installments of \$5,000 or any multiple thereof may be redeemed, and if less than all the principal sum hereof is to be redeemed, in such case upon the surrender of this Bond at the principal office of any one of the Paying Agents, there shall be issued to the registered owner hereof, without charge therefor, for the then unredeemed balance of the principal sum hereof, at the option of the owner, either Coupon Bonds, or Registered Bonds of like series, maturity and interest rate in any of the denominations authorized by the Bond Resolution.

This Bond shall have all the qualities and incidents of a negotiable instrument to the extent provided by Section 54.24.120 of the Revised Code of Washington, and shall be transferable by the registered owner at the principal office of the Bond Fund Trustee upon surrender and cancellation of this Bond, and thereupon a new Registered Bond without coupons of the same series, principal amount, interest rate and maturity will be issued to the transferee as provided in the Bond Resolution and upon payment of the transfer charge therein prescribed. The System, the Paying Agents and any other person may treat the person in whose name this Bond is registered as the absolute owner hereof for the purpose of receiving payment hereof and for all purposes and shall not be affected by any notice to the contrary, whether this Bond be overdue or not.

The Bonds of the series of Bonds of which this Bond is one are issuable as Coupon Bonds, registrable as to principal only, in the denomination of \$5,000, and as Registered Bonds without coupons

in the denomination of \$5,000, or any multiple of \$5,000. The Coupon Bonds and the registered Bonds without coupons are interchangeable for an equal aggregate principal amount of Bonds of the same series, interest rate and maturity upon presentation thereof for such purpose by the holder or registered owner at the principal office of the Bond Fund Trustee, and upon payment of charges and otherwise as provided in the Bond Resolution.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this Bond, together with all other obligations or indebtedness of the System, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, Washington Public Power Supply System by its Board of Directors, has caused this bond to be executed in its name with the facsimile signature of the President of its Board of Directors, and attested by the manual signature of the Secretary of its Board of Directors or Treasurer of the System thereunto duly authorized, and the facsimile seal of said System to be hereon imprinted all as of _____, _____

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

By _____
President

ATTEST:

Secretary (Treasurer)

(SEAL)

[Form of Assignment]

For value received _____
hereby sells, assigns and transfers unto _____
the within mentioned Bond and hereby irrevocably constitutes and appoints
_____, Attorney, to transfer the same on
the books of registration in the office of the Bond Registrar of the
System with full power of substitution in the premises.

Dated: _____

Witness: _____

NOTE: The signature to this assignment must correspond with the name as written on the face of the within Bond in every particular, without alteration, enlargement or any change whatsoever.

[Form for Endorsement of Partial Payment]

Notation of Payments of Principal on the Within-mentioned Bond by Retirement of a Portion Thereof

NO WRITING BELOW EXCEPT BY A PAYING AGENT OR OTHER AUTHORIZED PERSON

Date	Principal Amount Paid	Balance of Principal Amount Outstanding	Signature of Paying Agent or Other Authorized Person
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[Form of State Auditor's Certificate of Registration - All Bonds]

STATE OF WASHINGTON)
OFFICE OF STATE AUDITOR) ss:

I DO HEREBY CERTIFY that I have examined the within Bond and a certified copy of the resolution authorizing the issuance thereof, and such additional information with respect thereto as is required by me; and that the same has been registered in my office in accordance with the provisions of Section 54.24.070 of the Revised Code of Washington.

WITNESS my hand and seal of office _____, 19__.

Auditor of the State of Washington

By _____
Deputy State Auditor

ARTICLE XV

MISCELLANEOUS: DEFEASANCE

SECTION 15.1. Resolution and Laws a Contract with Bondholders.

This Resolution is adopted under the authority of and in full compliance with the Constitution and laws of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, as amended and supplemented. In consideration of the purchase and acceptance of the Bonds by those who shall hold the same from time to time, the provisions of this Resolution and of any supplemental resolution authorizing the issuance of additional bonds, and of said laws shall constitute a contract with the holder or holders of each bond and coupons attached thereto, and the obligations of the System and its Board of Directors under said laws and under this Resolution shall be enforceable by any court of competent jurisdiction; and the covenants and agreements herein set forth to be performed on behalf of the System shall be for the equal benefit, protection and security of the holders of any and all of said Bonds and coupons thereto attached, all of which regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of said Bonds or coupons thereto attached over any others thereof except as expressly provided herein.

SECTION 15.2. Bonds No Longer Deemed Outstanding Hereunder.

The obligations of the System under this Resolution (including all Series Resolutions and other resolutions supplemental thereto or amendatory thereof), and the liens, pledges, charges, trusts, assignments, covenants and agreements of the System therein or herein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder and hereunder, if such Bond shall have been cancelled, or surrendered for cancellation, or when payment of the principal of and the applicable redemption premiums, if any, on such Bond, plus interest thereon to the due date thereof, whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided in Section 12.1 of this Resolution, or otherwise, (a) shall have been

made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with the Bond F Trustee or the Paying Agents for such Bond, in trust and irrevocably appropriated and set aside exclusively for such payment, (1) moneys sufficient to make such payment, or (2) Investment Securities (which for the purpose of this Article shall mean only the obligations mentioned in clauses 1, 2, 3 and 4 of paragraph (q) of Section 1.1 of this Resolution), which are not subject to redemption prior to maturity, and mature as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, or (3) a combination of such moneys and Investment Securities, and such Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as aforesaid, or otherwise) and except for the purposes of such payment from such moneys or Investment Securities, shall no longer be secured by or entitled to the benefits of this Resolution; provided that, as to any deposit under (b) above, all necessary and proper fees, compensation and expenses of the Bond Fund Trustee and said Paying Agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such Trustee and said Paying Agents; and provided further, that with respect to Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof, (A) no deposits under (b) above shall constitute such discharge and satisfaction as aforesaid, (1) if such Bonds at the time of the making of such deposit are not then immediately redeemable or payable in accordance with the provisions of this Resolution and of such Bonds (a) unless such Bonds shall have been irrevocably called or designated for redemption or prepayment on the first date thereafter on which such Bonds may be redeemed or prepaid in accordance with the provisions of this Resolution and of such Bonds or (b) until ninety (90) days prior to the respective stated maturities thereof, or (2) if such Bonds at the time of the making of such deposit are then immediately redeemable or payable in accordance with the provisions hereof or thereof, (a) until ninety (90) days prior to the date fixed for their redemption or payment or (b) until ninety (90) days prior to the respective stated maturities thereof; and (B) as to all such Bonds to be

redeemed or prepaid prior to their stated maturities, proper notice of such redemption or prepayment shall have been irrevocably published in accordance with this Resolution or provision satisfactory to the Bond Fund Trustee shall have been irrevocably made for such publication. Any such moneys so deposited with the Bond Fund Trustee and the Paying Agents as provided in this section may at the direction of the System also be invested and reinvested in Investment Securities maturing in the amounts and times as hereinbefore set forth, and all income from all Investment Securities in the hands of the Bond Fund Trustee and Paying Agents pursuant to this section which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be paid to the Bond Fund Trustee and deposited in the Revenue Fund as and when realized and collected, for use and application as other moneys deposited in that Fund.

If any Bond shall not be presented for payment when the principal thereof shall become due, whether at maturity or at the date fixed for the redemption thereof or upon declaration as provided in this Resolution, or otherwise, or if any coupon shall not be presented for payment at the due date thereof, and if moneys or Investment Securities shall at such due date be held by the Bond Fund Trustee or a Paying Agent therefor, in trust for that purpose sufficient and available to pay the principal and the premium, if any, of such Bond, together with all interest due thereon to the due date thereof or to the date fixed for the redemption thereof, or to pay such coupon, as the case may be, all liability of the System for such payment shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Bond Fund Trustee or such Paying Agent to hold said money or Investment Securities, without liability to such Bondholder for interest thereon, in trust for the benefit of the holder of such Bond or of such coupon, as the case may be, who thereafter shall be restricted exclusively to said moneys or Investment Securities for any claim of whatever nature on his part on or with respect to said Bond or coupon, including for any claim for the payment thereof.

Notwithstanding any provision of any other section of this Resolution which may be contrary to the provisions of this section, a moneys or Investment Securities set aside and held in trust pursuant to the provisions of this section for the payment of Bonds (including interest and premium thereon, if any) and coupons shall be applied to and used solely for the payment of the particular Bond (including interest and premium thereon, if any) and coupons with respect to which such moneys and Investment Securities have been so set aside in trust.

Anything in this Resolution to the contrary notwithstanding, if moneys or Investment Securities have been deposited or set aside with the Bond Fund Trustee or a Paying Agent, pursuant to this section for the payment of Bonds and coupons and such Bonds shall be deemed to have been paid and be no longer outstanding hereunder as provided in this section, but such Bonds and coupons shall not have in fact been actually paid in full, no amendment to the provisions of this section shall be made without the consent of the holder of each Bond or coupon affected thereby.

SECTION 15.3. Moneys Held by Bond Fund Trustee or Paying Agents Five Years After Due Date. Moneys or Investment Securities held by the Bond Fund Trustee or the Paying Agents in trust for the payment and discharge of any of the Bonds or coupons which remain unclaimed for five (5) years after the date when such Bonds shall have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by such Paying Agents at such dates five (5) years after the date of deposit of such moneys if deposited with the Paying Agents after the said date when such Bonds become due and payable, shall, at the written request of the System, be repaid by the Paying Agents to the System as the System's property and free from the trust created by this Resolution, and the Paying Agents shall thereupon be released and discharged with respect thereto, and the holders of the Bonds payable from such moneys shall look only to the System for the payment of such Bonds and coupons.

SECTION 15.4. Relation to Project Agreement. The provisions of this Resolution are not intended to create, expand or confer any rights or obligations upon the System with respect to the construction, operation and maintenance of the WPPSS No. 1 Project which are inconsistent with the provisions of the Project Agreement, but in the event of any conflict the provisions of this Resolution shall control.

SECTION 15.5. Definition of Bonds in Article XV. In the event additional bonds are issued by the System payable from the revenues of the WPPSS No. 1 Project pari passu with the Bonds, such additional bonds shall be considered Bonds within the meaning of such term as used in Sections 15.1, 15.2, and 15.3 hereof.

SECTION 15.6. Term "System" Includes Successors. Whenever in this Resolution the System is named or referred to, it shall be deemed to include its successors and assigns, and all the covenants and agreements in this Resolution contained by or on behalf of the System shall bind and inure to the benefit of its successors and assigns whether so expressed or not.

SECTION 15.7. Severability. If any one or more of the provisions of this Resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision(s) shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of this Resolution or of the Bonds issued hereunder.

SECTION 15.8. Effective Date. This Resolution shall be in effect from and after its passage in accordance with law.

SECTION 15.9. Repealer. All resolutions and parts of resolutions in conflict herewith be and the same are hereby repealed to the extent of such conflict.

(SEAL)

ATTEST:

Secretary

President

Section 15.4 Section 15.7
Section 15.5 Section 15.8
Section 15.6 Section 15.9

ATTACHMENT 2-2

WNP NO. 4 DRAFT REVENUE BOND RESOLUTION

RECEIVED

First Draft
2/7/75
WDL&S

FEB 10 1975

Proposed Form of Bond Resolution

RESOLUTION NO. _____

A RESOLUTION PROVIDING A PLAN AND SYSTEM FOR THE ACQUISITION AND CONSTRUCTION BY WASHINGTON PUBLIC POWER SUPPLY SYSTEM OF A NUCLEAR GENERATING PLANT TO BE KNOWN AS WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 4, THE CONSTRUCTION BY SAID SYSTEM OF A NUCLEAR GENERATING PLANT TO BE KNOWN AS WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 5 AND THE ACQUISITION BY SAID SYSTEM OF AN OWNERSHIP INTEREST THEREIN AND THE ACQUISITION BY THE SYSTEM OF AN OWNERSHIP INTEREST IN TWO NUCLEAR GENERATING PLANTS TO BE KNOWN AS PUGET SOUND POWER & LIGHT SKAGIT NUCLEAR POWER PROJECT, UNITS 1 AND 2; AND PROVIDING FOR THE ISSUANCE OF REVENUE BONDS FOR SAID PURPOSES.

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RESOLUTION NO. _____

A RESOLUTION PROVIDING A PLAN AND SYSTEM FOR THE ACQUISITION AND CONSTRUCTION BY WASHINGTON PUBLIC POWER SUPPLY SYSTEM OF A NUCLEAR GENERATING PLANT TO BE KNOWN AS WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 4, THE CONSTRUCTION BY SAID SYSTEM OF A NUCLEAR GENERATING PLANT TO BE KNOWN AS WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 5 AND THE ACQUISITION BY SAID SYSTEM OF AN OWNERSHIP INTEREST THEREIN AND THE ACQUISITION BY THE SYSTEM OF AN OWNERSHIP INTEREST IN TWO NUCLEAR GENERATING PLANTS TO BE KNOWN AS PUGET SOUND POWER & LIGHT SKAGIT NUCLEAR POWER PROJECT, UNITS 1 AND 2; AND PROVIDING FOR THE ISSUANCE OF REVENUE BONDS FOR SAID PURPOSES.

WHEREAS, Washington Public Power Supply System (hereinafter referred to as the "System") has heretofore been duly organized as a joint operating agency and a municipal corporation of the State of Washington under the laws of the State of Washington (Revised Code of Washington, Chapter 43.02) and is authorized, among other things, to acquire, construct, own, maintain, operate, develop and regulate plants, works and facilities for the generation and transmission of electric power and energy and to contract for the sale, exchange, transmission or use of electric energy with any person, firm or corporation, including political subdivisions and agencies of any State, or of the United States, at fair and non-discriminatory rates; and

WHEREAS, the System, pursuant to Resolutions Nos. 104 and 106, adopted by its Board of Directors on December 15, 1961, and January 19, 1962, respectively, acquired and now owns and operates the Packwood Lake Hydroelectric Project, and has issued revenue bonds of the System to pay the cost of acquiring and constructing such project, which bonds are payable solely from the revenues derived therefrom; and

Note: This draft of Bond Resolution contemplates that WPPSS will become a joint owner of the Skagit Project. If by the time the Bond Resolution is adopted by the Board of Directors of WPPSS, a decision has been made that WPPSS will not be a joint owner, all references to the Skagit Project will be deleted. If a final decision with respect to ownership of the Skagit Project has not been made prior to adoption of the Bond Resolution, the Bond Resolution, as adopted, will permit WPPSS to amend the plan and system to eliminate the Skagit Project and to nullify all references to the Skagit Project.

WHEREAS, the System, pursuant to Resolution No. 178, adopted by its Board of Directors on April 15, 1963, acquired and now owns and operates the Hanford Electric Generating Project, and has issued revenue bonds of the System to pay the cost of acquiring and constructing such project, which bonds are payable solely from the revenues derived therefrom; and

WHEREAS, the System, pursuant to Resolution No. 640, adopted by its Board of Directors on June 26, 1973, provided for the acquisition and construction of Washington Public Power Supply System Nuclear Project No. 2, and has issued revenue bonds of the System to pay part of the cost of acquiring and constructing such project, which bonds are payable solely from the revenues derived therefrom; and

WHEREAS, the System, pursuant to Resolution No. 673, adopted by its Board of Directors on October 10, 1973, provided for the construction by the System of Washington Public Power Supply System Nuclear Project No. 3 and the acquisition of an undivided ownership interest therein, and has issued revenue notes of the System to pay part of the cost of such project; and

WHEREAS, the System, pursuant to Resolution No. 690, adopted by its Board of Directors on May 10, 1974, provided for the acquisition and construction of Washington Public Power Supply System Nuclear Project No. 1, and has issued revenue notes of the System to pay part of the cost of acquiring and constructing such project; and

WHEREAS, said Resolutions Nos. 104, 106, 178 and 640 each provide that the System may issue its revenue bonds to pay the cost of acquiring and constructing a separate utility system and pledge the revenues derived therefrom to the payment of said bonds issued to pay the cost of acquiring and constructing said separate utility system; and

WHEREAS, said Resolutions Nos. 673 and 690 each permit the System to issue its revenue bonds to pay the cost of acquiring and constructing a separate utility system and pledge the revenues derived therefrom to the payment of said bonds issued to pay the cost of acquiring and constructing said separate utility system; and

WHEREAS, in order to help provide for the prospective power needs of the members of the System and other wholesale power purchasers in the State of Washington and the Pacific Northwest (hereinafter referred to as the "Participants") the System has heretofore taken certain actions to obtain for the System and the Participants a power supply to consist of a nuclear generating plant having an installed nameplate rating of approximately 1,250 MW capacity with associated facilities, to be known as Washington Public Power Supply System Nuclear Project No. 4 (hereinafter defined as the "WPPSS No. 4 Project"), an ownership interest in a nuclear generating plant having an installed nameplate rating of approximately 1,240 MW capacity with associated facilities to be known as Washington Public Power Supply System Nuclear Project No. 5 (hereinafter defined as the "WPPSS No. 5 Project"), and an ownership interest in two additional nuclear generating facilities, each having an installed nameplate rating of approximately 1,270 MW, and associated facilities to be known as the Puget Sound Power & Light Skagit Nuclear Power Project, Units 1 and 2 (hereinafter defined as the "Skagit Project"); and

WHEREAS, with respect to the WPPSS No. 5 Project, pursuant to the Revised Code of Washington, Chapter 54.44, as amended, the System has entered into an ownership agreement (hereinafter defined as the "WPPSS No. 5 Project Ownership Agreement") with Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company and The Washington Water Power Company which provides that the System will construct said project and have an undivided ownership

interest of 70% therein, and that such companies will have undivided ownership interests in said project aggregating 30%; and

WHEREAS, with respect to the Skagit Project, pursuant to the Revised Code of Washington, Chapter 54.44, as amended, the System has entered into an ownership agreement (hereinafter defined as the "Skagit Project Ownership Agreement") with Idaho Power Company, Pacific Power & Light Company, Puget Sound Power & Light Company and The Washington Water Power Company, which provides that the System will have an undivided ownership interest of 15% in said project and that such companies will have undivided ownership interests in said project aggregating 85%; and

WHEREAS, the System has entered into agreements, each entitled "Washington Public Power Supply System Nuclear Projects Nos. 4 and 5 and Skagit Project Participants' Agreement" (hereinafter referred to as the "Participants' Agreements"), with the United States of America, Department of the Interior, acting by and through the Bonneville Power Administrator (hereinafter referred to as "Bonneville") and the Participants (hereinafter defined) whereby, among other things, the System will sell and the Participants will purchase the capability of the WPPSS No. 4 Project and the System's shares of the capability of the WPPSS No. 5 Project and the Skagit Project, and Bonneville will coordinate certain services it will perform under other agreements with the Participants in connection with the delivery of the power and energy thereto; and

WHEREAS, the Board finds that the plan and system hereinafter set forth will assist the System in providing electric power and energy for its members and other Participants and that the performance of services by Bonneville in delivering the power and energy of the WPPSS No. 4 Project and the System's

shares of the power and energy of the WPPSS No. 5 Project and the Skagit Project to the Participants will integrate the capability of said projects with other power resources available to the Participants, including resources from the Federal Columbia River Power System; and

WHEREAS, the WPPSS No. 4 Project, the WPPSS No. 5 Project and the Skagit Project are parts of the Hydro Thermal Program for the Pacific Northwest; and

WHEREAS, the System has heretofore issued Dollars (\$) principal amount of revenue notes for the purpose of paying its share of the cost of preliminary work and expenses in connection with the aforesaid projects, all of which notes are presently outstanding and unpaid; and

WHEREAS, the System now deems it advisable to provide for the issuance of revenue bonds for the purpose of paying the cost to it of the acquisition and construction of the WPPSS No. 4 Project, the construction of the WPPSS No. 5 Project and the acquisition of an undivided ownership interest therein and the acquisition of an undivided ownership interest in the Skagit Project, and to provide for the payment of the aforesaid revenue notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF WASHINGTON PUBLIC POWER SUPPLY SYSTEM:

ARTICLE I

CERTAIN DEFINITIONS

SECTION 1.1. Definitions. As used in this Resolution the following words and phrases shall have the meanings hereinafter set forth unless the context shall clearly indicate that another meaning is intended:

(a) The term "Board" shall mean the Board of Directors of the Washington Public Power Supply System, including

the Executive Committee thereof when acting under authority delegated to it by said Board, or if said Board shall be abolished, the person, board, body, commission or agency succeeding to the principal functions thereof or to whom the powers and duties granted or imposed by this Resolution shall be given by law.

(b) The term "Bond Fund Trustee" shall mean the trustee appointed pursuant to Section 7.2 hereof, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to this Resolution.

(c) The term "Bonds" shall mean the Electric Revenue Bonds of the System issued pursuant to and under the authority of Section 3.1 of this Resolution. The term "197_ Bonds" shall mean the \$_____ principal amount of Electric Revenue Bonds, Series of 197_, of the System initially issued pursuant to and under the authority of Section 3.2 of this Resolution. The term "bonds issued pursuant to this Resolution" shall mean the Bonds and all additional bonds issued pursuant to and under authority of Section 9.6 of this Resolution.

(d) The term "Bondholder" or "holder of a bond" shall mean any person who shall be the bearer of any coupon bond or bonds issued pursuant to this Resolution, or the registered owner of any bond or bonds issued pursuant to this Resolution without coupons.

(e) The term "Capitalized Fuel" shall mean Fuel for the WPPSS No. 4 Project, the System's Ownership Share of Fuel for the WPPSS No. 5 Project and the System's Ownership Share of Fuel for Unit No. 1 or Unit No. 2 of the Skagit Project, the cost of which, as recorded on the respective Date of Commercial Operation of each of said Projects, or of each unit of the Skagit Project, is included as an asset under the Federal Power Commission Uniform System of Accounts in effect on _____ 1, 197_.

(f) The term "Construction Engineer" shall mean, with respect to the WPPSS No. 4 Project or the WPPSS No. 5 Project, the construction engineer or engineering firm for such Project referred to in Section 8.1 hereof, its successor or successors or any other construction engineer or engineering firm which may be substituted in its place.

(g) The term "Construction Fund Trustee" shall mean the trustee appointed pursuant to Section 7.1 hereof, its successor or successors and any other corporation which may at any time be substituted in its place pursuant to this Resolution.

(h) The term "Consulting Engineer" shall mean at any time the consulting engineer or engineering firm appointed pursuant to Section 9.10 hereof.

(i) The term "Contingency Reserve Fund Trustee" shall mean the trustee appointed pursuant to Section 7.3 hereof, its successor or successors and any other corporation which may at any time be substituted in its place pursuant to this Resolution.

(j) The term "Cost of Construction" shall mean all costs paid or incurred by the System in connection with the planning, acquisition and construction of the System's Ownership shares of the WPPSS No. 4 Project, the WPPSS No. 5 Project and the Skagit Project, as such costs are defined in Section 6.12 of this Resolution.

(k) The term "Date of Commercial Operation", with respect to the WPPSS No. 4 Project, shall mean the date fixed by the System as the point in time when said Project is ready to be operated on a commercial basis pursuant to schedules agreed to by the System and the Participants' Committee provided for in the Participants' Agreements and, with respect to the WPPSS No. 5 Project and each unit of the Skagit Project, shall mean the date fixed pursuant to the WPPSS No. 5 Project Ownership Agreement or the Skagit Project Ownership Agreement, respectively, as the point in time when such Project or unit

is ready to be operated on a commercial basis.

(l) The term "Development Fund Trustee" shall mean the trustee appointed pursuant to Section 7.4 hereof, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to this Resolution.

(m) The term "Fuel" shall mean any nuclear fuel, fuel assemblies and components, and rights relating thereto, including any and all nuclear material therefor, together with all associated and related property incident to the acquisition, processing, reprocessing and disposal of the nuclear fuel used or usable in connection with the acquisition, construction, maintenance and operation of the Projects or any of them.

(n) The term "Investment Securities" shall mean any of the following, if and to the extent that the same are legal for the investment of funds of the System:

1. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

2. General obligation bonds of any state of the United States of America rated by a nationally recognized bond rating agency in either of the two highest rating categories assigned by any such rating agency.

3. Bonds, debentures, notes or participation certificates issued by the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks or the Federal National Mortgage Association.

4. Public Housing Bonds or Project Notes issued by Public Housing Authorities and fully secured as to the payment of both principal and

interest by a pledge of annual contributions to be paid by the United States of America, or any agency thereof; and

5. Bank time deposits evidenced by certificates of deposit issued by any bank, trust company, or national banking association located in the State of Washington, which is a member of the Federal Reserve System, provided that such bank time deposits in any bank, trust company, or banking association do not exceed at any one time in the aggregate twenty-five per centum (25%) of the total of the capital stock and surplus of such bank, trust company or banking association.

(o) The term "Ownership Share" shall mean the System's undivided ownership interest in the WPPSS No. 5 Project or the Skagit Project at any time or from time to time as determined pursuant to the respective Project Ownership Agreement, or the System's complete ownership interest in the WPPSS No. 4 Project.

(p) The term "Participants" shall mean the parties to the Participants' Agreements listed below:

[Here list Participants alphabetically by legal corporate name]

(q) The term "Participants' Agreements" shall mean the agreements designated "Washington Public Power Supply System Nuclear Projects Nos. 4 and 5 and Skagit Project Participants' Agreement" (Contract Nos. _____ to _____, inclusive), dated _____, 1975, and executed by the System, the United States of America, Department of the Interior, acting by and through the Bonneville Power Administrator, and the Participants.

(r) The term "Period of Construction" with respect to any Project, for the purposes of this Resolution, shall mean the period of time beginning with the date of adoption of this Resolution and ending on the date of filing of the final report by the Construction Engineer or, in the case of the Skagit Project, the System, with respect to said Project pursuant to Section 8.6 or Section 6.14 hereof.

(s) The term "Power Sales Agreements" shall mean the agreements for the short-term sale and purchase of power and energy or output from the Projects not exceeding _____ kilowatt hours and not extending beyond _____, 19___, entered into by the System and any other purchasers of power and energy or output from the Projects other than the Participants.

(t) The term "Projects" shall mean, collectively, the System's Ownership Shares of the WPPSS No. 4 Project, the WPPSS No. 5 Project and the Skagit Project, as more fully described in Article II hereof, and all additions, betterments and improvements thereto and extensions thereof, but shall not include the aforementioned Packwood Lake Hydroelectric Project, Hanford Project, Washington Public Power Supply System Nuclear Project No. 1, Washington Public Power Supply System Nuclear Project No. 2, or Washington Public Power Supply System Nuclear Project No. 3, or any generation or transmission facilities hereafter constructed or acquired by the System as a separate utility system.

(u) The term "Resolution" shall mean this Resolution, except when used in Articles XI and XII hereof, in which case the term "Resolution" shall have the meaning as defined in Section 11.1 hereof.

(v) The term "Series of Bonds" or "Bonds of a Series" shall mean a series of Bonds authorized by this Resolution or by a Series Resolution.

(w) The term "Series Resolution" shall mean a resolution supplemental to this Resolution authorizing the issuance of a Series of Bonds.

(x) The term "Skagit Project" shall mean the Puget Sound Power & Light Skagit Nuclear Power Project, Units 1 and 2, as more fully described in Article II hereof, and all additions, betterments and improvements thereto and extensions thereof.

(y) The term "Skagit Project Ownership Agreement" shall mean the agreement designated _____, dated _____, 1975, among Idaho Power Company, Pacific Power & Light Company, Puget Sound Power & Light Company and The Washington Water Power Company and the System, as the same may be amended from time to time.

(z) The term "WPPSS No. 4 Project" shall mean the Washington Public Power Supply System Nuclear Project No. 4, as more fully described in Article II hereof, and all additions, betterments and improvements thereto and extensions thereof.

(aa) The term "WPPSS No. 5 Project" shall mean the Washington Public Power Supply System Nuclear Project No. 5, as more fully described in Article II hereof, and all additions, betterments and improvements thereto and extensions thereof.

(bb) The term "WPPSS No. 5 Project Ownership Agreement" shall mean the agreement designated "Washington Public Power Supply System Nuclear Project No. 5 Agreement for Construction, Ownership and Operation" dated _____, 1975, among Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, The Washington Water Power Company and the System, as the same may be amended from time to time.

ARTICLE II
THE PLAN AND SYSTEM

SECTION 2.1. Findings and Determinations. The Board has caused various engineering reports and surveys and economic and environmental studies to be made and submitted to it relating, among other things, to the prospective needs for electricity for all uses on the part of the members of the System and the other Participants. After due consideration and analysis of said reports, surveys and studies, the Board hereby finds and determines as follows:

A. The acquisition and construction by the System of the WPPSS No. 4 Project, the construction by the System and the acquisition by it of a 70% Ownership Share of the WPPSS No. 5 Project and the acquisition by the System of a 15% Ownership Share of the Skagit Project are necessary and advisable in order to provide for the prospective power needs of the Participants, and the disposition of the power and energy therefrom, substantially as provided in the Participants' Agreements, in the WPPSS No. 5 Project Ownership Agreement and in the Skagit Project Ownership Agreement, will result in substantial economies and advantages to the Participants, the people of the State of Washington and the Pacific Northwest, and said Projects are economically feasible and urgently required to conserve the resources of the region.

B. The power and energy which will be produced by the System's Ownership Shares of the Initial Projects can be disposed of at prices sufficient, with all other available revenues, to retire the Bonds, to establish reserves as herein provided, to retire the revenue notes of the System heretofore issued in connection therewith and to pay the costs of operation and maintenance thereof

and renewals, replacements and repairs thereto.

C. The public interest, welfare, convenience and necessity require the acquisition and construction by the System of the WPPSS No. 4 Project, the construction by the System and the acquisition by it of a 70% Ownership Share of the WPPSS No. 5 Project and the acquisition by the System of a 15% Ownership Share of the Skagit Project as a separate utility system for the purposes of supplying the power needs of the Participants which are members of the System, the inhabitants thereof, and any other persons, including public or private corporations, within or without limits, with electricity for all uses.

D. The System's acquisition and construction of the WPPSS No. 4 Project, its construction and acquisition of an Ownership Share of the WPPSS No. 5 Project and its acquisition of an Ownership Share of the Skagit Project will properly and advantageously contribute to the conduct of the business of the System in an efficient and economical manner.

SECTION 2.2 Plan and System. The System hereby specifies and adopts the plan and system hereinafter set forth for its acquisition and construction of the WPPSS No. 4 Project, its construction of the WPPSS No. 5 Project and acquisition of an Ownership Share thereof and its acquisition of an Ownership Share of the Skagit Project, the foregoing to constitute a separate utility system

A. The System shall construct and acquire sole ownership of a nuclear electric generating plant and associated facilities having an installed nameplate rating of approximately 1,250,000 kilowatts, presently scheduled to be placed in commercial operation about March, 1982, and to be known as Washington Public Power Supply System Nuclear Project No. 4.

B. The System shall construct, and acquire a 70%

Ownership Share of, a nuclear electric generating plant and associated facilities having an installed nameplate rating of approximately 1,240,000 kilowatts presently scheduled to be placed in commercial operation about September, 1983, and to be known as Washington Public Power Supply System Nuclear Project No. 5.

C. The System shall acquire a 15% Ownership Share of two nuclear electric generating plants and their associated facilities, each having an installed nameplate rating of approximately 1,270,000 kilowatts, presently scheduled to be placed in commercial operation about July, 1981, and July, 1983, respectively, to be known as the Puget Sound Power & Light Skagit Nuclear Power Project, Units 1 and 2.

D. Each of said Projects or units thereof shall include, but shall not be limited to, a nuclear steam supply system, reactor coolant system and all related containment structures and safety features, including all instrumentation, control and auxiliary systems required therefor; turbine-generators, condensers, circulating water systems, including cooling towers or cooling ponds and related facilities, electrical and mechanical systems and all other equipment, facilities or appurtenances thereto; all electrical facilities required to deliver the output of said Project to the Federal Columbia River Power System or a Participant's transmission system or to the transmission facilities of the companies as to be provided in the Participants' Agreements, the WPPSS No. 5 Project Ownership Agreement and the Skagit Project Ownership Agreement, as the case may be, all structures, railroad sidings, shops, warehouses, construction facilities, offices, dwellings and all other structures, fixtures, equipment or facilities used or useful in the construction, maintenance operation and administration of said Project and all necessary water rights, development rights, permits, licenses,

leases, easements and rights-of-way.

E. The System shall construct and acquire any additional transmission and switching facilities necessary or desirable for delivery of its Ownership Share of the output of the Projects to the Federal Columbia River Power System or to such other point agreed upon by a Participant and the System to the extent not otherwise provided for in the said Ownership Agreements.

F. The sites of the Projects are as follows:

(1) The site of WPPSS No. 4 Project shall be located within the United States Energy Resources Development Agency's Hanford Reservation in Benton County, Washington, about 2.5 miles west of the Columbia River at river mile 352 in Sections 3, 4, 33 and 34, Townships 11 North and 12 North, Range 28 East, Willamette Meridian, Benton County, State of Washington, such site being about 0.7 miles east and 0.3 miles north of the System's Washington Public Power Supply System Nuclear Project No. 2 presently under construction about 3.5 miles north of the City of Richland, Washington.

(2) The site of WPPSS No. 5 Project shall be located in Township 17 North, Range 6 West, Willamette Meridian, Grays Harbor County, State of Washington, about 3 miles south of the City of Satsop, Washington, and about 17 miles east of the City of Aberdeen, Washington.

(3) The site of the Skagit Project shall be located in Township 35 North, Range 5 East, Willamette Meridian, Skagit County, State of Washington, about 5 miles east of the City of Sedro Woolley, Washington, and about 12 miles northwest of the City of Mount Vernon, Washington.

G. The System shall obtain or cause to be obtained all permits and licenses required of the System by any regulatory agency or governmental authority having jurisdiction and any other licenses, permits, approvals, easements or legal rights of any kind required of the System for, used or useful in connection with the acquisition, construction, maintenance and operation of the Projects.

H. The System shall acquire or cause to be acquired by lease or purchase its Ownership Share of Fuel.

I. The System shall acquire or cause to be acquired its Ownership Share of all tools, equipment, spare parts, automotive equipment, instruments, operators' dwellings, warehouses and other associated and related property necessary in connection with the acquisition, construction, maintenance, operation and administration of any Project.

J. The System shall acquire or cause to be acquired its Ownership Share of all lands, rights in land, leases, easements, permits and other physical property related to or necessary for use in connection with any Project, together with all and singular, the tenements, hereditaments and appurtenances belonging or in anywise appertaining thereto or any part thereof.

K. The System's interest in any additional works, plants or facilities subsequently acquired or constructed by the System for the same uses, whether or not physically connected therewith, if so authorized by resolution of the Board, may become additions or betterments to or extensions of the Projects.

L. The System shall cause to be made any and all surveys, studies, appraisals and financial and engineering investigations necessary or incidental to the location, acquisition and construction of the electric works, plants and facilities of the Projects and the placing of the same into operation, including all such surveys, studies,

investigations and other work necessary to comply with all environmental laws and with all environmental orders, regulations and standards of any federal or state agency having jurisdiction over the Projects now or hereafter in effect.

M. To the full extent not inconsistent with the aforesaid Ownership Agreements, the System may commence and prosecute such proceedings in eminent domain as this Board may deem advisable in order to carry out the acquisition of all properties, works, plants and facilities as hereinabove provided.

SECTION 2.3. Modification of Plan and System.

In the event that the System shall find that any order or standard of the Thermal Power Plant Site Evaluation Council of the State of Washington, or any other governmental agency or authority having jurisdiction, makes it advisable that the site of any Project, as referred to in paragraph F of Section 2.2 hereof, be changed, or that the feasibility of any Project, or unit thereof, will be improved by a change of site, then the System shall adopt an amendatory resolution providing for such alternate site within the State of Washington which the System finds may be feasibly interconnected with the Federal Columbia River Power System and, to the extent required by the WPPSS No. 5 Project Ownership Agreement or the Skagit Project Ownership Agreement, with the transmission systems of the other parties thereto. In such event, the System shall make such further changes in the plan and system set forth in this Section as it may deem reasonably required to conform to such change in site; provided, however, there is filed with the Secretary of the System and the Bond Fund Trustee a certificate of the Construction Engineer for the WPPSS No. 4 Project or the WPPSS No. 5 Project, in the case of a change of site of either of such Projects or of the Consulting Engineer, in the case of the Skagit Project, which shall

Section 2.3

certify that in his opinion such change (1) is appropriate to meet the order or standard of such governmental agency or authority, or (2) will result in improvement of the feasibility of such Project.

The System may modify any other details of the foregoing plan and system, including modification to make provisions for the installment of additional facilities in any of the Projects. If any such modification occurs during the Period of Construction of any Project, the System shall file with the Construction Fund Trustee and the Bond Fund Trustee certificates of the System and of (a) the Construction Engineer therefor in the case of a modification to the WPPSS No. 4 Project or the WPPSS No. 5 Project or (b) the Consulting Engineer, in the case of a modification to the Skagit Project, as to the matters set forth below, and if such modification occurs after the Period of Construction thereof, the System shall file with the Bond Fund Trustee certificates of the System and the Consulting Engineer as to the matters set forth below. Such certificate of the System, the Construction Engineer and the Consulting Engineer shall provide that in the opinion of the signers such modification (i) does not substantially change the plan and system specified in Section 2.2 of this Resolution, and (ii) is proper and necessary for the efficient and economical operation and maintenance of the Project with respect to which such modification is made.

SECTION 2.4. Cost of Plan and System. The estimated cost of the plan and system herein specified and adopted for the acquisition and construction of the System's Ownership Shares of the Projects, including as a part of such cost funds necessary to be paid or set aside for Fuel, for working capital for the operation thereof, for reserves, for the payment of expenses heretofore and hereafter incurred in the acquisition and construction thereof, and the repayment of

revenue notes of the System heretofore or hereafter issued for the purpose of paying the cost of preliminary work and expenses in connection with the System's Ownership Shares of the Projects, is hereby declared, as near as may be, to be the sum of _____ Dollars (\$ _____).

SECTION 2.5. Sufficiency of Revenues. The gross revenues and proceeds to be derived by the System from the operation of the System's Ownership Shares of the Projects at the rates and charges to be charged for the power and energy furnished thereby will be sufficient, in the judgment of the Board, to meet the System's Ownership Shares of all expenses of operation and maintenance of the Projects, to meet the System's Ownership Shares of the costs of all necessary repairs, replacements and renewals thereto and to permit the setting aside out of such gross revenues, in the special fund created pursuant to the provisions of Section 6.2 of this Resolution, of such amounts as may be required to pay the principal of and interest on the Bonds as the same become due and payable.

ARTICLE III

AUTHORIZATION AND ISSUANCE OF BONDS

SECTION 3.1. Authorization of Bonds. There is hereby created and established an issue of Bonds of the System to be known as the "Electric Revenue Bonds" (the "Bonds"), which Bonds may be issued pursuant to the terms, conditions and limitations of this Resolution in series, in such amounts and from time to time, as may be required to pay the Cost of Construction of the Projects, to provide working capital for the operation thereof, to establish reserves as herein provided, to retire the revenue notes of the System heretofore or hereafter issued in connection with the Initial Projects and to obtain funds for the corporate purposes of the System specified in Section 6.17 hereof.

SECTION 3.2. Authorization of 197 Bonds. There is hereby authorized to be issued a series of _____ Million Dollars (\$_____) principal amount of Bonds, Series of 197_ (the "197_ Bonds"), to pay a part of the Cost of Construction of the Projects, to establish reserves as herein provided and to retire the outstanding principal amount of revenue notes of the System issued in connection with the Projects, which 197_ Bonds shall bear interest at the rates and shall mature on _____ 1, in numerical order, lowest numbers first, in each of the years and in the amounts as shown below:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
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[It is contemplated that the principal maturities of the 197_ Bonds at applicable rates of interest, together with any mandatory sinking fund payments will, beginning in the year 198_,

Section 3.1
Section 3.2

be so arranged as to result in substantially equal annual debt service payments.]

The 197_ Bonds maturing on _____ 1, 20__, shall be redeemed by sinking fund installments which shall be accumulated in the Bond Retirement Account in the Bond Fund (hereinafter created and established) in amounts sufficient to redeem on _____ 1, of each year the principal amount of such 197_ Bonds specified for each of the years shown below:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
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The 197_ Bonds shall be issued either in coupon form (hereinafter in this Article called "197_ Coupon Bonds"), registrable as to principal only, or in the form of fully registered Bonds (hereinafter in this Article called "197_ Registered Bonds"), or a combination of both forms, and may contain such variations, amounts and insertions as are incidental to such differences of numbering, denominations and forms, including variations in the provisions for the registration and transfer of said 197_ Bonds. 197_ Coupon Bonds shall be issued in the denomination of \$5,000. 197_ Registered Bonds may be issued in the denomination of \$5,000, or any multiple of \$5,000. 197_ Coupon Bonds and 197_ Registered Bonds initially issued shall be dated _____, 197_. 197_ Registered Bonds issued upon exchanges and transfers of 197_ Registered Bonds and upon exchanges of 197_ Coupon Bonds for 197_ Registered Bonds, as hereinafter provided, shall be dated so that no gain or loss of interest shall result from such exchange or transfer. 197_ Coupon Bonds shall be numbered from 1 upwards, and 197_ Registered Bonds shall be numbered from R-1 upwards.

Each 197_ Bond shall bear interest from the date thereof. Interest on the 197_ Bonds shall be payable semi-annually on

_____ 1 and _____ 1 of each year, beginning _____ 1, 19__, but, except as to any 197_ Registered Bond, only upon presentation and surrender of the respective interest coupons attached as they severally become due. Each of such coupons shall be numbered in order of its respective maturity. 197_ Coupon Bonds may be registered as to principal only in accordance with the provisions of Section 4.3 of this Resolution.

SECTION 3.3. Redemption of 197 Bonds. At the option of the System, the 197_ Bonds shall be subject to redemption prior to maturity on or after _____, 19__, as a whole at any time, or in part from time to time on any interest payment date and in the inverse order of their maturities (and in the event that less than all of the 197_ Bonds of a maturity are called for redemption, the particular 197_ Bonds of such maturity to be redeemed shall be selected by lot), upon published notice as provided in Article V of this Resolution, at the redemption prices with respect to each 197_ Bond, expressed as a percentage of the principal amount of the 197_ Bonds to be redeemed, set forth below, together with the interest accrued thereon to the date fixed for redemption:

<u>Period During Which Redeemed</u> <u>(Both Dates Inclusive)</u>	<u>Redemption</u> <u>Prices</u>
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provided, however, that the System further reserves the right to redeem the 197_ Bonds maturing on _____ 1, 20__, prior to the maturity thereof, upon published notice as provided in Article V of this Resolution, in part on any interest payment date (a) on and after _____ 1, 19__, but only upon payment of the principal amount thereof from the amounts credited to the Bond Retirement Account in the Bond Fund pursuant to paragraph C of Section 6.2 of this Resolution, and (b) on and after _____ 1,

19__ upon payment of _____ per cent (____%) of the principal amount thereof from excess moneys available therefor in the Bond Retirement Account in the Bond Fund resulting from the payments therein pursuant to Section 6.15 of this Resolution, in each case together with accrued interest to the date of redemption. The System further reserves the right to redeem all of the 197_ Bonds, prior to the maturity thereof, as a whole at any time, or in part on any interest payment date in the inverse order of their maturities (and in the event that less than all of the 197_ Bonds of a maturity are called for redemption, the particular 197_ Bonds of such maturity to be redeemed shall be selected by lot), at any time on and after _____ 1, ____ upon published notice as provided in Article V of this Resolution, from moneys available therefor in the Bond Retirement Account in the Bond Fund resulting from the payments therein pursuant to Section 9.7 of this Resolution at the principal amount of the Bond or Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption.

SECTION 3.4. Authorization of Series of Bonds Other Than 197_ Bonds. Subsequent to the issuance of the 197_ Bonds, the System may issue hereunder at one time or from time to time an additional Series or additional Series of Bonds by means of a Series Resolution or Resolutions, but only upon compliance with the following conditions:

(1) There shall have been delivered to the System a certificate of the Bond Fund Trustee that no default exists in the payment of the principal of, premium, if any, or interest on any Bond and that all mandatory sinking fund redemptions, if any, required to have been made shall have been made; and

(2) There shall have been delivered to the Bond Fund Trustee a certificate of the Secretary of the Board that (i) no default exists in the payment of the principal of or

Section 3.4

interest on the Bonds theretofore issued; (ii) there have been no amendments of, or modifications to, any of the Participants' Agreements which would reduce the aggregate amount of the payments provided for therein or which would release any of the parties thereto from its obligations thereunder or which would in any manner impair or adversely affect the rights of the System or of the holders from time to time of the Bonds; and (iii) said Agreements are in full force and effect.

(3) Each Series of Bonds, other than the 197_ Bonds, shall be dated, numbered and bear interest at the rate or rates per annum and be payable, both as to principal and interest, at such time or times and place or places as shall be prescribed in the Series Resolution or Resolutions providing for the issuance thereof. The Series Resolution authorizing the issuance of each Series of Bonds may also provide that the Bonds of such Series shall be redeemable prior to their respective maturities at the option of the System at such time or times and upon such terms and conditions as the System may prescribe. Unless or except as otherwise provided in the Series Resolution providing for the issuance thereof, the Bonds of each Series shall be issued either in coupon form (hereinafter, together with the 197_ Coupon Bonds, called "Coupon Bonds") of the denomination of \$5,000, registrable as to principal only, or in the form of fully registered bonds (hereinafter, together with the 197_ Registered Bonds, called "Registered Bonds") of the denominations of \$5,000, or any multiple of \$5,000, or a combination of both forms.

(4) The Series Resolution or Resolutions shall contain an appropriate series designation, shall specify the authorized principal amount of such Series of Bonds, shall provide that the interest on such Series of Bonds shall be payable on _____ 1 and _____ 1, and the principal payments and sinking fund payments for the retirement of term Bonds in advance of maturity shall be payable on _____ 1,

and shall specify such other provisions as may be required to be set forth therein by other provisions of this Resolution, and not inconsistent or in conflict with the provisions hereof, as may be deemed necessary or advisable by the System.

The System hereby covenants and agrees that it will take all lawful measures required to issue and sell from time to time or at one time additional Series of Bonds to the extent required to enable the System to pay the remaining balance of the Cost of Construction, to provide working capital for the Projects and to make the payments to the Reserve Account in the Bond Fund and to the Reserve and Contingency Fund (hereinafter defined) required to be made from Bond proceeds.

ARTICLE IV

GENERAL TERMS AND PROVISIONS OF BONDS

SECTION 4.1. Execution and Payment of Bonds. Unless or except as otherwise provided in the Series Resolution providing for the issuance of any Series of Bonds, the 197_ Bonds and all other Series of Bonds shall be executed on behalf of the System with the facsimile signature of the President of the Board and attested with the manual signature of the Secretary of the Board or Treasurer of the System and shall have the facsimile seal of the System imprinted thereon, and the coupons thereto attached, if any, shall be executed with the facsimile signatures of said President and Secretary. In case any of the officers who shall have signed, attested, authenticated, registered or sealed any of the Bonds or interest coupons shall cease to be such officers before the Bonds and interest coupons so signed, attested, authenticated, registered or sealed shall have been actually issued and delivered, such Bonds and interest coupons shall be valid nevertheless and may be issued by the System with the same effect as though the persons who had signed, attested, authenticated, registered or sealed such Bonds and interest coupons had not ceased to be such officers. All Bonds shall be payable as to interest, principal and premium, if any, in any coin or currency of the United States of America which at the time of payment thereof is legal tender for public and private debts, and, except as otherwise provided in Section 4.7 hereof with respect to the payment of interest on Registered Bonds, shall be payable at the principal office of the paying agent of the System for such Series of Bonds in the City of Seattle, Washington, or, at the option of the holder, at the principal office of either of the paying agents of the System for such Series of Bonds in the City of Chicago, Illinois, or in the City of New York, New York, to be designated and appointed from time to time by resolution of the Board (hereinafter

referred to collectively as the "Paying Agents").

SECTION 4.2. Bonds Are Negotiable Instruments. All of the Bonds and the interest coupons attached thereto shall be negotiable instruments to the extent provided by Section 54.24.120 of the Revised Code of Washington. Coupon Bonds, except while registered as to principal otherwise than to bearer, shall pass by delivery. The registration of any Coupon Bond as to principal only shall not affect the negotiability of the coupons thereto appertaining, which shall remain payable to bearer and pass by delivery, whether or not the Bond to which any coupon appertains is registered. The System, the Bond Fund Trustee, the Paying Agents and any other person may treat the bearer (or if such Bond be registered, the registered owner) of any Coupon Bond, the registered owner of any Registered Bond, the bearer of any Coupon Bond registered as payable to bearer and the bearer of any coupon, whether or not the Bond to which said coupon appertains is registered as to principal, as the absolute owner of such Bond or coupon, as the case may be, for the purpose of making payment thereof and for all other purposes, and neither the System nor the Bond Fund Trustee nor the Paying Agents shall be bound by any notice or knowledge to the contrary, whether such Bond or coupon shall be overdue or not. All payments of or on account of interest to any bearer of any coupon, or to any registered owner of any Registered Bond (or to his assigns), and all payments of or on account of principal to any bearer of any Coupon Bond (or if such Bond be registered, to the registered owner, or to any bearer of such Bond registered to bearer), or to any registered owner of any Registered Bond (or to his assigns) shall be valid and effectual and shall be a discharge of the System, the Bond Fund Trustee and the Paying Agents in respect of the liability upon the Bonds or coupons or claims for interest, as the case may be, to the extent of the sum or sums paid.

SECTION 4.3. Registration Books; Registration of Coupon Bonds as to Principal Only. The System will cause to be kept at the principal office of the Bond Fund Trustee, as Registrar, at all times while any of the Bonds shall be outstanding and unpaid, books for the registration and transfer of such Bonds. Upon presentation to the Registrar for such purposes by any bearer of any Coupon Bond, the System will, under such reasonable regulations as (with the approval of the Registrar) it may prescribe from time to time, cause such Registrar to register in such books, in the name of the bearer or his nominee, the ownership, as to principal only, of any such presented Coupon Bond and such registration shall be noted on the Bond. After such registration and notation, no transfer of any Coupon Bond registered otherwise than as payable to bearer shall be valid unless evidenced by a written instrument of transfer, in form satisfactory to the Registrar and duly executed by the registered owner in person or by his duly authorized agent; but any Coupon Bond so registered may be discharged from registration and transferability by delivery may be restored, by a like transfer to bearer similarly registered and noted, and after such transfer to bearer such Bond shall be a bearer Bond. Any such Coupon Bond may again, from time to time, in like manner, be registered as to principal only or be transferred to bearer. A certificate evidencing each registration, transfer or discharge from registration made pursuant to this Section shall be transmitted by the Registrar to the System.

SECTION 4.4. Transfer of Registered Bonds. Any Registered Bond may be transferred pursuant to its provisions at the principal office of the Registrar by surrender of such Bond for cancellation, accompanied by a written instrument of transfer in form satisfactory to the Registrar and duly executed by the registered owner in person or by his duly authorized agent, and thereupon the System will issue and deliver at the office of the

Registrar (or send by registered mail to the owner thereof at his expense), in the name of the transferee or transferees, a new Registered Bond of the same series, form, interest rate, principal amount and maturity, dated so that no gain or loss of interest shall result from such transfer. To the extent of denominations authorized in respect of any such Bond by the terms thereof, or by the terms of this Resolution or the Series Resolution providing for the issuance thereof, one such Registered Bond may be transferred for several such Registered Bonds of the same series, form, interest rate and maturity and for a like aggregate principal amount, and several such Registered Bonds of the same series may be transferred for one or several such Registered Bonds, respectively, of the same series, form, interest rate and maturity and for a like aggregate principal amount.

SECTION 4.5. Exchange of Bonds. The bearer of any Coupon Bond which at the time is not registered or is registered as payable to bearer, and the registered owner of any Registered Bond or any Coupon Bond registered as to principal otherwise than to bearer, unless and except as is otherwise provided in the Series Resolution providing for the issuance thereof, may, at any time, surrender the same at the principal office of the Registrar, in the case of Coupon Bonds with all unmatured coupons attached, and in the case of Registered Bonds or Coupon Bonds registered as to principal with instruments of transfer satisfactory to the Registrar, and shall be entitled to receive in exchange therefor an equal aggregate principal amount of Bonds of the same series, interest rate and maturity, of any one or more of the forms the issuance of which have been herein provided for; and the System will issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at his expense) the Bonds necessary to make such exchange.

Whenever Registered Bonds with proper instruments of transfer shall be surrendered to the Registrar for exchange for Coupon Bonds of the same series, interest rate and maturity, the System will issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at his expense) in exchange a like principal amount of Coupon Bonds of the same series, interest rate and maturity, in bearer form, and bearing coupons so that no gain or loss of interest shall result from such exchange. Nothing herein contained shall be deemed to authorize the execution and delivery of Registered Bonds of a Series of Bonds except in the denomination of \$5,000, or any multiple of \$5,000, except as otherwise provided with respect to any Series of Bonds in the Series Resolution authorizing the issuance thereof.

SECTION 4.6. Disposition of Bonds Surrendered in Exchange or Transfer; Charges for Exchange and Transfer. In every case of an exchange of Bonds, and of a transfer of any Registered Bond, the surrendered Bonds and coupons, if any, shall be held by the Registrar and a certificate evidencing such exchange or transfer shall be transmitted promptly to the System. All Registered Bonds surrendered for exchange or transfer shall be cancelled. Unless or except as otherwise provided in the Series Resolution authorizing the issuance of a Series of Bonds, Coupon Bonds surrendered in exchange for Registered Bonds will be held by the Registrar, who shall make provision satisfactory to the System for the safekeeping of such Coupon Bonds. As a condition of any such exchange or of any registration or transfer, the System at its option may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge that may be imposed thereon. All Bonds executed and delivered in exchange for or upon transfer of Bonds so surrendered shall be valid obligations of the System evidencing the same debt as the Bonds surrendered, and shall be entitled to all the benefits

and protection of this Resolution to the same extent as the Bonds in exchange for, or upon transfer of, which they were executed and delivered.

SECTION 4.7. Payment of Bonds and Interest. The Bonds of each Series and coupons appertaining thereto may be presented for payment at the principal office of any of the Paying Agents for such Series of Bonds. All Bonds and interest coupons upon the payment thereof shall be cancelled by the Paying Agents. A certificate evidencing such cancellation and any other cancellation made pursuant to this Resolution by the Paying Agents shall be transmitted to the Bond Fund Trustee monthly, and the Bond Fund Trustee shall, prior to the twentieth day of each month, furnish to the System copies of all certificates evidencing cancellation of all Bonds and interest coupons in the preceding month, together with a statement as to the Bonds and interest coupons paid in said preceding month.

The principal of and interest on all Coupon Bonds and the principal of all Registered Bonds of a Series of Bonds shall be payable at the principal office of any one of the Paying Agents for such Series of Bonds. Payments of the interest on the Coupon Bonds shall be made only upon presentation and surrender of the coupons, if any, representing such interest as the same, respectively, become due and payable. Payment of the interest on each Registered Bond shall be made by the Bond Fund Trustee on each interest payment date to the person whose name appears on the registration books of the System as the registered owner thereof, by check or draft mailed to such registered owner at his address as it appears on such registration books.

SECTION 4.8. Lost, Destroyed or Mutilated Bonds. In case any Bond or any coupon thereto appertaining shall at any time become mutilated or be lost, stolen or destroyed, the System in the case of such a mutilated Bond or coupon shall, and in the

case of such a lost, stolen or destroyed Bond or coupon in its discretion may, execute and deliver a new Bond or coupon of the same series, interest rate and maturity and of like tenor and effect in exchange or substitution for and upon the surrender and cancellation of such mutilated Bond or coupons appertaining thereto, or in lieu of or in substitution for such destroyed, stolen or lost Bond or coupons, or if such stolen, destroyed or lost Bond or coupons shall have matured, instead of issuing a substitute therefor, the System may at its option pay the same without the surrender thereof. Except in the case where a mutilated Bond or coupon is surrendered, the applicant for the issuance of a substitute Bond or coupons shall furnish to the System evidence satisfactory to it of the theft, destruction or loss of the original Bond or coupons and of the ownership thereof, and also such security and indemnity as may be required by the System, and no such substitute Bond or coupons shall be issued unless the applicant for the issuance thereof shall reimburse the System for the expenses incurred by the System in connection with the preparation, execution, issuance and delivery of the substitute Bond or coupons and any such substitute Bond or coupons shall be equally and proportionately entitled to the security of this Resolution with all other Bonds and coupons issued hereunder, whether or not the Bond or coupons alleged to have been lost, stolen, or destroyed shall be found at any time or enforceable by anyone. The System shall advise the Bond Fund Trustee and the Paying Agents of the issuance of substitute Bonds or coupons. All Bonds and coupons so surrendered to the System shall be cancelled by it.

SECTION 4.9. Limitation on Duty of System to Register, Exchange or Transfer Bonds. The System shall not be required (a) to issue, transfer or exchange Registered Bonds for a period of ten (10) days next preceding any interest payment date therefor,

(b) to issue, register, discharge from registration, transfer or exchange any Bonds for a period of ten (10) days next preceding any selection of Bonds to be redeemed thereafter or for a period of ten (10) days thereafter, or (c) to register, discharge from registration, transfer or exchange any Bonds which have been designated for redemption, within a period of sixty (60) days next preceding the date fixed for redemption.

SECTION 4.10. Destruction of Bonds on Payment, Exchange or Transfer. All Coupon Bonds and interest coupons paid by any Paying Agent or the Bond Fund Trustee shall be cancelled and shall be cremated or otherwise destroyed by such Paying Agent or Bond Fund Trustee, as the case may be, pursuant to such regulations, consistent with the laws of the State of Washington, as the Bond Fund Trustee (with the approval of the System) shall prescribe. All Registered Bonds cancelled on account of payment, transfer or exchange shall be delivered to the Bond Fund Trustee and shall be disposed of by the Bond Fund Trustee in accordance with the instructions of the System.

SECTION 4.11. CUSIP Identification Numbers. At the sole option of the System, CUSIP identification numbers may be printed on the Bonds of any Series of Bonds, including the 197_ Bonds, but no such number shall be deemed to be a part of any Bond or a part of the contract evidenced thereby, and no liability shall hereafter attach to the System or any of the officers or agents thereof because of or on account of said CUSIP identification numbers.

ARTICLE V
REDEMPTION OF BONDS

SECTION 5.1. Time of Redemption. The Bonds which are subject to redemption prior to maturity shall be redeemed in accordance with the provisions of this Article. The 197_ Bonds shall be subject to redemption at the times, under the conditions, and upon the payment of the redemption prices specified in Section 3.3. hereof, and all other Series of Bonds shall be subject to redemption at the times, under the conditions, and upon payment of the redemption prices specified in the Series Resolution or Resolutions authorizing the issuance of such Bonds.

SECTION 5.2. Selection of Bonds for Redemption. If less than all of a Series of Bonds are to be redeemed at any time, they shall be redeemed in the inverse order of maturities, and if less than an entire maturity is to be redeemed, the Bond Fund Trustee shall determine by lot, in any manner deemed by it to be fair, the serial numbers of the particular Bonds of such maturity so to be redeemed.

SECTION 5.3. Notice of Redemption. Notice of any redemption shall be given by the System, or by the Bond Fund Trustee in the name of the System, by publication of a notice, which notice shall specify the title, series, maturities, letters and numbers or other distinguishing marks of the Bonds to be redeemed, the redemption date and the place or places where the amount due upon such redemption will be payable and, in the case of Registered Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that upon the date fixed for redemption there shall become due and payable

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upon each Bond to be redeemed the principal amount thereof plus the premium, if any, due thereon upon the said redemption date, together with interest accrued to the redemption date, and that from and after the redemption date interest thereon, or on the portion of any Registered Bond to be redeemed in part (unless the System shall default in the payment of the Bonds, or of the portion of any Registered Bond so to be redeemed in part) shall cease to accrue and become payable. Such notice shall be published at least once on any business day of the week in daily financial papers, or in daily newspapers of general circulation printed in the English language, published in each of the cities of Seattle, Washington, Chicago, Illinois, and New York, New York, the date of publication to be not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption. If, because of the temporary or permanent suspension of the publication or general circulation of any financial paper or newspaper in any particular city, the Bond Fund Trustee deems it impossible to publish any such notice of redemption in such city in the manner herein provided, then there shall be made in lieu thereof such publication as shall be approved by the Bond Fund Trustee, and the same shall constitute a sufficient publication of such notice. The Bond Fund Trustee shall also mail a copy of such notice, postage prepaid, not less than twenty-five (25) days nor more than sixty (60) days before the redemption date to the registered owners of Bonds which are to be redeemed in whole or in part at their last addresses, if any, appearing upon the registry books, but such mailing shall not be a condition precedent to such redemption, and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of Bonds. The System shall give written notice to the Bond Fund Trustee of its election to redeem Bonds at least forty-five (45) days prior to the redemption date, or such shorter

period as shall be acceptable to the Bond Fund Trustee, and if notice of redemption is to be published by the Bond Fund Trustee, such notice shall contain all the information necessary to enable the Bond Fund Trustee to publish the notice of redemption in the manner aforesaid. As to Bonds which are redeemable by the Bond Fund Trustee without action being taken by the System under the terms of this Resolution, the Bond Fund Trustee shall proceed to publish notice of redemption of such Bonds at the time specified in this Resolution without further direction from the System. Whenever notice of redemption has been duly given as herein provided, the Bond Fund Trustee shall, not later than two (2) business days prior to the date fixed for redemption in such notice, transfer to the Paying Agents for the Bonds so to be redeemed amounts in cash which, in addition to other moneys, if any, held by such Paying Agents for such purpose, will be sufficient to redeem on the redemption date all the Bonds so to be redeemed.

SECTION 5.4 Payment of Redeemed Bonds; When

Interest on Bonds Called for Redemption Ceases to Accrue.

Notice having been given by publication in the manner provided in Section 5.3 hereof, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date designated in said notice and the Paying Agents shall make payment thereof upon presentation and surrender thereof at the offices of the Paying Agents specified in such notice, together with, in the case of Bonds registered otherwise than to bearer and for which payment is requested by a person other than the registered owner, a written instrument of transfer duly executed by the registered owner or his duly authorized attorney, and, in the case of Coupon Bonds, with the pertinent coupons maturing subsequent to the redemption date. In the event there shall be drawn for redemption less than all of

the Bonds represented by a Registered Bond, the System shall execute and the Paying Agents shall deliver upon the surrender of such bond without charge to the registered owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, either Coupon Bonds or a Registered Bond or Bonds of the same series, interest rate and maturity, in either the denomination of such unredeemed balance or in any of the authorized denominations as shall be requested by the registered owner of the Registered Bond so surrendered; provided, however, that the System may, by agreement with the registered owner of any Registered Bond, make payment of the redemption price of a portion of such Registered Bond directly to the registered owner thereof without presentation or surrender thereof upon such terms and conditions as the System may consent to in such agreement. The Bond Fund Trustee and each Paying Agent shall be advised by the System of each such agreement and shall be entitled to rely thereon, and to make payments in accordance therewith, until notified by the System of the termination of such agreement. If moneys for the redemption of all the Bonds, or portions thereof, to be redeemed on any redemption date, together with interest accrued to the redemption date, shall be held by the Paying Agents so as to be available therefor on the date fixed for redemption thereof, and if notice of redemption of said Bonds shall have been published as provided in this Article, then from and after the redemption date interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable, and the coupons for interest pertaining thereto maturing subsequent to the redemption date shall be void and all Bonds or portions thereof so called for redemption shall be payable solely from the moneys set aside for the payment thereof with the Paying Agents, and said Bonds or portions thereof shall no longer be secured

by the lien on and pledge of the revenues of the Projects; provided, however, that such lien and pledge shall continue in full force and effect as to the portion of any Registered Bond not called for redemption. If moneys shall not be available on the redemption date specified for the payment of any Bonds, or portion of Registered Bonds, for the payment of such Bonds or portions thereof as shall have been called for redemption, such Bonds or portions thereof shall continue to bear interest until paid at the rate they would have borne had they not been called for redemption and shall continue to be secured by the lien on and pledge of the revenues of the Project herein created for the security and payment thereof.

SECTION 5.5. Redeemed Bonds Not To Be Reissued.

No Bonds or coupons shall be issued in lieu of Bonds or coupons paid or surrendered upon any exchange or transfer except as expressly provided by this Resolution.

ARTICLE VI

CREATION OF SPECIAL FUNDS AND ACCOUNTS
AND PAYMENTS THEREFROM

SECTION 6.1. Revenue Fund. There is hereby created a special fund of the System to be known as the "Projects Revenue Fund" (hereinafter referred to as the "Revenue Fund"), the existence of which shall be continued for so long as any bonds issued pursuant to this Resolution are outstanding and unpaid. Upon and after the issuance of any bonds issued pursuant to this Resolution, the System covenants and agrees that it will pay into the Revenue Fund as promptly as practicable after receipt thereof all income, revenues, receipts and profits derived by the System through the ownership and operation by it of the Projects and all other moneys required to be deposited in the Reserve Fund pursuant to this Resolution (other than amounts expressly required by this Resolution to be deposited in any other fund); and further covenants and agrees that all such income, revenues, receipts, profits and other moneys shall be trust funds in the hands of the System and shall be used and applied as provided by this Resolution, solely for the purpose of paying the principal of, premium, if any, and interest on the bonds issued pursuant to this Resolution, the costs of operating and maintaining the Projects, and all other costs, charges and expenses in connection therewith, and for the purpose of making repairs, renewals and replacements to, and additions, betterments and improvements to and extensions of the Projects, and for the purpose of paying all other charges or obligations against said revenues, income, receipts, profits and other moneys of whatever nature now or hereafter imposed thereon by law or contract, to the payment of which for such purposes said revenues, income, receipts profits and other moneys are hereby pledged.

The pledge of the income, revenues, receipts, profits and other moneys hereby made by the System shall be valid and binding from the time of the adoption of this Resolution. The
Section 6.1

said income, revenues, receipts, profits and other moneys so pledged and hereafter received by the System shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of the aforesaid pledge shall be valid and binding as against any parties having claims of any kind in tort, contract or otherwise against the System irrespective of whether such parties have notice of the foregoing pledge.

Moneys in the Revenue Fund not required for immediate disbursement for the purposes for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the System solely in, and obligations deposited in said Fund shall be, Investment Securities of the types described in clauses (1) through (4), inclusive, of paragraph (n) of Section 1.1 hereof, maturing or subject to redemption at the option of the holder thereof, at or prior to the estimated time for the disbursement of such moneys. All income resulting from the investment or reinvestment of funds on deposit in the Revenue Fund received prior to July 1, 1985, or the Date of Commercial Operation of any of the Projects or any unit of the Skagit Project, whichever is earlier, shall be paid over to the Construction Fund Trustee for deposit in the Construction Fund. All such investment income received thereafter shall accrue to and be deposited in the Revenue Fund.

Nothing contained in this Section 6.1 shall be construed to require the deposit into the Revenue Fund of any of the revenues, income, receipts, profits or other moneys of the System derived by the System through the ownership or operation of any electric utility properties of the System acquired or constructed as a separate system and not constituting a part of the Projects, as defined in this Resolution, heretofore or hereafter created or established.

SECTION 6.2. Bond Fund. There is hereby created a special fund of the System to be known as the "Projects Bond Fund" (hereinafter referred to as the "Bond Fund"). The Bond Fund shall be held and administered by the Bond Fund Trustee appointed as

Section 6.2

provided for in Section 7.2 hereof, and shall, except as otherwise provided in Section 6.2D, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Bonds, and of retiring the Bonds prior to maturity in the manner herein provided. The System hereby obligates and binds itself irrevocably to set aside and to pay (to the extent not otherwise provided), out of the revenues, income, receipts, profits and other moneys of the Projects theretofore paid into the Revenue Fund, to the Bond Fund Trustee, in trust for the account of the Bond Fund, certain fixed amounts, without regard to any fixed proportion of said revenues, income, receipts, profits and other moneys, sufficient to pay the principal of, premium, if any, and interest on all the bonds from time to time outstanding as the same respectively become due and payable. Such fixed amounts to be paid to the Bond Fund Trustee and into the Bond Fund shall be as follows and in the following order of priority, to wit:

A. There is hereby created for the purpose of paying the interest on outstanding Bonds as the same becomes due and payable an Interest Account in the Bond Fund (hereinafter referred to as the "Interest Account").

Commencing with the last day of the month following the month in which occurs the Date of Commercial Operation of any Project or unit thereof, and on or before the 25th day of each calendar month thereafter, to and including June, 1985, or the month in which occurs the Date of Commercial Operation of the last Project, or unit of the Skagit Project, to be placed in commercial operation, whichever is earlier, the System shall pay or cause to be paid from the Revenue Fund into the Bond Fund for credit to the Interest Account, an amount equal to the interest on the Bonds accruing in such month multiplied by a fraction the numerator of which is the sum of the System's Ownership Shares of the capacity, expressed in kilowatts, of each Project placed in commercial operation (or if any Project or unit thereof is placed in commercial operation at less than one hundred per cent

(100%), of capacity, the System's Ownership Share of the capacity expressed in kilowatts, at which such Project or unit has been declared to be in commercial operation), as of the first business day of such month, and the denominator of which is the sum of the System's Ownership Shares of the nameplate rating of each of the Projects.

Commencing with the 25th day of the month following the month in which occurs the Date of Commercial Operation of the last Project or unit of the Skagit Project to be placed in commercial operation (and whether or not any Project or unit thereof is in commercial operation at less than one hundred per cent (100%) of capacity), or on July __, 1985, whichever month occurs earlier, and on or before the 25th day of each calendar month thereafter, the System shall pay or cause to be paid from the Revenue Fund into the Bond Fund for credit to the Interest Account an amount such that, if the same amount were so paid and credited to the Interest Account on the 25th day of each succeeding calendar month thereafter and prior to the next date upon which an installment of interest falls due on the Bonds, the aggregate of the amounts so paid and credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Bonds then outstanding.

Payment of interest accruing on Bonds prior to July 1, 1985, not provided for by payments from the Revenue Fund in accordance with the two preceding paragraphs shall be provided for by transfers to the Bond Fund from the Construction Fund, including the Construction Interest Account therein.

In making the credits to the Interest Account required by this subsection A, any amounts paid or to be paid into the Bond Fund and credited to the Interest Account representing accrued interest received on the sale of bonds, interest earned on the investment of moneys credited to the Interest Account and amounts to be transferred from the Construction Interest Account shall be taken into consideration and allowed for.

B. There is also hereby created for the purpose of paying outstanding serial Bonds as they mature a Principal Account in the Bond Fund (hereinafter referred to as the "Principal Account"). On or before the 25th day of July , 1985, in the case of Bonds maturing on July 1, 1986 and on or before the 25th day of the twelfth month prior to the date upon which an installment of principal of the serial Bonds maturing after July 1, 1986 falls due, and on or before the 25th day of each succeeding calendar month thereafter and prior to the date upon which such installment of principal of serial Bonds falls due, the System shall pay or cause to be paid into the Bond Fund to the credit of the Principal Account an amount such that, if the same amount were so paid and credited to the Principal Account on the 25th day of each succeeding calendar month thereafter and prior to such date upon which an installment of principal falls due on the serial Bonds, the aggregate of the amounts so paid and credited to the Principal Account would on such date be equal to the installment of principal then falling due.

C. There is also hereby created for the purpose of meeting the specified sinking fund installment requirements of any outstanding term Bonds a Bond Retirement Account in the Bond Fund (hereinafter referred to as the "Bond Retirement Account"). On or before the 25th day of each of the twelve months immediately prior to the date upon which a sinking fund installment is payable with respect to the term Bonds of each Series of Bonds, including the 197_ Bonds, the System shall pay or cause to be paid into the Bond Fund to the credit of the Bond Retirement Account for the purpose of retiring the term Bonds of such Series an amount such that, if the same amount were so paid and credited to the Bond Retirement Account for such purpose on the 25th day of each succeeding calendar month thereafter, and prior to the next date upon which a sinking fund installment falls due, the aggregate of the amounts so paid and credited to the Bond Retirement Account for the purpose of retiring the term Bonds of such Series

would be sufficient to redeem the 197_ Bonds due _____ 1, 20__, in the principal amounts and at the times specified in Section 3.2 of this Resolution and to redeem the term Bonds of all other Series of Bonds in the principal amounts and at the times specified in the Series Resolution or Resolutions authorizing the issuance of such Series of Bonds.

The Bond Fund Trustee shall apply all or substantially all moneys credited to the Bond Retirement Account for the retirement of the term Bonds of each series of Bonds to the retirement of such Bonds by purchase at prices not exceeding the then applicable redemption price (in which event the principal amount of such Bonds required to be redeemed on the next sinking fund installment date shall be reduced by the principal amount of such Bonds so purchased), or if unable to purchase such Bonds at such prices, the Bond Fund Trustee shall on any interest payment date apply said moneys to the retirement of such term Bonds by redemption in accordance with the provisions of this Resolution and the supplemental resolution or resolutions authorizing such Bonds, or by a combination of purchase and redemption; provided, however, that unless otherwise directed by the System not less than \$100,000 aggregate principal amount of such Bonds shall be called for redemption at any one time. Any such purchase of term Bonds by the Bond Fund Trustee may be made with or without tenders of Bonds pursuant to published notice, in such manner as the Bond Fund Trustee shall in its discretion deem to be in the best interests of the System, provided that the System may direct the Bond Fund Trustee in any method to be followed in purchasing such Bonds. All expenses in connection with the purchase or redemption of such Bonds shall be paid by the System from the Revenue Fund, or if no funds are available therein, from the Reserve and Contingency Fund.

In the event that moneys in the Bond Retirement Account, other than moneys credited thereto as sinking fund installments pursuant to this Resolution or any resolution supplemental hereto,

are to be applied to the retirement of term Bonds, the System may apply such moneys to the purchase of such Bonds and may determine from which Series such purchases shall be made and may elect that all such purchases shall be made from only one Series or from more than one Series. Any such moneys not applied to the purchase of such Bonds shall be applied to the redemption of term Bonds of each Series in the proportion which the principal amount of term Bonds of such Series then outstanding bears to the total principal amount of term Bonds then outstanding.

The accrued interest payable on any Bonds purchased or redeemed with moneys credited to the Bond Retirement Account in the Bond Fund for the purpose of meeting the specified sinking fund installment requirements of any term Bonds shall be paid from moneys credited to the Interest Account therein.

D. There is also hereby created a Reserve Account in the Bond Fund (hereinafter referred to as the "Reserve Account"). From the proceeds of the sale of Bonds of each Series, including the 197_ Bonds, there shall be deposited in the Reserve Account an amount of cash equal to the largest amount of interest required to be paid with respect to the Bonds of such Series during any six-month period from the date of such Bonds to the final maturity date thereof. So long as any Bonds of a Series of Bonds are outstanding, there shall at all times be maintained in the Reserve Account, in addition to the amount required to be maintained therein with respect to each other Series of Bonds, an amount equal to the largest amount of interest required to be paid with respect to the Bonds of such Series during any six-month period from the date of such Series of Bonds to the final maturity date thereof, by additional payments from the Revenue Fund as may from time to time become necessary.

Prior to July 1, 1985, or the date upon which occurs the Date of Commercial Operation of the last Project or unit of the Skagit Project to be declared to be in commercial operation, whichever is earlier, any moneys and value of Investment

Securities in the Bond Fund to the credit of the Reserve Account therein received by reason of investment or reinvestment of moneys in said Reserve Account in excess of the minimum amount of moneys and value of Investment Securities required to be maintained therein shall be transferred at least semi-annually by the Bond Fund Trustee to the Construction Fund Trustee and deposited to the credit of the Construction Fund.

If, on any June 30 following July 1, 1985, or the date upon which occurs the Date of Commercial Operation of the last Project or unit of the Skagit Project to be declared to be in commercial operation, whichever is earlier, the moneys and value of Investment Securities in the Reserve Account or the reserve account for any series of additional bonds shall exceed the amount of moneys and value of Investment Securities then required to be maintained therein, the amount of such excess shall be applied to satisfy any deficiency in the Reserve Account or in any of the other such reserve accounts (pro rata in proportion to the respective deficiencies if such excess is insufficient to satisfy all such deficiencies) and the balance, if any, of such excess shall be transferred to the Revenue Fund as of such June 30.

The terms "value of Investment Securities" and words of like import as used herein shall be determined as of June 30 and December 31 in each year and shall constitute (a) as to obligations which mature within six (6) months from the date of purchase thereof, the par value of such obligations, and (b) as to obligations which mature more than six (6) months after the date of purchase thereof, the lesser of (i) the amortized cost of such obligations, or (ii) the bid quotation price thereof as reported in The Wall Street Journal as of said date, or in the event such newspaper is not published or such price is not reported in said newspaper, in a newspaper of general circulation or a financial journal published in the Borough of Manhattan, City and State of New York, selected by the Bond Fund Trustee, or (iii) the price at which

such obligations are then redeemable by the holder at his option. The computations made under this paragraph shall include accrued interest.

E. Moneys in the Bond Fund shall be transmitted by the Bond Fund Trustee to the Paying Agents not less than two (2) days prior to the date upon which any interest or principal is due on Bonds, either at the maturity date thereof or redemption date prior to maturity, in amounts sufficient to meet such maturing installments of principal, interest and redemption premium, if any, when due. In the event that there shall be a deficiency in the Interest Account, the Principal Account or the Bond Retirement Account in the Bond Fund, the Bond Fund Trustee shall promptly make up such deficiency from the Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of Investment Securities held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency. The System covenants and agrees that any deficiency created in the Reserve Account or the reserve account for any series of additional bonds, by reason of any such withdrawal for payment into the Interest, Principal or Bond Retirement Accounts, or the interest, principal or bond retirement accounts for such additional bonds, shall be made up from moneys in the Revenue Fund first available after making provision for the payments into such Interest, Principal and Bond Retirement Accounts, or such interest, principal or bond retirement accounts for such additional bonds.

Whenever the assets of the Bond Fund shall be sufficient to provide moneys to retire all Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further payments need be made into the Bond Fund.

The Bond Fund shall be drawn upon for the purpose of paying the principal of, redemption premium, if any, and interest on

the Bonds. Moneys set aside from time to time with the Paying Agents for the payment of such principal, redemption premium and interest shall be held in trust for the holders of the Bonds and appurtenant coupons in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Bond Fund shall be held in trust for the benefit of the holders of all Bonds at the time outstanding, equally and ratably.

SECTION 6.3. Bonds Charge Only Against Bond Fund and Moneys Pledged Thereto; Bonds Prior Charge Over All Other Charges and Claims Against Bond Fund. The Bonds and the interest thereon shall be a valid claim of the holder thereof only against the Bond Fund and the amount of the revenues, income, receipts, profits and other moneys of the Projects pledged to the Bond Fund, and shall constitute a prior charge over all other charges or claims whatsoever against the Bond Fund and such revenues, income, receipts, profits and other moneys pledged thereto, and the Board hereby finds and determines that in creating the Bond Fund due regard has been given to the cost of the operation and maintenance of the Projects and amounts required for the payment of taxes, assessments, or other governmental charges, or payments in lieu thereof, lawfully imposed against the properties or revenues of the Projects, and that it has not obligated the System to set aside into the Bond Fund a greater amount of the revenues and proceeds of the Projects than in its judgement will be available over and above such cost of maintenance, operation and taxes, assessments, or other governmental charges or payments in lieu thereof.

SECTION 6.4. Fuel Fund. There is hereby created a special fund of the System to be known as the "Projects Fuel Fund" (hereinafter referred to as the "Fuel Fund") and said Fund shall be held in trust by the System. Beginning on the Date of Commercial Operation of each Project all payments for Fuel for such Project shall be made from the Fuel Fund. Commencing with the Date of Commercial Operation of any Project, after making the payments

hereinabove provided for into the Bond Fund and into any separate bond fund established for additional bonds issued pursuant to this Resolution, and paying or making provision for the payment of the reasonable and necessary costs of operating and maintaining the Projects, including taxes or assessments lawfully imposed against the same, or payments in lieu thereof, the System shall transfer moneys from the Revenue Fund to the Fuel Fund for the purpose of paying the costs and expenses of acquiring or leasing Fuel for each Project placed in commercial operation in the amounts as follows:

(1) The amount included in the annual budget and any amendments thereto, adopted pursuant to the Participants' Agreements, for Fuel for such Project.

(2) All amounts received by the System from Fuel credits with respect to the Fuel for such Project, including the proceeds of sale of Fuel creditable to operations.

(3) Additional amounts as may be necessary to avoid a deficiency in the amounts available in the Fuel Fund to provide for Fuel for such Project.

If the System ceases operation of any Project, any amounts on deposit in the Fuel Fund for the acquisition of Fuel for such Project may be transferred to the Revenue Fund.

SECTION 6.5. Reserve and Contingency Fund. There is hereby created a special fund of the System to be known as the "Projects Reserve and Contingency Fund" (hereinafter referred to as the "Reserve and Contingency Fund") and said Fund shall be held in trust by the System.

The System shall deposit in the Reserve and Contingency Fund from the proceeds of sale of each series of Bonds, an amount at least equal to one per cent (1%) of the principal amount of such Series of Bonds until there has been deposited in such Fund the sum of Ten Million Dollars (\$10,000,000).

After making the payments hereinabove provided for into the Section 6.5

Bond Fund and into any separate bond fund established for additional bonds issued pursuant to this Resolution, and paying or making provision for the payment of the reasonable and necessary cost of operating and maintaining the Projects, including taxes or assessments lawfully imposed against the same, or payments in lieu thereof, and after making the payments hereinabove for into the Fuel Fund, the System shall, on or before the last day of the month following the month in which occurs the Date of Commercial Operation of any Project or unit of the Skagit Project, or July, 1985, whichever is earlier, and on or before the 25th day of each month thereafter, pay out of the Revenue Fund into the Reserve and Contingency Fund an amount equal to five per cent (5%) of the amounts required to be paid in such month from the Revenue Fund into the Interest Account, the Principal Account and the Bond Retirement Account in the Bond Fund and the interest accounts, the principal accounts and the bond retirement accounts in the bond funds established for additional bonds issued pursuant to this Resolution, without regard to any amounts which may be in the Bond Fund or the bond funds established for such additional bonds resulting from the investment or reinvestment of the Bond Fund or bond funds established for such additional bonds.

Moneys in the Reserve and Contingency Fund shall be used from time to time to make up any deficiencies in the Interest Account, Principal Account or Bond Retirement Account in the Bond Fund for which funds are not available in the Construction Fund or the Reserve Account in the Bond Fund, or to make up any deficiencies in the interest account, principal account or bond retirement account in any bond fund established for additional bonds issued pursuant to this Resolution for which funds are not available in any construction fund or reserve account in such bond fund for such bonds, and such moneys in the Reserve and Contingency Fund are hereby pledged as additional payments into the Bond Fund or any such bond fund to the extent

required to make up any such deficiencies. To the extent not required for any such deficiency, moneys in the Reserve and Contingency Fund may be applied to any one or more of the following:

(1) to pay the cost of renewals and replacements to the Projects;

(2) to pay the cost of normal additions to and extensions of the Projects; and

(3) to pay extraordinary operation and maintenance costs, including extraordinary costs of Fuel, and the cost of preventing or correcting any unusual loss or damage (including major repairs) to the Projects.

If, as of June 30 in any year, the moneys and value of Investment Securities in the Reserve and Contingency Fund shall exceed the amount of the then commitments or obligations incurred by or the then requirements of the System for any of the foregoing purposes in connection with the Projects, plus Ten Million Dollars (\$10,000,000), such excess amount shall be paid as follows: (1) if such June 30 is prior to the Date of Commercial Operation of any Project or unit of the Skagit Project, or July 1, 1985, whichever is earlier, into the Construction Fund and (2) if such June 30 is thereafter, into the Reserve Account in the Bond Fund and the reserve account in the bond fund established for any additional bonds issued pursuant to this Resolution to the extent of any deficiency therein (pro rata in proportion to the respective deficiencies if such excess amount is insufficient to satisfy all such deficiencies), and the balance, if any, of such excess amount shall be paid as of June 30 into the Revenue Fund.

SECTION 6.6. Contingency Reserve Fund. There is hereby created a special fund of the System to be known as the "Project Special Contingency Reserve Fund" (hereinafter referred to as the "Contingency Reserve Fund"). The Contingency Reserve Fund

Section 6.6

shall be held and administered by the Contingency Reserve Fund Trustee appointed as provided for in Section 7.3 hereof.

The System shall, on or before the last day of the month following the month in which occurs the Date of Commercial Operation of any of the Projects or any unit of the Skagit Project, and on or before the 25th day of each month thereafter, pay out of the Revenue Fund into the Contingency Reserve Fund an amount equal to the aggregate principal amount of Bonds theretofore issued, multiplied by eight twelve-thousandths (8/12,000) provided, however, that in any month to and including the month in which occurs the Date of Commercial Operation of the last Project or unit of the Skagit Project to be placed in commercial operation, the amount required to be deposited in the Contingency Reserve Fund shall be the amount computed as aforesaid multiplied by a fraction the numerator of which is the sum of the System's Ownership Shares of the capacity, expressed in kilowatts, of each Project placed in commercial operation (or if any Project or unit thereof is placed in commercial operation at less than one hundred per cent (100%), of capacity, the System's Ownership Share of the capacity, expressed in kilowatts, at which such Project or unit has been declared to be in commercial operation), as of the first business day of such month, and the denominator of which is the sum of the System's Ownership Shares of the nameplate rating of each of the Projects. The payments required by this paragraph shall continue until the moneys and value of Investment Securities on deposit in the Contingency Reserve Fund equal ten per cent (10%) of the aggregate principal amount of Bonds issued.

If any additional bonds are issued pursuant to paragraphs (a) or (b) of Section 9.6, commencing with the month in which payments from the Revenue Fund to the bond fund established for such additional bonds are required to begin, the System shall, if necessary, pay out of the Revenue Fund into the Contingency Reserve Fund, on or before the 25th day of each month, an amount

equal to the principal amount of such additional bonds multiplied by eight twelve-thousandths ($8/12,000$), until the moneys and value of Investment Securities credited to such account shall equal ten per cent (10%) of the greater of (a) the principal amount of Bonds theretofore issued or (b) the sum of (i) the principal amount of Bonds and bonds issued pursuant to paragraphs (a) and (b) of Section 9.6 outstanding at the time of issuance of such additional bonds and (ii) the principal amount of such additional bonds.

Subject to the preceding paragraphs, if by reason of the withdrawal of moneys from the Contingency Reserve Fund or otherwise, the money and value of Investment Securities in the Contingency Reserve Fund shall at any time be less than the amount required by the previous paragraphs, the System shall pay out of the Revenue Fund into the Contingency Fund, on or before the 25th day of each month, an amount equal to the aggregate principal amount of bonds issued pursuant to the Resolution then outstanding (less the principal amount of additional bonds, if any, on account of which payments are being or will be made pursuant to the preceding paragraph) multiplied by eight twelve-thousandths ($8/12,000$) until the moneys and value of Investment Securities shall equal the required amount.

Payments to the Contingency Reserve Fund shall be made after making the payments hereinabove provided for into the Bond Fund and into any separate bond fund established for additional bonds issued pursuant to this Resolution, and paying or making provision for the payment of the reasonable and necessary cost of operating and maintaining the Projects, including taxes and assessments lawfully imposed against the same, or payments in lieu thereof, and after making the payments hereinabove provided for into the Fuel Fund and the Reserve and Contingency Fund.

Moneys in the Contingency Revenue Fund shall be used from time to time to make up any deficiencies in the Interest Account, Principal Account or Bond Retirement Account in the Bond

Fund for which funds are not available in the Reserve and Contingency Fund or the Construction Fund or the Reserve Account in the Bond Fund, or to make up any deficiencies in the interest account, principal account or bond retirement account in any bond fund established for additional bonds issued pursuant to this Resolution for which funds are not available in the Reserve and Contingency Fund or any construction fund or reserve account in such bond fund for such bonds; and moneys in the Contingency Reserve Fund are hereby pledged as additional payments into the Bond Fund or any such bond fund to the extent required to make up any such deficiencies. To the extent not required for any such deficiency, moneys in the Contingency Reserve Fund may be applied to any one or more of the following:

- (1) to the extent that moneys in the Reserve and Contingency Fund and the proceeds of insurance are insufficient therefor, to pay the System's Ownership Share of (a) the cost of renewals, replacements and additions to and extensions of any Project or (b) the cost of preventing or correcting any unusual loss or damage (including major repairs) to any Project.
- (2) to pay the System's Ownership Share of the cost of complying with any order or decision of any state or federal governmental agency or authority with authority to issue or make and enforce such order or decision, requiring the installation of additional facilities or modifications at or in any Project and the cost of capital additions and betterments to any Project necessary to achieve design capability.
- (3) to pay the System's Ownership Share of the costs of decommissioning any Project.

Moneys in the Contingency Reserve Fund shall not be expended for the purposes specified in paragraphs (1) and (2) above in connection with any Project until the Date of Commercial

Operation thereof. If the System is authorized to issue additional bonds pursuant to paragraphs (a) or (b) of Section 9.6 for the purpose for which it is proposed to withdraw moneys from the Contingency Reserve Fund, such moneys shall not be so withdrawn unless the System determines, with the concurrence of the Consulting Engineer, that the System is unable to issue and sell such bonds.

The Board shall approve all payments from the Contingency Reserve Fund and, by written order signed by the President and Secretary or Assistant Secretary of the System, direct the Contingency Reserve Fund Trustee to make such payments from the Contingency Reserve Fund. Each such order shall be accompanied by a certificate signed by the Consulting Engineer stating that an obligation in the stated amount has been incurred by the System and is a proper charge against the Contingency Reserve Fund.

If, as of June 30 in any year, the moneys and value of Investment Securities in the Contingency Reserve Fund for credit to any account shall exceed the amount of the then commitments or obligations incurred by or the then requirements of the System for any of the foregoing purposes, plus the amount required to be on deposit therein pursuant to this Section, such excess amount shall be transferred to the Reserve Account in the Bond Fund and the reserve account in the bond fund established for any additional bonds issued pursuant to this Resolution to the extent of any deficiency therein (pro rata in proportion to the respective deficiencies if such excess amount is insufficient to satisfy all such deficiencies), and the balance, if any, of such excess amount shall be transferred as of June 30 to the Revenue Fund.

If all the Projects are terminated as provided in the Participants' Agreements and all the costs of decommissioning the Projects are paid or provided for to the satisfaction of the Bond Fund Trustee, any balance remaining in the Special Contingency Fund not required to be retained therein to provide

for the payment of such costs may be paid over to the Participants and no further deposits need be made to the Special Contingency Fund.

SECTION 6.7. Surplus Moneys. If on any June 30, the moneys credited to the Revenue Fund pursuant to Sections 6.5 and 6.6 hereof and the other amounts in the Revenue Fund shall exceed the System's required amount of working capital, the amount of such excess shall be applied to reduce annual power costs to the purchasers of power and energy from the Projects in accordance with the Participants' Agreements and any other agreements for the sale of capacity, power and energy from the Projects.

Upon the giving of such consents as may be provided for in the Participants' Agreements or any other agreements for the sale of power and energy from the Projects, and subject to any conditions attached to any such consent, all or any part of such excess may be applied to paying the cost of making repairs, renewals and replacements, additions, betterments and improvements to and extensions of the Projects, the purchase of Bonds and bonds issued pursuant to this resolution, the redemption of Bonds and bonds issued pursuant to this resolution or for other purposes in connection with the Projects. For the purpose of this Section 6.8, the System's "required amount of working capital" shall be \$___,000,000 or such lesser amount (but not less than \$___,000,000) or such greater amount as may be determined by the System with the approval of the Consulting Engineer.

The amount which exists in the Revenue Fund shall be deemed to be the amount of the then excess of the current assets in the Revenue Fund over the current liabilities with respect thereto determined in accordance with the Uniform System of Accounts prescribed by the Federal Power Commission for Public Utilities and Licensees in effect on _____ 1, 197__; provided that such current liabilities as of any June 30 shall not include the payments required to be Section 6.7

made for the next following twelve-month period into the Bond Fund or any bond fund established for additional bonds.

SECTION 6.8. Investment of Funds. Moneys held for the credit of the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund, shall, to the fullest extent practicable and reasonable, be invested by the Bond Fund Trustee in Investment Securities of the types described in clauses (1) through (4), inclusive, or paragraph (n) of Section 1.1 hereof which shall mature not later than two (2) business days prior to the respective dates when the moneys held for the credit of such Accounts will be required for the purposes intended.

Moneys in the Reserve Account in the Bond Fund not required for immediate disbursement for the purposes for which said Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Bond Fund Trustee at the direction of the System solely in, and obligations deposited in said Reserve Account shall be, Investment Securities of the types described in clauses (1) through (4) inclusive, of paragraph (n) of Section 1.1 hereof maturing, or subject to redemption at the option of the holder thereof, within seven (7) years from the date of such investment (but maturing prior to the final maturity date of the Bonds). The Bond Fund Trustee shall not be liable for any depreciation in value of any such investments.

Moneys in the Fuel Fund, Reserve and Contingency Fund, Contingency Reserve Fund and Development Fund (hereinafter created) not required for immediate disbursement for the purposes for which said Funds are created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the System or in the case of the Contingency Reserve Fund and the Development Fund, by the Contingency Reserve Fund Trustee and the Development

Fund Trustee, respectively, at the direction of the System, solely in, and obligations deposited in said Funds shall be, Investment Securities, maturing or subject to redemption at the option of the holder thereof within two (2) years from the date of such investment, in the case of the Fuel Fund and the Development Fund, and within seven (7) years from the date of such investment in the case of the Reserve and Contingency Fund and the Contingency Reserve Fund (but maturing in each case prior to the final maturity date of the Bonds). The Contingency Reserve Fund Trustee and the Development Fund Trustee shall not be liable for any depreciation in value of any such investments therein.

All income resulting from the investment or re-investment of moneys in the Interest Account, Principal Account, Bond Retirement Account and the Reserve Account in the Bond Fund, the Fuel Fund, the Reserve and Contingency Fund, the Contingency Reserve Fund or the Development Fund shall accrue to and be credited to said respective Accounts and Funds.

All moneys held or set aside by the System in the Revenue Fund, Fuel Fund or Reserve and Contingency Fund shall, until otherwise invested or applied as provided in this Resolution, be adopted by the System in its name, for the account of the Revenue Fund, the Fuel Fund or the Reserve and Contingency Fund, as the case may be, in such depository or depositories as the System shall at any time or from time to time appoint for the purpose. Any depository so appointed shall be a state bank or trust company or national banking association located in the State of Washington and qualified under the laws of said State to receive deposits of public moneys, having a capital stock and surplus in excess of Ten Million Dollars (\$10,000,000), and all moneys so deposited shall be secured to the extent and in the manner permitted by applicable state or federal laws for the securing of deposits of public moneys.

SECTION 6.9. Construction Fund. There is hereby created a special fund of the System to be known as the "Project Construction Fund" (hereinafter referred to as the "Construction Fund") which shall be held in trust by the Construction Fund Trustee for the benefit of the System and the holders of the Bonds, as their interest may appear. There is also hereby created in the Construction Fund two special accounts to be known as the "Construction Interest Account" and the "Fuel Account".

A. Immediately upon the issuance and delivery of any Series of Bonds, there shall be paid into the Construction Fund such amount of the proceeds derived from the sale of such Bonds as is to be applied to the payment of the Cost of Construction of the Projects, other than such amounts as are required or directed by the System to be set aside for working capital and to make payments to the Reserve Account in the Bond Fund and the Reserve and Contingency Fund, which amounts shall be deposited in the Revenue Fund, the Reserve Account and Reserve Contingency Fund, respectively. Moneys so deposited in the Construction Fund shall be applied to pay the Cost of Construction.

B. From the proceeds derived from the 197_ Bonds there shall be deposited:

1. With _____ amounts sufficient to pay, and to be used solely for the payment of, the \$,000,000 principal amount of outstanding notes heretofore issued by the System for the purpose of paying the cost of preliminary work and expenses in connection with the Projects;

2. With the Construction Fund Trustee for credit to the Construction Interest Account the amount of _____ Dollars (\$ _____) being such amount as the System determines should be credited thereto to provide for the payment of interest on the Bonds which is defined as a Cost of Construction in paragraph E of Section 6.11;

3. With the Bond Fund Trustee for credit to the Reserve Account in the Bond Fund an amount equal to the largest amount required to be paid or set aside in the Interest Account in the Bond Fund with respect to the 197_ Bonds during any six-month period from the date of such Bonds to the final maturity date thereof;

4. With the System for deposit in the Reserve and Contingency Fund the amount of _____ Million Dollars (\$____,000,000);

5. With the System for deposit in the Revenue Fund the amount of _____ Million Dollars (\$____,000,000) to be used as working capital in connection with the Initial Projects;

6. With the Construction Fund Trustee for the credit of the Fuel Account the amount of _____ Dollars (\$____), and all costs of Capitalized Fuel shall be paid from this account; and

7. With the Construction Fund Trustee for credit to the Construction Fund the balance of such Bond proceeds.

C. From the proceeds derived from the sale of each Series of Bonds other than the 197_ Bonds, there shall be deposited:

1. With the Construction Fund Trustee for credit to the Construction Interest Account such amount as the System determines should be credited thereto to provide for the payment of interest on the Bonds which is defined as a Cost of Construction in paragraph E of Section 6.11;

2. With the Bond Fund Trustee for credit to the Reserve Account in the Bond Fund an amount equal to the largest amount required to be paid or set aside in the Interest Account in the Bond Fund with respect to said Series of Bonds during any six-month period from the date of such Bonds to the final maturity date thereof;

3. With the System for deposit in the Reserve and Contingency Fund such amount, if any, as is required pursuant to Section 6.5 hereof;

4. With the System for deposit in the Revenue Fund such amounts as are determined by the System to be required for working capital;

5. With the Construction Fund Trustee for credit to the Fuel Account such amounts as are determined by the System; and

6. With the Construction Fund Trustee for credit to the Construction Fund the balance of such Bond proceeds, which shall be applied to the Cost of Construction.

D. Moneys in the Construction Interest Account shall be used for the purpose of paying the interest on the Bonds which is defined as a Cost of Construction in paragraph E of Section 6.11. On or before the 25th day of the month next preceding the maturity of an installment of interest on the Bonds all or a portion of which is so payable as a Cost of Construction, the Construction Fund Trustee shall transfer from the Construction Interest Account to the Bond Fund Trustee for deposit in the Interest Account in the Bond Fund an amount which, together with any moneys theretofore received or held by the Bond Fund Trustee for the purpose, shall be sufficient to pay that portion of such next maturing installment of interest on the Bonds so payable. If at any time moneys in the Construction Interest Account and other available moneys are inadequate for such purpose, the Construction Fund Trustee shall transfer from the Construction Fund to the Construction Interest Account such amount of moneys as is required to permit such transfer to the Bond Fund Trustee. If at any time the System determines that the moneys and value of Investment Securities credited to the Construction Interest Account exceeds the amount required to provide for the payment of interest on the Bonds which is a Cost of Construction, it may direct the Construction Fund Trustee to credit such excess to the Construction Fund.

E. Except as provided in paragraph F of this Section, all moneys received by the System by reason of the sale of energy produced by any Project or a unit of the Skagit Project prior to its Date of Commercial Operation for test purposes or received by reason of the breach or default of contractors and the proceeds of salvage sales in connection with the construction of the WPPSS No. 4 Project or the System's Ownership Share of the WPPSS No. 5 Project or Skagit Project shall be paid to the Construction Fund Trustee for deposit in the Construction Fund.

F. All moneys received by the System as Fuel credits and by reason of any breach or default of contractors in connection with Capitalized Fuel for the WPPSS No. 4 Project or the System's Ownership Share of Capitalized Fuel the WPPSS No. 5 Project or Skagit Project, including the proceeds of sale of Fuel, prior to the Date of Commercial Operation of each such respective Project shall be paid into the Construction Fund for credit to the Fuel Account.

G. If moneys credited to the Fuel Account are insufficient to pay the cost of Capitalized Fuel for the Projects, the Construction Fund Trustee shall transfer to said Account from the Construction Fund such additional amounts as are necessary to pay the cost of said Capitalized Fuel, to the extent of available funds.

H. As soon as practicable after the notes issued pursuant to Resolution No. ___ are no longer deemed to be outstanding under the terms of said resolution, there shall be deposited in the Construction Fund all amounts then on deposit in the preliminary construction fund established pursuant to such resolution. There shall also be transferred to the Construction Fund from time to time any amounts held by the note interest fund trustee or any paying agent appointed pursuant to such resolution which are not required to be held by it in order to provide for the payment of the principal of and interest on such notes.

SECTION 6.10. Investment of Moneys in Construction Fund. The Construction Fund Trustee may, and at the direction of the System shall, invest the moneys in the Construction Fund from time to time in Investment Securities, which Investment Securities shall mature, or which shall be subject to redemption at the option of the holder thereof, in not more than five (5) years from date of purchase. Any investment made by the Construction Fund Trustee and any direction given by the System shall be made or given with due regard to the latest estimates of the System, the Construction Engineers and Puget Sound Power & Light Company (hereinafter referred to as "Puget") with respect to the amounts needed from time to time to pay Cost of Construction and the estimated dates of such payment. All interest earned by reason of such investments shall accrue to the Construction Fund. In the event that moneys that are invested are needed in the Construction Fund to meet obligations thereof for which funds are not otherwise available, then the Construction Fund Trustee shall sell, or present for redemption, said investments to the extent required to provide for such purpose. The Construction Fund Trustee shall not be liable for any depreciation in the value of any of such investments made at the direction of the System.

SECTION 6.11. Cost of Construction. Payment of the Cost of Construction of each Project shall be made from the moneys in the Construction Fund. For the purpose of this Resolution, the Cost of Construction of each Project shall include, in the case of WPPSS No. 4 Project, all costs of constructing, acquiring and installing said Project as generally described in Section 2.2. hereof, and, in the case of the WPPSS No. 5 Project and the Skagit Project, the System's Ownership Share of the "Costs of Construction" as defined in the WPPSS No. 5

Section 6.10
Section 6.11

Project Ownership Agreement and the Skagit Project Ownership Agreement, respectively, and shall include, but not be limited to, all or the System's Ownership Share, as appropriate, of the following items:

A. Paying or reimbursing the cost of preliminary surveys, investigations, engineering and other expenses and fees properly incurred for any Project and paying the principal of and interest on revenue notes or bond anticipation notes issued by the System for the Projects.

B. The cost of obtaining any and all permits and licenses required by any governmental agency or authority having jurisdiction and any other licenses, permits, approvals or legal rights of any kind required for, or used or useful in the acquisition and construction of the Projects and the placing of the same in operation.

C. Obligations incurred for labor and materials and to contractors, builders and material suppliers in connection with the acquisition and construction of the Projects, for machinery and equipment, for the restoration or relocation of property damaged or destroyed in connection with such construction, for the removal or relocation of structures and for the clearing of lands, and for the cost of Capitalized Fuel.

D. The cost of acquiring by purchase, if such purchase shall be deemed expedient, and the amount of any deposit in court or award or final judgment in or any settlement or compromise of any proceeding to acquire by condemnation or by the exercise of the power of eminent domain, such lands, property, rights of way, franchises, easements or other interests in land as may be deemed to be used or useful for the acquisition, construction, maintenance and operation of any Project, options and partial payments thereon, and the amount of any damages incident to or consequent upon the construction, acquisition and operation of any Project, and the cost of such payments to other public agencies as may be necessary

or required by the Participants' Agreements and the WPPSS No. 5 Project Ownership Agreement and the Skagit Project Ownership Agreement.

E. Interest accruing on the Bonds to July 1, 1985, which is not payable from the Revenue Fund pursuant to Sub-section A of Section 6.2 hereof.

F. The fees and expenses of the Construction Fund Trustee for all services rendered under this Resolution with respect to each Project during the Period of Construction thereof and of the Bond Fund Trustee and of the Paying Agents for all services rendered under this Resolution until the Date of Commercial Operation of the last Project or unit of the Skagit Project placed in commercial operation or until July 1, 1985, whichever is earlier; taxes or other municipal or governmental charges lawfully levied or assessed against each Project or unit thereof and any taxes levied against property acquired therefor or payments required in lieu thereof, except sales taxes, in each case to the Date of Commercial Operation thereof; sales taxes during the Period of Construction of each Project or unit thereof; and premiums on insurance in connection with the construction of each Project or unit thereof during the Period of Construction thereof.

G. The cost to the System of the performance of the duties of the Construction Engineers and the Consulting Engineer and other engineering and professional services rendered to the System in connection with the acquisition and construction of each Project and placing the same in operation, or the issuance of Bonds therefor.

H. Paying, or reimbursing the System for, expenses incident and properly allocable to the acquisition and construction of each Project and the placing of the same in operation, including per diem compensation or salaries of the Board, legal, engineering, financing, accounting and other professional expenses and fees,

cost of printing and preparing and issuing the Bonds, wages of office and clerical employees, administrative management expenses, pension requirements, health and hospitalization insurance and all other items of expense not specified elsewhere in this section which are incident and properly allocable to the acquisition and construction of each Project and placing the same in operation (including the premiums on any insurance and fidelity bonds required or obtained during construction), including miscellaneous fees and costs in connection with the acquisition of lands, rights of way, property rights, franchises, easements, cost of abstracts of title, title insurance, cost of surveys and appraisals.

Notwithstanding any other provision of this Resolution (a) the Cost of Construction shall not include any amounts which are the obligations of parties to the WPPSS No. 5 Project Ownership Agreement or the Skagit Project Ownership Agreement other than the System, except as permitted by said Agreements, (b) the cost of all repairs, renewals and replacements to any Project or unit thereof prior to the Date of Commercial Operation thereof shall constitute a Cost of Construction thereof; (c) premiums paid for insurance on any Project or unit thereof maintained by the System pursuant to the requirements of this Resolution, the Participants' Agreements, the WPPSS No. 5 Project Ownership Agreement or the Skagit Project Ownership Agreement for the period ending with the Date of Commercial Operation of such Project or unit shall constitute items chargeable to the Cost of Construction thereof, and for subsequent periods shall constitute expenses of operation; and (d) from and after the Date of Commercial Operation of any Project or unit thereof the costs and expenses, including taxes of the System in connection with the operation and maintenance of such Initial Project shall not be included in the Cost of Construction thereof.

In any event, amounts in the Construction Fund shall be applied to the payment when due of principal of and interest on the Bonds to the extent that other moneys are not available

therefor and such amounts are hereby pledged as additional payments to the Bond Fund to the extent required for any such deficiency.

SECTION 6.12. Manner of Paying Cost of Construction

Except for payments from the Construction Fund otherwise in paragraph D of Section 6.9 and in Section 6.13 specifically provided for, and for payments or reimbursements specified in paragraph A of Section 6.11, transfers or payments from the Construction Fund shall be made in accordance with the provisions of this Section 6.12. Upon preparation of vouchers approved by the Auditor, the Board shall approve and direct the payment of all amounts due and owing on account of the Cost of Construction of any Project, and, by written order signed by the President or Vice President and Secretary or Assistant Secretary of the System, direct the Construction Fund Trustee to make such payments from the Construction Fund, provided, that no individual shall sign in more than one capacity, and each such order shall state with respect to such payment:

- (1) the Project with respect to which payment is to be made;
- (2) the item number of the payment;
- (3) the name of the person, firm or corporation to whom the payment is due;
- (4) the amount to be paid;
- (5) that an obligation in the stated amount has been incurred by the System and that each item thereof is a proper and reasonable charge against the Construction Fund, and that such amount has not been theretofore paid; and
- (6) that there has not been filed with or served upon the System any notice of any lien, right to lien, or attachment upon or claim affecting the right to receive payment of any moneys payable to the person, firm

or corporation named in such order which has not been released or will not be released simultaneously with the payment of such obligations and, in the event any assignment of the right to receive payment has been made and notice thereof has been given to the System and the System has accepted such assignment, the order directing payment shall recite that fact and direct payment to be made to the assignee thereof as shown by the records of the System.

In lieu of the statements required by clauses (5) and (6) of the previous paragraph, in the case of payments with respect to the Skagit Project, such order may state that such payments are then payable under the Skagit Project Ownership Agreement.

Each such order for the payment of work, materials, equipment or supplies for any Project (except the administrative expenses of the System and the Cost of Construction of the Skagit Project) shall also be accompanied by a certificate signed by the Construction Engineer for such Project, certifying that an obligation in the stated amount has been incurred by the System, and that each item thereof is a proper charge and in a reasonable amount against the Construction Fund and has not been theretofore paid, and that, insofar as such obligation was incurred for work, materials, equipment or supplies, such work was actually performed, or such materials, equipment or supplies were actually installed in furtherance of the construction of such Project or delivered at the site of said Project for that purpose, or delivered for storage or fabrication at a place or places approved by the said Construction Engineer and under the control of the System, or is a progress payment due on equipment being fabricated to order. Each such certificate with respect to the WPPSS No. 5 Project shall also state that such order does not include any amounts which are the obligation of any party to the WPPSS No. 5 Project Ownership Agreement other than the System, except as otherwise permitted by said Agreement.

Upon receipt of any such order and accompanying certificate, if required, the Construction Fund Trustee shall pay such obligation from the Construction Fund. If for any reason the System should desire, prior to payment of any item in an order, not to pay such item, the System shall give notice of such decision to the Construction Fund Trustee. The Construction Fund Trustee, in making any disbursement, shall pay each such obligation or deliver to the Board a check or draft for the payment thereof payable to the order of the payee to whom payment is due, as set forth in the order of the System directing such disbursement; provided, however, that in the case of disbursements with respect to the WPPSS No. 5 Project or the Skagit Project, the System may direct the Construction Fund Trustee to deliver to the Board a check or draft payable to the order of the System for deposit in the Construction Trust Account established pursuant to the WPPSS No. 5 Project Ownership Agreement or the Skagit Project Ownership Agreement, as the case may be.

The proper officers of the System are hereby authorized and directed to execute and deliver in the name of the System any and all documents, papers, receipts, order and releases that are required or convenient to enable the System to effect the acquisition and construction of the Projects, and to pay from Bond proceeds any and all amounts of moneys required to perform fully the obligations of the System with respect thereto.

SECTION 6.13. Revolving Fund. Immediately after the deposit with the Construction Fund Trustee of the moneys specified in subparagraph 7 of paragraph B of Section 6.9, the Construction Fund Trustee shall set aside such moneys the sum of _____ Dollars (\$ _____) and deposit said sum to the credit of the System in a special account in the name of the System to be used as a revolving fund (hereinafter referred to as the "Revolving Fund") for

Section 6.13

payment of those items of costs referred to in Section 6.11 which cannot conveniently be paid in the manner specified in Section 6.12. The System may deposit portions of the Revolving Fund in the Construction Trust Accounts established pursuant to the WPPSS No. 5 Project Ownership Agreement and the Skagit Project Ownership Agreement. The Revolving Fund shall be reimbursed from time to time for such items of cost paid by the System by payments from the Construction Fund by the Construction Fund Trustee upon being furnished with the documents evidencing the propriety of the payments to be reimbursed as provided in Section 6.12. Moneys in the Revolving Fund (except moneys deposited in the Construction Trust Accounts established pursuant to the WPPSS No. 5 Project Ownership Agreement and the Skagit Project Ownership Agreement) shall be deemed to be part of the Construction Fund until disbursed as provided in this Section. Upon approval by the Auditor, moneys in the Revolving Fund shall be disbursed by check or draft signed by the Treasurer or other officer of the System designated by the Board who shall supply, at the expense of the Construction Fund, a fidelity bond to the Construction Fund Trustee in the principal amount of _____ Dollars (\$ _____).

SECTION 6.14. Distribution of Moneys in Construction Fund. As soon as practicable after the Construction Engineers for the WPPSS No. 4 Project and the WPPSS No. 5 Project shall have filed the reports required by Sections 8.4 and 8.5 hereof, and the System has filed the report required by the next following paragraph of this Section, any balance then remaining in the Construction Fund, including the Revolving Fund authorized by Section 6.14 hereof, shall be used and applied by the Construction Fund Trustee as follows and in the following order:

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First, to pay to the Bond Fund Trustee for credit to the Interest Account in the Bond Fund that amount, if any, which is equal to the interest on the Bonds remaining unpaid which is a Cost of Construction,

Second, to set aside in the Construction Fund such amounts as the Construction Engineers and, in the case of the Skagit Project, the System shall advise are necessary to pay or provide for remaining Costs of Construction and to apply the same to the payment of Cost of Construction of the Projects in accordance with the provisions of Section 6.12 hereof; and to the extent of any remainder of such balance,

Third, to pay to the Bond Fund Trustee for deposit in the Reserve Account the amount of any deficiency in such Account; and to the extent of the remainder of such balance,

Fourth, to pay to the Bond Fund Trustee such remainder for credit to the Bond Retirement Account, to be used to retire Bonds.

As soon as practicable after the Date of Commercial Operation of both units of the Skagit Project and the date on which Puget shall determine that the cost (including contingencies) of all work remaining to be done in order to complete the acquisition, construction and installation of the Skagit Project (the "remaining work" on the Skagit Project) will not exceed \$ _____, the System shall file a report to that effect with the Construction Fund Trustee and the Bond Fund Trustee. Such report shall set forth the same matters with respect to the Skagit Project as is required to be set forth with respect to the other Projects in the reports required by Section 8.5.

As soon as practicable after the date as of which Puget shall determine that the acquisition, construction and installation of the Skagit Project has been fully completed and that the total costs of construction thereof as defined in the Skagit Project Ownership Agreement have been fully paid

and satisfied (including without limitation final payment or satisfaction of each dispute or controversy and payment in full for all remaining work on the Skagit Project) and the System has determined that all other items of Cost of Construction of the Skagit Project have been fully paid and satisfied, the System shall file a report with the Construction Fund Trustee and the Bond Fund Trustee to that effect, setting forth the basis of such determination in reasonable detail.

As soon as practicable after the Construction Engineers for all the Projects shall have filed the reports required by Section 8.6 hereof, and the System has filed the report required by the next preceding paragraph, the Construction Fund Trustee shall pay to the Bond Fund Trustee the amounts then in the Construction Fund for credit to the Reserve Account, to the extent of any deficiency in such Account, and to the extent of any remainder, the Construction Fund Trustee shall pay such remainder to the Bond Fund Trustee for credit to the Bond Retirement Account to be used to retire Bonds.

SECTION 6.15. Payment of Funds in Construction Fund to Bond Fund Trustee. In the event all the Projects are terminated pursuant to the Participants' Agreements, the WPPSS No. 5 Project Ownership Agreement and the Skagit Project Ownership Agreement, the Construction Fund Trustee shall, at the direction of the System, pay over and deliver to the Bond Fund Trustee such moneys and Investment Securities in the Construction Fund and the Construction Interest Account as shall be directed by the System.

SECTION 6.16. Moneys in Construction Fund Pending the Application Thereof. The moneys in the Construction Fund and in the Construction Interest Account therein, pending their application as provided in this Resolution, shall be held in trust and shall be subject to a prior and paramount lien and charge in favor of the holders of the Bonds, and the holders of the Bonds shall have a valid claim on such moneys for the further security of said bonds until paid out or transferred as herein provided.

SECTION 6.17. Projects Development Fund. There is hereby created a special fund of the System to be known as the "Projects Development Fund" (hereinafter referred to as the "Development Fund"). The Development Fund shall be held in trust by the Development Fund Trustee appointed as provided for in Section 7.4 hereof, and shall be used to pay the cost of work in connection with the development of additional electric generating projects to serve the needs of the Participants, including, but not limited to, planning, engineering, siting, environmental, financial and economic surveys, studies and work; payments with respect to fuel; and any other costs and expenses incurred in connection with the planning, construction and acquisition of any such facility or facilities or an ownership interest therein and the placing of the same in operation (hereinafter referred to as "Development Work").

The Construction Fund Trustee shall pay from the Construction Fund to the Development Fund Trustee for deposit in the Development Fund at one time or from time to time, but only to the extent moneys are available therefor in the Construction Fund, an aggregate amount not to exceed Fifty Million Dollars (\$50,000,000). Such payment shall be made only after there has been furnished to the Construction Fund Trustee a certificate signed by the President or Vice President and Secretary or Assistant Secretary of the System specifying the amount to be so paid and directing the Construction Fund Trustee to make such payment.

The Development Fund Trustee shall transfer funds on deposit in the Development Fund to the Construction Fund Trustee when needed for the purposes of the Construction Fund at the direction of the System, which direction shall specify the amount to be so transferred. The System may thereafter direct the Construction Fund Trustee to repay amounts so transferred to the Development Fund. Transfers or payments from the

Development Fund shall be made in accordance with the provisions of this section. Upon preparation of vouchers approved by the Auditor, the Board shall approve and direct the payment from the Development Fund of amounts due and owing in connection with the Development Work, and, by written order signed by the President or Vice President and Secretary or Assistant Secretary of the System, direct the Development Fund Trustee to make such payments, provided, that no individual shall sign in more than one capacity, and each such order shall state with respect to such payment:

- (1) the item number of the payment;
- (2) the name of the person, firm or corporation to whom the payment is due;
- (3) the amount to be paid; and
- (4) that an obligation in the stated amount has been incurred by the System for Development Work and that each item thereof is a proper and reasonable charge against the Development Fund, and that such amount has not been theretofore paid.

Each such order shall be accompanied by a certificate signed by the Consulting Engineer, certifying that an obligation in the stated amount has been incurred by the System for Development Work and that each item thereof is a proper charge and in a reasonable amount against the Development Fund. Upon receipt of any such order and accompanying certificate the Development Fund Trustee shall pay such obligation from the Development Fund. If for any reason the System should desire, prior to payment of any item in an order, not to pay such item, the System shall give notice of such decision to the Development Fund Trustee. The Development Fund Trustee, in making any disbursement, shall pay each such obligation or deliver to the Board a check or draft for the payment thereof payable to the order of the payee to whom payment is due, as

set forth in the order of the System directing such disbursement.

The Development Fund Trustee shall set aside from the moneys in the Development Fund the sum of One Hundred Thousand Dollars (\$100,000) and deposit said sum to the credit of the System in a special account in the name of the System to be used as a revolving fund (hereinafter referred to as the "Development Revolving Fund") for payment of those items of costs of Development Work which cannot conveniently be paid in the manner specified in the preceding paragraph of this Section. The Development Revolving Fund shall be reimbursed from time to time for such items of cost paid by the System by payments from the Development Fund by the Development Fund Trustee upon being furnished with documents evidencing the propriety of the payments to be reimbursed as provided in the preceding paragraph of this Section. Moneys in the Development Revolving Fund shall be deemed to be part of the Development Fund until disbursed as provided in this Section. Upon approval by the Auditor of the System, moneys in the Development Revolving Fund shall be disbursed by check or draft signed by the Treasurer or other officer of the System designated by the Board who shall supply, at the expense of the Development Fund, a fidelity bond to the Development Fund Trustee in the principal amount of _____ Thousand Dollars (\$_00,000).

When the moneys in the Development Fund or any part thereof shall no longer be required to pay the cost of Development Work, as evidenced by a resolution of the Board to that effect, such moneys shall be transferred by the Development Fund Trustee to the Bond Fund Trustee for deposit in the Bond Retirement Account in the Bond Fund or to the Construction Fund Trustee for deposit in the Construction Fund, as the Board may direct.

ARTICLE VII

APPOINTMENT, QUALIFICATION, RESIGNATION, REMOVAL, POWERS, DUTIES AND LIABILITIES OF THE TRUSTEES AND PAYING AGENTS

SECTION 7.1. Construction Fund Trustee. Prior to the delivery of the 197_ Bonds to the initial purchasers thereof, the System shall appoint a Construction Fund Trustee. The Construction Fund Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Resolution as such Construction Fund Trustee by executing and delivering to the System a written acceptance of such duties and obligations. The System may remove the Construction Fund Trustee for cause, and the Construction Fund Trustee shall be removed at the request of and upon the affirmative vote of the holders of more than fifty per cent (50%) of the principal amount of bonds issued pursuant to this Resolution then outstanding. In the event of the removal, resignation, disability or refusal to act of the Construction Fund Trustee, the System will thereupon appoint a successor Construction Fund Trustee, which shall be a bank having trust powers or trust company in New York, New York, Seattle, Washington, or Chicago, Illinois, with a capital and surplus in excess of Ten Million Dollars (\$10,000,000), and such successor shall have all the powers and obligations of the Construction Fund Trustee under this Resolution theretofore vested in its predecessor.

SECTION 7.2. Bond Fund Trustee. Prior to the delivery of the 197_ Bonds to the initial purchasers thereof, the System shall appoint a Bond Fund Trustee. The Bond Fund Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Resolution as such Bond Fund Trustee by executing and delivering to the System a written acceptance of such duties and obligations. The Bond Fund

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Trustee may be removed at the request of and upon the affirmative vote of the holders of more than fifty per cent (50%) of the principal amount of bonds issued pursuant to this Resolution outstanding. In the event of the removal, resignation, disability or refusal to act of the Bond Fund Trustee, a successor may be appointed by the holders of more than fifty per cent (50%) of the principal amount of bonds issued pursuant to this Resolution outstanding, excluding any such bonds held by or for the account of the System, and such successor shall have all the powers and obligations of the Bond Fund Trustee under this Resolution theretofore vested in its predecessor, or in any Bondholders' Committee created under Article XI; provided, that unless a successor Bond Fund Trustee shall have been appointed by the holders of bonds as aforesaid, the System by a duly executed written instrument signed by a majority of the Board shall forthwith appoint a Bond Fund Trustee to fill such vacancy until a successor Bond Fund Trustee shall be appointed by the holders of bonds as authorized in this Section. Any successor Bond Fund Trustee appointed by the System shall, immediately and without further act, be superseded by a Bond Fund Trustee appointed by the holders of bonds issued pursuant to this Resolution. A successor Bond Fund Trustee shall be a bank having trust powers or trust company in New York, New York, Chicago, Illinois, or Seattle Washington, with a capital and surplus in excess of Twenty Million Dollars (\$20,000,000).

SECTION 7.3. Contingency Reserve Fund Trustee.

Prior to _____, 1985, or the Date of Commercial Operation of any of the Projects, or any unit of the Skagit Project, which ever occurs earlier, the System shall appoint a Contingency Reserve Fund Trustee. The Contingency Reserve Fund Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Resolution as such Contingency Reserve

Fund Trustee by executing and delivering to the System a written acceptance of such duties and obligations. The System may remove the Contingency Reserve Fund Trustee for cause, and the Contingency Reserve Fund Trustee shall be removed at the request of and upon the affirmative vote of the holders of more than fifty per cent (50%) of the principal amount of bonds issued pursuant to this Resolution outstanding. In the event of the removal, resignation, disability or refusal to act of the Contingency Fund Trustee, the System shall thereupon appoint a successor Contingency Fund Trustee, which shall be a bank having trust powers or trust company in New York, New York, Chicago, Illinois, or Seattle, Washington, with a capital and surplus in excess of Twenty Million Dollars (\$20,000,000), and such successor shall have all the powers and obligations of the Contingency Fund Trustee under this Resolution theretofore vested in its predecessor.

SECTION 7.4. Development Fund Trustee. Prior to the transfer of any moneys to the Development Fund pursuant to the provisions of this Resolution, the System shall appoint a Development Fund Trustee. The Development Fund Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Resolution as such Development Fund Trustee by executing and delivering to the System a written acceptance of such duties and obligations. The System may remove the Development Fund Trustee for cause, and the Development Fund Trustee shall be removed at the request of and upon the affirmative vote of the holders of more than fifty per cent (50%) of the principal amount of bonds issued pursuant to this Resolution then outstanding. In the event of the removal, resignation, disability or refusal to act of the Development Fund Trustee, the System will thereupon appoint a successor Development Fund Trustee, which shall be a bank having trust powers or trust company in New York, New York, Seattle, Washington, or Chicago, Illinois, with a capital and surplus in excess of Ten Million Dollars (\$10,000,000), and such successor shall have

all the powers and obligations of the Development Fund Trustee under this Resolution theretofore vested in its predecessor.

SECTION 7.5. Resignation of Trustees. The Bond Fund Trustee, the Contingency Reserve Fund Trustee, the Construction Fund Trustee or the Development Fund Trustee may at any time resign and be discharged of its duties and obligations under this Resolution by giving not less than 60 days' written notice to the System and publishing notice thereof, specifying the date when such resignation shall take effect, once in each week for three successive calendar weeks in the manner provided in Section 12.2 hereof, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the System in the case of the Contingency Fund Trustee, the Construction Fund Trustee, or the Development Fund Trustee, or by the System or the bondholders as above provided in the case of the Bond Fund Trustee, in which event such resignation shall take effect immediately on the appointment of such successor.

SECTION 7.6. Appointment of Paying Agents; Each Paying Agent to Hold Money in Trust. The System shall appoint Paying Agents for each Series of Bonds, which shall be banks or trust companies in each of the cities of Seattle, Washington, Chicago, Illinois, and New York, New York, and the Bonds of such Series and the coupons, if any, attached thereto shall be payable at the principal offices of said Paying Agents in said cities. Each Paying Agent shall hold in trust for the benefit of the Bondholders and the Bond Fund Trustee all sums held by such Paying Agent for the payment of the principal of and interest on the Bonds. Anything in this paragraph to the contrary notwithstanding, the System may, at any time, for the purpose of obtaining a satisfaction and discharge of this Reso-

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Section 7.6

lution, or for any other reason, cause to be paid to the Bond Fund Trustee all sums held in trust by and Paying Agent hereunder as required by this section. which sums shall be held by the Bond Fund Trustee upon the trusts herein contained, and such Paying Agent shall thereupon be released from all further liability with respect to such sums.

SECTION 7.7. Action by Bond Fund Trustee in Payment of Bonds. The appropriate accounts of the Bond Fund shall be drawn upon by the Bond Fund Trustee for the purpose of paying the principal of, premium, if any, and interest on the Bonds or transferring moneys to the Paying Agents for that purpose.

SECTION 7.8. Duties and Obligations of the Trustees. The duties and obligations of each trustee appointed by or pursuant to the provisions of this Resolution prior to the occurrence of an Event of Default (hereinafter defined), and subsequent to the curing of such Event of Default, shall be determined solely by the express provisions of this Resolution, and such trustee shall not be liable for any action of any other trustee and shall not otherwise be liable except for the performance of its duties and obligations as specifically set forth herein and to act in good faith in the performance thereof, and no implied duties or obligations shall be incurred by such trustee other than those specified herein, and such trustee shall be protected when acting in good faith upon the advice of counsel, who may be counsel to the System. In case an Event of Default has occurred which has not been cured, such trustee shall exercise such of the rights and powers vested in it by this Resolution and use the same degree of care and skill in the exercise thereof as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. No trustee shall be deemed to have knowledge of any Event of Default not known to such trustee.

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SECTION 7.9. Evidence on Which Trustees and Paying Agents May Act. Subject to the provisions of Section 7.8 hereof, the trustees may conclusively rely, as to the correctness of the statements, conclusions and opinions expressed therein, upon any certificate, report, opinion or other document furnished to such trustee pursuant to any provision of this Resolution. Except as otherwise expressly provided in this Resolution, any request, consent, certificate, demand, notice, order, appointment or other direction made or given by the System to any trustee or the Paying Agents shall be deemed to have been sufficiently made or given by the proper party or parties if executed on behalf of the System by an officer of the Board.

SECTION 7.10. When Trustees Not Required to Act. None of the provisions contained in this Resolution shall require any trustee to spend or risk its own funds or otherwise incur individual financial responsibility in the performance of any of its duties or in the exercise of any of its rights or powers if there are reasonable grounds for believing that the repayment thereof is not reasonably assured to it under the terms of this Resolution.

SECTION 7.11. Compensation of Trustees and Paying Agents. Each trustee and Paying Agent shall be entitled to reasonable compensation for all services rendered by it in the execution, exercise and performance of any of the powers and duties to be exercised or performed by it pursuant to the provisions of this Resolution or any Series Resolution, which compensation shall not be limited by any provisions of law in regard to the compensation of a trustee of any express trust, and the System will pay or reimburse each trustee and Paying Agent upon request for all expenses, disbursements and advances incurred

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Section 7.11

or made by it in accordance with any of the provisions hereof (including the reasonable compensation and expenses and disbursements of counsel for such trustee or Paying Agent and of any persons not regularly in the employ thereof). Subject to the provisions of Section 7.8 hereof, each trustee shall be entitled to indemnity from the System against any loss, liability or expense incurred on its part arising out of or in connection with the acceptance or administration of the powers and duties of the trust created pursuant to the provisions of this Resolution, including the cost and expense of defending against any claim or liability in the premises, and, to the extent permitted by law, each trustee shall have a lien or claim for payment of such compensation, expenses and disbursements of counsel, losses, liabilities and expenses prior to that of the holders of the bonds issued pursuant to this Resolution upon any funds held by it under this Resolution.

SECTION 7.12. No Liability of Trustees for Correctness of Recitals. The trustees shall not be responsible in any manner whatsoever for the correctness of the recitals, statements and representations herein or in the Bonds or in the coupons, all of which are made by the System solely. The trustees make no representation as to the value or condition of the Projects or any part thereof, or as to the right, title and interest of the System in the Projects or as to the lien created by this Resolution, or as to the validity of this Resolution or of the Bonds issued hereunder, and the trustee shall incur no liability or responsibility in respect to any such matters. The trustees shall not have any responsibility as to the amount of bonds issued pursuant to this Resolution issued or outstanding at any time.

SECTION 7.13. Evidence on Which Trustees May Rely; Rights of Trustees to Deal in Bonds and Any Other Obligations of the System. Subject to the provision of Section 7.8, in

case at any time it shall be necessary or desirable for any trustee to make any investigation respecting any fact preparatory to taking or not taking any action or doing or not doing anything, and in any case in which this Resolution provides for permitting or taking any action, such trustee may rely upon any certificate required or permitted to be filed with it under the provisions of the Resolution, and any such certificate shall be evidence of such fact to protect it in any action that it may or may not take or in respect of anything it may or may not do, by reason of the supposed existence of such fact.

Any trustee and its directors, officers, employees or agents may in good faith buy, sell, own and hold any of the bonds or coupons issued pursuant to this Resolution, and may join in any action which any Bondholder may be entitled to take with like effect as if such trustee were not a trustee under the Resolution. Any trustee may in good faith hold any other form of indebtedness of the System, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations thereof, make disbursements therefor and enter into any commercial or business arrangement therewith, including the purchase from or sale to the System or Investment Securities. No trustee shall be deemed to have any conflict of interest solely by reason of any such transaction.

ARTICLE VI.I
THE CONSTRUCTION ENGINEERS

SECTION 8.1. Appointment of Construction Engineers.

The appointment of _____ as Construction Engineer for the WPPSS No. 4 Project by Resolution No. _____ of the Board and the appointment of _____ as Construction Engineer for the WPPSS No. 5 Project by Resolution No. _____ of the Board are hereby confirmed, and the System covenants that it will retain, on a continuous basis, each such engineering firm, or some other construction engineer or engineering firm of national reputation, recognized for knowledge, skill and experience in the design, construction and operation of nuclear generating facilities, as the Construction Engineer for the Project for which it has been appointed, until the report with respect to such Project has been rendered by the Construction Engineer therefor as provided in Section 8.6 hereof.

SECTION 8.2. Construction Engineers Not to be Employed as Consulting Engineer.

The System will not employ any of the Construction Engineers as Consulting Engineer for the Projects and will not, so long as any of the Bonds are outstanding, now or hereafter employ any of the Construction Engineers in any capacity in connection with the Project for which it is Construction Engineer except that of Construction Engineer.

SECTION 8.3. Duties of Construction Engineers. The System shall cause the Construction Engineers for the WPPSS No. 4 Project and the WPPSS No. 5 Project to:

- A. Prepare and submit to the System such drawings, designs, plans, specifications, surveys and reports as are necessary for the proper acquisition and construction of such Project and approve and supervise any necessary modifications in the

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design, plans and specifications thereof; and prepare and deliver to the System all certificates with respect to such Project referred to in this Resolution required to be furnished by the Construction Engineer therefor;

B. Prepare and submit to the System, the Construction Fund Trustee, the Bond Fund Trustee and to such holders of the Bonds as may file with the System a request in writing for copies thereof, quarterly reports of progress during the Period of Construction of such Project, including data as to the date of expected completion and the comparison of estimated construction time and the Cost of Construction thereof as compared with the estimates made prior to the issuance and sale of any Bonds hereunder, and an estimate of the amounts that will be needed from time to time to pay the Cost of Construction thereof and the estimated dates of such payments;

C. Continuously supervise and inspect the acquisition and construction of such Project in accordance with the usual accepted practices of such inspection and supervision;

D. Upon completion and testing as required by the specifications of such Project, certify to the System to that effect and to the further effect that such Project is ready for normal continuous operation.

In rendering any certificate pursuant to this Resolution, a Construction Engineer may rely upon certificates and estimates of the System with respect to owner's cost, including expenses of Fuel.

SECTION 8.4. Report When WPPSS No. 4 Project and WPPSS No. 5 Project Ready for Normal Continuous Operation. As soon as practicable after the date of which the Construction Engineer for the WPPSS No. 4 Project or the WPPSS No. 5 Project shall determine

that (i) such Project conforms to the plans and specifications as may be modified from time to time and is ready for normal continuous operation; (ii) that the acquisition, construction and installation of such Project has been completed in every material respect; and (iii) that the costs (including contingencies), as estimated by such Construction Engineer, of all work remaining to be done in order to complete such acquisition, construction and installation (hereinafter in this Article VIII called "remaining work") will not exceed \$3,000,000, the System shall cause such Construction Engineer to file a report to that effect with the System, the Bond Fund Trustee and the Construction Fund Trustee.

SECTION 8.5. Details of Report When the WPPSS No. 4 Project or WPPSS No. 5 Project is Ready for Normal Continuous Operation or the Date of Commercial Operation, Whichever Is Later.

As soon as practicable after the date as of which the Construction Engineer for the WPPSS No. 4 Project or the WPPSS No. 5 Project makes the determinations with respect to such Project referred to in Section 8.4 hereof, or the Date of Commercial Operation of such Project, whichever is the later, the System shall cause the Construction Engineer for such Project to file with the System, the Bond Fund Trustee and the Construction Fund Trustee a report setting forth as of such later date, the following in reasonable detail:

(a) the total Cost of Construction of such Project exclusive of claims of contractors and others which are the subject of actual or prospective dispute or controversy (hereinafter in this Article VIII called "dispute or controversy") and exclusive of the cost (including contingencies), as estimated by the Construction Engineer therefor, of the remaining work;

(b) the portion of the total Cost of Construction specified pursuant to the foregoing clause (a)

which has been paid in full;

(c) the portion of the total Cost of Construction specified pursuant to the foregoing clause (a) which remains to be paid, including all amounts which are not the subject of dispute or controversy but are dependent upon the satisfaction of any agreements or conditions precedent to such payment;

(d) the aggregate amount of the claims of contractors and others which are the subject of dispute or controversy;

(e) In the case of the WPPSS No. 4 Project, the cost (including contingencies) as estimated by the Construction Engineer therefor and as approved by the System, of the remaining work, and in the case of the WPPSS No. 5 Project, the System's Ownership Share of such cost; and

(f) such amount, if any, as the Construction Engineer shall determine is necessary or desirable to be set aside in the Construction Fund for contingencies, including any further modifications which may be required under Section 2.3 hereof, in order to avoid the possible necessity of issuance or further issuance of Bonds.

SECTION 8.6. Report on Final Completion of the WPPSS No. 4 or the WPPSS No. 5 Project. As soon as practicable after the date as of which the Construction Engineer for the WPPSS No. 4 or the WPPSS No. 5 Project shall determine that the acquisition, construction and installation of such Project has been fully completed and that the total Cost of Construction thereof has been fully paid and satisfied (including but without limitation final payment or satisfaction of each dispute or controversy and payment in full for all remaining work), the System shall cause such Construction Engineer to file a report with the System, the Bond Fund Trustee and the Construction Fund Trustee to that effect, setting forth the basis of such determination in reasonable detail.

ARTICLE IX
COVENANTS TO SECURE BONDS

The System hereby covenants and agrees with the purchasers and holders of all bonds issued pursuant to this Resolution as follows:

SECTION 9.1. To Complete the Projects; To Maintain the Properties thereof. The System will, subject to the provisions of the Participants' Agreements, the WPPSS No. 5 Project Ownership Agreement and the Skagit Project Ownership Agreement, (i) proceed with all reasonable diligence to and will construct to completion at the earliest practical time the WPPSS No. 4 Project and the WPPSS No. 5 Project, will acquire its Ownership Share of the Skagit Project and use its best efforts to cause the Skagit Project to be constructed to completion at the earliest practical time, (ii) fulfill all of its obligations with respect to such construction and acquisition and thereafter at all times operate or cause to be operated the properties of the Projects and the business in connection therewith in an efficient manner and at reasonable cost; (iii) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Projects, and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition, and (iv) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

The System will at all times comply with the terms and conditions of all permits and licenses for the WPPSS No. 4 Project and the WPPSS No. 5 Project issued by federal or state governmental agencies or bodies and with all federal or state laws or regulations

applicable to the construction, operation, maintenance and repair of said Projects, or requiring a license therefor, and use its best efforts to cause the parties to the Skagit Project Ownership Agreement to comply with the terms and conditions of any such permit or license for the Skagit Project and with any such law or regulation applicable to said Project.

SECTION 9.2. Use of Capability, Power and Energy of the Projects; Sufficiency of Revenues. So long as any of the bonds issued pursuant to this Resolution are outstanding and unpaid, the System agrees (1) that its Ownership Share of the capability of and all power and energy produced by the Projects will be disposed of solely for the benefit and account of the Projects and pursuant to the Participants' Agreements and the Power Sales Agreements; and (2) that, whether or not the generation or transmission of power and energy by any or all of the Projects is suspended, interrupted or reduced for any reason whatever, the gross revenues received in cash from rates and charges for the System's Ownership Share of the capability of and power and energy sold, furnished or supplied through the facilities of the Projects will, in the aggregate, be sufficient (to the extent not otherwise specifically provided for in this Resolution):

(a) to pay the System's Ownership Share of all costs of, and all charges and expenses in connection with, the proper operation and maintenance of and repairs, renewals and replacements to the Projects in order to keep the Projects in good operating condition and all taxes, assessments or other governmental charges lawfully imposed on the Projects or the revenues therefrom, or payments in lieu thereof;

(b) to make when due all payments which the System is obligated to set aside and pay (i) to the Bond Fund Trustee for the account of the Bond Fund pursuant to Section 6.2 hereof and (ii) into any special fund or funds created for the payment of the principal of, premium, if any, and interest on all additional bonds issued pursuant to Section 9.6 hereof;

(c) to make when due all payments which the System is obligated to pay into the Fuel Fund, Reserve and Contingency Fund and Contingency Reserve Fund pursuant to Sections 6.4, 6.5 and 6.6 hereof, respectively;

(d) to pay the System's Ownership Share of the cost of prevention or correction of any unusual loss or damage to, and of major repairs, renewals and replacements to, the Projects, in order to keep the Projects in good operating condition, and of additions, betterments and improvements thereto and extensions thereof, less that part, if any, of such cost as is provided for by insurance, by amounts available therefor in the Reserve and Contingency Fund and the Contingency Reserve Fund and by proceeds of sale of additional bonds issued in accordance with Section 9.6 hereof; and

(e) to pay or discharge when due all other charges or obligations against the gross revenues of the System's Ownership Share of the Projects of whatever nature and whether now or hereafter imposed by law or by contract; provided that, for the purpose of this section, proceeds of insurance policies, if any, payable to the System because of loss of revenue caused by delay in the completion of the construction of any of the Projects, or because the operation thereof is suspended, interrupted or reduced, shall be deemed to be gross revenues from the sale of power and energy.

SECTION 9.3. To Fix, Establish, Maintain and Collect Sufficient Rates and Charges. The System shall fix, establish, maintain and collect rates and charges for the System's Ownership Share of the capability of and electric power and energy and other services, facilities and commodities, sold, furnished or supplied through the facilities of the Projects, including power and energy delivered therefrom to or for the account of the System, which shall be fair and non-discriminatory and adequate, whether or not the generation or transmission of power and energy by any

or all of the Projects is suspended, interrupted or reduced for any reason whatever, to provide the System with revenues sufficient to pay its Ownership Share of the costs of proper operation, maintenance and repair of the Projects; and also for the payment of all costs, expenses and charges specified in Section 9.2 above.

SECTION 9.4. Not to Amend Agreements. So long as any of the bonds issued pursuant to this Resolution are outstanding and unpaid, the System will not (i) voluntarily consent to or permit any rescission of, nor will it consent to any amendment to nor otherwise take any action under or in connection with any of the Participants' Agreements which will reduce the payments provided for therein or which will in any manner impair or adversely affect the rights of the System or of the holders from time to time of the bonds issued pursuant to this Resolution, and the System shall perform all of its obligations under said Agreements and take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the bonds issued pursuant to this Resolution afforded by the provisions of said Agreements; or (ii) voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or modification of, nor otherwise to take any action under or in connection with the WPPSS No. 4 Project Ownership Agreement or the Skagit Project Ownership Agreement which will in any manner impair or adversely affect the rights of the System or of the holders from time to time of the bonds issued pursuant to this Resolution, and the System shall perform all of its obligations under said Agreements and shall take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the bonds issued pursuant to this Resolution afforded by the provisions of said Agreements.

SECTION 9.5. Not to Furnish Facilities of the Projects Free of Charge; Enforcement of Accounts Due. So long as any bonds issued pursuant to this Resolution are outstanding and

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Section 9.5

unpaid, the System will not furnish or supply electric energy or a other commodity, service or facility furnished by or in connection with the operation of the System's Ownership Share of the Projects free of charge to any other system of the System, or any person, firm or corporation, public or private, and the System will promptly enforce the payment of any and all accounts owing to the System by reason of the ownership and operation of the Projects.

SECTION 9.6. Additional Indebtedness. The System will not hereafter create any other special fund or funds for the payment of revenue bonds, warrants or other obligations or issue any bonds, warrants or other evidences of indebtedness payable out of or secured by a pledge of the revenues or properties of the Projects, or create any additional indebtedness which will rank on a parity with or in priority over the charge and lien on such revenues or properties for the payments into the Bond Fund, except that additional bonds may be issued payable from said revenues on a parity with the Bonds hereby authorized, and secured by an equal charge and lien on such revenues, in such principal amount as may be required for any one or more of the following purposes:

(a) to comply with any order or decision of any state or federal governmental agency or authority with authority to issue or make and enforce an order or decision requiring the installation of additional facilities or modifications at or in any of the Projects;

(b) to comply with Section _____ of the Participants' Agreements, providing for the issuance of additional bonds to pay for replacements, repairs and betterments, and for capital additions and betterments necessary to achieve design capability or required by any governmental agency or authority; and

(c) to refund at any time any or all of the then outstanding bonds issued pursuant to this Resolution.

The System shall not issue any additional bonds pursuant to paragraphs (a), (b) or (c) above, unless prior to or simultaneously with the issuance of such bonds the System shall have in effect valid written contracts for the sale of its Ownership Share of the capability and power and energy of the Projects which, in the opinion of the Board (as evidenced by a resolution thereof certified by its Secretary and filed with the Bond Fund Trustee) and of the Consulting Engineer (as evidenced by a certificate thereof filed with the Bond Fund Trustee), will produce revenues at least sufficient, whether or not the generation or transmission of power and energy by the Projects is suspended, interrupted or reduced for any reason whatever, to enable the System to meet all its obligations under this Resolution, including the timely payment of all costs, expenses and charges specified in Section 9.2.

The contracts referred to in the preceding paragraph shall be for terms extending at least to the final maturity date of the bonds then being issued, provided, however, that some of such contracts may terminate prior to said date if in the opinion of the Board and the Consulting Engineer, evidenced as aforesaid, such contracts and the contracts not terminating prior to such date will in the aggregate produce the revenues required by the preceding paragraph. Unless the power purchasers thereunder shall be the other parties to the Participants' Agreements, such contracts shall be with purchasers which, in the opinion of the Consulting Engineer, as evidenced by a certificate filed with the System and the Bond Fund Trustee, have the ability and financial responsibility to meet their obligations under such contracts.

The contracts referred to in the two preceding paragraphs shall contain terms with respect to payments for the System's Ownership Share of the capability and power and energy of the Projects, and the items of annual power costs to be included in the price for such capability and power and energy to such purchasers, no less favorable to the System than the terms of the Participants' Agreements.

Upon or prior to the issuance of such additional bonds, there shall be filed with the Bond Fund Trustee a written opinion of counsel to the System that contracts obligating the purchasers thereunder to pay to the System amounts sufficient to meet all of its obligations under this Resolution are valid and binding upon the parties thereto and are in accordance with existing law.

The supplemental resolution or resolutions authorizing the issuance of any such additional bonds shall:

1. Designate each such issue as a separate series by reference to the year of issuance;
2. Provide that such bonds shall be either term bonds, serial bonds, or a combination of term and serial bonds;
3. Provide that the interest on such bonds shall be payable on _____ 1 and _____ 1 of each year, and the principal payments and sinking fund payments for the retirement of term bonds in advance of maturity, shall be payable on either of said dates;
4. Designate the Bond Fund Trustee as bond fund trustee for such bonds.
5. Create a separate bond fund for such additional bonds containing an interest account, principal account (if serial bonds are authorized), bond retirement account (if term bonds are authorized), and reserve account; and provide for the transfer to such accounts of moneys from the Revenue Fund in the amount necessary to pay the principal of redemption premiums, if any, and interest on such additional bonds when due;

6. Provide that the respective amounts to be paid into such separate bond fund for the retirement of such additional bonds in each year shall commence within five (5) years from the date of such bonds; provided, however, that payments of such amounts for the retirement of refunding bonds may commence at the time when payments with respect to the retirement of the Bonds or additional bonds being refunded would be required if such Bonds or additional bonds were not so refunded;

7. Provide that the final maturity date of such bonds issued for the purposes specified in clauses (a) and (b) above shall be (i) the last date upon which a principal or sinking fund installment on Bonds becomes due, if the service life of the facilities financed from the proceeds of such bonds, as determined by the Consulting Engineer at the time of issuance, does not extend beyond such date or (ii) not earlier than such date, but not later than the expiration of the service life of the Projects, as determined by the Consulting Engineer at the time of issuance of the additional bonds, if such service life extends beyond such date.

8. Provide that from the proceeds of such additional bonds an amount equal to the maximum amount of interest to become due on such additional bonds in any six-month period from the date of such additional bonds to the final maturity date thereof shall be deposited in the reserve account established in such separate bond fund, and that said reserve account shall be maintained at all times at said amount so long as such bonds are outstanding.

9. Provide that the proceeds of such additional bonds, if not required for the purpose of refunding outstanding bonds issued pursuant to this Resolution, shall be deposited in a construction fund to be held by a construction fund trustee, and that payments therefrom shall be made upon compliance with

terms and conditions substantially the same as are provided by Section 6.12 of this Resolution for the withdrawal of moneys from the Construction Fund.

Nothing herein contained shall prevent the System from issuing revenue bonds, notes or warrants or other evidences of indebtedness which are a charge upon all or any portion of the revenues of the System's Ownership Share of the Projects junior or inferior to the payments to be made into the Bond Fund and the bond funds created for additional bonds.

SECTION 9.7. Not to Encumber or Dispose of Project Properties; Termination of Projects. The System will not sell, mortgage, lease or otherwise dispose of its Ownership Share of any of the Project properties, or permit the sale, mortgage, lease or other disposition thereof, except as hereinafter provided in this section.

1. The System may sell, lease or otherwise dispose of all such properties, provided that simultaneously with such sale or other disposition thereof, provision is made for the payment of cash into the Bond Fund and any other special funds of the System created for the purpose of paying bonds issued pursuant to this Resolution sufficient to retire, and to pay the interest to accrue prior to such retirement on all bonds issued pursuant to this Resolution then outstanding in full in accordance with the requirements of this Resolution and any supplemental resolution authorizing such additional bonds.

2. The System may sell, lease or otherwise dispose of its Ownership Share of any portion of the works, plants and facilities of the Projects and any real and personal property comprising a part thereof

which is unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the operation of the Projects, provided, however, that if the original cost of the System's Ownership Share of the properties so to be disposed of (except properties of the Skagit Project) was in excess of \$100,000, the Consulting Engineer shall first certify that the properties to be disposed of are unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the operations of the Projects and provided, further, that the System may dispose of its Ownership Share of any properties of the Skagit Project if such disposal is required by the provisions of the Skagit Project Ownership Agreement. Moneys received by the System as the proceeds of any such sale, lease or other disposition of a portion of the properties of any Project shall to the extent of \$50,000 be transferred to the Reserve and Contingency Fund and used for the purposes specified in Section 6.5 for the use of other moneys in said Reserve and Contingency Fund, and any moneys received from such partial disposition of property in excess of \$50,000 shall be paid into the Bond Retirement Account and the bond retirement accounts created for additional bonds issued pursuant to this Resolution, in the proportion which the outstanding principal amount of the Bonds and of such additional bonds of each series bears to the total outstanding principal amount of the Bonds and such additional bonds of all series and used for the purchase or redemption of Bonds and such additional bonds; provided, however, that if such sale, lease or other disposition

of a portion of the properties of any Project is in connection with replacement of such properties, all moneys received from such partial disposition of property shall be transferred to the Reserve and Contingency Fund; and provided further, however, that any moneys received by the System as proceeds of any such sale, lease or other disposition of any Fuel acquired for any Project, including any and all nuclear material, tools, equipment, instruments and spare parts, together with all associated and related property necessary to the acquisition, furnishing, processing, reprocessing, and disposal of the Fuel, shall be paid into the Revenue Fund and transferred to the Fuel Fund.

3. In the event that the ownership of the System's Ownership Share of the properties of any Project or any part thereof, shall be transferred from the System through the operation of law, any moneys received by the System as a result of any such transfer shall be paid into the Bond Retirement Account and the bond retirement accounts created for additional bonds issued pursuant to this Resolution, in the proportion which the outstanding principal amount of the Bonds and of such additional bonds of each series bears to the total outstanding principal amount of the Bonds and such additional bonds of all series and used for the purchase or redemption of Bonds and such additional bonds.

4. The System may terminate any or all of the Projects if and to the extent permitted by the Participants' Agreements. Any moneys received by the System from the disposition of the properties of any Project so terminated may be applied to the payment of the System's Ownership Share of the cost of

decommissioning such Project, and any amounts so received not required to pay such costs shall be applied as provided in paragraph 3 above or the last paragraph of this Section.

Nothing contained in this Section or in this Resolution shall be construed to prevent the System from constructing as a separate utility system, an additional generating unit or units on or near the site of any of the Projects, and using facilities of such Project in connection with the construction or operation therewith without compensation therefor; provided, however, that the Consulting Engineer shall certify to the System and the Bond Fund Trustee that such use will not adversely affect the operations of such Project or interfere with the performance by the System of its obligations under this Resolution.

Notwithstanding the provisions of paragraphs 2 and 3 of this Section 9.7, moneys received by the System prior to the Date of Commercial Operation of a Project as a result of any sale, lease transfer or other disposition specified in such paragraphs, or as a result of a disposition specified in paragraph 4 above and which are in excess of the amounts required for decommissioning costs, shall be transferred to the Construction Fund.

SECTION 9.8. Insurance. The System shall, to the extent available at reasonable cost with responsible insurers, keep, or cause to be kept, the works, plants and facilities comprising the properties of the Projects and the operation thereof insured, with policies payable to the System for the benefit of the Projects, the Participants, any other purchasers of power and energy from the Projects, and any parties having ownership interests therein as their interests may appear, against risks of direct physical loss, damage to or destruction of the Projects, or any part thereof, and against accidents, casualties, or negligence, including liability insurance and employer's liability, at least to the extent

that similar insurance is usually carried by electric utilities operating like properties, and such other insurance as the parties to the Participants' Agreements, the WPPSS No. 5 Project Ownership Agreement and the Skagit Project Ownership Agreement may agree upon. During the Period of Construction of any Project, in the event of any loss or damage to the properties of such Project covered by such insurance, the System will transfer the insurance proceeds received by the System covering such damage or loss to the Construction Fund. After the Period of Construction of any Project the proceeds of insurance covering such loss or damage shall be deposited in the Reserve and Contingency Fund; provided, however, that proceeds of insurance covering loss or damage to Fuel shall be deposited in the Fuel Fund. In the case of loss, including loss of revenue, caused by delay in completion of, or by suspension or interruption of generation or transmission of power and energy by, any Project, the proceeds received by the System of any insurance policy or policies covering such loss occurring prior to the date upon which purchasers of power and energy from such Project are obligated to begin payments therefor, shall be paid into the Construction Fund, and the proceeds received by the System of any insurance policy or policies covering such loss after such date shall be paid into the Revenue Fund and used to reduce payments by such purchasers. Within sixty (60) days after each June 30, the System shall file, or cause to be filed, with the Bond Fund Trustee a certificate of the Consulting Engineer describing in reasonable detail the insurance on such Project then in effect pursuant to the requirements of this section stating whether, in its opinion, such insurance then in effect reasonably complies with the provisions hereof. A copy of each such certificate shall be forwarded to any holder of Bonds who shall file with the System a written request therefor.

SECTION 9.9. Books of Account; Annual Audit. The System shall keep proper books of account for its Ownership Share of the Projects, showing as a separate utility system the accounts of its Ownership Share of the Projects in accordance with the rules and regulations prescribed by any governmental agency authorized to prescribe such rules, including the Division of Municipal Corporations of the State Auditor's office of the State of Washington, or other state department or agency succeeding to such duties of the State Auditor's office, and in accordance with the Uniform System of Accounts prescribed from time to time by the Federal Power Commission, or any successor federal agency having jurisdiction over electric public utility companies owning and operating properties similar to the Projects, whether or not the System is required by law to use such system of accounts. Such books of accounts shall be in sufficient detail as to show the revenues and expenses of each individual Project. Within one hundred twenty (120) days after each June 30, the System shall cause such books of accounts to be audited by independent certified public accountants of national reputation licensed, registered or entitled to practice and practicing as such under the laws of the State of Washington, who, or each of whom, is in fact independent and does not have any interest, direct or indirect, in any contract with the System other than his contract of employment to audit books of account of the System, and who is not connected with the System as an officer or employee of the System. A copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of the System's Ownership Share of the Projects as of the close of each fiscal year and summarizing in reasonable detail the income and expenses for such year, including the transactions relating to the Construction Fund, the Revenue Fund, the Bond Fund, the Fuel Fund, the Reserve and Contingency Fund, the Contingency Reserve Fund and the Development Fund and

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any and all special funds and accounts created in respect of additional bonds issued pursuant to this Resolution, and the amounts expended for maintenance and for renewals, replacements and gross capital additions to the properties of the Projects shall be filed promptly with the Bond Fund Trustee and sent to any Bondholder filing with the System a written request for a copy thereof.

SECTION 9.10. Consulting Engineer. The System will, as prescribed in this Section, retain a nationally recognized independent engineer or engineering firm on a continuous basis for the purpose of providing the System immediate and continuous engineering counsel with respect to the Projects (the consulting engineer or engineering firm employed pursuant to the paragraph being referred to in this Resolution as the "Consulting Engineer"). The System will not employ said Consulting Engineer as Construction Engineer for any Project, and will not, so long as any of the bonds issued pursuant to this Resolution are outstanding, now or hereafter, employ the Consulting Engineer in any capacity in connection with the Projects except that of Consulting Engineer. Any Consulting Engineer employed pursuant to this section shall be selected with the special reference to his knowledge and experience in advising on the operation of generating facilities and in the marketing of power therefrom. The System covenants and agrees that it will initially employ R. W. Beck and Associates as such Consulting Engineer for a period of four years from the date of the adoption of this Resolution, and will thereafter renew such employment or may employ other Consulting Engineers for three-year periods so long as any bonds issued pursuant to this Resolution are outstanding. In addition to the other duties of the Consulting Engineer pursuant to this Resolution, the Consulting Engineer shall, not later than eighteen (18) months after the Date of Commercial Operation of each Project, and each three (3) years

thereafter, make a physical examination of such Project, and prepare a report based upon such examination and a survey of the management, operation and maintenance of such Project. Each such report shall be in sufficient detail to show whether the System has satisfactorily performed and complied with the covenants set forth in this Resolution with respect to the efficient management of the properties of the Projects and its business, the sufficiency of the amounts being charged and collected for services under the requirements of this Resolution, the proper maintenance of the properties of the Projects, and the making of necessary repairs, renewals, replacements and improvements, and recommendations therefor. If the System in any material way shall have failed to perform or comply with the covenants and agreements contained in this Resolution, such report shall specify the details of such failure. In the making of such report, the Consulting Engineer shall accept the audit report of the independent certified public accountants referred to in Section 9.8 hereof. Copies of each such report shall be placed on file with the Bond Fund Trustee and with the System at its office in Richland, Washington, and shall be sent to any holder of Bonds filing with the System a written request for a copy thereof.

The Consulting Engineer shall pass upon the economic soundness and feasibility of any contemplated renewals, replacements, additions, betterments and improvements to and extensions of, the WPPSS No. 4 Project and the WPPSS No. 5 Project involving the expenditure by the System of \$100,000 or more, and he shall embody his findings in a certificate to be filed with the Bond Fund Trustee and the System. Such certificate shall specify the source from which funds are to be derived for such expenditures and shall designate the expenditure as a renewal, replacement or capital addition.

In the event of any loss or damage to the properties of the WPPSS No. 4 Project and the WPPSS No. 5 Project in excess of \$100,000, whether or not covered by insurance, the Consulting Engineer shall ascertain the amount of such loss or damage and shall issue and deliver to the System a certificate setting forth the amount and nature of such loss or damage and recommendations as to whether or not the properties affected by such loss or damage should be replaced. A copy of such certificate shall be filed with the Bond Fund Trustee and forwarded to any holder of Bonds who shall file with the System a written request therefor.

SECTION 9.11. To Make Economically Sound Improvements and Extensions to the Projects. The System will not expend any of the income, revenues, receipts, profits and other moneys derived by it from the ownership or operation of the Projects for any renewals, replacements, additions, betterments and improvements to, and extensions of, any Project which are not economically sound or which will not properly and advantageously contribute to the conduct of the business of such Project in an efficient and economical manner unless required to do so by or pursuant to law to permit the continued operation of such Project or by or pursuant to the WPPSS No. 5 Ownership Agreement or the Skagit Project Ownership Agreement.

SECTION 9.12. To Pay Principal of and Premium and Interest on Bonds. The System will duly and punctually pay or cause to be paid, but only from the revenues of the System's Ownership Share of the Projects and moneys pledged hereunder to the Bond Fund, and from the System's Ownership Share of the proceeds of the sale or other disposition (whether voluntary or involuntary) of properties of the Projects, the principal of, premium, if any, and interest on each and every Bond and each and every bond issued pursuant to this Resolution on the dates and at the places and in the manner

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provided in said Bonds and such other bonds and in the coupons thereto attached, according to the true intent and meaning thereof, and will faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Bonds and such other bonds and in the coupons thereto attached, and in this Resolution and any Series Resolution and each resolution supplemental thereto or amendatory thereof.

SECTION 9.13. Paying Agents. The System shall at all times maintain one or more offices or agencies in the City of Seattle, Washington, in the City of Chicago, Illinois, and in the City of New York, New York, where Bonds and coupons may be presented for payment, and where notices, demands and other documents may be served upon the System in respect of the Bonds and coupons or of this Resolution.

SECTION 9.14. Protection of Security. The System is duly authorized under all applicable laws to create and issue the Bonds and to adopt this Resolution and to pledge the revenues and other moneys, securities and funds purported to be pledged by this Resolution in the manner and to the extent provided in this Resolution. The revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by this Resolution, except as otherwise expressly provided herein, and all corporate action on the part of the System to that end has been duly and validly taken. The Bonds and the provisions of this Resolution are and will be valid and legally enforceable obligations of the System in accordance with their terms and the terms of this Resolution. The System shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the revenues and other moneys, securities and funds pledged under this Resolution

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and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

SECTION 9.15. Authority of System to Construct and Maintain the Projects. The System has good right and lawful power to construct, reconstruct, improve, maintain, operate and repair its Ownership Share of the Projects, and to fix, establish, maintain and collect rates and charges for its share of the capability, electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Projects as provided in this Resolution.

SECTION 9.16. Payment of Taxes, Assessments and Other Governmental Charges and Payments in Lieu Thereof; Payment of Claims. The System will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or payments made in lieu thereof, lawfully imposed upon its Ownership Share of the properties constituting the Projects, or on the revenues, income, receipts, profits and other moneys derived by the System therefrom when the same shall become due; and the System's Ownership Share of all lawful claims for labor and materials and supplies which, if not paid, might become a lien or charge upon its Ownership Share of the said properties, or any part thereof, or upon the income, revenues, receipts, profits and other moneys derived by the System from the operation thereof, or which might in any way impair the security of the obligations issued by the System payable from said revenues, except those assessments, charges or claims which the System or, in the case of the Skagit Project, Puget shall in good faith contest by proper legal proceedings.

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SECTION 9.17. Taking any Further Action Necessary. The System will at any and all times, insofar as it may be authorized so to do by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, revenues and other funds hereby pledged or assigned to the payment of the obligations issued by the System payable from the revenues of the System's Ownership Share of the Projects, including the bonds issued pursuant to this Resolution and appurtenant coupons, or intended so to be, or which the System may hereafter become bound to pledge or assign.

SECTION 9.18. Arbitrage Bond Provision. The System will comply with the requirements of Section 103(d) of the Internal Revenue Code and the applicable regulations of the Internal Revenue Service adopted thereunder throughout the term of the bonds issued pursuant to this Resolution, in connection with the use of the proceeds of any such bonds.

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ARTICLE X

SUPPLEMENTAL RESOLUTIONS

SECTION 10.1 Adoption of Supplemental Resolutions and Purposes Thereof. The System may adopt at any time and from time to time a resolution or resolutions supplemental to this Resolution for any one or more of the following purposes, and any such supplemental resolution shall become effective in accordance with its terms upon the filing with the Bond Fund Trustee of a certified copy thereof and the opinion of counsel for the System that such supplemental resolution has been duly adopted and the provisions thereof are valid and binding upon the System, to-wit:

(1) To provide for the issuance of an additional Series or Series of Bonds pursuant to Section 3.4 hereof, and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(2) To provide for the issuance of additional bonds pursuant to Section 9.6 hereof, and to prescribe the terms and conditions pursuant to which such bonds may be issued, paid or redeemed;

(3) To add additional covenants and agreements of the System for the purpose of further securing the payment of bonds issued pursuant to this Resolution, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the System contained in this Resolution;

(4) To prescribe further limitations and restrictions upon the issuance of bonds and the incurring of indebtedness by the System payable from the revenues of the Projects which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(5) To surrender any right, power or privilege reserved to or conferred upon the System by the terms of this Resolution;

(6) To confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of this Resolution of the revenues of the Projects or of any other moneys, securities or funds;

(7) To modify any of the provisions of this Resolution in any other respects; provided that such modification shall not be effective until after the bonds issued pursuant to this Resolution then outstanding shall cease to be outstanding, and any bonds issued under such resolution shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(8) With the consent of the Bond Fund Trustee, to cure any ambiguity or defect or inconsistent provision in this Resolution or to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with this Resolution as theretofore in effect.

SECTION 10.2 Supplemental Resolution Modifying Resolution Subject to Consent of Bondholders. The provisions of this Resolution may be modified at any time or from time to time by a resolution supplemental hereto, subject to the consent of Bondholders in accordance with and subject to the provisions of Article XII hereof, such amendment to become effective upon the filing with the Bond Fund Trustee of a certified copy thereof.

Section 10.2

SECTION 10.3. Supplemental Resolution Affecting Trustees and Other Fiduciaries. No resolution changing, amending or modifying any of the rights or obligations of the Bond Fund Trustee, the Contingency Reserve Fund Trustee, the Construction Fund Trustee, the Development Fund Trustee or any other fiduciary may be adopted by the System or be consented to by Bondholders without the written consent of such trustee or fiduciary. The Bond Fund Trustee or any other fiduciary affected thereby is hereby authorized to accept the delivery of a certified copy of any resolution amending the provisions of this Resolution and shall be fully protected in relying upon a certification by the Secretary of the System that such resolution has been adopted in full compliance with the terms and provisions of this Resolution.

ARTICLE XI
DEFAULTS AND REMEDIES

SECTION 11.1. Events of Default. The Board hereby finds and determines that the continuous operation of the Projects and the collection, deposit and disbursement of the revenues therefrom in the manner provided in this Resolution and in any supplemental resolution authorizing the issuance of additional bonds pursuant to the provisions of Section 9.6 of this Resolution, payable from the revenues of the Projects pari passu with the Bonds (which additional bonds, together with the Bonds, are hereinafter in this Article XI and in Article XII referred to collectively as the "Bonds") are essential to the payment and security of the Bonds and the failure or refusal of the System to perform the covenants and obligations contained in this Resolution and any supplemental resolution will endanger the necessary continuous operation of the Projects and the application of the revenues therefrom to the purposes set forth in this Resolution. This Resolution and each supplemental resolution adopted pursuant to Article X hereof are hereinafter in this Article XI and in Article XII referred to collectively as the "Resolution". The System further covenants and agrees with the purchasers and holders from time to time of the Bonds in order to protect and safeguard the covenants and obligations undertaken by the System securing the Bonds, that if one or more of the following events (herein called "Events of Default") shall happen, that is to say:

(1) The System shall default in the performance of any obligations with respect to payments into the Revenue Fund;

(2) Default shall be made in the due and punctual payment of the principal of and premium, if any, on any of the Bonds when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;

(3) Default shall be made in the due and punctual payment of any installment of interest on any Bond or any sinking fund installment therefor when and as such installment of interest or sinking fund installment shall become due and payable, and such default shall continue for a period of thirty (30) days;

(4) The System shall default in the observance and performance of any other of the covenants, conditions and agreements on the part of the System contained in the Resolution and such default or defaults shall have continued for a period of ninety (90) days;

(5) The System shall (except as herein permitted) sell, transfer, assign or convey any properties constituting the Projects or interests therein, or any part or parts thereof, or shall make any agreement for such sale or transfer (except as expressly authorized by Section 9.7 hereof) or shall voluntarily forfeit or allow any of the leases, licenses, franchises, permits, approvals, privileges, easements or rights of way necessary or desirable in the operation of the Projects to lapse or terminate prior to the expiration date thereof by neglect or default;

(6) An order, judgment or decree shall be entered by any court of competent jurisdiction (a) appointing a receiver, trustee or liquidator for the System or the whole or any substantial part of the Projects, (b) approving a petition filed against the System under the provisions of Chapter IX of an Act to Establish a Uniform System of Bankruptcy Throughout the United States, Approved July 1, 1898, as amended, (c) granting relief to the System under any amendment to said Bankruptcy Act which shall give relief substantially similar to that afforded by said Chapter IX, or (d) assuming custody or control of the System or of the whole or

any substantial part of the Projects under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated), within sixty (60) days from the date of the entry of such order, judgment or decree;

(7) The System shall (a) admit in writing its inability to pay its debts incurred in the ownership and operation of the Projects generally as they become due, (b) file a petition in bankruptcy or seeking a composition of indebtedness, (c) consent to the appointment of a receiver of its creditors, (d) consent to the appointment of a receiver of the whole or any substantial part of the Projects, (e) file a petition or an answer seeking relief under any amendment to said Bankruptcy Act which shall give relief substantially the same as that afforded by said Chapter IX, or (f) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the System or of the whole or any substantial part of the Projects;

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Bond Fund Trustee (by notice in writing to the System) or the holders of not less than 20% in principal amount of said Bonds then outstanding (by notice in writing to the System and the Bond Fund Trustee) may declare the principal of all the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained and to the contrary notwithstanding. The right of the Bond Fund Trustee or of the

holders of not less than 20% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but (i) before any judgment or decree for the payment of moneys due shall have been obtained or entered and has been discharged, (ii) before possession and control of the business and properties of the Projects have been taken and are then held by the Bond Fund Trustee or the holders of Bonds pursuant to Sections 11.3 and 11.4 hereof, and (iii) before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with the reasonable and proper charges, expenses and liabilities of the Bond Fund Trustee and the holders of Bonds and their respective agents and attorneys and all other sums then payable by the System under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the System or provisions satisfactory to the Bond Fund Trustee shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Bond Fund Trustee or provision deemed by the Bond Fund Trustee to be adequate shall be made therefor, then and in every such case the holders of a majority in principal amount of the Bonds then outstanding, by written notice to the System and to the Bond Fund Trustee, may rescind such declaration and annul such default in its entirety, or, if the Bond Fund Trustee shall have acted without a direction from the holders of not less than a majority in principal amount of the Bonds outstanding at the time of such request, and if there shall not have been theretofore delivered to the Bond Fund Trustee written direction to the contrary by the holders of not less than a majority in principal amount of the Bonds then outstanding, then any such declaration shall ipso facto

be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

SECTION 11.2. Books of the System Open to Inspection.

The System covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the System and all other records relating to the Projects shall at all times be subject to the inspection and use of the Bond Fund Trustee and any bondholders' committee representing the holders of at least 25% of the principal amount of Bonds outstanding and of their respective agents and attorneys, including the engineer or firm of engineers appointed pursuant to Section 11.3.

The System covenants that if an Event of Default shall happen and shall not have been remedied, the System will continue to account, as a trustee of an express trust, for all revenues and other moneys, securities and funds pledged under this Resolution.

SECTION 11.3. Rights of Holders of Bonds Upon Default;

Application of Revenues. The System covenants that if an Event of Default shall happen and shall not have been remedied, the System, the Construction Fund Trustee, the Contingency Reserve Fund Trustee and the Development Fund Trustee, upon demand of the Bond Fund Trustee, shall pay over to the Bond Fund Trustee (i) forthwith, all moneys, securities and funds then held by them and pledged under the Resolution, and (ii) as promptly as practicable after receipt thereof, all income, revenues, receipts and profits derived from the ownership and operation of the Projects (all such moneys in this Article collectively called "Revenues").

Section 11.2
Section 11.3

During the continuance of an Event of Default, the Revenues received by the Bond Fund Trustee, or by a Bondholders' Committee created as hereinafter provided, whether pursuant to the provisions of the preceding paragraph, or as the result of taking possession of the business and properties of the Projects, shall be applied by the Bond Fund Trustee or Bondholders' Committee, as the case may be, first to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Bond Fund Trustee or Bondholders' Committee, as the case may be (including the cost of securing the services of any engineer or firm of engineers selected by the Bond Fund Trustee or Bondholders' Committee, as the case may be, for the purpose of rendering advice with respect to the operation, maintenance, repair and replacement of the Projects necessary to prevent any loss of Revenues, and with respect to the sufficiency of the rates and charges for power and energy sold, furnished or supplied by the Projects), and thereafter to the payment of the reasonable and necessary cost of operation, maintenance, repair and replacement of the Projects and the principal of and interest on the Bonds.

In the event that at any time the funds held by the Bond Fund Trustee and the Paying Agents for the Bonds shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons which have theretofore become due at maturity or by call for redemption) and all Revenues and other moneys received or collected for the benefit or for the account of holders of the Bonds by the Bond Fund Trustee shall be applied as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient

to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Bond Fund Trustee and the holders of Bonds, their respective agents and attorneys, and all other sums payable by the System under the Resolution including the principal of, premium, if any, and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the System, or provision satisfactory to the Bond Fund Trustee shall be made for such payment, and all defaults under

the Resolution or the Bonds shall be made good or secured to the satisfaction of the Bond Fund Trustee or provision deemed by the Bond Fund Trustee to be adequate shall be made therefor, the Bond Fund Trustee shall pay over to the System all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bond Fund Trustee (except moneys, securities, funds or Revenues deposited or pledged with the Bond Fund Trustee), and thereupon the System and the Bond Fund Trustee shall be restored, respectively, to their former positions and rights under this Resolution, and all Revenues shall thereafter be applied as provided in Article VI. No such payment over to the System by the Bond Fund Trustee or resumption of the application of Revenues as provided in Article VI shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

SECTION 11.4. Suits by Bond Fund Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Bond Fund Trustee, either in its own name or as trustee of an express trust, or as attorney in fact for the holders of all the Bonds and the coupons appurtenant thereto, or in any one or more of such capacities, by its agents and attorneys, shall be entitled and empowered to proceed forthwith to institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the System as trustee of an express trust, or in the enforcement of any other legal or equitable right as the Bond Fund Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights, or to perform any of its duties under the Resolution. The Bond Fund Trustee shall be entitled and empowered

either in its own name or as a trustee of an express trust, or as an attorney in fact for the holders of the Bonds and the coupons appurtenant thereto, or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Bond Fund Trustee and of the holders of the Bonds and of the coupons appurtenant thereto allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings relative to the System. For this purpose the Bond Fund Trustee is hereby irrevocably appointed the true and lawful attorney in fact of the respective holders of the Bonds and of the coupons appurtenant thereto (and the successive holders of the Bonds and of the coupons appurtenant thereto by taking and holding the same shall be conclusively deemed to have so appointed the Bond Fund Trustee) with authority to make and file in the respective names of the holders of the Bonds any such proof of debt, amendment of proof of debt, claim, petition or other document in any such proceedings, and to receive payment of any sums becoming distributable on account thereof, and to execute any such other papers and documents and to do and perform any and all acts and things for and on behalf of the holders of the Bonds and of the coupons appurtenant thereto as may be necessary or advisable in the opinion of the Bond Fund Trustee in order to have the respective claims of the Bond Fund Trustee and of the holders of the Bonds and of said coupons allowed in any such proceeding and to receive payment of and on account of such claims; provided, however, that nothing contained herein shall be deemed to give the Bond Fund Trustee any right to accept or consent to any plan of reorganization or compromise or otherwise take any action of any character in any such proceeding to waive or change in any way any right of any holder of Bonds or coupons appurtenant thereto.

All rights of action under the Resolution may be enforced by the Bond Fund Trustee without the possession of any of the Bonds or coupons or the production thereof on the trial or other proceedings.

The holders of not less than a majority in principal amount of the Bonds at the time outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the holders of Bonds or the Bond Fund Trustee, or exercising any trust or power conferred upon the Bond Fund Trustee, provided that the Bond Fund Trustee shall be provided with reasonable security and indemnity and shall have the right to decline to follow any such direction only (i) if the Bond Fund Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken; or (ii) if the Bond Fund Trustee in good faith shall determine that the action or proceeding so directed would involve the Bond Fund Trustee in personal liability; or (iii) that the action or proceeding so directed would be unjustly prejudicial to the holders of Bonds not parties to such direction.

At any time after the occurrence of an Event of Default and prior to the curing of such Event of Default, whether or not the principal of, premium, if any, and interest accrued on all the outstanding Bonds shall have been declared immediately due and payable as a result of such Event of Default, the Bond Fund Trustee, as a matter of right against the System, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, to the extent permitted by law, be entitled to take possession and control of the business and properties of the Projects. Upon taking such possession, the Bond Fund Trustee shall operate and maintain the Projects, make any necessary repairs, renewals and replacements in respect thereof, prescribe rates and charges for Project capability, power and energy sold, furnished or supplied through the facilities of the Projects, collect the gross revenues resulting from the operation of the Projects, and perform all of the agreements and covenants contained in all contracts whi.

the System is at the time obligated to perform. At any such time the Bond Fund Trustee shall be entitled to the appointment of a receiver of the business and property of the Projects, of the moneys, securities and funds of the System pledged under the Resolution, and of the Revenues, and of the income therefrom with all such powers as the court or courts making such appointment shall confer, including the power to perform and enforce all contracts, to the same extent that the System shall then be entitled and obligated to do; provided, however, that, notwithstanding the happening of an Event of Default, the rights and obligations of the Participants under the Participants' Agreements not in default shall not be affected by such happening of an Event of Default. Notwithstanding the appointment of any receiver, the Bond Fund Trustee shall be entitled to retain possession and control of and to collect and receive income from any moneys, securities, funds and Revenues deposited or pledged with it under the Resolution or agreed or provided to be delivered to or deposited or pledged with it under the Resolution.

The Bond Fund Trustee may without the happening of an Event of Default and, at the request of the holders of not less than a majority of the Bonds then outstanding and upon being furnished with reasonable security and indemnity, shall take such steps and institute such suits, actions or proceedings in its own name, or as trustee, or in the name of the System, all as the Bond Fund Trustee may deem appropriate, for the protection and enforcement of the rights of the holders of Bonds and the coupons appurtenant thereto, to collect any amounts due and owing the System, or by injunction, mandamus, foreclosure or other appropriate proceeding in law and in equity to obtain other appropriate relief and may enforce the specific performance of any covenant, agreement or condition contained in the Resolution, or in the Bonds, or in any contract to which the System is a party including the Participants' Agreements, the WPPSS No. 5 Project Ownership Agreement, the Skagit Project Ownership Agreement and the Power Sales Agreements.

SECTION 11.5. Suits by Individual Bondholders. Except as otherwise specifically provided in this Section, no holder of any of the Bonds or coupons shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given to the Bond Fund Trustee written notice of the happening of an Event of Default, as provided in this Article, and the holders of at least 20% in principal amount of the Bonds then outstanding shall have filed a written request with the Bond Fund Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted under this Resolution or to institute such action, suit or proceeding in its own name, and unless such Bondholder shall have offered to the Bond Fund Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Fund Trustee for a period of sixty (60) days after the receipt by it of such notice, request and offer of indemnity shall have refused to comply with such request; it being understood and intended that, except as above provided, no one or more holders of Bonds or coupons shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in compliance with the conditions precedent to the initiation of such litigation as herein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all holders of the outstanding Bonds and coupons.

In the event that the Bond Fund Trustee shall have failed or refused to comply with the aforesaid request after having been offered such security and indemnity, the holders of not less than twenty per cent (20%) in principal amount of the Bonds then outstanding may call a meeting of the holders of Bonds for the

purpose of electing a Bondholders' Committee. Such meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Bondholders pursuant to Article XII hereof. At such meeting the holders of not less than a majority of the principal amount of the Bonds must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present, at such meeting the Bondholders present in person or by proxy may, by a majority of the votes cast, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholders present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee at such Bondholders' meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it herein, and may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee may, with the consent of the holders of more than fifty per cent (50%) of the principal amount of Bonds outstanding, remove the Bond Fund Trustee. After the removal of the Bond Fund Trustee pursuant to the provisions of this Section and prior to the appointment of a successor Bond Fund Trustee pursuant to the provisions of Section 6.2 hereof, the members of the Bondholders' Committee elected by the Bondholders in the manner herein provided, and their successors, as a committee are hereby declared to be trustees for the holders of all the Bonds then outstanding, and are empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in this Article XI on the Bond Fund Trustee or any Bondholder.

Nothing in the Resolution or in the Bonds or in the coupons contained shall affect or impair the obligation of the System, which is absolute and unconditional, to pay at the respective

dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective holders thereof, or affect or impair the rights of action, which are also absolute and unconditional, of any holder to enforce the payment of his Bonds, or to reduce to judgment his claim against the System for the payment of the principal and interest on his Bonds, without reference to, or consent of, the Bond Fund Trustee or any other holder of Bonds.

SECTION 11.6. Remedies Granted in Resolution Not Exclusive.

No remedy by the terms of this Resolution conferred upon or reserved to the Bond Fund Trustee or the holders of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law or in equity or by statute on or after the date of adoption of the Resolution.

SECTION 11.7. Waivers of Default. No delay or omission of the Bond Fund Trustee or of any holder of Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein, and every power and remedy given by this Article to the Bond Fund Trustee or to the holders of Bonds may be exercised from time to time and as often as may be deemed expedient by the Bond Fund Trustee or by such holders.

Prior to a declaration accelerating the maturity of the Bonds as provided in Section 11.1, the holders of not less than 66 2/3% in principal amount of the Bonds at the time outstanding or their attorneys in fact duly authorized, may on behalf of the holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of principal of, premium, if any, or interest on any of the

Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 11.8. Waiver of Extension Laws. The System will not at any time insist upon or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Resolution, or in the Bonds, but all benefit or advantage of any such law or laws is hereby expressly waived by the System.

SECTION 11.9. Notice of Defaults. The Bond Fund Trustee shall, within 90 days after the occurrence of an Event of Default, give to the Bondholders, in the manner provided in Section 12.2 hereof, notice of all defaults known to the Bond Fund Trustee, unless such defaults shall have been cured before the giving of such notice (the term "default" or "defaults" for the purpose of this Section 11.9 being hereby defined to be any Event or Events of Default specified in Section 11.1); provided that, except in the case of default in the payment of principal of, premium, if any, and interest on any of the Bonds or in the payment of any sinking fund installment, the Bond Fund Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or responsible officers of the Bond Fund Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders.

Section 11.8
Section 11.9

ARTICLE XII

AMENDMENTS AND BONDHOLDERS' MEETINGS

SECTION 12.1. Call of Bondholders Meetings. The System, the Bond Fund Trustee or the holders of not less than twenty per cent (20%) in principal amount of the Bonds then outstanding may at any time call a meeting of the holders of the Bonds. Every such meeting shall be held at such place in the City of New York, State of New York, or in the City of Chicago, State of Illinois, as may be specified in the notice calling such meeting. Written notice of such meeting, stating the place and time of the meeting and in general terms the business to be submitted, shall be mailed to the Bondholders by the System, the Bond Fund Trustee or the Bondholders calling such meeting not less than thirty (30) nor more than sixty (60) days before such meeting, and shall be published at least once a week for four (4) successive calendar weeks on any day of the week, the date of first publication to be not less than thirty (30) days nor more than sixty (60) days preceding the meeting; provided, however, that the mailing of such notice shall in no case be a condition precedent to the validity of any action taken at any such meeting. Any meeting of Bondholders shall, however, be valid without notice if the holders of all Bonds then outstanding are present in person or by proxy or if notice is waived before or within thirty (30) days after the meeting by those not so present.

SECTION 12.2. Notices to Bondholders. Except as otherwise provided in this Resolution, any provision in this Resolution for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid (a) to each registered owner of any of the Bonds then outstanding at his address, if any, appearing upon the registry books of the System, (b) to each owner of any of such Bonds payable to bearer who shall have filed with the System or the Bond Fund Trustee an address for notices and (c) to the Bond Fund Trustee. Any provision in

Section 12.1
Section 12.2

this Resolution contained for publication of a notice or other matter shall require the publication thereof in The Daily Bond Buyer in the City of New York, State of New York (or in lieu of publication in The Daily Bond Buyer, in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the Borough of Manhattan, the City of New York, State of New York), and also in daily newspapers printed in the English language and customarily published on each business day of general circulation in each of the Cities of Seattle, Washington, and Chicago, Illinois. If, because of the temporary or permanent suspension of the publication or general circulation of any financial paper or newspaper in any particular city, the System deems it impossible to publish any such notice in such city in the manner herein provided, then there shall be made in lieu thereof such publication as shall be decided upon by the System, and the same shall constitute a sufficient publication of such notice.

SECTION 12.3. Proxies; Proof of Ownership of Bonds; Execution of Instruments by Bondholders. Attendance and voting by Bondholders at such meetings may be in person or by proxy. Owners of Registered Bonds or Coupon Bonds registered as to principal may, by an instrument in writing under their hands, appoint any person or persons, with full power of substitution, as their proxy to vote at any meeting for them.

In order that holders of Bonds payable to bearer and their proxies may attend and vote without producing their Bonds, the Bond Fund Trustee may make and from time to time vary such regulations as it shall think proper for the deposit of Bonds with or exhibit of Bonds to any bank, bankers or trust companies, wherever situated, and for the issue by them to the persons depositing or exhibiting such Bonds, of certificates in form approved by the Bond Fund Trustee, which shall constitute proof of ownership entitling the holders thereof to be present and vote at any such

meeting in the same way as if the persons so present and voting, either personally or by proxy, were the actual bearers of the Bonds in respect of which such certificates shall have been issued, and any regulations so made shall be binding and effective. Copies of such regulations shall be kept on file by the Bond Fund Trustee and Paying Agents. Officers or nominees of the System, and officers or nominees of the Bond Fund Trustee, may be present or represented at such meeting and take part therein, but shall not be entitled to vote thereat, except as such officers or nominees are Bondholders or proxies for Bondholders (including the Bond Fund Trustee).

Any registered owner of Bonds and any holders of a certificate provided for in this Section shall be entitled in person or by proxy to attend and vote at such meeting as holder of the Bonds registered or certified in his name without producing such Bonds (unless the Bonds described in such certificate shall be registered in the name of or be produced by some other person at such meeting), and such persons and their proxies shall, if required, produce such proof of personal identity as shall be satisfactory to the Secretary of the meeting. All proxies presented at such meeting shall be delivered to the Inspectors of Votes and filed with the Secretary of the meeting. All other persons seeking to attend or vote in such meeting must produce the Bonds claimed to be owned or represented at such meeting.

The vote at any such meeting of the holder of any Bond entitled to vote thereat shall be binding upon such holder and upon every subsequent holder of such Bond (whether or not such subsequent holder has notice thereof).

Any request, direction, consent or other instrument in writing required or permitted by this Resolution to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Bondholders in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument shall be

sufficient for any purpose of this Resolution, and shall be conclusive in favor of the Bond Fund Trustee with regard to any action taken by it under such instrument, if made in the following manner: (1) the fact and date of the execution by any person of any such instrument may be proved by either (A) an acknowledgment executed by a notary public or other officer empowered to take acknowledgments of deeds to be recorded in the particular jurisdiction, or (B) an affidavit of a witness to such execution sworn to before such a notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such acknowledgment or affidavit shall also constitute sufficient proof of his authority.

The foregoing shall not be construed as limiting the Bond Fund Trustee to such proof, it being intended that the Bond Fund Trustee may accept any other evidence of the matters herein stated which to it may seem sufficient. Any request or consent of the holder of any Bond shall bind every future holder of the same Bond in respect of anything done by the Bond Fund Trustee in pursuance of such request, direction or consent.

The right of a proxy for a Bondholder to act may be proved (subject to the Bond Fund Trustee's right to require additional proof) by a written proxy executed by such Bondholder as aforesaid.

SECTION 12.4. Appointment of Officers at Bondholders' Meeting. Persons named by the Bond Fund Trustee, or elected by the holders of a majority in principal amount of the Bonds represented at the meeting in person or by proxy in the event the Bond Fund Trustee is not represented at such meeting, shall act as temporary Chairman and temporary Secretary of any meeting of Bondholders. A permanent Chairman and a permanent Secretary of such meeting shall be elected by the holders of a majority in principal amount of the Bonds represented at such meeting in person or by proxy. The permanent Chairman of the meeting shall appoint two (2) Inspectors of Votes who shall count all votes cast at such meeting,

Section 12.4

except votes on the election of Chairman and Secretary as aforesaid and who shall make and file with the Secretary of the meeting and with the System and with the Bond Fund Trustee their verified report of all such votes cast at the meeting.

SECTION 12.5. Quorum at Bondholders' Meetings. The holders of not less than the principal amount of the Bonds required for any action to be taken at such meeting must be present at such meeting in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting; provided, however, that if such meeting is adjourned by less than a quorum for more than ten (10) days, notice thereof shall be published by the System at least five (5) days prior to the adjourned date of the meeting.

SECTION 12.6. Vote Required to Amend Resolution. Any amendment of the provisions of the Resolution in any particular except the percentage of Bondholders the approval of which is required to approve such amendment may be made by a supplemental resolution of the System and a resolution duly adopted by the affirmative vote at a meeting of Bondholders duly convened and held, or with written consent as hereinafter provided in Section 12.8 hereof, (i) of the holders of not less than sixty-six and two-thirds per cent (66 2/3%) in principal amount of the Bonds outstanding when such meeting is held or such consent is given, (ii) of the holders of not less than sixty-six and two-thirds per cent (66 2/3%) in principal amount of Bonds so outstanding which are adversely affected by any amendment which does not equally affect all other Bonds so outstanding, (iii) in case the amendment changes the amount or date of payment of any payment into a special fund established for the payment of any Bonds, of the holders of at least sixty-six and two-thirds per cent (66 2/3%) in principal amount of the Bonds of the particular

series, maturity and interest rate entitled to such payment outstanding at the time such meeting is held or such consent is given, and (iv) in case the modification or amendment changes the terms of any sinking fund installment, of the holders of at least sixty-six and two-thirds per cent (66 2/3%) in principal amount of the Bonds of the particular series and maturity entitled to such sinking fund installment and outstanding at the time such consent is given; provided, however, that no such amendment shall permit a change in the date of payment of the principal of any Bonds or of any installment of interest thereon or a reduction in the principal or redemption price thereof or the rate of interest thereon without the consent of the holder of each such Bond, or shall change or modify any of the rights or obligations of the Construction Fund Trustee, the Bond Fund Trustee, the Contingency Reserve Fund Trustee, the Development Fund Trustee or any Paying Agent without its written assent thereto.

SECTION 12.7. Obtaining Approval of Amendments at Bondholders' Meeting. The System may at any time adopt a resolution amending the provisions of the Resolution to the extent that such amendment is permitted by the provisions of Section 12.6 hereof, to take effect when and as provided in this Section. Upon the adoption of such resolution, a copy thereof, certified by the Secretary of the System, shall be filed with the Bond Fund Trustee. At any time thereafter such resolution may be submitted by the System for approval to a meeting of the Bondholders duly convened and held in accordance with the provisions of the Resolution. A record in duplicate of the proceedings of each meeting of the Bondholders shall be prepared by the permanent Secretary of the meeting and shall have attached thereto the original reports of the Inspectors of Votes and affidavits by a person or persons having knowledge of the facts, showing a copy of the notice of the meeting and setting forth the facts with respect to the mailing and publication thereof under the provisions of the Resolution. Such a record shall be signed and

Section 12.7

verified by the affidavits of the permanent Chairman and the permanent Secretary of the meeting, and one duplicate thereof shall be delivered to the System and the other to the Bond Fund Trustee for preservation by such Trustee. Any record so signed and verified shall be proof of the matters therein stated. If the resolution of the System making such amendment shall be approved by a resolution duly adopted at such meeting of Bondholders by the affirmative vote of the holders of the required percentages of Bonds, a notice stating that a resolution approving such amendment has been so adopted and briefly summarizing such amendment shall be mailed by the System to the Bondholders (but failure so to mail copies of such resolution shall not affect the validity of such resolution) and shall be published twice in the manner provided in Section 12.2 hereof, with an interval of not less than seven (7) days between such publications, the first publication to be made not more than fifteen (15) days after the date of the adoption of such resolution. Proof of such mailing and publication by the affidavit or affidavits of a person or persons having knowledge of the facts shall be filed with the Bond Fund Trustee. Such resolution of the System making such amendment shall be deemed conclusively to be binding upon the System, the Construction Fund Trustee, the Bond Fund Trustee, the Contingency Reserve Fund Trustee, the Development Fund Trustee, the Paying Agents and the holders of all Bonds and coupons pertaining thereto at the expiration of thirty (30) days after the filing with the Bond Fund Trustee of the proof of the first publication of the notice provided for in this Section, except in the event of a final decree of a court of competent jurisdiction setting aside such resolution or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period; provided that the Bond Fund Trustee, the Construction Fund Trustee, the Contingency Reserve Fund Trustee, the Development Fund Trustee, any Paying Agents and the System during such thirty (30) day period and any such further period during which such action or proceeding may be pending shall be entitled in their absolute discretion to

take such action, or to refrain from taking such action, with respect to such resolution as they may deem expedient. Nothing in this Resolution contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Bondholders or of any right conferred hereunder to make such call, any hindrance or delay in the exercise of any rights conferred upon or reserved to the Construction Fund Trustee, the Bond Fund Trustee, the Contingency Reserve Fund Trustee, the Development Fund Trustee, the Paying Agents or the Bondholders under any of the provisions of the Resolution.

SECTION 12.8. Alternate Method of Obtaining Approval of Amendments. The System may at any time adopt a resolution amending the provisions of the Resolution, or of any Bonds, to the extent that such amendment is permitted by the provisions of this Article, to take effect when and as provided in this Section. Upon adoption of such resolution, a copy thereof, certified by the Secretary of the System, shall be delivered to and held by the Bond Fund Trustee for the inspection of the Bondholders. A copy of such resolution (or summary thereof in form approved by the Bond Fund Trustee) together with a request to Bondholders for their consent thereto in form satisfactory to the Bond Fund Trustee, shall be mailed by the System to Bondholders and notice thereof shall be published once in each calendar week for four (4) successive calendar weeks on any day of the week in the manner provided in Section 12.2 hereof (but failure to mail copies of such resolution and request shall not affect the validity of the resolution when consented to as in this Section provided). Such resolution shall not be effective unless and until there shall have been filed with the Bond Fund Trustee the written consents of the percentages of holders of outstanding Bonds specified in Section 12.6 hereof and a notice shall have been published as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof

Section 12.8

shall be such as is permitted by Section 12.3 hereof. A certificate or certificates of the Bond Fund Trustee that it has examined such proof and that such proof is sufficient shall be conclusive that the consents have been given by the holders of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the holder of the Bonds giving such consent and on every subsequent holder of such Bonds (whether or not such subsequent holder has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving consent, or a subsequent holder, by filing such revocation with the Bond Fund Trustee prior to the date when the notice hereinafter in this Section provided for is first published. The fact that a consent has not been revoked may likewise be proved by a certificate of the Bond Fund Trustee. A notice, stating the substance of the resolution and stating that the resolution has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section, may be given to the Bondholders by mailing such notice to the Bondholders, and shall be given by publishing the same twice in the manner provided in Section 12.2 hereof, with an interval of not less than seven (7) days between such publications, the first publication to be made not more than fifteen (15) days after the holders of the required percentages of Bonds shall have filed their consent to the resolution. The System shall file with the Bond Fund Trustee proof of giving such notice. A record, consisting of the papers required by this Section to be filed with the Bond Fund Trustee, shall be proof of the matters therein stated, and the resolution shall be deemed conclusively to be binding upon the System, the Construction Fund Trustee, the Bond Fund Trustee, the Contingency Reserve Fund Trustee, the Development Fund Trustee, the Paying Agents and the holders of all Bonds and coupons at the expiration of thirty (30) days after the filing with the Bond Fund Trustee of the proof of the first publication of the notice last provided for in this Section, except in the event of a final

decree of a court of competent jurisdiction setting aside such consent or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period; provided that the Bond Fund Trustee, the Construction Fund Trustee, the Contingency Reserve Fund Trustee, the Development Fund Trustee, any Paying Agent and the System during such thirty (30) day period and any such further period during which such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such resolution as they may deem expedient.

SECTION 12.9. Amendment of Resolution In Any Respect by Approval of All Bondholders. Notwithstanding anything contained in the foregoing provisions of this Article, the rights and obligations of the System and of the holders of the Bonds and coupons pertaining thereto, and the terms and provisions of the Bonds and of the Resolution, may be amended in any respect with the consent of the System, by the affirmative vote of the holders of all said Bonds then outstanding at a meeting of Bondholders called and held as hereinabove provided, or upon the adoption of a resolution by the System and the consent of the holders of all of the Bonds then outstanding, such consent to be given as provided in Section 12.8 except that no notice to Bondholders either by mailing or publication shall be required, and the amendment shall be effective immediately upon such unanimous vote or written consent of all of the Bondholders.

SECTION 12.10. Exclusion of Bonds Owned by System. Bonds owned or held by or for the account of the System shall not be deemed outstanding for the purpose of any vote or consent or other action or any calculation of outstanding Bonds in the Resolution provided for, and shall not be entitled to vote or consent or take any other action in the Resolution provided for.

Section 12.9
Section 12.10

SECTION 12.11. Endorsement of Amendment on Bonds. Bond delivered after the effective date of any action amending the Resolution taken as hereinabove provided may, and, if the Bond Fund Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the System and the Bond Fund Trustee as to such action, and in that case, upon demand of the holder of any Bond outstanding at such effective date and presentation of his Bond for the purpose at the principal office of the Bond Fund Trustee, suitable notation shall be made on such Bond by the Bond Fund Trustee as to any such action. If the System shall so determine, new Bonds so modified as in the opinion of the System and its counsel to conform to such Bondholders' action shall be prepared, delivered and upon demand of the holder of any Bond then outstanding shall be exchanged without cost to such Bondholder for Bonds then outstanding hereunder, upon surrender of such Bonds with all unmatured coupons pertaining thereto.

ARTICLE XIII
FORMS OF BONDS

SECTION 13.1 Forms Of Bonds. The form of Coupon Bond, the form of interest coupons to be attached to the Coupon Bonds, the form of registration to appear thereon, the form of Registered Bond, the form of assignment to appear thereon, the form of endorsement of partial payment to appear thereon, and the form of State Auditor's Certificate of Registration on all the Bonds shall be in substantially the following forms, respectively, with such modifications, additions and deletions as may be necessary or advisable to reflect the details of issuance of such Bonds, the provisions of this Resolution and the Series Resolution authorizing the same, or otherwise required or permitted by the provisions of this Resolution or such Series Resolution:

[FORM OF COUPON BOND]

UNITED STATES OF AMERICA
STATE OF WASHINGTON
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
ELECTRIC REVENUE BOND, SERIES _ _ _

No. \$5,000

WASHINGTON PUBLIC POWER SUPPLY SYSTEM, a municipal corporation of the State of Washington (hereinafter called the "System"), for value received, hereby promises to pay to the bearer, or, if this bond be registered as to principal, to the registered owner hereof, on the first day of , , the sum of Five Thousand Dollars (\$5,000) and to pay interest on such principal sum from the date hereof at the rate of per centum (%) per annum, payable , 19 , and semi-annually thereafter on the first day of and the first day of in each year until the maturity of this bond, or, if default should be made in payment of the principal

hereof when the same shall become due and payable, at the legal rate of interest until the payment in full of such principal sum, but, in the case of the interest due on or before maturity, only upon the presentation and surrender of the respective interest coupons representing such interest hereto attached, as they severally mature.

Principal of, premium, if any, and interest on this bond are payable solely out of the special fund of the System known as the "Projects Bond Fund" (hereinafter referred to as the "Bond Fund"). Payment of such principal, interest and premium will be made at the principal office of the Paying Agent of the System for the series of bonds of which this bond is one in the City of Seattle, Washington, or, at the option of the holder hereof, or of such coupons, as the case may be, at the principal office of either of the Paying Agents of the System for the series of bonds of which this bond is one in the City of Chicago, Illinois, or in the City of New York, New York, in such coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

This bond is one of a duly authorized series of bonds of like designation herewith, aggregating Dollars in principal amount. This bond and the bonds of the series of which it is one are issued under the authority of and in full compliance with the Constitution and statutes of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, and under and pursuant to Resolution No. _____ of the System adopted by the Board of Directors of the System on the _____ day of _____, 19 _____ (hereinafter referred to as the "Bond Resolution"), and a Series Resolution duly adopted by said Board on the _____ day of _____, 19 _____.

This bond and the series of which it is one consti-

tute part of a duly authorized issue of bonds (hereinafter referred to as the "Bonds") issued, or to be issued, by the System under the Bond Resolution for the purpose of paying the cost to the System of the construction and acquisition of all or an undivided ownership interest in certain nuclear generating facilities as a separate utility system of the System (said separate utility system including all additions, betterments, extensions and improvements thereto being hereinafter referred to as the "Projects"). The Bond Resolution permits the issuance of additional bonds, in addition to the Bonds, for certain limited purposes specified therein, ranking on a parity with the Bonds and secured by an equal charge and lien on the revenues of the Projects.

Copies of the Bond Resolution are on file at the principal office of the System and at the principal office of each of the Paying Agents, and reference thereto and to any and all modifications and amendments thereof is hereby made for a more complete description of the revenues available for the payment of the principal of, premium, if any, and interest on the Bonds and the rights and remedies of the holders of the Bonds with respect thereto, the terms and conditions upon which the Bonds have been issued and the terms and provisions upon which this Bond shall no longer be secured by the Bond Resolution or deemed to be outstanding thereunder if moneys or certain specified securities shall have been deposited with _____, the Bond Fund Trustee appointed pursuant to the Bond Resolution, or any Paying Agent therefor sufficient and held in trust solely for the payment thereof.

Under the Bond Resolution the System is obligated to set aside and pay into the Bond Fund out of the gross revenues of the Projects, including all additions, betterments and improvements thereto and extensions thereof, certain fixed amounts sufficient to pay the principal of, premium, if any, and interest on all Bonds at any time outstanding as the same become due and payable, all as is more fully provided in the Bond Resolution. The Bonds and the interest thereon constitute the only charge against the Bond Fund and the amount of the revenues pledged to said Bond Fund.

In case an event of default (defined in the Bond Resolution) shall occur, the principal of the Bonds and any additional bonds ranking on a parity with the Bonds issued pursuant to the Bond Resolution at such time outstanding may be declared due and payable by the Bond Fund Trustee or by the holders of 20% in principal amount of such Bonds and additional bonds, but such declaration may, under certain circumstances, be annulled.

In and by the Bond Resolution, the System covenants to establish, maintain and collect rates or charges for capability, electric energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Projects which shall be fair and nondiscriminatory and adequate to provide revenues sufficient for the fixed amounts which the System is obligated to set aside in the Bond Fund to pay the principal of, premium, if any, and interest on this Bond and the issue of Bonds of which this Bond is a part, and for the proper operation and maintenance of the Projects, and all necessary repairs thereto and replacements and renewals thereof.

The Bonds of the series of Bonds of which this Bond is a part are subject to redemption prior to maturity, at the option of the System, on or after 1, 19 ,

as a whole at any time, or in part from time to time on any interest payment date in the inverse order of their maturities (and in the event that less than all of such Bonds of a maturity are called for redemption, the particular Bonds of such maturity to be redeemed shall be selected by lot), at the redemption prices with respect to each Bond, expressed as a percentage of the principal amount of the Bond to be redeemed, set forth below, together with the interest accrued thereon to the date fixed for redemption:

Period During Which Redeemed (Both Dates Inclusive)	Redemption Prices
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provided, however, that the System further reserves the right to redeem the Bonds of the series of Bonds of which this Bond is a part maturing on _____, _____, prior to the maturity thereof, in part on any interest payment date (a) on and after _____, upon payment of the principal amount thereof from the amounts credited to the Bond Retirement Account in the Bond Fund pursuant to paragraph C of Section 6.2 of the Bond Resolution, and (b) on and after _____, upon payment of _____ % of the principal amount thereof from excess moneys available therefor in the Bond Retirement Account in the Bond Fund resulting from the payments therein pursuant to Section 6.15 of the Bond Resolution, in each case together with the interest accrued thereon to the date fixed for redemption; and provided further, that the System further reserves the right to redeem all of the Bonds of the series of Bonds of which this Bond is a part, prior to the maturity thereof, as a whole at any time, or in part on any interest payment date in the inverse order of their maturities (and in the event that less than all of such Bonds of a maturity are called for redemption, the particular Bonds of such maturity to be redeemed shall be

selected by lot), from moneys available therefor in the Bond Retirement Account in the Bond Fund resulting from the payments therein pursuant to Section 9.7 of the Bond Resolution, upon payment of the principal amount of the Bond to be redeemed, together with the interest accrued thereon to the date fixed for redemption.

In the event the System should exercise its option to redeem any of the Bonds, notice of such redemption shall be given by publication of a notice at least once in daily financial papers, or in daily newspapers of general circulation printed in the English language, published in the cities of Seattle, Washington, Chicago, Illinois, and New York, New York, such publications to be made in each case not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption. Notice of redemption having been given by publication as aforesaid, the Bonds so called for redemption shall on the date specified in such notice become due and payable at the applicable redemption price herein provided, and from and after the date so fixed for redemption (unless the System shall default in the payment of the Bonds so called for redemption) interest on said Bonds so called for redemption shall cease to accrue.

This Bond may be registered as to principal only, in accordance with the provisions endorsed hereon, and this Bond and the interest coupons attached hereto shall have all the qualities and incidents of a negotiable instrument to the extent provided by Section 54.24.120 of the Revised Code of Washington.

The Bonds of the series of Bonds of which this Bond is one are issuable as Coupon Bonds, registrable as to principal only, in the denomination of \$5,000, and as Registered Bonds without coupons in the denomination of \$5,000, or any multiple

of \$5,000. The Coupon Bonds and the Registered Bonds without coupons are interchangeable for an equal aggregate principal amount of Bonds of the same series, interest rate and maturity upon presentation thereof for such purpose by the holder or registered owner at the principal office of the Bond Fund Trustee, and upon payment of charges and otherwise as provided in the Bond Resolution.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this Bond, together with all other obligations or indebtedness of the System, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, Washington Public Power Supply System, by its Board of Directors, has caused this Bond to be executed in its name with the facsimile signature of the President of its Board of Directors, and attested by the manual signature of the Secretary of its Board of Directors or Treasurer of the System thereunto duly authorized, and the facsimile seal of said System to be hereon imprinted, and the interest coupons hereto attached to be executed by the facsimile signatures of the said President and Secretary, all as of the first day of

,19 .

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

President

ATTEST:

Secretary (Treasurer)

(Seal)

[FORM OF COUPON]

No.-----

\$-----

On the first day of _____, _____, unless the Bond hereinafter mentioned shall have been duly called for previous redemption and payment of the redemption price duly made or provided for, Washington Public Power Supply System, a municipal corporation of the State of Washington, will pay to bearer at the principal office of the Paying Agent of the System for the series of bonds of which the bond hereinafter mentioned is one, in the City of Seattle, Washington, or, at the option of the holder hereof, at the principal office of either of the Paying Agents of the System for the series of bonds of which the bond hereinafter mentioned is one, in the City of Chicago, Illinois, or in the City of New York, New York, but solely out of the special fund applicable to the payment thereof as provided in said bond, the sum of _____ Dollars (\$ _____), in such coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, being the interest then due on its Electric Revenue Bond, Series _____, dated _____, 19 _____, and numbered _____.

President

Secretary

[FORM OF REGISTRATION]

This Bond may be registered as to principal only in the name of the holder on books of registration to be kept at the principal office of the Bond Fund Trustee located in the City of _____, _____, such registration to be noted in the registration blank below. After such registration no transfer hereof shall be valid unless made on said books and

similarly noted hereon, but such registration may be made to bearer and thereupon transferability by delivery shall be restored. The registration of this Bond as to principal only shall not affect the coupons which shall at all times be transferable merely by delivery.

(Notice: No writing on this bond except by Registrar)

<u>Date of Registration</u>	<u>Name of Registered Owner</u>	<u>Signature of Registrar</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

[FORM OF REGISTERED BOND WITHOUT COUPONS]

UNITED STATES OF AMERICA
STATE OF WASHINGTON
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
ELECTRIC REVENUE BOND, SERIES -----

No. R----- \$-----

WASHINGTON PUBLIC POWER SUPPLY SYSTEM, a municipal corporation of the State of Washington (hereinafter called the "System"), for value received, hereby promises to pay to _____ or registered assigns, on the first day of _____, the principal sum of _____ Dollars (\$ _____), and to pay interest on the unpaid principal amount hereof, which interest shall be paid by check or draft drawn upon _____, the Bond Fund Trustee appointed pursuant to the Bond Resolution (hereinafter defined) located in the City of _____,

and mailed to the registered owner at his address as it appears on the bond registration books of the System, at the rate of _____ per centum (_____ %) per annum from the date hereof, payable semi-annually on the first day of January and the first day of July of each year until the payment of such principal sum in full, or if default should be made in the payment of the principal hereof when the same shall become due

and payable, at the legal rate of interest until the payment in full of such principal sum.

Principal of, premium, if any, and interest on this bond are payable solely out of the special fund of the System known as the "Projects Bond Fund" (hereinafter referred to as the "Bond Fund"). Payment of such principal and premium will be made at the principal office of the Paying Agent of the System for the series of bonds of which this bond is one in the City of Seattle, Washington, or, at the option of the holder hereof, at the principal office of either of the Paying Agents of the System for the series of bonds of which this bond is one in the City of Chicago, Illinois, or in the City of New York, New York, in such coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

This bond is one of a duly authorized series of bonds of like designation herewith, aggregating Dollars in principal amount. This bond and the bonds of the series of which it one are issued under the authority of and in full compliance with the Constitution and statutes of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, and under and pursuant to Resolution No.

of the System adopted by the Board of Directors of the System on the day of , 19 (hereinafter referred to as the "Bond Resolution"), and a Series Resolution duly adopted by said Board on the day of , 19 .

This bond and the series of which it is one constitute part of a duly authorized issue of bonds (hereinafter referred to as the "Bonds") issued, or to be issued, by the System under the Bond Resolution for the purpose of paying the cost to the System of the construction and acquisition of all or an undivided ownership interest in certain nuclear generating facilities as a separate utility system of the System

(said separate utility system including all additions, betterments, extensions and improvements thereto being hereinafter referred to as the "Projects"). The Bond Resolution permits the issuance of additional bonds, in addition to the Bonds, for certain limited purposes specified therein, ranking on a parity with the Bonds and secured by an equal charge and lien on the revenues of the Projects.

Copies of the Bond Resolution are on file at the principal office of the System and at the principal office of each of the Paying Agents, and reference thereto and to any and all modifications and amendments thereof is hereby made for a more complete description of the revenues available for the payment of the principal of, premium, if any, and interest on the Bonds and the rights and remedies of the holders of the Bonds with respect thereto, the terms and conditions upon which the Bonds have been issued, and the terms and provisions upon which this Bond shall no longer be secured by the Bond Resolution or deemed to be outstanding thereunder if moneys or certain specified securities shall have been deposited with the Bond Fund Trustee appointed pursuant to the Bond Resolution, or any Paying Agent therefor sufficient and held in trust solely for the payment thereof.

Under the Bond Resolution the System is obligated to set aside and pay into the Bond Fund out of the gross revenues of the Projects, including all additions, betterments and improvements thereto and extensions thereof, certain fixed amounts sufficient to pay the principal of, premium, if any, and interest on all Bonds at any time outstanding as the same become due and payable, all as is more fully provided in the Bond Resolution. The Bonds and the interest thereon constitute the only charge against the Bond Fund and the amount

of the revenues pledged to said Bond Fund.

In case an event of default (defined in the Bond Resolution) shall occur, the principal of the Bonds and any additional bonds ranking on a parity with the Bonds issued pursuant to the Bond Resolution at such time outstanding may be declared due and payable by the Bond Fund Trustee or by the holders of 20% in principal amount of such Bonds and additional bonds, but such declaration may, under certain circumstances, be annulled.

In and by the Bond Resolution, the System covenants to establish, maintain and collect rates or charges for Projects capability, electric energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Projects which shall be fair and nondiscriminatory and adequate to provide revenues sufficient for the fixed amounts which the System is obligated to set aside in the Bond Fund to pay the principal of, premium, if any, and interest on this Bond and the issue of Bonds of which this Bond is a part, and for the proper operation and maintenance of the Projects, and all necessary repairs thereto and replacements and renewals thereof.

The Bonds of the series of Bonds of which this Bond is a part are subject to redemption prior to maturity, at the option of the System on or after 1, 19 , as a whole at any time, or in part from time to time on any interest payment date in the inverse order of their maturities (and in the event that less than all of such Bonds of a maturity are called for redemption, the particular Bonds of such maturity to be redeemed shall be selected by lot), at the redemption prices with respect to each Bond, expressed as a percentage of the principal amount of the Bond to be redeemed, set forth below, together with the interest accrued thereon to the date fixed for redemption:

Period During Which Redeemed
(Both Dates Inclusive)

Redemption
Prices

provided, however, that the System further reserves the right to redeem the Bonds of the series of Bonds of which this Bond is a part maturing on _____ 1, _____, prior to the maturity thereof, in part on any interest payment date (a) on and after _____, _____, upon payment of the principal amount thereof from the amounts credited to the Bond Retirement Account in the Bond Fund pursuant to paragraph C of Section 6.2 of the Bond Resolution, and (b) on and after _____, _____, upon payment of _____ % of the principal amount thereof from excess moneys available therefor in the Bond Retirement Account in the Bond Fund resulting from the payments therein pursuant to Section 6.15 of the Bond Resolution, in each case together with the interest accrued thereon to the date fixed for redemption; and provided further that the System further reserves the right to redeem all of the Bonds of the series of Bonds of which this Bond is a part, prior to the maturity thereof, as a whole at any time, or in part on any interest payment date in the inverse order of their maturities (and in the event that less than all of such Bonds of a maturity are called for redemption, the particular Bonds of such maturity to be redeemed shall be selected by lot), from moneys available therefor in the Bond Retirement Account in the Bond Fund resulting from the payments therein pursuant to Section 9.7 of the Bond Resolution, upon payment of the principal amount of the Bond to be redeemed, together with the interest accrued thereon to the date fixed for redemption.

In the event the System should exercise its option to redeem any of the Bonds, notice of such redemption shall be given by publication of a notice at least once in daily financial papers, or in daily newspapers of general circulation printed in the English language, published in the cities of Seattle, Washington, Chicago, Illinois, and New York, New York, such publication to be made in each case not less than thirty

(30) nor more than sixty (60) days prior to the date fixed for redemption. Notice of redemption having been given by publication as aforesaid, the Bonds so called for redemption shall on the date specified in such notice become due and payable at the applicable redemption price herein provided, and from and after the date so fixed for redemption (unless the System shall default in the payment of the Bonds so called for redemption), interest on said Bonds so called for redemption shall cease to accrue.

If this Bond is of a denomination in excess of \$5,000 portions of the principal sum hereof in installments of \$5,000 or any multiple thereof may be redeemed, and if less than all of the principal sum hereof is to be redeemed, in such case upon the surrender of this Bond at the principal office of any one of the Paying Agents, there shall be issued to the registered owner, without charge therefor, for the then unredeemed balance of the principal sum hereof, at the option of the owner, either Coupon Bonds or Registered Bonds of like series, maturity and interest rate in any of the denominations authorized by the Bond Resolution.

This Bond shall have all the qualities and incidents of a negotiable instrument to the extent provided by Section 54.24.120 of the Revised Code of Washington, and shall be transferable by the registered owner at the principal office of the Bond Fund Trustee upon surrender and cancellation of this Bond, and thereupon a new Registered Bond without coupons of the same series, principal amount, interest rate and maturity will be issued to the transferee as provided in the Bond Resolution and upon payment of the transfer charge, if any, therein prescribed. The System, the Paying Agents and any other person may treat the person in whose name this Bond is registered as the absolute owner hereof for the purpose of receiving payment hereof and for all purposes and shall not be affected by any notice to the contrary, whether this Bond be overdue or not.

The Bonds of the series of Bonds of which this Bond is one are issuable as Coupon Bonds, registrable as to principal only, in the denomination of \$5,000, and as Registered Bonds without coupons in the denomination of \$5,000, or any multiple of \$5,000. The Coupon Bonds and the Registered Bonds without coupons are interchangeable for an equal aggregate principal amount of Bonds of the same series, interest rate and maturity upon presentation thereof for such purpose by the holder or registered owner at the principal office of the Bond Fund Trustee, and upon payment of charges and otherwise as provided in the Bond Resolution.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this Bond, together with all other obligations or indebtedness of the System, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, Washington Public Power Supply System, by its Board of Directors, has caused this Bond to be executed in its name with the facsimile signature of the President of its Board of Directors, and attested by the manual signature of the Secretary of its Board of Directors or Treasurer of the System thereunto duly authorized, and the facsimile seal of said System to be hereon imprinted all as of

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

President

ATTEST:

Secretary (Treasurer)

(SEAL)

[FORM OF ASSIGNMENT]

For value received hereby
sells, assigns and transfers unto the
within mentioned Bond and hereby irrevocably constitutes and
appoints _____, Attorney, to transfer the
same on the books of registration in the office of the Bond
Registrar of the System with full power of substitution in
the premises.

Dated: _____

Witness: _____

Note: The signature to this assignment must correspond with
the name as written on the face of the within Bond
in every particular, without alteration, enlargement
or any change whatsoever.

[FORM FOR ENDORSEMENT OF PARTIAL PAYMENT]

Notation of Payments of Principal on the Within-
mentioned Bond by Retirement of a Portion Thereof

NO WRITING BELOW EXCEPT BY A PAYING AGENT OR OTHER
AUTHORIZED PERSON

<u>Date</u>	<u>Principal Amount Paid</u>	<u>Balance of Principal Amount Outstanding</u>	<u>Signature of Paying Agent or Other Authorized Person</u>
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[FORM OF STATE AUDITOR'S CERTIFICATE OF REGISTRATION - ALL BONDS]

STATE OF WASHINGTON)
) ss:
OFFICE OF STATE AUDITOR)

I DO HEREBY CERTIFY that I have examined the within Bond and a certified copy of the resolution authorizing the issuance thereof, and such additional information with respect thereto as is required by me, and that the same has been registered in my office in accordance with the provisions of Section 54.27.070 of the Revised Code of Washington.

WITNESS my hand and seal of office

Auditor of the State of Washington

By _____
Deputy State Auditor

ARTICLE XIV

MISCELLANEOUS: DEFEASANCE

SECTION 14.1. Resolution and Laws a Contract with Bondholders. This Resolution is adopted under the authority of and in full compliance with the Constitution and Laws of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, as amended and supplemented. In consideration of the purchase and acceptance of the Bonds by those who shall hold the same from time to time, the provisions of this Resolution (including all Series Resolutions and other resolutions supplemental hereto or amendatory hereof and of said laws shall constitute a contract with the holder or holders of each Bond and coupons attached thereto, and the obligations of the System and its Board of Directors under said acts and under this Resolution shall be enforceable by any court of competent jurisdiction; and the covenants and agreements herein set forth to be performed on behalf of the System shall be for the equal benefit, protection and security of the holders of any and all of said Bonds and coupons thereto attached, all of which regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of said Bonds or coupons thereto attached over any others thereof except as expressly provided herein.

SECTION 14.2. Bonds No Longer Deemed Outstanding Hereunder. The obligations of the System under this Resolution (including all Series Resolutions and other resolutions supplemental hereto or amendatory hereof), and the liens, pledges, charges, trusts, assignments, covenants and agreements of the System therein or herein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder and hereunder:

Section 14.1
Section 14.2

(i) if such Bond shall have been cancelled or surrendered for cancellation; or

(ii) when payment of the principal and the applicable redemption premiums, if any, on such Bond, plus interest thereon to the due date thereof, whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided in Section 11.1 of this Resolution, or otherwise, (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with the Bond Fund Trustee or the Paying Agents for such Bond, in trust and irrevocably appropriated and set aside exclusively for such payment (i) moneys sufficient to make such payment or (ii) Investment Securities (which, for the purpose of this Article shall mean only the obligations mentioned in items 1, 2, 3 and 4 of paragraph (n) of Section 1.1 of this Resolution), maturing as to principal and interest in such amounts and at such times as will insure the availability of such sufficient moneys to make such payment, and all necessary and proper fees, compensation and expenses of the Bond Fund Trustee and the Paying Agents pertaining to the Bonds with respect to which said deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Bond Fund Trustee and Paying Agents.

At such time as a Bond shall be deemed to be no longer outstanding hereunder, as aforesaid, such Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as aforesaid, or otherwise), and, except for the purposes of any such payment from such moneys or Invest-

ment Securities, such Bond shall no longer be secured by or entitled to the benefits of this Resolution.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof, no deposit under clause (b) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid:

(1) as to any such Bonds as are not then immediately redeemable or payable in accordance with the provisions of this Resolution or of such Bonds, (a) unless such Bonds shall have been irrevocably called or designated for redemption or prepayment on the first date thereafter on which such Bonds may be redeemed or prepaid in accordance with the provisions of this Resolution and of such Bonds, or (b) until ninety (90) days prior to the respective stated maturities thereof;

(2) as to any such Bonds as are at the time of making of such deposit immediately redeemable or payable in accordance with the provisions of this Resolution or of such Bonds, (a) until ninety (90) days prior to the date fixed for their redemption or prepayment or, (b) until ninety days prior to the respective stated maturities thereof; and

(3) as to all such Bonds to be redeemed or prepaid prior to their stated maturities, until proper notice of such redemption or prepayment shall have been irrevocably published in accordance with this Resolution or provision satisfactory to the Bond Fund Trustee shall have been irrevocably made for such publication.

Any such moneys so deposited with the Bond Fund Trustee and the Paying Agents as provided in this Section may at the direction of the System also be invested and re-invested in Investment Securities maturing in the amounts and

times as hereinbefore set forth, and all income from all Investment Securities in the hands of the Bond Fund Trustee and Paying Agents pursuant to this Section which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys or Investment Securities shall have been so deposited shall be paid to the System and deposited in the Revenue Fund as and when realized and collected, for use and application as are other moneys deposited in that Fund.

If any Bond shall not be presented for payment when the principal thereof shall become due, whether at maturity or at the date fixed for the redemption thereof or upon declaration as provided in this Resolution, or otherwise, or if any coupon shall not be presented for payment at the due date thereof, and if moneys or Investment Securities shall at such due date be held by the Bond Fund Trustee or a Paying Agent therefor, in trust for that purpose sufficient and available to pay the principal and the premium, if any, of such Bond, together with all interest due thereon to the due date thereof or to the date fixed for the redemption thereof, or to pay such coupon, as the case may be, all liability of the System for such payment shall forthwith cease, determine and be completely discharged and thereupon it shall be the duty of the Bond Fund Trustee or such Paying Agent to hold said money or Investment Securities, without liability to such Bondholder for interest thereon, in trust for the benefit of the holder of such Bond or of such coupon, as the case may be, who thereafter shall be restricted exclusively to said moneys or Investment Securities for any claim of whatever nature on his part on or with respect to said Bond or coupon, including for any claim for the payment thereof.

Notwithstanding any provision of any other Section of this Resolution which may be contrary to the provisions of

this Section, all moneys or Investment Securities set aside and held in trust pursuant to the provisions of this Section for the payment of Bonds (including interest and premium thereon, if any) and coupons shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) and coupons with respect to which such moneys and Investment Securities have been so set aside in trust.

Anything in this Resolution to the contrary notwithstanding if moneys or Investment Securities have been deposited or set aside with the Bond Fund Trustee or a Paying Agent pursuant to this Section for the payment of Bonds and coupons and such Bonds shall be deemed to have been paid and be no longer outstanding hereunder as provided in this Section, but such Bonds and coupons shall not have in fact been actually paid in full, no amendment to the provisions of this Section shall be made without the consent of the holder of each Bond or coupon affected thereby.

SECTION 14.3. Moneys Held by Bond Fund Trustee or Paying Agents Five Years After Due Date. Moneys or Investment Securities held by the Bond Fund Trustee or the Paying Agents in trust for the payment and discharge of any of the Bonds or coupons which remain unclaimed for five (5) years after the date when such Bonds shall have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Bond Fund Trustee or such Paying Agents at such dates, or for five (5) years after the date of deposit of such moneys if deposited with the Bond Fund Trustee or the Paying Agents after the said date when such Bonds become due and payable, shall, at the written request of the System, be repaid by the Bond Fund Trustee or the Paying Agents to the System as

the System's property and free from the trust created by this Resolution and the Bond Fund Trustee or the Paying Agent shall thereupon be released and discharged with respect thereto, and the holders of the Bonds payable from such moneys shall look only to the System for the payment of such Bonds and coupons.

SECTION 14.4. Relation to Participants' Agreements.

The provisions of this Resolution are not intended to create, expand or confer any rights or obligations upon the System with respect to the construction, operation and maintenance of the Projects which are inconsistent with the provisions of the Participants' Agreements, the WPPSS No. 5 Project Ownership Agreement or the Skagit Project Ownership Agreement but in the event of any conflict the provisions of this Resolution shall control.

SECTION 14.5. Definition of Bonds in Article XIV.

In the event additional bonds are issued by the System payable from the revenues of the Projects pari passu with the Bonds, such additional bonds shall be considered Bonds within the meaning of such term as used in Sections 14.1, 14.2 and 14.3 hereof.

SECTION 14.6. Term "System" Includes Successors.

Whenever in this Resolution the System is named or referred to, it shall be deemed to include its successors and assigns, and all the covenants and agreements in this Resolution contained by or on behalf of the System shall bind and inure to the benefit of its successors and assigns whether so expressed or not.

SECTION 14.7. Severability. If any one or more of the provisions of this Resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision (s) shall be deemed separable from, and shall

Section 14.4
Section 14.5
Section 14.6
Section 14.7

in no way affect the validity of, any of the other provisions of this Resolution or of the Bonds issued hereunder.

SECTION 14.8. Effective Date. This Resolution shall be in effect from and after its passage in accordance with law.

SECTION 14.9. Repealer. All resolutions and parts of resolutions in conflict herewith be and the same are hereby repealed to the extent of such conflict.

Adopted by the Board of Directors of Washington Public Power Supply System this ____ day of _____, 197_.

President

(SEAL)

ATTEST:

Secretary

APPROVED AS TO FORM:

Counsel

ATTACHMENT 3-1

WNP NO. 1 \$77,000,000 NOTE RESOLUTION

Resolution No. 690

A RESOLUTION PROVIDING A PLAN AND SYSTEM FOR THE ACQUISITION AND CONSTRUCTION BY WASHINGTON PUBLIC POWER SUPPLY SYSTEM OF A UTILITY SYSTEM CONSISTING OF A NUCLEAR GENERATING PLANT AND ASSOCIATED FACILITIES TO BE KNOWN AS THE WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 1, AND PROVIDING FOR THE ISSUANCE OF \$77,000,000 PRINCIPAL AMOUNT OF REVENUE NOTES FOR SAID PURPOSE.

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Resolution No. 590

A RESOLUTION PROVIDING A PLAN AND SYSTEM FOR THE ACQUISITION AND CONSTRUCTION BY WASHINGTON PUBLIC POWER SUPPLY SYSTEM OF A UTILITY SYSTEM CONSISTING OF A NUCLEAR GENERATING PLANT AND ASSOCIATED FACILITIES TO BE KNOWN AS THE WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 1, AND PROVIDING FOR THE ISSUANCE OF \$77,000,000 PRINCIPAL AMOUNT OF REVENUE NOTES FOR SAID PURPOSE.

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF WASHINGTON PUBLIC POWER SUPPLY SYSTEM, AS FOLLOWS:

SECTION 1. *Definitions.* As used in this Resolution the following words and phrases shall have the meanings hereinafter set forth unless the context shall clearly indicate that another meaning is intended:

(a) The term "System" shall mean the Washington Public Power Supply System.

(b) The term "Administrator" shall mean the United States of America, Department of the Interior, acting by and through the Bonneville Power Administrator.

(c) The term "Board" shall mean the Board of Directors of the System.

(d) The term "Resolution No. 606" shall mean Resolution No. 606, adopted by the Board on February 5, 1973.

(e) The term "1973 Notes" shall mean the Twenty-five Million Dollars (\$25,000,000) principal amount of Washington Public Power Supply System Nuclear Project No. 1 Revenue Notes, Series 1973, issued pursuant to Resolution No. 606, all of which revenue notes are presently outstanding and unpaid.

(f) The term "WPPSS Project No. 1" shall mean Washington Public Power Supply System Nuclear Project No. 1 as more fully described in Section 3 of this Resolution and all additions, betterments and improvements thereto and extensions thereof.

(g) The term "WPPSS Project No. 1 Agreement" shall mean the "Washington Public Power Supply System Nuclear Project No. 1 Agreement" (Contract No. 14-03-39211), dated February 6, 1973, by and between the Administrator and the System, as amended by Amendatory Agreement No. 1 thereto, with respect to the construction and operation of the WPPSS Project No. 1 by the System.

(h) The term "WPPSS Project No. 1 Net Billing Agreements" shall mean all of the agreements dated February 6, 1973, designated "Washington Public Power Supply System Nuclear Project No. 1 Agreement" (Contract Nos. 14-03-39217 to 14-03-39320, inclusive), each as amended by Amendatory Agreement No. 1 thereto, among the Administrator, the System and each of the following, designated in each Agreement as the Participant:

- City of Albion, Idaho
- City of Bandon, Oregon
- Public Utility District No. 1 of Benton County, Washington
- Benton Rural Electric Association
- Big Bend Electric Cooperative, Inc.
- Blachly-Lane County Cooperative Electric Association
- City of Blaine, Washington
- City of Bonners Ferry, Idaho
- City of Burley, Idaho
- City of Canby, Oregon
- City of Cascade Locks, Oregon
- Central Electric Cooperative, Inc.
- City of Centralia, Washington
- Central Lincoln Peoples' Utility District
- Public Utility District No. 1 of Chelan County, Washington
- City of Cheney, Washington
- Public Utility District No. 1 of Clallam County, Washington
- Public Utility District No. 1 of Clark County, Washington
- Clatskanie Peoples' Utility District
- Clearwater Power Company
- Columbia Basin Electric Cooperative, Inc.
- Columbia Power Cooperative Association, Inc.
- Columbia Rural Electric Association, Inc.
- Consolidated Irrigation District No. 19
- Consumers Power, Inc.

Coos-Curry Electric Cooperative, Inc.
 Town of Coulee Dam, Washington
 Public Utility District No. 1 of Cowlitz County, Washington
 City of Declo, Idaho
 Public Utility District No. 1 of Douglas County, Washington
 Douglas Electric Cooperative, Inc.
 City of Drain, Oregon
 The East End Mutual Electric Co., Ltd.
 City of Ellensburg, Washington
 City of Eugene, Oregon
 Fall River Rural Electric Cooperative, Inc.
 Farmers Electric Co., Ltd.
 Public Utility District No. 1 of Ferry County, Washington
 Flathead Electric Cooperative, Inc.
 City of Forest Grove, Oregon
 Public Utility District No. 1 of Franklin County, Washington
 Public Utility District No. 2 of Grant County, Washington
 Public Utility District No. 1 of Grays Harbor County, Washington
 Harney Electric Cooperative, Inc.
 City of Heyburn, Idaho
 Hood River Electric Cooperative
 Idaho County Light & Power Cooperative Association, Inc.
 City of Idaho Falls, Idaho
 Inland Power & Light Company
 Public Utility District No. 1 of Kittitas County, Washington
 Public Utility District No. 1 of Klickitat County, Washington
 Kootenai Electric Cooperative, Inc.
 Lane Electric Cooperative, Inc.
 Public Utility District No. 1 of Lewis County, Washington
 Lincoln Electric Cooperative, Inc. (Montana)
 Lincoln Electric Cooperative, Inc. (Washington)
 Lost River Electric Cooperative, Inc.
 Lower Valley Power & Light, Inc.
 Public Utility District No. 1 of Mason County, Washington
 Public Utility District No. 3 of Mason County, Washington
 Town of McCleary, Washington
 City of McMinnville, Oregon
 Midstate Electric Cooperative, Inc.

City of Milton-Freewater, Oregon
City of Minidoka, Idaho
Missoula Electric Cooperative, Inc.
City of Monmouth, Oregon
Nespelem Valley Electric Cooperative, Inc.
Northern Lights, Inc.
Northern Wasco County Peoples' Utility District
Okanogan County Electric Cooperative, Inc.
Public Utility District No. 1 of Okanogan County, Washington
Orcas Power and Light Company
Public Utility District No. 2 of Pacific County, Washington
Public Utility District No. 1 of Pend Oreille County, Washington
City of Port Angeles, Washington
Prairie Power Cooperative, Inc.
Raft River Rural Electric Cooperative, Inc.
Ravalli County Electric Cooperative, Inc.
City of Richland, Washington
Riverside Electric Company, Ltd.
City of Rupert, Idaho
Rural Electric Company
Salem Electric
Salmon River Electric Cooperative, Inc.
City of Seattle, Washington
Public Utility District No. 1 of Skamania County, Washington
Public Utility District No. 1 of Snohomish County, Washington
South Side Electric Lines, Inc.
City of Springfield, Oregon
City of Sumas, Washington
Surprise Valley Electrification Corporation
City of Tacoma, Washington
Tanner Electric
Tillamook Peoples' Utility District
Umatilla Electric Cooperative Association
Unity Light and Power Company
Vera Irrigation District No. 15
Vigilante Electric Cooperative, Inc.
Public Utility District No. 1 of Wahkiakum County, Washington
Wasco Electric Cooperative, Inc.

Wells Rural Electric Company (Nevada)
West Oregon Electric Cooperative, Inc.
Public Utility District No. 1 of Whatcom County, Washington

(i) The term "WPPSS Project No. 1 Exchange Agreements" shall mean all of the agreements dated February 6, 1973, designated "Washington Public Power Supply System Nuclear Project No. 1 Agreement" (Contract Nos. 14-03-39212 to 14-03-39216, inclusive), each as amended by Amendatory Agreement No. 1 thereto, among the System, the Administrator and each of Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, The Montana Power Company, and The Washington Water Power Company.

(j) The term "WPPSS Project No. 1 Participants" shall mean the parties to the WPPSS Project No. 1 Net Billing Agreements and the WPPSS Project No. 1 Exchange Agreements, other than the System and the Administrator.

(k) The term "Hanford Project" shall mean the works, plants and facilities heretofore acquired and constructed by the System for the generation, transformation and transmission of electric power and energy in conjunction with the United States Atomic Energy Commission's New Production Reactor, pursuant to Resolution No. 178, adopted by the Board on April 15, 1963.

(l) The term "Hanford Project Exchange Agreements" shall mean the agreements dated April 12, 1963, for the sale by the System of power and energy from the Hanford Project to the public utility districts and other wholesale power purchasers, both public and private, listed in subparagraph H of Section 1 of the aforesaid Resolution No. 178, and the exchange thereof for firm energy and capacity with the Administrator, and entered into among the Administrator, the System, and each of the aforesaid public utility districts and other wholesale power purchasers.

(m) The term "Hanford Project Participants" shall mean the parties to the Hanford Project Exchange Agreements, other than the System and the Administrator.

(n) The term "Existing Power Facilities" shall mean the power house with two turbine generator units with a combined nameplate rating of 860 megawatts and related auxiliary equipment, transforma-

tion and transmission facilities, heretofore acquired and constructed by the System in connection with the Hanford Project.

SECTION 2. *Recitals, Findings and Determinations.*

A. *The System.* The System has heretofore been duly organized as a joint operating agency and a municipal corporation of the State of Washington, under the laws of the State of Washington (Revised Code of Washington, Chapter 43.52), and is authorized among other things, to acquire, construct, own, maintain, operate, develop and regulate plants, works and facilities for the generation and transmission of electric power and energy and to contract for the sale, exchange, transmission or use of electric energy with any person, firm or corporation, including political subdivisions and agencies of any state, or of the United States, at fair and non-discriminatory rates.

B. *The History of WPPSS Project No. 1.*

(1) *The Hanford Project.* The System, pursuant to Resolution No. 178, adopted by its Board on April 5, 1963 (hereinafter referred to as "Resolution No. 178"), acquired and now owns and operates the Hanford Project and has issued revenue bonds (the "1963 Bonds") of the System to pay the cost of acquiring and constructing such Project, which bonds are payable solely from the revenues derived therefrom.

On August 17, 1972, the Administrator, after reviewing studies prepared by independent consulting engineers retained by the Administrator and approved by the System, notified the System that he would not approve expenditures "to further 'power only' operation of the NPR" when the United States Atomic Energy Commission (the "AEC") ceases to operate its New Production Reactor (the "NPR"), which is the source of steam energy for the Hanford Project, for the purposes of the AEC and the production of steam energy and that at the appropriate time, and in the absence of substantial change, the Administrator would be required to direct the System to discontinue the operation of the Hanford Project in accordance with the provisions of Section 5(i) of the Hanford Project Exchange Agreements.

(2) *The Relation of the Hanford Project to WPPSS Project No. 1.* Subsequent to the notice referred to above, the Board, after due consideration and analysis of engineering reports, surveys, economic and legal studies, found and determined that it was necessary and advisable in the public interest and in the interests of economical and efficient

operation of the System and the discharge of its public duties and responsibilities to provide for the use and employment of the Existing Power Facilities as part of the WPPSS Project No. 1 in the manner set forth in Resolution No. 606, and the Board further found, determined and declared that from and after the date upon which the Hanford Project became inoperable, the Existing Power Facilities, including the said turbine generators, should and would be modified, renovated and adapted and thereafter should and would be used and employed by the System as prescribed in the plan and system set forth in Resolution No. 606.

(3) *Execution and Delivery of the WPPSS Project No. 1 Agreement, WPPSS Project No. 1 Net Billing Agreements and WPPSS Project No. 1 Exchange Agreements.* Subsequent to the findings and determinations set forth in the preceding paragraph, the System, on February 6, 1973, entered into the WPPSS Project No. 1 Agreement, the WPPSS Project No. 1 Net Billing Agreements and the WPPSS Project No. 1 Exchange Agreements in their respective original forms. By such agreements the other parties thereto which are parties to the Hanford Project Exchange Agreements agreed (i) to the use and employment of the Existing Power Facilities by the System for the purposes and in the manner prescribed in the plan and system specified and adopted in Resolution No. 606, (ii) that the electric power and energy to be produced pursuant to said plan and system, including the electric power and energy to be produced by the Existing Power Facilities, might and should be disposed of to the parties, in the quantities, for the periods and under the terms and conditions prescribed in the WPPSS Project No. 1 Exchange Agreements and WPPSS Project No. 1 Net Billing Agreements, and (iii) that the execution and delivery of the WPPSS Project No. 1 Exchange Agreements and WPPSS Project No. 1 Net Billing Agreements by the said parties in no way affected, limited, modified, altered, released or discharged their respective rights and obligations under the Hanford Project Exchange Agreements, or reduced the payments which the Hanford Project Participants are obligated to make thereunder in order to safeguard and protect the security for the payment of the 1963 Bonds in the event that sufficient moneys to make such payments are not otherwise available for such purpose pursuant to the WPPSS Project No. 1 Exchange Agreements and the WPPSS Project No. 1 Net Billing Agreements.

Resolution No. 606, the WPPSS Project No. 1 Agreement, WPPSS Project No. 1 Net Billing Agreements and WPPSS Project No. 1 Exchange Agreements all provided that the Existing Power Facilities would be used as a part of and in connection with the WPPSS Project No. 1, said Project as therein described to consist of a nuclear steam supply system, a topping turbine generator with a nameplate rating of approximately 350 megawatts, the Existing Power Facilities, and associated facilities and to have a total nameplate rating of approximately 1,220 megawatts, and further provided that the System's costs in connection with the Hanford Project, including its costs under Resolution No. 178, would be paid from the revenues derived by the System from the WPPSS Project No. 1.

In order to provide funds to pay a part of the cost of the plan and system specified in Resolution No. 606, the System issued the 1973 Notes.

C. Findings and Determinations With Respect to the Plan and System for the WPPSS Project No. 1 Specified and Adopted by Resolution No. 606. The Board hereby finds and determines that the present schedule for the acquisition and construction of the WPPSS Project No. 1 in accordance with the plan and system specified in Resolution No. 606 will require the shutdown of the Hanford Project on or about October 31, 1977, and will eliminate the availability of the Hanford Project as a source of power and energy until such time as a new steam supply system and other essential facilities can be provided therefor. The Administrator has advised the System that due to delays in the construction of various generating projects in the Pacific Northwest and anticipated fuel shortages, planned power generating resources under the Hydro Thermal Power Program (hereinafter described) are expected to be inadequate to meet the needs of the Hanford Project Participants and the WPPSS Project No. 1 Participants, including such Participants which are members of the System, for power and energy during the period 1978 through the early 1980's. The Board, therefore, further finds and determines that it is in the best interests of the System, the Hanford Project Participants and the WPPSS Project No. 1 Participants, including such Participants which are members of the System, to keep the Hanford Project available for continuous operation after October, 1977, and that in order to accomplish that purpose it is appropriate that the acquisition, construction, operation

and maintenance of the WPPSS Project No. 1 be disassociated from the operation of the Hanford Project and that the WPPSS Project No. 1 not be acquired, constructed, operated or maintained in conjunction with the Existing Power Facilities. The System and the Administrator have determined that such action will be beneficial by improving the probability that sufficient electric power resources will be available to meet the requirements of said Participants in the late 1970's and early 1980's.

The Board further finds and determines that it is advisable and in the best interests of the System, the parties to the Hanford Project Exchange Agreements and the parties to the WPPSS Project No. 1 Net Billing Agreements and WPPSS Project No. 1 Exchange Agreements that the plan and system specified in Resolution No. 606 be rescinded and that there be adopted in lieu thereof the plan and system prescribed in Section 3 of this Resolution, but that the arrangements originally entered into and contemplated by the WPPSS Project No. 1 Agreement, the WPPSS Project No. 1 Net Billing Agreements and the WPPSS Project No. 1 Exchange Agreements with respect to the payment of the costs of the Hanford Project be carried out fully and in accordance with such agreements as presently in effect, in order to protect and secure the rights of the parties to said agreements. The Board finds and determines that the adoption of this Resolution and the performance by the System of its duties and obligations under the WPPSS Project No. 1 Agreement, the WPPSS Project No. 1 Net Billing Agreements and the WPPSS Project No. 1 Exchange Agreements, as amended, will accomplish this latter objective.

To accomplish the foregoing, the System proposes to enter into agreements designated "Amendatory Agreement No. 1" to the WPPSS Project No. 1 Agreement, WPPSS Project No. 1 Net Billing Agreements and WPPSS Project No. 1 Exchange Agreements, substantially in the forms of the drafts thereof dated February 19, 1974, February 28, 1974 and May 3, 1974, respectively, on file in the office of the System.

D. *Payment of the 1973 Notes.* The Board finds and determines that it is necessary, in order to carry out the plan and system for the WPPSS Project No. 1 specified and adopted in Section 3 of this Resolution, to discharge the obligations of the System under Resolution No.

606 by providing for the payment of the principal of and interest on the 1973 Notes in accordance with Section 13 of Resolution No. 606 and thereby cause the 1973 Notes to be no longer outstanding under Resolution No. 606. The Board further finds and determines that this will be accomplished by the deposit of moneys and securities with the paying agent for the 1973 Notes as provided for in Subsections B and C of Section 11 hereof.

E. Need for the WPPSS Project No. 1. The Board has caused various engineering reports and surveys and economic and environmental studies to be made and submitted to it with respect to the present and prospective needs of the WPPSS Project No. 1 Participants, including such Participants which are members of the System, for electricity for all uses, and the Board, after due consideration and analysis of said engineering reports and surveys and economic and environmental studies, hereby finds and determines that the construction of the WPPSS Project No. 1 is necessary and advisable in order to provide for the present and prospective power and energy needs of the WPPSS Project No. 1 Participants, that the construction of the WPPSS Project No. 1 by the System and the disposition of the power and energy therefrom, as provided in the WPPSS Project No. 1 Exchange Agreements and the WPPSS Project No. 1 Net Billing Agreements, will result in substantial economies and advantages to the WPPSS Project No. 1 Participants, the people of the State of Washington, and the Pacific Northwest, and that the WPPSS Project No. 1 is economically feasible and urgently required to conserve the resources of the region.

A draft of and a final "detailed statement", commonly referred to as an Environmental Impact Statement, for the WPPSS Project No. 1 was distributed to all Board members pursuant to Revised Code of Washington, Chapter 43.21C; the Board, having reviewed both documents, finds that this detailed statement is adequate.

The Board hereby also finds and determines that the public interest, welfare, convenience and necessity require the acquisition and construction by the System of the nuclear generating plant and associated facilities to be known as the WPPSS Project No. 1 as a separate utility system for the purpose of supplying the power needs of the WPPSS Project No. 1 Participants which are members of the System and the inhabitants thereof and any other persons, including public

or private corporations, within or without their limits, with electricity for all uses.

F. Hydro Thermal Power Program. The WPPSS Project No. 1 is a part of the Hydro Thermal Power Program for the Pacific Northwest, which Program has been developed by the utilities of the Pacific Northwest and the Administrator and under which the Administrator will acquire capability from thermal power generating projects developed by non-federal entities to meet the future power requirements of its preference and other customers in the Pacific Northwest.

G. Agreements Relating to the Sale of Capability of the WPPSS Project No. 1. Pursuant to the WPPSS Project No. 1 Exchange Agreements, among other things, the System agrees to sell, and the WPPSS Project No. 1 Participants which are parties thereto agree to purchase, a portion of the capability of the WPPSS Project No. 1; and said Participants and the Administrator have agreed to exchange said Participants' respective shares of said capability for electric power and energy delivered by the Administrator in accordance with the terms of said Exchange Agreements.

By the WPPSS Project No. 1 Net Billing Agreements, the System agrees to sell, and the WPPSS Project No. 1 Participants which are parties thereto, all of which are statutory preference customers of the Administrator, agree to purchase, the balance of the capability of the WPPSS Project No. 1 and said Participants agree to assign to the Administrator, and the Administrator agrees to acquire, their respective shares of said capability. The System and each of said Participants which is a party to said Net Billing Agreements have determined that the sale by the System to such Participants of its shares of the capability of the WPPSS Project No. 1 and the assignment thereof by such Participant to the Administrator will be beneficial to it by reducing the cost of and increasing the amounts of firm power and energy which will be available to serve its members or customers in the future.

The Administrator has determined that the exchange of power as provided in the WPPSS Project No. 1 Exchange Agreements and the acquisition of capability of the WPPSS Project No. 1 as provided in the WPPSS Project No. 1 Net Billing Agreements will assist in attaining the objectives of the Bonneville Project Act and other statutes

which pertain to the disposition of electric power and energy from projects of the United States of America in the Pacific Northwest by enabling the United States of America to make optimum use of the Federal Columbia River Power System, and that the integration of the capability of the WPPSS Project No. 1 with the generating resources of the Federal Columbia River Power System will enable the Administrator to make available additional firm power and energy to meet the needs of his customers.

SECTION 3. *Plan and System.* The System hereby specifies and adopts the plan and system hereinafter set forth for the acquisition, by purchase or condemnation, and construction of the following nuclear electric generating plant and associated facilities as a separate utility system constituting the WPPSS Project No. 1 of the System, to wit:

A. The System shall acquire and construct a nuclear electric generating plant and associated facilities, having a net electrical plant capability of approximately 1200 megawatts. The WPPSS Project No. 1 shall include, but shall not be limited to, a nuclear steam supply system, fuel and reactor coolant systems and all related structures and safety features including all instrumentation, control and auxiliary systems required therefor; turbine generator, condensers, circulating water systems and facilities and piping therefor, electrical and mechanical systems and all other equipment, facilities or appurtenances thereto; all electrical facilities required to deliver the output of WPPSS Project No. 1 to the Federal Columbia River Power System; all structures, railroad sidings, shops, warehouses, construction facilities, offices and all other structures, fixtures, equipment or facilities used or useful in the construction, maintenance, operation and administration of the WPPSS Project No. 1 and all necessary or useful water rights, development rights, permits and licenses, leases, easements and rights of way.

B. The site of the WPPSS Project No. 1 shall be located on the federal reservation known as the Hanford Works of the AEC, north of the City of Richland in Benton County, Washington. However, in the event that the System and the Administrator shall find that any order or standard of the Thermal Power Plant Site Evaluation Council of the State of Washington, the AEC, or any other governmental agency or authority having jurisdiction, makes it advisable that said site be changed, or that the feasibility of the WPPSS Project No. 1

will be improved by change of site, then the System, with the approval of the Administrator and after consultation with the WPPSS Project No. 1 Participants to the extent required by the WPPSS Project No. 1 Net Billing Agreements and the WPPSS Project No. 1 Exchange Agreements, may adopt an amendatory resolution providing for such alternate site within the State of Washington which the System finds may be feasibly inter-connected with the transmission system of the Administrator. In such event, the System shall make further change in the plan and system set forth in this Section as reasonably may be deemed required to conform to such change in site; provided, that there shall be filed with the Secretary of the System and the Administrator a certificate of the construction engineer retained by the System to supervise acquisition and construction of the WPPSS Project No. 1 which shall certify that in his opinion such change (1) is appropriate to meet the order or standard of such governmental agency or authority, or (2) will result in improvement of the feasibility of the WPPSS Project No. 1.

C. The System shall obtain all permits and licenses required by any regulatory agency or governmental authority having jurisdiction and any other licenses, permits, approvals, easements or legal rights of any kind required for, used or useful in connection with the acquisition, construction, maintenance and operation of the WPPSS Project No. 1.

D. The System shall acquire, by lease or purchase, all nuclear fuel, fuel assemblies and components, and rights relating thereto, including any and all nuclear material therefor, together with all associated and related property incident to the acquisition, processing, reprocessing and disposal of the nuclear fuel used or usable in connection with the acquisition, construction, maintenance and operation of the WPPSS Project No. 1.

E. The System shall acquire all tools, equipment, spare parts, automotive equipment, instruments, operators' dwellings, warehouses and other associated and related property necessary in connection with the acquisition and construction, maintenance, operation and administration of the WPPSS Project No. 1.

F. The System shall acquire all lands, rights in land, leases, easements, permits and other physical property related to or necessary for

use in connection with the WPPSS Project No. 1, together with all and singular, the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid Project, or any part thereof.

G. Subject to the WPPSS Project No. 1 Agreement, the WPPSS Project No. 1 shall also include any additional works, plants or facilities subsequently acquired or constructed by the System for the same uses, whether or not physically connected therewith, which, if so authorized by resolution of the Board, may become additions or betterments to or extensions of the WPPSS Project No. 1.

H. The System shall cause to be made any and all surveys, studies, appraisals and financial and engineering investigations necessary or incidental to the location, acquisition and construction of the electric works, plants and facilities of the WPPSS Project No. 1 and the placing of the same into operation, including all such surveys, studies, investigations and other work necessary to comply with all environmental laws and with all environmental orders, regulations and standards of any federal or state agency having jurisdiction over the WPPSS Project No. 1 now or hereafter in effect.

SECTION 4. *Modification of Plan and System.* In addition to the change of site permitted by Subsection B of Section 3, and subject to the WPPSS Project No. 1 Agreement, the System may modify details of the foregoing plan and system, including modifications to make provisions for the installation of additional facilities, if such modification (i) does not substantially change the plan and system specified in Section 3 of this Resolution, and (ii) is proper and necessary for the efficient and economical operation and maintenance of the WPPSS Project No. 1.

The Board finds and determines that the acquisition and construction of the WPPSS Project No. 1 will properly and advantageously contribute to the conduct of the business of the System in an efficient and economical manner.

SECTION 5. *Cost of Plan and System.* The estimated cost of the plan and system herein specified and adopted for the acquisition and

construction of the WPPSS Project No. 1, including as a part of such cost funds necessary to be paid or set aside for fuel, for working capital for the operation thereof, for the payment of expenses heretofore and hereafter incurred in the acquisition and construction thereof, including obligations incurred in connection with the plan and system for the WPPSS Project No. 1 specified and adopted in Resolution No. 606, and the payment of the principal of and interest on the 1973 Notes, is hereby declared, as near as may be, to be the sum of Seven Hundred Eleven Million Dollars (\$711,000,000).

SECTION 6. *Authorization of Notes.* There are hereby authorized to be issued Seventy-seven Million Dollars (\$77,000,000) principal amount of revenue notes of the System to be designated "Washington Public Power Supply System Nuclear Project No. 1 Revenue Notes, Series 1974" (hereinafter referred to as the "Notes"), for the purpose of paying a part of the cost of the plan and system specified and adopted in Section 3 hereof for the acquisition and construction of the WPPSS Project No. 1 and the placing of it into operation, including (i) paying the cost of acquiring land, rights in land and nuclear fuel, preliminary work and expenses incurred in connection with the WPPSS Project No. 1, engineering and other professional services, making site studies and surveys for the WPPSS Project No. 1 and other studies and surveys, obtaining necessary permits, licenses and approvals and preparing detailed plans and specifications for the construction of the WPPSS Project No. 1, (ii) paying obligations incurred in connection with the plan and system for the WPPSS Project No. 1 specified and adopted in Resolution No. 606, (iii) providing for the payment of the principal of the 1973 Notes, (iv) paying the expenses of issuing and selling the Notes and the fees and charges of the trustees, paying agents and depositaries appointed pursuant to this Resolution and Resolution No. 606 and (v) paying interest on the Notes from their date to the date of maturity thereof.

SECTION 7. *Details of Notes.* The Notes shall be issued in the form of coupon notes in the denomination of \$25,000 or, if requested by the successful bidder, in any denomination which is a multiple of \$25,000, shall be numbered from 1 upwards, shall be dated May 15, 1974, shall bear interest at such rate as shall be determined by the Board at the

time of the sale thereof, payable December 15, 1974, and semi-annually thereafter on June 15 and December 15, and shall mature, without option of prior redemption, on December 15, 1976.

SECTION 8. Sources from Which Notes Payable. The Notes, together with the interest thereon, shall be payable from any moneys of the System that may be lawfully applied to the payment thereof, including revenues of the WPPSS Project No. 1 and the proceeds of revenue bonds or refunding notes of the System issued in connection with the WPPSS Project No. 1.

SECTION 9. Execution of Notes; Payment of Notes. The Notes shall be executed on behalf of the System with the manual or facsimile signature of the President of the Board and attested with the manual signature of the Secretary of the Board or the Treasurer of the System and the seal of the System shall be impressed or imprinted on each of the Notes, and the coupons thereto attached shall bear the facsimile signatures of the said President and Secretary. In case any of the officers who shall have signed, attested, registered or sealed any of the Notes or coupons shall cease to be such officers before such Notes and coupons shall have been actually issued and delivered, such Notes and coupons shall be valid nevertheless and may be issued by the System with the same effect as though the persons who had signed, attested, registered or sealed such Notes and coupons had not ceased to be such officers. All Notes shall be payable as to principal and interest in any coin or currency of the United States of America which at the time of payment thereof is legal tender for the payment of public and private debts, at the principal office of the paying agent of the System in the City of Seattle, Washington, or, at the option of the holder, at the principal office of the paying agent of the System in the City of New York, New York, or the paying agent of the System in the City of Chicago, Illinois, to be designated and appointed by resolution of the Board (hereinafter referred to collectively as the "Paying Agents").

SECTION 10. Form of Notes. Said Notes, the coupons to be attached thereto, and the State Auditor's Certificate of Registration to be endorsed thereon shall be in substantially the following forms, respec-

tively, with such modifications, additions and deletions as may be necessary, permitted or required by the provisions of this Resolution:

UNITED STATES OF AMERICA
STATE OF WASHINGTON
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1
REVENUE NOTE, SERIES 1974

No. ----- \$-----

Washington Public Power Supply System, a municipal corporation of the State of Washington (hereinafter called the "System"), for value received, hereby promises to pay to the bearer, upon presentation and surrender hereof, on the fifteenth day of December, 1976, the principal sum of ----- Dollars (\$-----), and to pay interest on such principal amount from the date hereof at the rate of ---- per centum (--%) per annum payable December 15, 1974, and semi-annually thereafter on June 15 and December 15, until the payment of such principal sum in full, but, in the case of the interest due on or before maturity, only upon the presentation and surrender of the respective interest coupons representing such interest hereto attached, as they severally mature.

Principal of and interest on this note are payable from any moneys of the System that may be lawfully applied to the payment thereof, including revenues of the Washington Public Power Supply System Nuclear Project No. 1 (as such Project is defined in the Note Resolution hereinafter referred to), the proceeds of revenue bonds or refunding notes of the System issued in connection with such Project and moneys in the special fund known as the "Washington Public Power Supply System Nuclear Project No. 1 Note Retirement Fund" created pursuant to the Note Resolution. The System reserves the right to issue additional notes payable from such sources on a parity with the notes of the issue of which this note is one. Payment of the principal of and interest on this note will be made at the principal office of ----

----- in the City of Seattle, Washington, or, at the option of the holder, at the principal office of -----, in the City of New York, New York, or at the principal office of -----, in the City of Chicago, Illinois, in such coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

This note is one of a duly authorized issue of notes of the System designated as "Washington Public Power Supply System Nuclear Project No. 1 Revenue Notes, Series 1974" (hereinafter referred to as the "Notes"), issued under and pursuant to Resolution No. ---, adopted by the Board of Directors of the System on the --- day of -----, 1974 (hereinafter referred to as the "Note Resolution"), and under the authority of and in full compliance with the Constitution and statutes of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, and proceedings of the Board of Directors of the System duly adopted, for the purpose of paying a part of the cost of acquiring and constructing the Washington Public Power Supply System Nuclear Project No. 1 including providing for the payment of the principal of certain revenue notes heretofore issued by the System to pay costs of acquisition and construction of said Project. Reference to the Note Resolution is made for the description of the covenants and declarations of the System and other terms and conditions upon which the Notes authorized thereby have been issued.

This note shall have all the qualities and incidents of a negotiable instrument as provided by Section 54.24.120 of the Revised Code of Washington.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this note do exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this note, together with all other obligations or indebtedness of the System, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, Washington Public Power Supply System, by its Board of Directors, has caused this note to be executed in its

name with the manual or facsimile signature of the President of its Board of Directors and attested by the manual signature of the Secretary of said Board or Treasurer of the System thereunto duly authorized, the seal of said System to be impressed or imprinted hereon and the interest coupons hereto attached to be executed with the facsimile signature of the said President and Secretary, all as of the fifteenth day of May, 1974.

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

PRESIDENT

ATTEST:

SECRETARY (TREASURER)

[SEAL]

[FORM OF COUPON]

No. ----- \$-----

On the ----- day of -----, 19--, Washington Public Power Supply System, a municipal corporation of the State of Washington, will pay bearer at the principal office of -----, in the City of Seattle, Washington, or at the option of the holder, at the principal office of -----, in the City of New York, New York, or at the principal office of -----, in the City of Chicago, Illinois, but solely out of the funds applicable to the payment thereof as provided in the note hereinafter referred to, the sum of ----- Dollars (\$-----) in such coin or currency of the United States of America, as at the time of payment is legal tender for the payment of public and private debts, being the interest then due on its Wash-

ington Public Power Supply System Nuclear Project No. 1 Revenue Note, Series 1974, dated May 15, 1974, and numbered -----

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

PRESIDENT

SECRETARY

[FORM OF STATE AUDITOR'S CERTIFICATE OF REGISTRATION]

STATE OF WASHINGTON }
OFFICE OF STATE AUDITOR } ss:

I Do HEREBY CERTIFY that I have examined the within note and a certified copy of the resolution authorizing the issuance thereof, and such additional information with respect thereto as is required by me, and that the same has been registered in my office in accordance with the provisions of Section 54.24.070 of the Revised Code of Washington.

WITNESS my hand and seal of office -----, 1974.

AUDITOR OF THE STATE OF WASHINGTON

By -----
DEPUTY STATE AUDITOR

SECTION 11. 1974 Preliminary Construction Fund; 1974 Note Interest Fund; Distribution of Note Proceeds.

A. There is hereby created a special fund of the System to be known as the "Nuclear Project No. 1-1974 Preliminary Construction Fund" (the "1974 Preliminary Construction Fund") which shall be held in trust and administered by the System, and a special fund of the System is to be known as the "Nuclear Project No. 1-1974 Note Interest Fund" (the "1974 Note Interest Fund"), which shall be held in trust and administered by the Nuclear Project No. 1-1974 Note Interest Fund Trustee (the "Note Interest Fund Trustee"). The System shall appoint as Note Interest Fund Trustee one of the Paying Agents for the Notes.

B. From the proceeds derived from the sale of the Notes there shall be deposited:

1. With Seattle-First National Bank, Seattle, Washington, a Paying Agent for the 1973 Notes (the "1973 Paying Agent") the sum of \$25,000,000, or such lesser amount as shall, together with the income from the investment thereof, be sufficient to cause the 1973 Notes to be no longer outstanding under Resolution No. 606;

2. With the Note Interest Fund Trustee, for credit to the 1974 Note Interest Fund, an amount equal to the interest to accrue on the Notes from the date thereof to the maturity date thereof which amount shall be used to pay interest on the Notes during such period; and

3. With the System, for credit to the 1974 Preliminary Construction Fund, the balance of the Note proceeds, which amount shall be applied for the purposes specified in Section 6 hereof, including repayment to other funds and accounts of the System of moneys advanced to the 1974 Preliminary Construction Fund prior to receipt of the proceeds derived from the sale of the Notes and interest on such moneys.

C. In addition to the amount specified in subparagraph 1 of Section 11.B. above, there shall be delivered to the 1973 Paying Agent, the moneys and Government Obligations (as defined in Resolution No. 606) on deposit in the Nuclear Project No. 1, 1973 Note Interest Fund created pursuant to Resolution No. 606 and held by the 1973 Paying

Agent in his capacity as Nuclear Project No. 1, 1973 Note Interest Fund Trustee. The amounts so deposited with the 1973 Paying Agent shall be used solely to pay the principal of and interest on the 1973 Notes when due. The Managing Director and Treasurer of the System, or either of them, are authorized to give such directions, and enter into such agreements, with the 1973 Paying Agent as they, or either of them, shall deem necessary or advisable to cause the 1973 Notes to be no longer outstanding under Resolution No. 606, to provide for the investment, reinvestment, application, custody and safekeeping of the amounts so deposited and to carry out the provisions of this Subsection C and Section 13 of Resolution No. 606. The Managing Director and Treasurer, or either of them, may also enter into agreements with the paying agents for the 1973 Notes and the Construction Fund Depositories appointed pursuant to Resolution No. 606 providing for the payment of their fees, compensation and expenses from the 1974 Preliminary Construction Fund, if necessary or advisable to carry out the provisions of Section 13 of Resolution No. 606. Any such direction or agreement shall be consistent with Section 13 of Resolution No. 606.

Any part of the amounts deposited with the 1973 Paying Agent under this Section, any income derived from the investment or reinvestment thereof and any amounts received as a return of principal on any such investment or reinvestment, which are not required to be retained by the 1973 Paying Agent to provide for the payment of the principal of and interest on the 1973 Notes when due, shall be paid over by the 1973 Paying Agent to the System as promptly as practicable, for deposit in the 1974 Preliminary Construction Fund.

D. As soon as practicable after the 1973 Notes are no longer deemed to be outstanding under the terms of Resolution No. 606, there shall be deposited in the 1974 Preliminary Construction Fund all amounts then on deposit in the preliminary construction fund established pursuant to Resolution No. 606. There shall also be transferred to the 1974 Preliminary Construction Fund from time to time the amounts specified in Section 11.C. above. Such amounts shall also be applied for the purposes specified in Section 6 hereof.

E. Moneys in the 1974 Note Interest Fund shall be used solely for the purpose of paying interest on the Notes. On or before the fourteenth day of the month in which an installment of interest falls

due on the Notes, the Note Interest Fund Trustee shall transfer from the 1974 Note Interest Fund to the Paying Agents an amount which, together with any moneys theretofore received or held by the Paying Agents for that purpose, shall be sufficient to pay on the following date the installment of interest then due on said Notes. If at any time moneys in the 1974 Note Interest Fund and other available moneys are inadequate for such purpose, the System shall transfer from the 1974 Preliminary Construction Fund to the 1974 Note Interest Fund such amount of money as is required to permit such transfer to the Paying Agents.

F. All moneys held or set aside by the System in the 1974 Preliminary Construction Fund shall, until invested or applied as provided in this Resolution, be deposited by the System for the account of the 1974 Preliminary Construction Fund in such depository or depositories (hereinafter referred to as the "Construction Fund Depository" or "Construction Fund Depositories") as the System shall at any time or from time to time appoint for the purpose. Each Construction Fund Depository shall be a state bank or trust company, or national banking association located in the State of Washington, qualified under the laws of said State to receive deposits of public moneys and having capital stock and surplus in excess of Seven Million Five Hundred Thousand Dollars (\$7,500,000). All moneys so deposited shall be continuously secured, for the benefit of the System and the holders of the Notes to the extent and in the manner now or hereafter permitted by applicable state or federal laws for the securing of deposits of public moneys. Moneys in the 1974 Preliminary Construction Fund shall be disbursed by check or draft signed by the Treasurer or other officer of the System designated by the Board.

G. Moneys held for the credit of the 1974 Preliminary Construction Fund and the 1974 Note Interest Fund may be invested by the System and by the Note Interest Fund Trustee, as the case may be, in any of the following, if and to the extent that the same are legal for the investment of funds of the System:

1. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

2. General obligation bonds of any state of the United States of America rated by a nationally recognized bond rating agency in either of the two highest rating categories assigned by such rating agency;

3. Bonds, debentures, notes or participation certificates issued by the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks or the Federal National Mortgage Association or any other agency of the United States of America or any corporation wholly owned by the United States;

4. Public Housing Bonds or Project Notes issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions to be paid by the United States of America or any agency thereof; or

5. Bank time deposits evidenced by certificates of deposit issued by any state bank or trust company, or national banking association located in the State of Washington, which is a member of the Federal Reserve System, is a qualified public depository under the laws of the State of Washington and has capital stock and surplus of at least Seven Million Five Hundred Thousand Dollars (\$7,500,000). Such time deposits shall be purchased directly from such a bank, trust company or national banking association, shall mature not later than the time when the funds invested therein are required for the purposes intended and shall be secured at all times in the manner provided by the laws of the State of Washington, provided, that the funds invested in bank time deposits issued by any one bank, trust company or national banking association shall not exceed at any one time fifty per centum (50%) of the total of the capital stock and surplus of such bank, trust company or national banking association.

H. Any investment made by the Note Interest Fund Trustee shall be made in accordance with the directions of the Treasurer of the System or other officer of the System designated by the Board. The System agrees that it shall give such direction from time to time and in such manner, and shall itself invest the 1974 Preliminary Construction Fund from time to time and in such manner, so that the 1974

Preliminary Construction Fund and the 1974 Note Interest Fund shall at all times be invested to the fullest extent practicable and reasonable with due regard to estimates of the amounts needed from time to time to make payments from such funds and the estimated dates of such payment. All interest earned by reason of such investment shall accrue to the 1974 Preliminary Construction Fund. In the event moneys that are invested are needed in the 1974 Preliminary Construction Fund or the 1974 Note Interest Fund to meet obligations thereof for which funds are not otherwise available, then the System shall sell or present for redemption, or cause the Note Interest Fund Trustee to sell or present for redemption, said investments to the extent required to provide funds for such purpose.

SECTION 12. *Particular Covenants.* The System hereby covenants and agrees with the purchasers and holders of the Notes as follows:

A. The System will duly and punctually pay the principal of and interest on each and every Note on the dates and at the places and in the manner provided for in the Notes according to the true intent and meaning thereof from any moneys of the System that may be lawfully applied to the payment thereof, including revenues of the WPPSS Project No. 1 and the proceeds of revenue bonds or refunding notes of the System issued in connection with the WPPSS Project No. 1, and will faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Notes and in this Resolution.

B. So long as any of the Notes are outstanding and unpaid, the System will not (i) voluntarily consent to or permit any rescission of, nor will it consent to any amendment to nor otherwise take any action under or in connection with any of the WPPSS Project No. 1 Net Billing Agreements or WPPSS Project No. 1 Exchange Agreements which will reduce the payments provided for therein or which will release any party thereto from its obligations thereunder, or which will in any manner impair or adversely affect the rights of the System or of the holders from time to time of the Notes, and the System shall perform all of its obligations under the WPPSS Project No. 1 Net Billing Agreements and WPPSS Project No. 1 Exchange Agreements and take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the Notes af-

forded by the provisions of the WPPSS Project No. 1 Net Billing Agreements and WPPSS Project No. 1 Exchange Agreements; or (ii) voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or modification of, nor otherwise take any action under or in connection with the WPPSS Project No. 1 Agreement which will in any manner impair or adversely affect the rights of the System or of the holders from time to time of the Notes. The System shall perform all of its obligations under the WPPSS Project No. 1 Agreement and shall take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the Notes afforded by the provisions of the WPPSS Project No. 1 Agreement.

C. The System will proceed, as promptly as is reasonably possible and practicable to obtain all necessary permits, licenses and approvals, to prepare detailed plans and specifications for the construction of the WPPSS Project No. 1 and to do other necessary preliminary work so that the acquisition and construction of the WPPSS Project No. 1 can be commenced and the financing thereof provided for through the sale of revenue bonds of the System.

D. As soon as is reasonably practicable the System will issue and sell its revenue bonds or refunding notes for the purpose of providing funds to pay the cost of acquisition and construction of the WPPSS Project No. 1, which cost shall include, among other items, the payment of the principal of and interest not paid from such principal on the Notes. If for any reason the System is unable to issue and sell bonds or refunding notes to obtain funds to pay the principal of the Notes when due, or is unable to proceed with the financing of the WPPSS Project No. 1 for any reason, the System shall terminate the WPPSS Project No. 1 as provided in subparagraph (a) of Section 15 of the WPPSS Project No. 1 Agreement and will invoke the provisions of Section 10 of each of the WPPSS Project No. 1 Net Billing Agreements. Thereafter the System shall in each month make monthly accounting statements under the WPPSS Project No. 1 Net Billing Agreements which shall show as the amounts due from the WPPSS Project No. 1 Participants which are parties to said Agreements in such month the maximum amount which can be stated therein for payment by said Participants in such month without causing the amount due from any such Participant to exceed the ability of the Administrator to allow

net billing credits to such Participant in such month in the manner provided in each of the WPPSS Project No. 1 Net Billing Agreements, taking into account all assignments which can be made pursuant to said Agreements, and shall deposit the amount so collected into a special fund (the "Washington Public Power Supply System Nuclear Project No. 1 Note Retirement Fund"), which is hereby created and established, to provide for the payment of the principal of and interest on the Notes and any additional notes hereafter issued to pay costs of acquiring and constructing the WPPSS Project No. 1.

Nothing in this Resolution shall prevent the System from hereafter issuing revenue notes or bond anticipation notes to pay a part of the cost of acquiring and constructing the WPPSS Project No. 1, payable on a parity with the Notes from the proceeds of revenue bonds or notes of the System issued in connection with the WPPSS Project No. 1 or any other moneys that may lawfully be applied to the payment thereof, including revenues of the WPPSS Project No. 1 to be received pursuant to the preceding paragraph.

The Board hereby finds and determines that in creating the aforesaid Note Retirement Fund it has had due regard to the cost of operation and maintenance of the WPPSS Project No. 1 and has not set aside into such Fund a greater amount or proportion of the revenues and proceeds of the WPPSS Project No. 1 than in its judgment will be available over and above such cost of maintenance and operation.

E. In investing the proceeds of the Notes and the 1973 Notes, the System shall comply with the requirements of subsection (d) of Section 103 of the Internal Revenue Code and the applicable regulations of the Internal Revenue Service adopted thereunder.

SECTION 13. *Resolution and Laws a Contract with Notcholders.* This Resolution is adopted under the authority of and in full compliance with the Constitution and laws of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington as amended and supplemented. In consideration of the purchase and acceptance of the Notes by those who shall hold the same from time to time, the provisions of this Resolution and of said laws shall constitute a contract with the holder or holders of each of said Notes and the obligations of the System and its Board under said laws and under this Resolution shall be enforceable by any court of competent jurisdiction; and the

covenants and agreements herein set forth to be performed on behalf of the System shall be for the equal benefit and protection and security of the holders of any and all of said Notes, all of which regardless of the time or times of their issue shall be of equal rank without preference, priority or distinction of any of said Notes over any others thereof except as expressly provided herein.

SECTION 14. *Notes No Longer Deemed Outstanding Hereunder.* The obligations of the System under this Resolution and the charges, trusts, assignments, covenants and agreements of the System herein made or provided for, shall be fully discharged and satisfied as to any Note and such Note shall no longer be deemed to be outstanding hereunder if such Note shall have been cancelled or surrendered for cancellation, or when the payment of the principal thereof plus interest thereon to the due date thereof shall have been made. All Notes shall be considered to have been paid if and when there shall be on deposit in trust with the Note Interest Fund Trustee or the Paying Agents for the Notes and irrevocably appropriated exclusively to that purpose an amount of cash and investment obligations described in clauses 1 through 4 of Section 11.G. of this Resolution maturing, or subject to redemption at the option of the holder, as to principal, and payable as to interest, in such amounts and at such times as shall be sufficient to provide funds to retire at maturity all of the Notes outstanding at the time, together with interest thereon; provided that all the necessary and proper fees, compensation and expenses of the Note Interest Fund Trustee, the Paying Agents and the Construction Fund Depositories shall have been paid or provided for to their satisfaction. Any obligation of the United States Treasury issued in book entry form in the name of the System and purchased with moneys deposited pursuant to this Section, shall be deemed to be properly deposited pursuant to this Section.

SECTION 15. *Relation to WPPSS Project No. 1 Agreement.* The provisions of this Resolution are not intended to create, expand or confer any rights or obligations upon the System with respect to the acquisition, construction, operation and maintenance of the WPPSS Project No. 1 which are inconsistent with the provisions of the WPPSS Project No. 1 Agreement.

SECTION 16. *Sale of the Notes.* The Managing Director of the System is hereby authorized and directed to fix a date for the sale of the Notes and an expected date of delivery thereof to the purchasers after consulting with the System's financial advisor and to cause a Notice of Sale of the Notes to be published once, at least five (5) days prior to the date fixed for the sale of the Notes, in The Daily Journal of Commerce, published in the City of Seattle, Washington, and in The Daily Bond Buyer, published in the City of New York, New York. Said Notice of Sale shall be in substantially the following form:

NOTICE OF SALE

\$77,000,000

WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 1 REVENUE NOTES, SERIES 1974

NOTICE IS HEREBY GIVEN that sealed bids for the purchase of \$77,000,000 Washington Public Power Supply System Nuclear Project No. 1 Revenue Notes, Series 1974 (the "Notes"), of Washington Public Power Supply System (the "System"), will be received by the Board of Directors of the System at the Eighth Floor Conference Room, Tower Building, Seventh and Olive, Seattle, Washington, until ten o'clock A.M., Seattle time, on _____, 1974, at which time and place the bids will be publicly opened and considered.

The Notes will be dated May 15, 1974, will mature without option of prior redemption on December 15, 1976, and will be in the form of coupon notes. The successful bidder may specify the denomination of the Notes by letter or telegram to the System within forty-eight (48) hours after acceptance by the System of its bid. Such denomination must be \$25,000 or any multiple of \$25,000 and if the successful bidder does not specify the denomination, the Notes will be issued in the denomination of \$25,000. Interest on the Notes will be payable June 15 and December 15, commencing December 15, 1974. Both principal of and interest on the Notes will be payable at the principal offices of the Paying Agents of the System in the cities of Seattle, Washington, New York, New York and Chicago, Illinois. The successful bidder in its bid for the Notes shall have the right to designate as Paying Agents for the Notes a bank or trust company having its principal office in the

City of New York, New York, a bank or trust company having its principal office in the City of Seattle, Washington and a bank or trust company having its principal office in the City of Chicago, Illinois. If such designation is not made by the successful bidder in its bid form the System will designate a bank or trust company in each of said cities as Paying Agent.

Each bid must be unconditional, must be for all of the Notes and for a price of not less than 99.50% of the par value thereof, plus accrued interest to the date of delivery. Bidders shall specify a single rate of interest and the rate specified must be a multiple of 1/8 or 1/20 of 1%. The Notes will be awarded to the responsible bidder offering to purchase the Notes at the lowest interest cost to the System, to be determined in accordance with standard tables of bond values.

Each bid must be accompanied by a good faith certified or cashier's check in the amount of \$385,000 payable to the order of Washington Public Power Supply System. No interest will be allowed on the good faith checks and the checks of unsuccessful bidders will be returned promptly. The check of the successful bidder will be retained uncashed until delivery of the Notes and payment therefor, at which time it will be applied in part payment for the Notes, or it will be cashed and forfeited to the System as liquidated damages in the event the successful bidder shall fail to comply with the terms of its bid. The right is reserved to reject any and all bids and to waive any irregularity in any bid. Each bid must be on the prescribed bid form and shall be sealed in an envelope addressed to Washington Public Power Supply System, and the words "Proposal for Notes" should be placed on the outside of each such envelope.

The executed Notes will be delivered to the purchaser in New York, New York, at the expense of the System. It is expected that delivery will be made on or about _____, 1974. Payment of the balance of the purchase price must be in New York Clearing House funds. The System will furnish on delivery of the Notes the unqualified approving opinions of Messrs. Wood Dawson Love & Sabatine, New York, New York, and Messrs. Houghton Cluck Coughlin & Riley, Seattle, Washington, together with the usual closing documents including a certificate that no litigation is pending affecting the validity of the Notes. In the event that delivery cannot be made within forty-five (45) days from

the date of sale for any reason except failure of performance by the successful bidder, said bidder may accept delivery at a later date or cancel its agreement to purchase the Notes.

The Notes will be issued for the purpose of paying the cost of preliminary work and expenses incurred in connection with the acquisition and construction of a utility system constituting the Washington Public Power Supply System Nuclear Project No. 1 including providing for the payment of the principal of certain revenue notes heretofore issued by the System to pay costs of acquisition and construction of said Project. The Notes and the interest thereon shall be payable from any moneys of the System that may be lawfully applied to the payment thereof, including revenues derived from said Project and the proceeds of revenue bonds or refunding notes of the System issued in connection with such Project.

Further information, including an Official Statement containing pertinent information relating to the issuance, sale and security of the Notes and the bid form, may be obtained from the undersigned at P. O. Box 968, Richland, Washington 99352, and from Blyth Eastman Dillon & Co. Incorporated, 14 Wall Street, New York, New York 10005, and 1200 Washington Building, Seattle, Washington 98111.

WASHINGTON PUBLIC POWER SUPPLY
SYSTEM

By J. J. STEIN
MANAGING DIRECTOR

SECTION 17. *Preliminary Official Statement.* A preliminary official statement pertaining to the Notes, in substantially the form thereof presented at the meeting at which this Resolution is adopted, (proof dated April 9, 1974) is hereby authorized to be distributed to prospective purchasers of and investors in the Notes. Prior to such distribution, the Managing Director of the System is hereby authorized to make such correction of any statement of fact or law or other modification to the preliminary official statement as may be recommended by legal counsel.

SECTION 18. Severability. If any one or more of the provisions of this Resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision(s) shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of this Resolution or of the Notes.

SECTION 19. Effective Date of Resolution. This Resolution shall be in effect from and after its passage in accordance with law.

ADOPTED by the Board of Directors of Washington Public Power Supply System this 10th day of May, 1974.

s/ HOWARD PREY
PRESIDENT

ATTEST:

s/ E. VICTOR RHODES
SECRETARY

Approved as to form:

s/ RICHARD Q. QUIGLEY
COUNSEL

ATTACHMENT 4-1

\$50,000,000 PRELIMINARY OFFICIAL STATEMENT

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
Principal Office—Richland, Washington

BOARD OF DIRECTORS

A. J. Benedetti*	Rolf E. Jemtegaard
Kirby Billingsley	Harold W. Jenkins
Lane Bray	Clair R. Hilderbrandt
Gerald C. Fenton	Francis Longo
Ed Fischer*	Quentin Mizer
Alvin E. Fletcher	Howard Prey
John Goldsbury	Edwin W. Taylor
D. E. Hughes*	John L. Toevs
W. G. Hulbert, Jr.*	Gordon Vickery*
Arnold J. James	Glenn C. Walkley*
	John J. Welch*

* Executive Committee Member.

OFFICERS

Alvin E. Fletcher	President
Howard Prey	Vice President
Edwin W. Taylor	Secretary

ADMINISTRATIVE STAFF

Managing Director	J. J. Stein
Deputy Managing Director	L. L. Humphreys
Manager, Planning and Analysis	H. R. Kosmata
Manager, Construction Division	R. D. Sahlberg
Manager, Project Division	C. E. Love
Manager, Technical Division	Duane L. Renberger
Manager, Administration Division	V. V. Johnson
Manager, Operations Division	R. E. Smith
Manager, Finance Division	James T. Bobo
Treasurer	James D. Perko
Auditor	C. W. Godfrey
Chief Counsel	Richard Q. Quigley

SPECIAL COUNSEL

Houghton Cluck Coughlin & Riley

BOND COUNSEL

Wood Dawson Love & Sabatine

CONSULTING ENGINEER

R. W. Beck and Associates

FINANCIAL CONSULTANT

Blyth Eastman Dillon & Co. Incorporated

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 1, 1975

Complete

NEW ISSUE

MARKED COPY

Ratings: { Moody's:
Standard & Poor's:

\$50,000,000

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

**A Municipal Corporation and a Joint Operating Agency of the State of Washington
Generating Facilities Revenue Bonds, Series of 1975 A**

Dated: June 15, 1975

Due: June 1, as shown below

Principal and semi-annual interest (June 1 and December 1, commencing December 1, 1975) payable at
Seattle, Washington, and New York, New York. Coupon bonds in the denomination of \$5,000
registrable as to principal only and fully registered bonds in the denomination of \$5,000 or any multiple
thereof and interchangeable. The 1975 A Bonds will not be redeemable prior to maturity.

*Interest exempt, in the opinion of Bond Counsel, from federal income taxation
under existing laws and regulations.*

The 1975 A Bonds are being issued to finance a portion of the cost to the Supply System of the acquisition and construction of certain nuclear generating Projects, to retire certain revenue notes previously issued by the Supply System for the purpose of financing preliminary work in connection with the Projects and to finance preliminary work in connection with the development of additional electric generating facilities.

The Supply System has entered into Option and Services Agreements with statutory preference customers of the Bonneville Power Administration (the "Option Participants") which agreements grant to each Option Participant an option to purchase a share of the capability of the Projects. Such shares equal, in the aggregate, the entire capability of the Projects. The Option and Services Agreements provide that the Supply System shall use its best efforts to issue and sell revenue bonds to provide for the payment of the principal of and interest on the 1975 A Bonds. If the Supply System is unable to issue and sell such revenue bonds, each Option Participant shall pay its respective share of each principal and interest installment on the 1975 A Bonds due on and after December 1, 1977, less any other moneys of the Supply System that may be available to pay such installment, prior to the due date of such installment. Interest on the 1975 A Bonds will be capitalized to June 1, 1977. Such payments shall be made whether or not the Projects or any of them or any interests of the Supply System therein are constructed, acquired or terminated. Each Option and Services Agreement provides that the obligation of the Option Participant to make such payments is not subject to reduction for any reason and is not conditioned upon the performance of the Supply System or any other Option Participant under the Option and Services Agreements.

AMOUNTS, MATURITIES, COUPONS AND YIELDS

<u>Amount</u>	<u>Due</u>	<u>Coupon</u>	<u>Yield</u>
\$11,345,000	1978	%	%
12,085,000	1979		
12,870,000	1980		
13,700,000	1981		

(Plus Accrued Interest)

This is a Preliminary Official Statement, subject to correction and change, and is not yet finally adopted. The Supply System has authorized the distribution of this Preliminary Official Statement to prospective purchasers and others. Upon the sale of the 1975 A Bonds, it will complete, adopt and deliver an Official Statement.

The 1975 A Bonds are offered when, as and if issued and received by us and are subject to the approval of legality by Wood Dawson Love & Sabatine, New York, New York, Bond Counsel to the Supply System, and Houghton Cluck Coughlin & Riley, Seattle, Washington, Special Counsel to the Supply System. It is expected that the Bonds in definitive form will be ready for delivery on or about June 25, 1975.

The information contained in this Official Statement has been obtained from the Supply System and other sources deemed reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information, and nothing contained herein is, or shall be, relied upon as a promise or representation of the Underwriters. This Official Statement, which includes the cover page and exhibits, does not constitute an offer to sell the 1975 A Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement in connection with the offering of the 1975 A Bonds, and if given or made, such information or representation must not be relied upon.

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SUMMARY STATEMENT

(Subject in All Respects to More Complete Information Contained in This Official Statement)

The Supply System

The Supply System, organized in 1957, is a municipal corporation and a joint operating agency of the State of Washington. Its members are 18 operating public utility districts and the Cities of Richland, Seattle and Tacoma, all located in the State of Washington. The Supply System has the authority, among other things, to acquire, construct and operate plants, works and facilities for the generation and transmission of electric power and energy.

In addition to a hydroelectric project, the Supply System presently owns and operates the Hanford Project, a steam electric generating plant operated in conjunction with the United States Energy Resources Development Agency's (formerly the Atomic Energy Commission's) New Production Reactor on the Agency's Hanford Reservation, near Richland, Washington. This steam plant has a name plate rating of 860,000 kilowatts, has been in operation since 1966 and is currently one of the two largest producers of nuclear generated electricity in the United States. The Supply System is currently undertaking, in addition to the Projects, the development of three other nuclear generating plants, Nuclear Projects Nos. 1, 2 and 3. The first two will be located on the Hanford Reservation near Nuclear Project No. 4 and are 1,250,000 and 1,100,000 kilowatt plants scheduled to be in operation by 1978 and 1980, respectively. The third one is a 1,240,000 kilowatt plant to be located in Grays Harbor County, Washington. This project is to be jointly owned by the Supply System (70%) and four investor owned utilities (30%) and is scheduled to be in operation by 1981.

The members of the power industry in the Pacific Northwest have planned through the development of the Hydro Thermal Power Program the coordination of planning for future electric resources in the Pacific Northwest. The nuclear electric generating plants, including the Projects, which will be constructed and operated by the Supply System are an integral and major part of the planned electric generating power capacity for the region under the Hydro Thermal Power Program.

Purpose of Issue

The purpose of the \$50,000,000 Generating Facilities Revenue Bonds, Series of 1975 A, is to pay a portion of the cost to the Supply System of constructing and acquiring the Projects (i.e., its Nuclear Projects Nos. 4 and 5 and the Puget Sound Power & Light Company's Skagit Nuclear Power Project Unit No. 1 and Skagit Nuclear Power Project Unit No. 2), to retire the \$17,500,000 principal amount Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974 and 1974 A, and to pay the costs not to exceed \$5,000,000, to the Supply System of preliminary work in connection with the development of additional electric generating facilities.

Security—Option Participants, Option and Services Agreements, Sources of Payments and Rate Covenants*The Option Participants*

An option to purchase the Projects' entire capability has been granted by the Supply System to Option Participants, consisting of municipalities, districts and electric cooperatives located principally in Washington, Oregon, Idaho and Montana, each of which is a statutory preference customer of Bonneville. The Option Participants' shares of the capability of the Projects range from approximately% to%. An aggregate of approximately% of such capability is shared by Option Participants each of which has a share of less than%. See Exhibit I.

Option and Services Agreements

Each of the Option Participants has entered into an Option and Services Agreement with the Supply System. Pursuant to these agreements, the Supply System is obligated, among other things, to arrange for the financing and construction of the Projects and to use its best efforts to take the steps necessary to sell refunding bonds to retire the 1975 A Bonds. In the event the Supply System is unable to sell such refunding bonds, each Option Participant is obligated to pay to the Supply System its Final Option Share of the amounts necessary to retire the 1975 A Bonds whether or not the Projects or any of them or any interests of the Supply System therein are constructed, acquired or terminated. Each Option and Services Agreement provides that the obligation of each Option Participant to make such payments is not subject to reduction for any reason and is not conditioned upon the performance of the Supply System or any other Option Participant under the Option and Services Agreements.

Source of Payments and Rate Covenant

No Option Participant will be required to make payments to the Supply System except from revenues derived from the ownership and operation of its electric utility properties. Each Option Participant has covenanted that it will establish, maintain and collect rates or charges for power and energy and other services furnished through its electric utility properties which shall be adequate to provide revenues sufficient to make the required payments to the Supply System.

The Projects

Nuclear Project No. 4 will be solely owned by the Supply System and will consist of a 1,250 megawatt nuclear electric generating plant to be constructed as a "twin" to Nuclear Project No. 1 on the Hanford Reservation and is currently scheduled to begin commercial operation in March, 1982.

Nuclear Project No. 5 will be at least 70% owned by the Supply System with any interest not so owned to be taken by Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company and the Washington Water Power Company. This Project will consist of a 1,240 megawatt nuclear electric generating plant to be constructed as a "twin" to Nuclear Project No. 3 at Satsop in Grays Harbor County, Washington, and is currently scheduled to begin commercial operation in March, 1983.

Skagit Nuclear Power Project Unit No. 1 and Unit No. 2 will be constructed by the Puget Sound Power & Light Company. The Supply System may own up to 15% of each unit. These projects will consist of "twin" 1,288 megawatt nuclear electric generating plants to be located in Skagit County, Washington, and are currently scheduled for commercial operation in February, 1983, and February, 1985, respectively.

Project Status

Applications to the Washington State Thermal Power Plant Site Evaluation Council for state certification of the sites for each of the Projects have been made and review by the Council is currently being conducted. Applications for construction permits from the Nuclear Regulatory Commission have been submitted for each of the Projects. The current development schedules for the Projects anticipate the receipt of state certification and construction permits for each of the Projects by October 1975 for Nuclear Project No. 4, by March 1976 for Nuclear Project No. 5, and by the summer of 1976 for the Skagit Nuclear Power Project Unit No. 1 and Unit No. 2.

OFFICIAL STATEMENT

OF

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

A Municipal Corporation and a Joint Operating Agency of the State of Washington

relating to its

\$50,000,000

Generating Facilities Revenue Bonds, Series of 1975 A

June . . . , 1975

The purpose of this Official Statement, which includes the cover page hereof and the exhibits hereto, is to set forth information concerning the Washington Public Power Supply System (the "Supply System"), the Projects, as more fully described herein under "The Projects", and its \$50,000,000 Generating Facilities Revenue Bonds, Series of 1975 A (the "1975 A Bonds"), in connection with the sale by the Supply System of the 1975 A Bonds and for the information of all who may become holders of such 1975 A Bonds. The 1975 A Bonds are to be issued pursuant to the Revised Code of Washington, Chapter 43.52, as amended (the "Act") and Resolution No. (the "Resolution") adopted June . . . , 1975, by the Supply System's Board of Directors. The 1975 A Bonds and any of the \$50,000,000 of additional parity bonds which may be hereafter issued pursuant to the Resolution for the purposes described below are herein called collectively the "Bonds".

PURPOSE OF THE BONDS

The purpose of the Bonds is to pay a portion of the cost to the Supply System of the acquisition and construction of the Projects, to retire the Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974 and 1974 A, previously issued by the Supply System in the respective principal amounts of \$2,500,000 and \$15,000,000 for the purpose, among other things, of financing preliminary work in connection with the Projects, and to pay not to exceed \$5,000,000 of the cost to the Supply System of preliminary work in connection with the development of an additional electric generating facility or facilities and associated facilities. The estimated application of the proceeds from the sale of the 1975 A Bonds to pay such costs is set forth herein under "The Projects-Initial Financing Program".

THE SUPPLY SYSTEM

The Supply System, a municipal corporation and a joint operating agency of the State of Washington, was organized in January, 1957, pursuant to the Act. Its membership is made up of 18 operating public utility districts and the Cities of Richland, Seattle and Tacoma, all located in the State of Washington. The Supply System has the authority, among other things, to acquire, construct and operate plants, works and facilities for the generation and transmission of electric power and energy, as well as make surveys,

plans, investigations or studies for generating electric energy, and for systems and facilities for the generation thereof. The Supply System has the power of eminent domain, but it is specifically precluded from the condemnation of any plants, works or facilities owned and operated by any city, public utility district or privately-owned electric utility.

The Supply System has its principal office in Richland, Washington. The management and control of the Supply System is vested in a Board of Directors (the "Board") composed of representatives of each of the members. Regular meetings of the Board are held quarterly.

The Executive Committee of the Board administers the business of the Supply System between regular meetings of the Board. The Executive Committee holds regular meetings twice each month and special meetings as often as the business of the Supply System may require.

Members of the Supply System and their respective representatives on the Board are as follows:

Public Utility District No. 1 of Benton County	John Goldsbury
Public Utility District No. 1 of Chelan County	Kirby Billingsley
Public Utility District No. 1 of Clallam County	Alvin E. Fletcher
Public Utility District No. 1 of Clark County	Ed Fischer*
Public Utility District No. 1 of Cowlitz County	D. E. Hughes*
Public Utility District No. 1 of Douglas County	Howard Prey
Public Utility District No. 1 of Ferry County	Clair R. Hilderbrandt
Public Utility District No. 1 of Franklin County	Glenn C. Walkley*
Public Utility District No. 2 of Grant County	John L. Toevs
Public Utility District No. 1 of Grays Harbor County	John J. Welch*
Public Utility District No. 1 of Kittitas County	Harold W. Jenkins
Public Utility District No. 1 of Klickitat County	Gerald C. Fenton
Public Utility District No. 1 of Lewis County	Arnold J. James
Public Utility District No. 3 of Mason County	Edwin W. Taylor
Public Utility District No. 2 of Pacific County	Quentin Mizer
City of Richland	Lane Bray
City of Seattle	Gordon Vickery*
Public Utility District No. 1 of Skamania County	Rolf E. Jemtegaard
Public Utility District No. 1 of Snohomish County	W. G. Hulbert, Jr*
City of Tacoma	A. J. Benedetti*
Public Utility District No. 1 of Wahkiakum County	Francis Longo

* Executive Committee Member

The Supply System presently employs approximately 340 persons, including a highly qualified technical staff whose combined experience in the nuclear field totals over 1500 man-years and whose training includes disciplines in electrical, mechanical, civil and nuclear engineering. Through the operation of the Hanford Project described below the Supply System staff has accumulated substantial experience in the operation of a large steam electric generating facility.

The Supply System's Generating Projects

The Supply System owns and operates an 860,000 kilowatt electric generating plant and associated facilities (the "Hanford Project") located on the Hanford Reservation of the United States Energy

Research Development Administration ("ERDA"), one of the successor agencies to the Atomic Energy Commission (the "AEC"). The Hanford Project was constructed in accordance with agreements between the Supply System, the United States of America, Department of the Interior, acting by and through the Bonneville Power Administrator ("Bonneville"), and the AEC. The Hanford Project is currently one of the two largest producers of electricity generated from nuclear energy in the United States. Steam is provided for the Hanford Project from the New Production Reactor owned and operated by ERDA. In 1962, the Supply System issued \$122,000,000 Hanford Project Electric Revenue Bonds (the "Hanford Project Bonds"), of which \$60,000,000 were outstanding as of March 31, 1975. The Supply System also owns and operates the Packwood Lake Hydroelectric Project with a nameplate rating of 27,500 kVa. In 1962 and 1965, the Supply System sold \$10,500,000 and \$3,200,000 Packwood Lake Hydroelectric Project Revenue Bonds, of which \$13,001,000 were outstanding as of March 31, 1975.

The Supply System has under construction a 1,100,000 kilowatt nuclear generating plant, known as the Washington Public Power Supply System Nuclear Project No. 2 and has issued an aggregate of \$480,000,000 principal amount of revenue bonds in order to pay a portion of the costs of acquiring and constructing this project. This project is under construction on the Hanford Reservation of ERDA and is presently scheduled to begin commercial operation in June, 1978.

The Supply System has begun preliminary work on a 1,250,000 kilowatt nuclear electric generating plant known as the Washington Public Power Supply System Nuclear Project No. 1. In June 1974 the Supply System issued \$77,000,000 principal amount of revenue notes in order to pay a portion of the cost of such preliminary work. This plant will be constructed on the Hanford Reservation of ERDA at a site near Nuclear Project No. 2 and is presently scheduled to begin commercial operation in 1980.

The Supply System has also begun preliminary work on a 1,240,000 kilowatt nuclear plant at a site near Satsop, in Grays Harbor County, Washington, to be known as Washington Public Power Supply System Nuclear Project No. 3, which will be 70% owned by the Supply System and 30% owned by four investor owned utilities, and it has financed its ownership share of preliminary work in connection with such plant with the proceeds of a \$29,000,000 revenue note issue. Commercial operation is presently scheduled for 1981.

SECURITY FOR THE BONDS

The principal of and interest on the Bonds are payable from (i) the proceeds of revenue bonds or refunding notes hereafter issued in connection with the Projects or any other electric generating facility or facilities, the plan and system for which is developed with the proceeds of sale of the Bonds, (ii) payments to be made to the Supply System pursuant to the Option and Services Agreements described hereinafter, (iii) payments to the Supply System under contracts for the sale of power and energy, including capability, to be derived from the Projects and (iv) the proceeds of the Bonds. Interest on the Bonds will be capitalized to June 1, 1977.

The Supply System has entered into Option and Services Agreements with the statutory preference customers of Bonneville listed in Exhibit I (the "Option Participants"). Pursuant to the Option and Services Agreements, the Supply System has granted to each of the Option Participants an option to purchase a share of the capability of the Projects. Such shares equal, in the aggregate, the entire capability of the Projects. The Option and Services Agreements provide that the Supply System shall use its best efforts to issue and sell revenue bonds to provide for the payment of the principal of, premium, if any, and interest on the Bonds; but that if the Supply System is unable to issue and sell such revenue bonds, each Option Participant shall pay its respective share of each principal and interest installment on the Bonds due on and after December 1, 1977, less any other moneys which may be available to pay such installment, prior to the due date of such installment, whether or not the Projects or any of them or any interests of the Supply System therein are constructed, acquired or terminated. Each Option and Services Agreement provides that the obligation of each Option Participant to make such payments is not subject to reduction for any reason and is not conditioned upon the performance of the Supply System or any other Option Participant under the Option and Services Agreements.

Source of Payments and Rate Covenant

No Option Participant will be required to make payments to the Supply System except from revenues derived from the ownership and operation of its electric utility properties. Each Option Participant has covenanted that it will establish, maintain and collect rates or charges for power and energy and other services furnished through its electric utility properties which shall be adequate to provide revenues sufficient to make the required payments to the Supply System.

THE PROJECTS

The Projects will consist of the Supply System's Nuclear Project No. 4 ("Nuclear Project No. 4"), the Supply System's ownership interest in its Nuclear Project No. 5 ("Nuclear Project No. 5") and any ownership interest the Supply System may acquire in Puget Sound Power & Light Company's Skagit Nuclear Power Project Unit No. 1 ("Skagit Project No. 1") and Unit No. 2 ("Skagit Project No. 2"). The capability of the Supply System's ownership interest in the Projects is expected to be about 2,500 MW of plant capability and may not exceed 2,600 MW. The Projects are to be constructed and operated as part of the continued cooperative effort of the utilities in the Pacific Northwest to construct power plants to meet loads in the Pacific Northwest on a coordinated basis. This cooperative effort is popularly referred to as Phase 2 of the Hydro Thermal Power Program.

The Supply System has taken the steps required to date to conform with the Washington State Environmental Policy Act of 1971 regarding the Projects, including review and consideration of environmental impact statements for Nuclear Projects No. 4 and No. 5.

Nuclear Project No. 4

Nuclear Project No. 4 comprises a pressurized-water nuclear electric generating plant having an installed nameplate rating of approximately 1,250 MW and associated facilities required to deliver the plant output to the high voltage transmission system of the Federal Columbia River Power System in the vicinity of the plant. The Supply System will have sole ownership of Nuclear Project No. 4. The Project will be located within the Hanford Reservation in Benton County, Washington, adjacent to the Supply System's Nuclear Project No. 1 and about 12 miles north of the City of Richland, Washington.

Applications have been filed with the Washington State Thermal Power Plant Site Evaluation Council ("TPPSEC") for a single site approval for the two adjacent plants and with the United States Nuclear Regulatory Commission ("NRC") for a permit to construct the two plants.

The Supply System has entered into contracts for delivery of certain items of equipment that require extensive lead time. The major contracts are for (i) the nuclear steam supply system from Babcock and Wilcox Company, including the initial core loading of nuclear fuel; (ii) the turbine-generator from Westinghouse Electric Corporation; (iii) the steel liner containment vessel from Pittsburgh-Des Moines Steel Company; (iv) plant elevators from U. S. Elevator Corporation; and (v) reinforcing steel bars for substructure from Gilmore Steel Corporation. These contracts provide for the acquisition of equipment and services with an estimated total value of \$115,000,000.

The Supply System has employed United Engineers and Constructors as Architect-Engineer and Construction Manager, R. W. Beck and Associates as Consulting Engineer and the S. M. Stoller Corporation as Nuclear Fuel Consultant for Nuclear Project No. 4.

Under its current schedule, the Supply System anticipates (i) receipt of the construction permit from the NRC by October 1975; (ii) fuel loading in the fall of 1981; and (iii) commercial operation in March 1982. The "milestone" completion date (see "Power Supply in the Pacific Northwest and The Hydro Thermal Power Program") is April 1984.

Nuclear Project No. 5

Nuclear Project No. 5 comprises a pressurized-water nuclear electric generating plant having an installed nameplate rating of approximately 1,240 MW and associated facilities required to deliver the

plant output to the high voltage transmission system of the Federal Columbia River Power System in the vicinity of the plant. The Project will be located adjacent to the Supply System's Nuclear Project No. 3 in Grays Harbor County, about 3 miles south of Satsop, Washington, and about 17 miles east of Aberdeen, Washington.

The Supply System will have an ownership interest in Nuclear Project No. 5 of at least seventy percent (70%) and may have up to one hundred percent (100%). Any ownership interest in Nuclear Project No. 5 not taken by the Supply System will be taken by one or more of the major power companies in the Pacific Northwest. As required by the Nuclear Project No. 3 Ownership Agreement, the Supply System has offered ownership interests to Pacific Power & Light Company (10%) ("PP&L"), Portland General Electric Company (10%) ("PGE"), Puget Sound Power & Light Company (5%) ("Puget") and The Washington Water Power Company (5%) ("WWP"). PP&L has stated its intention to accept its ownership interest and Puget has declined its ownership interest in Nuclear Project No. 5. PGE and WWP have not yet determined whether they will accept their ownership interests in said project.

Applications have been filed with TPPSEC for a single site approval for the two adjacent plants and with the NRC for a permit to construct the two plants.

The Supply System has entered into contracts for the delivery of certain items of equipment that require extensive lead time. The major contracts are for (i) the nuclear steam supply system, including fuel fabrication for the initial core loading of nuclear fuel, from Combustion Engineering Corporation; (ii) the turbine-generator from Westinghouse Electric Corporation; and (iii) the surface condenser and associated equipment from Ingersoll-Rand Company. These contracts provide for the acquisition of equipment and services with an estimated total value of \$145,000,000.

The Supply System has employed EBASCO Services, Inc., as Architect-Engineer and Construction Manager, R. W. Beck and Associates as Consulting Engineer and the S. M. Stoller Corporation as Nuclear Fuel Consultant for Nuclear Project No. 5.

Under the current schedule, the Supply System anticipates (i) receipt of the NRC construction permit in March 1976; (ii) fuel loading in the fall of 1982; and (iii) commercial operation in March 1983. The "milestone" completion date is March 1984.

Skagit Projects

Puget has undertaken two nuclear electric generating plants and associated facilities, each having an installed nameplate rating of approximately 1,288 MW and known as Skagit Project No. 1 and Skagit Project No. 2. The Supply System may have an ownership interest of up to fifteen percent (15%) of each unit.

The Skagit Project is to be located in Skagit County about 5 miles east of the City of Sedro Woolley, Washington, and about 12 miles northeast of the City of Mount Vernon, Washington.

Applications have been filed with TPPSEC for a single site approval for the two units and with the NRC for a permit to construct the two units. Puget has employed Bechtel Engineering Corporation as Architect-Engineer for these Projects.

Under its current schedule, Puget anticipates (i) receipt of a construction permit from the NRC by the summer of 1976; (ii) fuel loading in the spring of 1982; and (iii) commercial operation in July 1982. The "milestone" completion date of Skagit Project No. 1 is February 1983 and Skagit Project No. 2 is February 1985.

Initial Financing Program

The Supply System has financed the investigations with respect to Nuclear Project No. 4 and Nuclear Project No. 5 to date from proceeds of the issuance of \$17,500,000 total principal amount of Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974 and 1974A (collectively, the "1974 Notes"). Additional funds are required to permit the Supply System to make

further investigations and studies and to provide payments with respect to fuel purchase and progress payments on equipment ordered in advance of the time that site certifications by the State of Washington and construction permits by the NRC are obtained and permanent financing through issuance of long-term bonds is initiated.

Accordingly, the Supply System has entered into the Option and Services Agreements which provide the security for the Bonds. The 1975 A Bonds will provide the funds necessary to retire the 1974 Notes and to provide further funds to permit the Supply System to maintain the present construction schedule of the Projects. Present estimates indicate that the 1975 A Bond proceeds will finance Supply System's expected expenditures at least through January 1976 and possibly longer depending on actual expenditure rates as compared to budgeted rates.

The estimated application of proceeds from the sale of the 1974 Notes and the 1975 A Bond is as follows:

Application of Proceeds from the 1974 Notes and the 1975 A Bonds

	1974 Notes	1975 A Bonds	Total
Construction Costs:			
The Projects	\$15,586,000	\$25,314,000	\$40,900,000
Additional Generating Facilities	398,000	2,059,000	2,459,000
Total Construction Costs	\$15,984,000	\$27,373,000	\$43,359,000
Bond Discount and Financing Costs(1)	119,000	900,000	1,019,000
Interest during Construction(2)	2,387,000	6,500,000	8,887,000
Retirement of the 1974 Notes	(17,500,000)	17,500,000	0
Gross Requirements	\$ 990,000	\$52,273,000	\$53,263,000
Less: Investment Income(3)	900,000	2,273,000	3,263,000
Net Requirements	\$ 0	\$50,000,000	\$50,000,000

(1)—Actual costs of issuing the 1974 Notes and the estimated costs of issuing the 1975 A Bonds.

(2)—Interest on the 1974 Notes and the estimated interest on the 1975 A Bonds accruing to June 1, 1977 at an annual interest rate of 6.5%.

(3)—Estimated interest income from investment of the proceeds of the 1974 Notes and the 1975 A Bonds.

The Resolution authorizes the issuance of a total of \$100,000,000 of Bonds. The Supply System may issue the remaining amount of this authorization if necessary to meet its commitments undertaken in connection with the Projects.

The long-term agreements called the Participants' Agreements, expected to be executed with the Option Participants pursuant to the terms of the Option and Services Agreements, will provide the detailed arrangements between the Supply System and each participant in connection with the financing, construction and operation of the Projects. After Participants' Agreements providing for purchase and sale of 100% of the capability of the Projects are executed, the Supply System proposes to issue bonds to provide, among other things, funds for the payment of principal of and interest due on the Bonds after June 1, 1977. The Supply System has agreed in the Option and Services Agreements to use its best efforts to issue and sell such bonds prior to December 1, 1976.

THE OPTION PARTICIPANTS

The Option and Services Agreements have been signed by Option Participants of which are municipalities, are districts and are electric cooperatives. Pursuant to the

Option and Services Agreements the municipalities have options to purchase . . . % of the Projects' capability, the districts have options to purchase . . . % of the Projects' capability and the cooperatives the remaining . . . %.

The Option Participants, all of which are statutory preference customers of Bonneville, currently obtain all or part of their power supply and other services from Bonneville. Total revenues of the Option Participants during the year 1974 exceeded \$ or more than times the estimated maximum payment that the Option Participants would have to make in any one year pursuant to the Option and Services Agreements in the event that the Projects would have to be terminated.

Of the 109 Bonneville preference customers, have signed the Option and Services Agreement.

Exhibit I attached hereto lists each Option Participant and indicates the Projects' capability which it has an option to purchase together with statistics for 1974.

A summary of Exhibit I is shown in the following tabulation.

Public Agencies

<u>Five Public Agencies with Largest Final Option Shares</u>	<u>1974 Statistics</u>		<u>Final Option Share</u>
	<u>Customers</u>	<u>Revenues</u>	
PUD No. 1 of Snohomish Co., Wash.	108,706	\$ 30,182,759	
City of Seattle, Wash.	260,781	65,432,443	
City of Tacoma, Wash.	86,752	38,740,939	
PUD No. 1 of Clark Co., Wash.	59,687	16,327,521	
PUD No. 1 of Cowlitz Co., Wash.	30,440	10,929,841	
Total	546,366	\$161,613,503	
Other Public Agencies(1)	_____	_____	
Total Public Agencies	=====	\$ _____	

Cooperatives

<u>Five Cooperative Utilities with Largest Final Option Shares</u>	<u>1974 Statistics</u>		<u>Final Option Share</u>
	<u>Customers</u>	<u>Revenues</u>	
Umatilla Electric Cooperative Assn.	5,257	\$ 2,502,411	
Inland Power & Light Company	13,748	4,107,121	
Consumers Power Inc.	10,075	3,244,864	
Central Electric Cooperative Inc.	6,033	1,640,229	
Lower Valley Power & Light, Inc.	7,198	2,028,840	
Sub Total	42,311	\$ 13,523,505	
Other Cooperatives(2)	_____	\$ _____	
Total Cooperatives	_____	\$ _____	
Total Option Participants	=====	\$ _____	

(1) public agencies.

(2) cooperatives.

In the event of default of any Option Participant which is either a public agency or cooperative, the option share, of the other Option Participants which are public agencies or cooperatives, respectively, will be increased by up to 25%. (See "Event of Default" under "Option and Services Agreements.")

POWER SUPPLY IN THE PACIFIC NORTHWEST AND THE HYDRO THERMAL POWER PROGRAM

The power supply facilities in the Pacific Northwest have been operated with a high degree of cooperation for many years. The Northwest Power Pool, a voluntary organization of public, private and federal power suppliers, was established in 1942 to coordinate power operations in the Pacific Northwest and is still functioning on an effective basis.

As the complexities of power supply increased, other groups were formed. The Pacific Northwest Utilities Conference Committee, consisting of essentially all power interests in the Pacific Northwest, was formed in the late 1940's to extend the cooperation established in the Northwest Power Pool into other areas, including the advanced planning of power resources. The Public Power Council, representing over 100 publicly owned utilities and cooperatives, was formed in the late 1960's to further the coordination of the public power groups in their efforts to improve power supply in the region. The Joint Power Planning Council (an ad hoc group of 104 publicly owned utilities and cooperatives, four major privately owned utilities and Bonneville) was established in the late 1960's to provide for further cooperation throughout the entire electrical utility industry.

Until the late 1960's the major part of power supply in the Pacific Northwest was from hydro electric resources of the area. Most of the hydro electric resources remaining to be developed by the late 1960's were essentially peak resources with limited base load energy available. Base load thermal power projects were required to supply the region's increasing energy needs.

In October 1968 the Joint Power Planning Council announced accord on a Ten Year Hydro Thermal Power Program (now referred to as Phase I of the Hydro Thermal Power Program) to construct the hydro and thermal generation required through 1982 to meet the Pacific Northwest Region's power requirements and to guide the region in its transition from an all-hydro electric power base to a mixed base of hydro and thermal generating resources. The large thermal generating plants included in Phase I of the Hydro Thermal Power Program are tabulated below.

<u>Plant No.</u>	<u>Principal Sponsor</u>	<u>Project</u>	<u>Location</u>	<u>Type</u>	<u>Rated Capacity (Mw)</u>	<u>Milestone Operation Date(1)</u>
1	Pacific Power & Light Co. and The Washington Water Power Company	Centralia	Centralia, Wa.	Coal-fired	1,400	(2)
2	Portland General Electric Company	Trojan	St. Helens, Or.	Nuclear	1,130	Dec. 1975
3	Pacific Power & Light Co.	Jim Bridger No. 2	Rock Springs, Wy.	Coal-fired	500	June 1976
		Jim Bridger No. 3	Rock Springs, Wy.	Coal-fired	500	July 1977
4	Washington Public Power Supply System	WPPSS No.2	Hanford, Wa.	Nuclear	1,100	Oct. 1979
5	Portland General Electric Company	Pebble Springs No. 1	Arlington, Or.	Nuclear	1,260	July 1982
6	Washington Public Power Supply System	WPPSS No. 1	Hanford, Wa.	Nuclear	1,250	Oct. 1982
7	Washington Public Power Supply System	WPPSS No. 3	Satsop, Wa.	Nuclear	1,240	Sept. 1982

(1) See discussion under Power Requirements and Resources.

(2) Currently in operation at reduced capacity.

Early in the 1970's it became obvious that Phase 1 of the Hydro Thermal Power Program would have to be supplemented with additional power resources if the needs of the Pacific Northwest were to be supplied. The cooperation that had been developed under Phase 1 of the Hydro Thermal Power Program was continued and additional generating projects were identified. All members of the power industry in the Pacific Northwest—public, private and Federal—as well as Bonneville's direct service industrial customers continued their efforts to develop plans to provide power resources best designed to achieve reliable power supply to meet power requirements of the Pacific Northwest. This cooperative planning and scheduling has been identified as Phase 2 of the Hydro Thermal Power Program.

The present schedule of thermal generating plants identified under Phase 2 of the Hydro Thermal Power Program is shown below:

<u>Principal Sponsor</u>	<u>Project</u>	<u>Location</u>	<u>Type</u>	<u>Rated Capacity (MW)</u>	<u>Milestone Operation Date(1)</u>
Montana Power Company .	Colstrip No. 1	Colstrip, Montana	Coal-fired	165(2)	Sept. 1975
Montana Power Company .	Colstrip No. 2	Colstrip, Montana	Coal-fired	165(2)	Nov. 1976
Montana Power Company .	Colstrip No. 3	Colstrip, Montana	Coal-fired	490(2)	Aug. 1979
Pacific Power & Light Co.	Jim Bridger Project No. 4	Rock Springs, Wy.	Coal-fired	333(2)	Sept. 1979
Portland General Electric Company	Carty Coal No. 1	Boardman, Or.	Coal-fired	500	July 1980
Montana Power Company .	Colstrip No. 4	Colstrip, Montana	Coal-fired	490(2)	Aug. 1980
Puget Sound Power & Light Company	Skagit No. 1	Sedro Woolley, Wa.	Nuclear	1,288	Feb. 1983
Washington Public Power Supply System	WPPSS No. 4	Hanford, Wa.	Nuclear	1,250	April 1984
Washington Public Power Supply System	WPPSS No. 5	Satsop, Wa.	Nuclear	1,240	Mar. 1984
Puget Sound Power & Light Company	Skagit No. 2	Sedro Woolley, Wa.	Nuclear	1,288	Feb. 1985
Portland General Electric Company	Pebble Springs No. 2	Arlington, Or.	Nuclear	1,260	July 1985

(1) See discussions under Power Requirements and Resources.

(2) Capability of unit available for use in West Group area of the Pacific Northwest.

The specific contractual role of each of the major segments of the utility industry has changed in part from Phase 1 of the Hydro Thermal Power Program. Under Phase 1 Bonneville has undertaken to provide for additional supply of power to the public agencies and industrial loads by acquiring the output of certain publicly owned generating facilities under the "net billing" concept. Under Phase 2 of the Hydro Thermal Power Program the public agencies have undertaken to directly supply their own increasing needs after June 1983 through the planning of additional large scale generating projects. Bonneville's role will be to continue to provide hydro peaking capacity and to provide transmission and other services. Bonneville also expects to act as an agent for certain preference customers in the planning, acquisition and operation of the additional large scale generating projects. Thus the coordination of efforts of Phase 1 of the Hydro Thermal Power Program is being maintained so that the original objectives of the Joint Power Planning Council will be carried out, that is, the Program will.

1. Best preserve the environment and natural beauties of the Pacific Northwest.
2. Make efficient and economic use of the Federal Columbia River Power System.
3. Obtain the economies of scale from large thermal generating plants.
4. Meld the output from large thermal generating plants with that from existing hydro generating units and the peaking generation units which will be installed at existing dams, to achieve the most economic and reliable power supply to meet the power requirements of the Pacific Northwest.

Power Requirements and Resources

Long-range planning of resources in the Pacific Northwest is based on annual forecasts of loads and resources for the area prepared by the Pacific Northwest Utilities Conference Committee. The most recent forecast (February 1, 1975) was made by the Committee for the years 1975-1976 through 1985-1986 (West Group Forecast). Unlike previous forecasts which were prepared using plant sponsors' construction schedules, this most recent forecast was prepared using the "Milestone" concept for determining the dates on which new thermal generating plants could reasonably be expected to be in continuous operation. The "Milestone" concept establishes standard development schedules for each type of thermal plant and identifies, as milestones, certain major events in the development and construction of the plants. These standard "Milestone" plant development schedules are applied to each proposed thermal plant for the purpose of providing a consistent basis for planning the addition of thermal resources. Each plant sponsor will continue to maintain his own construction schedule, which may not be the same as the Milestone schedule used for area resource planning.

An analysis of the most recent forecast, dated February 1, 1975, of the area's loads and resources is shown in the following table:

**Loads and Resources(1)
Northwest Power Pool West Group(2)**

Year Ending June 30	Estimated Requirements	Estimated Resources (3)	Surplus (4)	Percent Surplus (4)
PEAK CAPABILITY—KILOWATTS (000)				
1976.....	22,491	22,487	(4)	(0.02)
1977.....	23,722	23,720	(2)	(0.01)
1978.....	25,220	26,098	878	3.48
1979.....	26,683	28,107	1,424	5.34
1980.....	28,139	30,083	1,944	6.91
1981.....	29,515	30,466	951	3.22
1982.....	30,950	30,668	(282)	(0.91)
1983.....	32,418	34,170	1,752	5.40
1984.....	33,907	35,111	1,204	3.55
1985.....	35,483	37,272	1,789	5.04
1986.....	37,154	39,489	2,335	6.28
ENERGY CAPABILITY—AVERAGE KILOWATTS (000) (5)				
1976.....	14,625	13,846	(779)	(5.33)
1977.....	15,418	14,630	(788)	(5.11)
1978.....	16,396	14,977	(1,419)	(8.65)
1979.....	17,370	15,136	(2,234)	(12.86)
1980.....	18,196	16,121	(2,075)	(11.40)
1981.....	19,002	17,068	(1,934)	(10.18)
1982.....	19,879	17,423	(2,456)	(12.35)
1983.....	20,728	19,830	(898)	(4.33)
1984.....	21,623	20,543	(80)	(0.37)
1985.....	22,581	23,226	645	2.86
1986.....	23,559	24,736	1,177	5.00

(1) Resources forecast under Pacific Northwest Utilities Conference Committee Guidelines.

(2) Area served by utility members of the Joint Power Planning Council.

(3) After deducting reserves under Pacific Northwest Utilities Conference Committee Guidelines.

(4) Parentheses denote negative values.

(5) Computed under Pacific Northwest Utilities Conference Committee Guidelines.

The Public Power Council

The Public Power Council coordinates the efforts of 110 public agencies and cooperatives in the Pacific Northwest in the planning of future power supplies. Through its Executive Board it has developed the overall planning schedules for the Projects. It is coordinating the efforts of the Bonneville preference customers in the development of power supply and other contracts between these customers and Bonneville, in the finalization of the Participants' Agreements with the Supply System and Bonneville and in the development of surplus energy sales contracts between the Supply System, the Bonneville direct service industrial customers and Bonneville.

BONNEVILLE POWER ADMINISTRATION

Bonneville, a bureau of the U.S. Department of the Interior, was established by the Bonneville Project Act of August 20, 1937, to build transmission facilities and to market power from Federal hydroelectric projects in the Pacific Northwest. Such projects now number 27 with an installed capacity of 10,995,900 kilowatts. These projects, authorized new projects and additions at existing projects will have, when completed, an installed capacity of approximately 28,032,600 kilowatts. Bonneville's transmission facilities include over 12,100 miles of 115 kV to 500 kV ac and 800 kV dc transmission lines. These transmission facilities together with the hydroelectric projects mentioned above comprise the Federal Columbia River Power System (the "Federal System").

Bonneville markets power to 153 customers, including 10 statutory preference customers in the Pacific Northwest (public bodies and cooperatives which have preference and priority upon power from the Federal System pursuant to the Bonneville Project Act, as amended) under the terms of various power sales contracts. Each of the Option Participants is a preference customer and is a party to at least one such power sales contract.

More than 80 percent of the 500 kV and 230 kV backbone transmission system in the Pacific Northwest is owned by Bonneville as a result of its role in constructing transmission facilities as part of the Federal System. Bonneville in addition to Federal power transmits over the Federal System the major portion of the power from 11 nonfederal projects to various private and public utilities in the Pacific Northwest.

The Federal System has interconnections with other regions in the United States and Canada. Three high voltage transmission line interconnections (two 500 kV ac, one 800 kV dc) of the Pacific Northwest-Pacific Southwest Intertie have been completed and are now in operation. Two 500 kV ac lines interconnect the Federal System with British Columbia, Canada, and several 230 kV ac lines interconnect the eastern portion of the system with utilities in adjacent Canadian provinces and the Mountain States. These interconnections provide, in addition to mutual support in the event of a breakdown or emergency, the means to carry capacity and energy which is surplus to the Pacific Northwest needs to these areas, and conversely to carry surplus capacity and energy from these areas into the Pacific Northwest.

On October 19, 1974, the President signed into law the Federal Columbia River Transmission System Act (Pub. L. No. 93-454) which established a new method for financing Bonneville's construction and operating program. Under the Transmission Act, Bonneville is authorized to pay its cost of operating and maintaining the Federal System from its revenues and pay the cost of construction of additional facilities from its revenues and revenue bond proceeds. Bonneville is authorized to sell up to 1.25 billion dollars of revenue bonds to the Treasury of the United States to finance the construction of additions to its transmission system. The Transmission Act reinforces Bonneville's original mission and authorizes Bonneville to (i) construct additions to the transmission system within the Pacific Northwest, (ii) integrate and transmit the electric power from existing or additional federal or nonfederal generating units, (iii) provide service to Bonneville's customers, (iv) provide interregional facilities, and (v) maintain the electrical stability and electrical reliability of the Federal System. The Act also

reaffirms Bonneville's obligation to charge rates for electric power and transmission of electric power which will recover the "cost of producing and transmitting such electric power."

Additional Power Supply

In addition to the Federal hydroelectric projects, Bonneville has acquired additional power supplies to enable it to continue to meet its customers' requirements. Bonneville has executed agreements to obtain power from the Hanford Project operated by the Supply System and will obtain through agreements with its preference customers and the Supply System the capability of the Supply System's ownership shares of Nuclear Projects No. 1, No. 2, and No. 3. Through similar agreements with the City of Eugene, Oregon, and 13 other preference customers, Bonneville will obtain Eugene's 30% share of the Trojan Nuclear Project capability.

Relationship of Bonneville, the Option Participants and the Supply System

Bonneville has determined that the electric generating resources of the Federal System will be insufficient for it to meet the load growth requirements of its preference customers for electric energy after July 1, 1983. After that date Bonneville will be obligated to make available to each customer a fixed allocation of electric energy from the Federal System. Each preference agency must acquire from sources, such as the Projects, the amounts of energy it will need to meet its load growth in excess of its allocation.

In accordance with the objectives of Phase 2 of the Hydro Thermal Power Program, Bonneville, using the facilities of the Federal System, expects to provide those services to the Option Participants which will assist them in the integration of the output of the Projects with other power supplied from the Federal System. Bonneville, the Supply System, the Public Power Council, the Option Participants, Bonneville industrial customers and the other utilities of the region are currently negotiating several agreements involving Phase 2 of the Hydro Thermal Power Program. Under these agreements, Bonneville would continue to market and transmit Federal System power to preference customers and other entities as well as provide bulk transmission for nonfederal generating projects, peaking capacity, reserves, load factoring and other services to assist in meeting the region's day-to-day power demands. Five separate agreements under negotiation particularly involve the Option Participants, the Supply System, Bonneville, Bonneville's industrial customers and the Projects.

A new 20 year sales contract is being prepared for execution by Bonneville and the preference customers which will specify the amount of energy available for sale to each preference customer after July 1, 1983. These power contracts are being drafted to allow these customers flexibility in their use of Bonneville power so that new nonfederal sources of power, such as the Projects, will be more easily used in these customers' systems.

The Supply System, the Public Power Council, Bonneville and Bonneville's industrial customers are also negotiating a power sales agreement under which projected energy surpluses from the Projects between September 1982 and July 1989 will be purchased by such industrial customers. These agreements are being negotiated concurrently with new 20 year power sales contracts between Bonneville and its industrial customers which contract will take into account the purchase of power from the Projects.

Bonneville, the Public Power Council and the preference customers are also negotiating agreements which will provide these customers other services such as transmission, reserves and load factoring from the Federal System in conjunction with the Projects. Two forms of agreements are contemplated.

In accordance with the National Environmental Policy Act of 1969, Bonneville prepared and circulated a Draft Environmental Impact Statement, dated April 1, 1975, entitled "BPA Participation in Regional Interutility Cooperation". Currently, Bonneville is receiving comments on the Draft Environmental Impact Statement from all interested parties and contemplates filing a final Environmental Impact Statement after July 1, 1975.

On April 17, 1975, a lawsuit was filed in the United States District Court for the District of Oregon, by the Natural Resources Defense Council, Inc.; The Sierra Club, Inc., et al, against Donald P. Hodel, in his official capacity as Administrator of the Bonneville Power Administration; and Rogers C. B. Morton in his official capacity as Secretary of the Interior of the United States Department of the Interior (Civil Action File No. 75-344). This action, among other things, alleges that the Draft Environmental Impact Statement is "grossly inadequate" and requests the court (1) to enter a declaratory judgment declaring unlawful and void any action taken pursuant to Phase 2 of the Hydro Thermal Power Program, including the execution of contemplated contracts between Bonneville and its industrial customers, the construction of transmission facilities which are a part of Phase 2 of such Program and authorizations or requests for installation of additional generating capacity for federal hydro-electric facilities and (2) to grant such preliminary and permanent injunctive relief as is required to enjoin and restrain the defendants, their agents, employees and all persons acting in concert and participation with them from undertaking any action pursuant to Phase 2 of said Program or in implementation thereof—unless and until they have prepared, publicly circulated, filed and considered a final and adequate environmental impact statement thereon or (3) in the alternative to an injunction, to enter an order in the nature of a mandamus directing the defendants to perform their non-discretionary duty to prepare, publicly circulate, file and consider a final and adequate environmental impact statement prior to taking action pursuant to Phase 2 of said Program.

Another lawsuit has been filed in the same court (Port of Astoria, Oregon, and Concerned Citizens of Clatsop County v. Hodel) seeking to compel Bonneville to prepare, publicly circulate, file and consider a final and adequate environmental impact statement upon the proposed arrangements and agreements between Bonneville and its industrial customers insofar as they pertain to Phase 2 of the Hydro Thermal Power Program.

No date has been set for trial of the issues raised in these lawsuits. Bonneville has assured the Supply System that it intends to defend Bonneville's interests affected by said litigation in a timely and vigorous manner and will duly comply with any judgments ultimately rendered.

In the opinion of Bond Counsel and Special Counsel to the Supply System, neither the Supply System nor the Option Participants are required to file any environmental impact statements under the National Environmental Policy Act of 1969. It is also their opinion that no judgment or order entered in said lawsuits granting any relief prayed for would invalidate the Option and Services Agreements or the Bonds.

[To come: Discussion of comments by Federal Council on Environmental Quality re Bonneville Draft Environmental Impact Statement]

THE OPTION AND SERVICES AGREEMENTS

A summary of certain provisions of the Option and Services Agreements follows. The agreement is entitled "Washington Public Power Supply System Nuclear Projects Nos. 4 and 5 and Skagit Project—Agreement for Option to Enter Participants' Agreement, Reservation of Project Capability and Performance of Services". The full text of the form of agreements may be obtained from the Supply System.

The capitalization of any word or words which is not conventionally capitalized (e.g., Projects, Option Participants) indicates that such words are defined in the Option and Services Agreements.

Term

Each Option and Services Agreement became effective upon execution and delivery of such agreements by the Supply System and Option Participants whose Option Participants' Preliminary Option Shares include the total capability of the Projects. Each agreement terminates on the date that the Bonds are paid, or provision is made for their payment as provided in the Resolution; *provided* that the rights of an Option Participant to enter into a Participants' Agreement may be terminated by the Supply System upon the failure of the Option Participant to enter into a Participants' Agreement.

Option Granted

The Supply System grants to each Option Participant the option to execute the Participants' Agreement (in substantially the same form as the form of Participants' Agreement attached as Exhibit A to each Option and Services Agreement). The Supply System reserves for each Option Participant its Option Participant's Final Option Share of Project Capability of the Projects. A schedule listing the names of the Option Participants and their respective Option Participants' Final Option Shares of Project Capability is attached hereto as Exhibit I.

The Supply System is obligated to proceed with diligence to complete signatory copies of the Participants' Agreement for execution by the Option Participants and the Supply System. Such signatory copies must set forth in Exhibit A to be attached thereto as the Participant's Preliminary Share of each Option Participant, an amount equal to the Option Participant's Final Option Share multiplied by 1.2.

No later than August 1, 1976, the Supply System will deliver, or cause to be delivered, to each Option Participant, (i) signatory copies of the Participants' Agreement, and (ii) a notice affording Option Participant the option to execute and deliver the Participants' Agreement within 90 days after delivery of the notice.

Any Project may be terminated as described hereafter, and in such event each Option Participant shall retain its Option Participant's Final Option Share as to Projects which have not been terminated.

The form of Participants' Agreement anticipates execution by Bonneville as well as the Supply System and each Option Participant; however, the parties to the Option and Services Agreements recognize that Bonneville may determine to render transmission, scheduling, load factoring, reserves, exchange and other services referred to in the Participants' Agreement, pursuant to separate agreement(s) and that in such event the Participants' Agreement shall be modified accordingly, for execution by the Supply System and each Option Participant only.

The Supply System is obligated to use its best efforts to enter into Power Sales Agreements for the sale of Surplus Energy (i.e., electric power and energy generated by the Projects which is in excess of the total power and energy requirements of the Option Participants) for the period ending June 30, 1989. Power Sales Agreements are defined as agreements for the sale and purchase of power and energy, including capability, from the Projects which may be entered into by the Supply System and any purchasers thereof other than parties entering into a Participants' Agreement.

The Supply System is prohibited from proceeding with any arrangements to include in the Projects the acquisition or construction of any ownership interest in any nuclear generating unit if such interest

will result in a maximum anticipated peak generating capability of the Projects available to the Supply System of more than 2,500 MW.

Services and Actions of the Supply System

The Supply System is obligated to use its best efforts to perform, or cause to be performed, the following services and take the following actions, in connection with the above mentioned option:

1. Arrange for the ownership, financing, acquisition and construction of the Projects and render such other services and take such further actions provided for in the Participants' Agreement as the Supply System may deem feasible, within the limits of the monies made available for such purposes under the Option and Services Agreement, all with the objective of placing the Projects into continuous operation on the respective dates as follows:

Nuclear Project No. 4	March 1982
Skagit Project, Unit 1	July 1982
Nuclear Project No. 5	March 1983
Skagit Project, Unit 2	July 1984

2. Make advance payments to ERDA for rights or services relating to nuclear fuel and payments to other persons for reservation of rights to acquire personal or real property of any nature in connection with any of the Projects.

3. After execution and delivery of Participants' Agreements as provided above, the Supply System shall proceed with the orderly financing of the Projects and shall use its best efforts to issue and sell bonds no later than December 1, 1976, to provide, among other things, for the payment of the principal of and interest and premium, if any, on the Bonds.

4. Perform preliminary work in connection with the development of future electric generating and associated facilities, in addition to the Projects, to serve the prospective power needs of the Option Participants, including, but not limited to, planning, siting, environmental, financial, and economic surveys and studies and acquisition of options to acquire real estate and rights to acquire fuel; *provided* that the Supply System shall not expend more than \$5,000,000 of Bond proceeds for such purposes.

The Supply System is not obligated to expend monies in connection with the Option and Services Agreements in excess of those made available to it from the proceeds of the Bonds.

Development Bonds

The Supply System is obligated to use its best effort, to issue and sell Development Bonds (the Bonds) in an amount sufficient to enable it to perform all the terms of the Option and Services Agreements; *provided*, that in no event shall such Bonds exceed the principal sum of \$100,000,000.

Payments by Option Participants

In the event that the Supply System issues and sells Bonds and is unable to issue and sell bonds pursuant to the Participants' Agreement, each Option Participant is obligated to pay to the Supply System its Option Participant's Final Option Share of the principal of and interest and premium, if any, which become due on December 1, 1977, and on each June 1 and December 1 thereafter, on all of the Bonds then outstanding. Such payments shall be made by an Option Participant until all of its Option Participant's Final Option Share of the principal of and interest and premium, if any, on the Bonds has been fully paid or provision is made for the payment or retirement of the Bonds as provided in the Resolution, whichever is earlier. On or before December 1, 1976, and each December 1 thereafter, the Supply System shall prepare and deliver to each Option Participant a billing statement

showing the amount to be paid by it for the following year. Each Option Participant shall make each payment to the Supply System as provided in the billing statement, or any amended billing statement prepared to carry out its obligations in the event of default, as described below, which payments shall not be subject to any reduction, whether by offset or otherwise, for any reason whatsoever, or be conditioned upon the performance or nonperformance by the Supply System or any Option Participant under this or any other agreement or instrument, or the failure of any party to enter into the Participants' Agreement or any of the related agreements (i) with Bonneville, relating to certain services to be performed by Bonneville, (ii) with certain Pacific Northwest industries relating to the purchase of surplus energy from the Projects, and (iii) with Pacific Northwest investor-owned utilities relating to the purchase of power and energy from the Projects and/or to the joint ownership of Nuclear Project No. 5, the Skagit Project, or both, the remedies of Option Participants being limited to specific performance, mandamus or other appropriate remedy, exclusive of refusal to make full payment when due. The obligation of each Option Participant to make payments provided for in the Option and Services Agreements shall continue in effect notwithstanding the execution and delivery by it of a Participants' Agreement.

Source of Payments and Rate Covenants

No Option Participant will be required to make any payments under the Option and Services Agreements except from revenues derived from the ownership and operation of its electric utility properties.

Each Option Participant covenants that it will establish, maintain and collect rates or charges for power and energy and other services, facilities and commodities sold, furnished or supplied by it through any of its electric utility properties which shall be adequate to provide revenues sufficient to enable it to make the payments to be made by it to the Supply System pursuant to its Option and Services Agreement and to pay all other charges and obligations payable from or constituting a charge and lien upon such revenues.

Event of Default

Upon default on the part of any Option Participant which is in the class of (i) a nonprofit or cooperative corporation or (ii) a municipal corporation, the Option Participant's Final Option Share for Option Participants in the same class shall be automatically increased for the remaining term of the Option and Services Agreement pro rata with that of other such nondefaulting Option Participants to the extent that one or more such defaulting Option Participant fails or refuses for any reason to perform its obligations under its Option and Services Agreement, and the Option Participant's Final Option Share of such defaulting Option Participant shall be reduced correspondingly; *provided*, that the sum of such increases for the Option Participant shall not exceed, without its consent, an accumulated maximum of 25% of the Option Participant's Final Option Share.

Termination of the Projects

A Project, or unit thereof, shall terminate and the Supply System shall cause it to be salvaged, discontinued, decommissioned, and disposed of or sold if the Supply System determines that it is unable to construct, or proceed as owner of, such Project or unit due to licensing or other causes which are beyond its control. After such termination the Supply System shall undertake the decommissioning of such Project and may pay the costs of such decommissioning from Bond proceeds.

In the event that a request is delivered to the Supply System by Option Participants entitled to 80% or more of the Option Participants' Final Option Shares, that the Supply System reduce or defer expenditures on, or terminate any Project, or until thereof, the Supply System shall comply with such requests.

Waiver of Rights Under Statutes and Prior Agreements

The execution of an Option and Services Agreement by a member of the Supply System constitutes a waiver of any preference right that such member may have under Revised Code of Washington, Section

43.52.380 and such member further agrees that the Option and Services Agreement supersedes its right to capability or output under its Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974, Agreement and its Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974 A, Agreement, which agreements secure the \$17,500,000 principal amount of revenue notes issued by the Supply System pursuant to Resolutions Nos. 682 and 713 of the Supply System's Board of Directors.

Applicability of Other Instruments

The Option and Services Agreements are subject to the terms and provisions of the Resolution and all certificates, licenses, permits and other governmental approvals, regulations and standards applicable to the Projects.

Modification of Agreement

The Option and Services Agreements are not subject to termination by any party under any circumstances, whether based upon the default of any party to such agreement, or any other instrument, or upon any other basis, except as specifically provided in such agreements.

The Option and Services Agreements shall not be amended, modified or otherwise changed by agreement of the parties in any manner that will impair or adversely affect the security afforded by the provisions of such agreements for the payment of the principal of and interest and premium, if any, on the Bonds as they respectively become payable so long as any of the Bonds are outstanding and unpaid or funds are not set aside for the payment and retirement thereof in accordance with the Resolution.

Exhibits

The Exhibits listed below are an integral part of the Option and Services Agreements.

Exhibit A—Participants' Agreement (draft dated March 21, 1975);

Exhibit B—Option Participants and Option Participants' Shares,

Exhibit C—Project Descriptions,

PARTICIPANTS' AGREEMENT

The Participants' Agreement provides for the purchase and sale of participants' shares of the capability of the projects, as such projects are finally defined pursuant to the terms of the Option and Services Agreements; and it provides for payments by each such purchasing entity of the costs of such projects as set forth in detail therein. Other sections of the Participants' Agreement relate to the term of the agreement, the obligation of the Supply System concerning the financing, design, construction, operation and maintenance of such projects, provisions relating to delivery of the power, accounting procedures, fuel, scheduling, insurance, termination of the projects, project committees, project consultant and obligations in the event of default. The Participants' Agreement also authorizes expenditures of not to exceed \$50,000,000 of the proceeds of the bonds to be issued pursuant to the terms of the Participants' Agreement for preliminary work in connection with the development of additional electric generating plants, and associated facilities, to serve the prospective needs of the parties executing the Participants' Agreement and grants each participant a right to acquire a share of the capability of any such plants. The participants are obligated to pay the Supply System the amounts necessary to retire any Bonds outstanding if the Bonds are not paid or provision is not made for their payment by the sale of bonds by the Supply System secured by the Participants' Agreements. Except as to the obligation to pay the principal of, and interest and premium, if any, on the Bonds, as to each Participant, the Participants' Agreement supersedes the Option and Services Agreement.

THE RESOLUTION

The following is a summary of certain provisions of the Resolution and is not to be considered as a full statement thereof. This summary is qualified by reference to and is subject to the Resolution, copies of which are available upon request at the offices of either the Supply System, in Richland, Washington, or Blyth Eastman Dillon & Co. Incorporated, in Seattle, Washington, or in New York, New York.

Use of the Proceeds

The Resolution creates an issue of \$100,000,000 of revenue bonds of the Supply System designated "Generating Facilities Revenue Bonds" (the "Bonds"), which Bonds may be issued from time to time for the purpose of paying a part of the cost to the Supply System of acquiring and constructing the Projects, retiring the 1974 Notes and paying not to exceed \$5,000,000 of the cost to the Supply System of preliminary work in connection with the development of an additional electric generating facility or facilities, and associated facilities, and authorizes the issuance of the 1975 A Bonds.

Description of the 1975 A Bonds

The 1975 A Bonds will be coupon bonds in denominations of \$5,000 registrable as to principal only and fully registered form in the denomination of \$5,000 or any multiple thereof. Coupon 1975 A Bonds and fully registered bonds are interchangeable at the principal office of The 1975 A Bonds will be dated June 15, 1975, and will mature in the years and amounts, bear interest and be payable at the places shown on the cover page hereof. The 1975 A Bonds will not be redeemable prior to maturity

Subsequent Series of Bonds

The Supply System may issue additional series of Bonds upon compliance with the following principal conditions:

- (1) No default exists in the payment of the principal of or interest on any Bond.
- (2) The Option and Services Agreements are in full force and effect and have not been amended in any manner adversely affecting the Supply System or the holders of the Bonds.
- (3) No such Bond shall mature or be subject to mandatory redemption prior to June 1, 1978.

Sources from which Bonds Payable

The principal of and interest on the Bonds are payable from (i) the proceeds of revenue bonds or refunding notes hereafter issued in connection with the Projects or any other electric generating facility or facilities, the plan and system for which is developed with the proceeds of sale of the Bonds, (ii) payments to be made to the Supply System pursuant to the Option and Services Agreements, (iii) payments to the Supply System under contracts for the sale of power and energy, including capability, to be derived from the Projects and (iv) the proceeds of the Bonds. Interest on the Bonds will be capitalized to June 1, 1977.

Creation of Funds and Accounts

The Resolution creates two special funds of the Supply System: one, known as the "Generating Facilities Revenue Bond Proceeds Fund, 1975" (the "Bond Proceeds Fund"), will be held in trust and administered by the Supply System, except that the "Capitalized Interest Account" created therein shall be held in trust and administered by the Principal Paying Agent, and the other, known as the "Generating Facilities Revenue Bond Fund" (the "Bond Fund"), will be held in trust and administered by the

Supply System. The Supply System will appoint one of the Paying Agents for the 1975 A Bonds as Principal Paying Agent.

Disposition of the Proceeds of the Bonds

From the proceeds of the sale of the 1975 A Bonds there shall be deposited:

(1) With the Note Interest Fund Trustee appointed pursuant to Board Resolution No. 682, the sum of \$2,500,000 or such lesser amount as shall, together with the moneys and securities on deposit in the Note Interest Fund created pursuant to said Resolution and the income from the investment thereof, be sufficient to cause the Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974, issued pursuant to said Resolution, to be no longer outstanding thereunder.

(2) With the Note Interest Fund Trustee appointed pursuant to Board Resolution No. 713, the sum of \$15,000,000 or such lesser amount as shall, together with the moneys and securities on deposit in the Note Interest Fund created pursuant to said Resolution and the income from the investment thereof, be sufficient to cause the Washington Public Power Supply System Generating Facilities Revenue Notes, Series 1974 A, issued pursuant to said Resolution, to be no longer outstanding thereunder.

(3) With the Principal Paying Agent for credit to the Capitalized Interest Account, an amount equal to the interest to accrue on the 1975A Bonds from the date thereof to June 1, 1977, which amount shall be used to pay interest on the 1975A Bonds during such period.

(4) With the Supply System for credit to the Bond Proceeds Fund, the balance of such proceeds, which will be applied to pay a part of the cost to the Supply System of acquiring and constructing the Projects and not to exceed \$5,000,000 of the cost to the Supply System of preliminary work in connection with the development of an additional electric generating facility or facilities, and associated facilities.

From the proceeds of the sale of subsequent series of Bonds, there shall be deposited:

(1) With the Principal Paying Agent for credit to the Capitalized Interest Account, an amount equal to the accrued interest on such Bonds paid as a part of the purchase price thereof.

(2) With the Principal Paying Agent for credit to the Capitalized Interest Account, an amount equal to the interest to accrue on such Bonds from the date thereof to June 1, 1977, less the amount of the accrued interest paid as a part of the purchase price thereof credited to said Account.

(3) With the Supply System for deposit in the Bond Proceeds Fund, the balance of such proceeds, which will be applied to pay a part of the cost to the Supply System of acquiring and constructing the Projects and not to exceed \$5,000,000 of the cost to the Supply System of preliminary work in connection with the development of an additional electric generating facility or facilities, and associated facilities.

Moneys in the Capitalized Interest Account will be used solely for the purpose of paying interest on the Bonds to June 1, 1977. On or before the twenty-fifth (25th) day of the month next preceding the maturity of an installment of interest on the Bonds, the Principal Paying Agent will transfer from the Capitalized Interest Account to the Paying Agents an amount which, together with any moneys theretofore received or held by the Paying Agents for the purpose, will be sufficient to pay at said maturity date the installment of interest then due on the Bonds. If at any time moneys in the Capitalized Interest Account and other available moneys are inadequate for such purpose, the Supply System will transfer from the Bond Proceeds Fund to the Capitalized Interest Account such amount of money as is required to permit such transfer to the Paying Agents.

All moneys held or set aside by the Supply System in the Bond Proceeds Fund will, until invested or applied as provided in the Resolution, be deposited by the Supply System for the account of the Bond Proceeds Fund in such depository or depositories as the Supply System may appoint. Each such depository will be a state bank or trust company or national banking association authorized to do business in the State of Washington and qualified under the laws of said State to receive deposits of public moneys, having a capital stock and surplus in excess of ten million dollars (\$10,000,000). All moneys so deposited shall be secured to the extent and in the manner permitted by applicable state or federal laws for the securing of deposits of public moneys.

Investment of Moneys Held in Funds

Moneys held for the credit of the Bond Proceeds Fund, including the Capitalized Interest Account therein, and the Bond Fund are to be invested in the following:

- (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;
- (ii) general obligation bonds of any state of the United States of America rated by a nationally recognized bond rating agency in either of the two highest rating categories assigned by such rating agency,
- (iii) bonds, debentures, notes or participation certificates issued by the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks, the Federal National Mortgage Association or any other agency of the United States of America or any corporation wholly owned by the United States;
- (iv) Public Housing Bonds or Project Notes issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions to be paid by the United States of America or any agency thereof;
- (v) Bank time deposits evidenced by certificates of deposit issued by any state bank or trust company or national banking association, which is a member of the Federal Reserve System and has capital stock and surplus of at least \$7,500,000. Such time deposits will be purchased directly from such a bank, trust company or national banking association, will mature not later than the time when the funds invested therein are required for the purposes intended and will be secured at all times in the manner provided by the laws of the State of Washington, provided, that the funds invested in bank time deposits issued by any one bank, trust company or national banking association will not exceed at any one time 50% of the total of the capital stock and surplus of such bank, trust company or national banking association.

All interest earned by reason of the investment of moneys in the Bond Proceeds Fund, including the Capitalized Interest Account therein, shall accrue to the Bond Proceeds Fund. All interest earned by reason of the investment of moneys in the Bond Fund shall accrue to the Bond Fund. In the event moneys that are invested are needed to meet obligations payable from such moneys for which funds are not otherwise available, then the Supply System shall sell or present for redemption, or cause the Principal Paying Agent, in the case of the Capitalized Interest Account, to sell or present for redemption, said investments to the extent required to provide funds for such purpose.

Particular Covenants of the System

According to other provisions of the Resolution the Supply System covenants and agrees with the purchasers and holders of the Bonds as follows:

- (1) The Supply System will proceed with all reasonable diligence with the construction and acquisition of the Projects so that the Supply System may be able to finance the cost to it of the

construction and acquisition of the Projects which will not be provided for from the proceeds of sale of the Bonds, through the issuance of additional revenue bonds or notes, and with the making of appropriate arrangements for the sale of the power and energy, including capability, to be derived from the Projects, so that the Supply System will be able to accomplish such financing.

(2) The Supply System will not voluntarily consent to or permit any rescission of or take any action under or in connection with any of the Option and Services Agreements which will reduce the payments provided for therein or which will in any manner impair or adversely affect the rights of the System or of the holders of the Bonds.

(3) After entering into suitable contracts or other arrangements for the sale of the power and energy, including capability, to be derived from the Projects and after a construction permit for at least one of the generating plants of the Projects has been issued by the United States Nuclear Regulatory Commission, the Supply System will proceed with the orderly financing of the cost to it of the acquisition and construction of the Projects, by the issuance and sale of its revenue bonds or refunding notes for the purpose of providing additional funds to pay such cost, which cost shall include, among other items, the payment of the principal of, premium, if any, and interest not paid from such principal on the Bonds.

If for any reason the Supply System is unable to issue and sell revenue bonds or refunding notes to obtain funds to pay the principal of the Bonds and the interest thereon not payable from such principal by December 1, 1976, the Supply System shall give notice to the Participants pursuant to Section 8 of each of the Option and Services Agreements and thereafter prepare and deliver to each Participant the billing statements provided for therein. Such billing statements shall be prepared and delivered to the Participants at such time or times, and shall require payment by the Participants at such time or times and in such amount or amounts, as will, together with other available funds, provide the Supply System with funds sufficient to pay the principal of and interest on the Bonds when due. In the alternative, if the Supply System has entered into contracts for the sale of power and energy, including capability, to be derived from the Projects, the Supply System may require payments by the parties thereto at such time or times and in such amount or amounts, as will, together with other available funds, provide the Supply System with funds sufficient to pay the principal of and interest on the Bonds when due.

The Supply System shall deposit the amounts so collected into the Bond Fund.

(4) The Bonds and the interest thereon shall be a valid claim of the holder against the Bond Fund and the amount of the revenues and other moneys pledged to the Bond Fund under the Resolution and shall constitute a prior charge over all other charges or claims whatsoever against the Bond Fund and the amount of such revenues and other amounts pledged thereto under the Resolution.

(5) The Supply System will duly and punctually pay or cause to be paid the principal of and premium, if any, and interest on each and every Bond on the dates and at the places and in the manner provided in said Bonds and in the coupons thereto attached, according to the true intent and meaning thereof, but solely from the Bond Fund and the revenues and other moneys pledged under the Resolution to the Bond Fund, the proceeds of the Bonds and the proceeds of revenue bonds or refunding notes of the Supply System issued in connection with the Projects or any other electric generating facility or facilities, the plan and system for which is developed with the proceeds of sale of the Bonds.

Severability

If any one or more provisions of the Resolution shall be declared by any court of competent jurisdiction to be contrary to law, then the affected provisions shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of the Resolution or the 1975 A Bonds issued thereunder.

REGISTRATION OF THE 1975 A BONDS BY STATE AUDITOR

The 1975 A Bonds will be registered by the State Auditor of the State of Washington, and a certificate of such registration signed by the State Auditor or a Deputy State Auditor will be endorsed upon each 1975 A Bond in accordance with the provisions of Section 54.24.070 of the Revised Code of Washington, made applicable to the Supply System by the Revised Code of Washington, Section 43.52.3411. Said Section 54.24.070 provides, in part, that any revenue obligations after having been so registered and bearing such certificate, shall be held in every action, suit or proceeding in which their validity is or may be brought into question prima facie valid and binding obligations in accordance with their terms.

LITIGATION

There is no litigation pending or, to the knowledge of the Supply System, threatened, questioning the corporate existence of the Supply System, or the title of the officers of the Supply System to their respective offices, or the validity of the 1975 A Bonds, or the power and authority of the Supply System to issue the 1975 A Bonds, or the validity of the Option and Services Agreements or any other proceeding taken, or contract entered into, by the Supply System, which is in any way related to the Projects.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the Option and Services Agreements and the authorization and issuance of the 1975 A Bonds are subject to the approval of Messrs. Wood Dawson Love & Sabatine, Bond Counsel to the Supply System, and Messrs. Houghton Cluck Coughlin & Riley, Special Counsel to the Supply System. Copies of the opinions they propose to render are appended hereto as Exhibit III.

TAX EXEMPTION

In the opinion of the above named counsel, the interest on the 1975 A Bonds is exempt from federal income taxation under existing laws and regulations.

MISCELLANEOUS

The references, excerpts and summaries contained herein of the Option and Services Agreements and the Resolution do not purport to be complete statements of the provisions of such documents and reference should be made to such documents for a full and complete statement of all matters relating to the Bonds, the basic agreements securing the Bonds and the rights and obligations of the holders thereof.

The authorizations, agreements and covenants of the Supply System are set forth in the Resolution, and neither this Official Statement nor any advertisement of the 1975 A Bonds is to be construed as a contract with the holders of the 1975 A Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

All of the information relative to the Pacific Northwest and Bonneville have been taken from sources deemed to be reliable but are not guaranteed as to completeness or accuracy.

The delivery of this Official Statement has been duly authorized by the Supply System.

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

EDWIN W. TAYLOR
Secretary

EXHIBIT I

**OPTION PARTICIPANTS' STATISTICS, PRELIMINARY OPTION
SHARES(1) AND DEBT SERVICE OBLIGATIONS**

Option Participant	Customers	Long-Term Debt	Operating Revenues	Net Operating Revenues(2)	Preliminary Option Share(1)	Option Participants' Obligations(3)	
						\$50,000,000 1975 A Bonds	\$100,000,000 Development Bonds(4)
Public Utility District No. 1 of Benton County, Washington	17,263	\$ 3,241,000	\$ 5,442,712	\$ 803,371	5,250	\$ 766,238	\$ 1,532,476
Central Lincoln People's Utility District	18,694	5,584,000	6,708,135	985,050	2,760	402,822	805,644
Public Utility District No. 1 of Chelan County, Washington	19,587	4,961,000	6,267,181	907,956	800	116,760	233,520
Public Utility District No. 1 of Clallam County, Washington	11,160	2,743,000	3,342,951	907,391	1,420	207,249	414,498
Public Utility District No. 1 of Clark County, Washington	59,687	18,054,000	16,327,521	2,375,040	10,190	1,487,231	2,974,462
Clatskanie People's Utility District	2,366	0	2,060,247	139,357	810	118,220	236,440
Public Utility District No. 1 of Cowlitz County, Washington	30,440	9,445	10,929,841	1,530,275	9,440	1,377,768	2,755,536
Public Utility District No. 1 of Douglas County, Washington	7,882	4,230,212	2,354,277	310,047	010	1,460	2,920
Public Utility District No. 1 of Ferry County, Washington	1,463	2,120,702	495,860	51,709	070	10,217	20,434
Public Utility District No. 1 of Franklin County, Washington	10,834	3,265,325	3,244,946	606,469	3,020	440,769	881,538
Public Utility District No. 2 of Grant County, Washington	20,965	14,216,000	7,757,191	1,224,380	600	87,517	175,140
Public Utility District No. 1 of Grays Harbor County, Washington	29,218	22,442,807	9,324,494	1,374,351	4,560	665,532	1,331,064
Public Utility District No. 1 of Kittitas County, Washington	1,244	1,472,694	384,340	36,450	270	39,407	78,814
Public Utility District No. 1 of Klickitat County, Washington	6,100	5,145,144	1,838,397	307,459	1,010	147,410	294,820
Public Utility District No. 1 of Lewis County, Washington	16,182	1,315,000	3,973,631	744,493	2,090	305,036	610,072
Public Utility District No. 1 of Mason County, Washington	2,737	1,325,840	471,760	62,081	160	23,352	46,704
Public Utility District No. 3 of Mason County, Washington	12,785	2,080,000	3,139,387	819,932	1,010	147,410	294,820
Northern Wasco County People's Utility District	2,619	268,000	590,329	110,404	340	49,623	99,246
Public Utility District No. 1 of Okanogan County, Washington	12,024	207,806	3,015,971	368,526	1,420	207,249	414,498
Public Utility District No. 2 of Pacific County, Washington	11,425	2,765,000	2,230,803	356,506	880	128,436	256,872
Public Utility District No. 1 of Pend Oreille County, Washington	2,890	2,071,000	996,187	134,866	410	59,840	119,680
Public Utility District No. 1 of Skamania County, Washington	3,146	1,267,700	902,358	192,249	270	39,407	78,814
Public Utility District No. 1 of Snohomish County, Washington	108,706	88,939,580	30,182,759	5,141,334	13,490	1,968,866	3,937,732
Tillamook People's Utility District	11,659	7,096,251	3,094,721	779,889	810	118,220	236,440
Vera Irrigation District No. 10	3,454	369,859	719,871	127,963	270	39,407	78,814
Public Utility District No. 1 of Wahkiakum County, Washington	1,596	80,000	466,557	108,495	130	18,974	37,948
Public Utility District No. 1 of Whatcom County, Washington	1	0	371,581	31,376	030	4,379	8,758
Summary for Districts	426,127	\$195,271,365	\$126,634,008	\$18,274,869	61,520	\$ 8,978,852	\$17,957,704

**OPTION PARTICIPANTS' STATISTICS, PRELIMINARY OPTION
SHARES(1) AND DEBT SERVICE OBLIGATIONS—Continued**

Option Participant	Customers	Long-Term Debt	Operating Revenues	Net Operating Revenues(2)	Preliminary Option Share(1)	Option Participants' Obligations(3)	
						\$50,000,000 1975 A Bonds	\$100,000,000 Development Bonds(4)
City of Bandon, Oregon	1,791	\$ 0	\$ 431,399	\$ 25,983	.070	\$ 10,217	\$ 20,434
City of Blaine, Washington	1,316	416,250	300,005	71,561	.070	10,217	20,434
City of Bonners Ferry, Idaho	1,651	0	423,040	57,243	.200	29,190	58,380
City of Burley, Idaho	4,050	0	911,361	211,875	.200	29,190	58,380
City of Canby, Oregon	2,277	0	474,271	46,649	.540	83,813	157,626
City of Cascade Locks, Oregon	605	0	199,947	(11,894)	.070	10,217	20,434
City of Centralia, Washington	6,522	0	1,204,105	40,630	.680	99,246	198,492
City of Cheney, Washington	2,627	295,000	645,628	56,454	.130	18,974	37,948
City of Coulee Dam, Washington	549	0	155,442	10,751	.070	10,217	20,434
City of Drain, Oregon	575	0	209,372	22,610	.070	10,217	20,434
City of Ellensburg, Washington	5,035	0	997,972	(180,135)	.650	94,868	189,736
City of Forest Grove, Oregon	4,524	0	991,767	206,449	.740	108,003	216,006
City of Heyburn, Idaho	731	0	399,897	21,306	.270	39,407	78,814
City of Idaho Falls, Idaho	13,341	0	3,807,246	2,130,929	.940	137,193	274,386
Town of McCleary, Washington	653	9,000	220,738	27,076	.130	18,974	37,948
City of McMinnville, Oregon	5,908	0	1,776,501	227,513	1.010	147,410	294,820
City of Milton-Freewater, Oregon	3,296	0	653,253	87,734	.070	10,217	20,434
City of Monmouth, Oregon	2,021	0	385,043	35,156	.200	29,190	58,380
City of Port Angeles, Washington	7,123	0	1,981,201	137,795	.480	70,056	140,112
City of Richland, Washington	10,103	0	2,745,968	361,302	2.030	296,279	592,558
City of Rupert, Idaho	2,142	0	502,562	94,680	.340	49,623	99,246
City of Seattle, Washington	260,781	212,627,735	65,432,443	7,164,331	11.470	1,674,047	3,348,094
City of Springfield, Oregon	6,793	1,222,000	1,628,973	289,717	1.820	265,629	531,258
Town of Steilacoom, Washington	1,300	0	240,324	(61,820)	.150	21,893	43,786
City of Sumas, Washington	322	36,000	76,641	(9,381)	.020	2,919	5,838
City of Tacoma, Washington	86,752	205,530,000	38,740,939	10,062,007	11.060	1,614,207	3,228,414
Summary for Municipals	432,788	\$420,135,985	\$125,536,038	\$21,126,601	33.480	\$ 4,886,413	\$ 9,772,826
Alder Mutual Light Company	106	\$ 0	\$ 18,287	\$ 1,913	.010	\$ 1,460	\$ 2,920
Benton Rural Electric Association	5,555	5,956,503	1,452,560	233,028	.690	100,706	201,412
Big Bend Electric Cooperative, Inc.	4,567	9,863,975	2,121,808	401,211	.530	77,354	154,708
Blachly-Lane Electric Cooperative Association	2,004	2,190,439	944,205	226,611	.470	68,597	137,194
Central Electric Cooperative, Inc.	6,033	8,334,270	1,640,229	210,981	1.000	145,950	291,900
Clearwater Power Company	5,766	6,332,310	1,459,857	130,772	.330	48,164	96,328
Columbia Basin Electric Cooperative, Inc.	3,243	3,452,970	1,148,023	258,659	.400	58,380	116,760
Columbia Power Cooperative Association	1,311	1,474,311	469,007	77,608	0.90	13,136	26,272
Columbia Rural Electric Association, Inc.	1,963	2,695,525	933,043	154,802	.670	97,787	195,574
Consumers Power, Inc.	10,075	14,539,343	3,244,864	719,501	1.400	204,330	408,660
Coos-Curry Electric Cooperative, Inc.	8,510	7,089,363	2,650,263	464,882	.600	87,570	175,140
Douglas Electric Cooperative, Inc.	5,702	6,549,114	1,505,415	311,157	.530	77,354	154,708
East End Mutual Electric Co., Ltd.	342	0	86,471	18,812	.050	7,298	14,596
Elmhurst Mutual Power and Light Company	4,785	0	1,158,374	281,688	.600	87,570	175,140
Fall River Rural Electric Cooperative, Inc.	4,581	5,162,994	1,119,759	212,733	.670	97,787	195,574
Farmers Electric Co., Ltd.	214	0	35,013	12,222	.050	7,298	14,596
Flathead Electric Cooperative, Inc.	4,464	3,983,402	958,959	101,732	.290	42,326	84,652
Glacier Electric Cooperative	4,459	3,715,178	1,521,290	236,093	.180	26,271	52,542

**OPTION PARTICIPANTS' STATISTICS, PRELIMINARY OPTION
SHARES(1) AND DEBT SERVICE OBLIGATIONS—Continued**

Option Participant	Customers	Long-Term Debt	Operating Revenues	Net Operating Revenues(2)	Preliminary Option Share(1)	Option Participants' Obligations(3)	
						\$50,000,300 1975 A Bonds	\$100,000,000 Development Bonds(4)
Harney Electric Cooperative, Inc.	1,766	\$ 7,167,709	\$ 1,122,540	\$ 265,043	200	\$ 29,190	\$ 58,380
Hood River Electric Cooperative, Oregon	2,126	1,306,895	726,398	134,356	310	45,245	90,490
Idaho County Light & Power Cooperative Association, Inc.	1,731	1,777,688	426,760	79,759	050	7,298	14,596
Inland Power & Light Company	13,748	18,377,632	4,107,121	999,987	2,320	338,604	677,208
Kootenai Electric Cooperative, Inc.	5,288	4,909,410	1,178,080	188,837	670	97,787	195,574
Lane County Electric Cooperative, Inc.	7,958	2,608,343	2,296,023	337,305	800	116,760	233,520
Lincoln Electric Cooperative, Inc. (Montana)	1,663	1,550,095	545,956	57,045	050	7,298	14,596
Lincoln Electric Cooperative (Washington)	1,563	3,032,784	757,405	115,606	190	27,731	55,462
Lost River Electric Cooperative, Inc.	1,422	1,378,215	413,471	118,193	140	20,433	40,866
Lower Valley Power & Light, Inc.	7,198	7,049,143	2,028,840	474,772	870	126,977	253,954
Midstate Electric Cooperative, Inc.	4,550	4,964,336	1,225,241	310,042	730	106,544	213,088
Missoula Electric Cooperative, Inc.	4,043	4,583,890	962,627	190,586	600	87,570	175,140
Nespelem Valley Electric Cooperative, Inc.	1,019	1,001,327	299,239	26,880	050	7,298	14,596
Northern Lights, Inc.	6,203	7,025,190	1,452,457	267,666	530	77,354	154,708
Ohop Mutual Light Company	967	0	276,785	68,765	090	13,136	26,272
Okanogan County Electric Cooperative, Inc.	1,070	552,489	217,587	29,422	050	7,298	14,596
Orcas Power and Light Company	3,839	5,141,950	1,158,340	254,238	670	97,787	195,574
Parkland Light & Water Company	2,961	0	740,535	49,946	140	20,433	40,866
Prairie Power Cooperative, Inc.	337	540,215	92,251	21,773	090	13,136	26,272
Raft River Rural Electric Cooperative, Inc.	1,863	4,171,944	1,327,454	356,360	400	58,380	116,760
Ravalli County Electric Cooperative, Inc.	2,380	3,235,658	679,896	139,710	240	35,028	70,056
Rural Electric Company	2,044	237,443	536,814	79,227	090	13,136	26,272
Salem Electric	7,527	27,633	1,572,361	379,468	470	68,597	137,194
Salmon River Electric Cooperative, Inc.	1,342	1,533,730	387,058	67,274	090	13,136	26,272
South Side Electric Lines, Inc.	423	0	180,605	23,812	050	7,298	14,596
Surprise Valley Electrification Corporation	2,832	4,049,631	873,126	212,482	230	33,569	67,138
Tanner Electric	744	769,709	186,304	8,975	100	14,595	29,190
Umatilla Electric Cooperative Association	5,257	6,693,556	2,502,411	495,057	5,450	795,428	1,590,856
Unity Light and Power Company	1,118	0	338,042	95,110	140	20,433	40,866
Vigilante Electric Cooperative, Inc.	3,302	3,656,109	911,101	234,495	300	43,785	87,570
Wasco Electric Cooperative, Inc.	2,509	1,243,751	786,196	116,866	140	20,433	40,866
Wells Rural Electric Company	1,481	1,833,220	814,784	63,204	050	7,298	14,596
West Oregon Electric Cooperative, Inc.	2,771	1,837,889	690,055	146,631	140	20,433	40,866
Summary for Cooperatives	178,525	183,591,281	54,273,289	10,463,297	25,000	3,648,766	7,297,532
Summary for all Participants	1,037,440	\$798,998,631	\$306,443,335	\$49,864,767	120,000	\$17,514,031	\$35,028,062

(1) The Option Participants' Final Option Shares will be determined at the time of the sale of the 1975 A Bonds and will be shown on the final Official Statement. It is not anticipated that the Final Option shares will materially differ from the Preliminary Option Shares.

(2) Includes depreciation.

(3) Annual debt service based upon an assumed interest rate of 6.5% and level debt service June 1, 1977 through June 1, 1981.

(4) Total amount of purity Generating Facilities Revenue Bonds which may be secured by the Option and Services Agreements.

EXHIBIT II

Board of Directors
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
Post Office Box 968
Richland, Washington 99352

Gentlemen:

**Summary Engineering Report
Washington Public Power Supply System
WPPSS System No. 6**

Presented herewith is a summary of our analyses, investigations and studies with respect to the proposal by the Washington Public Power Supply System (the "Supply System") to issue \$50,000,000 of its Generating Facilities Revenue Bonds, Series of 1975 A (the "Development Bonds") for the purpose of retiring the outstanding \$17,500,000 principal amount of revenue notes of the Supply System issued pursuant to Supply System Board of Directors Resolution Nos. 682 and 713; paying certain initial costs of acquiring and constructing one nuclear electric generating plant and associated facilities of approximately 1,250,000 kilowatts to be known as the Washington Public Power Supply System Nuclear Project No. 4; acquiring not less than 70% of and constructing a second nuclear electric generating project and associated facilities of approximately 1,240,000 kilowatts to be known as Washington Public Power Supply System Nuclear Project No. 5; acquiring ownership interests (not more than 15% in each) in Puget Sound Power & Light Company's 1,288,000 kilowatt Skagit Nuclear Power Project No. 1 and in that Company's 1,288,000 kilowatt Skagit Nuclear Power Project Unit No. 2; and preliminary studies and investigations of the construction of additional generating facilities. The system resulting from the foregoing program is hereinafter referred to as the "WPPSS System No. 6".

The Supply System's present financing program contemplates that the Development Bonds will be retired from the proceeds of bonds issued to provide permanent financing for the WPPSS System No. 6.

The Supply System

The Supply System is a municipal corporation and a joint operating agency organized under the laws of the State of Washington and has 21 members consisting of 18 public utility districts and 3 municipalities all located within the State of Washington. The Supply System owns and operates the 860,000 kilowatt Hanford Generating Project located on the Hanford Reservation of the Energy Research and Development Administration of the United States ("ERDA") in Benton County, Washington, and financed through the issuance of \$122,000,000 of Hanford Project Electric Revenue Bonds, Series of 1963. Steam is provided to the Hanford Project from the New Production Reactor which is owned and operated by ERDA. The Supply System also owns and operates the 27,000 kVA Packwood Lake Hydroelectric Project located in Lewis County, Washington, and financed through issuance of \$13,700,000 of Packwood Lake Hydroelectric Project Revenue Bonds, Series of 1962 and 1965.

The Supply System is constructing a 1,100,000 kilowatt nuclear electric generating plant on the Hanford Reservation, currently scheduled for commercial operation in June 1978 and known as Washington Public Power Supply System Nuclear Project No. 2 ("WPPSS Nuclear Project No. 2"). The Supply System has issued \$480,000,000 of Washington Public Power Supply System Nuclear Project No. 2 Revenue Bonds, Series 1973, 1974, 1974A and 1975A for the purpose of financing a portion of the costs of this construction. The Supply System has filed an application with the Nuclear Regulatory Commission of the United States ("NRC") for a construction permit to construct a 1,250,000 kilowatt nuclear electric generating plant located on the Hanford Reservation currently scheduled for commercial operation

in September 1980 and known as the Washington Public Power Supply System Nuclear Project No. 1 ("WPPSS Nuclear Project No. 1"). The Supply System has issued \$77,000,000 of Washington Public Power Supply System Nuclear Project No. 1 Revenue Notes, Series 1974, for the purpose of financing a portion of the initial work for this project. The Supply System has filed an application with the NRC for a construction permit to construct a 1,240,000 kilowatt nuclear electric generating plant to be located near Satsop in Grays Harbor County, Washington, currently scheduled for commercial operation in September 1981 and known as the Washington Public Power Supply System Nuclear Project No. 3 ("WPPSS Nuclear Project No. 3"). The Supply System has a 70% ownership share of WPPSS Nuclear Project No. 3, the balance of the project being owned by four investor-owned utilities in the Pacific Northwest. The Supply System has issued \$29,000,000 of Washington Public Power Supply System Nuclear Project No. 3 Revenue Notes, Series 1973A, to finance the Supply System's share of the preliminary work on WPPSS Nuclear Project No. 3. Each of the foregoing five systems is financed and operated or will be operated as a separate utility system.

Proposal

The Supply System is proposing to acquire and construct as its sixth separate utility system WPPSS System No. 6, with revenues and expenses kept separate from the other utility systems of the Supply System. The Supply System has issued \$17,500,000 of Generating Facilities Revenue Notes, Series 1974 and 1974A, (collectively, the "1974 Notes"), to pay the costs of preliminary work in connection with WPPSS System No. 6. In order to provide for further financing, the Supply System has entered into agreements (the "Option and Services Agreements"), hereinafter described, with . . . preference customers of the Bonneville Power Administration ("Bonneville"). These agreements reserve for each Option Participant the right to purchase a portion of the capability of WPPSS System No. 6 equal to the Final Option Share which is established for such Option Participant in its Option and Services Agreement, and provide for the retirement of the Development Bonds in the event that permanent financing of WPPSS System No. 6 does not proceed on a timely basis.

Proceeds of the Development Bonds will be used to pay the cost of the continuing work and expenses incurred in connection with WPPSS System No. 6 such as (a) engineering and other professional services, (b) obtaining licenses, permits and approvals, (c) preparing detailed plans and specifications, (d) certain preliminary costs of fuel and equipment, and (e) other costs associated therewith (all of the foregoing is generally referred to herein collectively as "Initial Work").

The Supply System has developed a form of agreement (the "Participants Agreement") which under the terms of the Option and Services Agreements it is required to offer to enter into with the Option Participants at such time as final participant arrangements can be made but no later than August 1, 1976. It is contemplated that once Participants' Agreements have been entered into providing for purchase by the participants of 100% of the capability of WPPSS System No. 6, all additional financing for WPPSS System No. 6 as well as financing of the amounts necessary to retire the Development Bonds would be secured by the Participants' Agreements.

Description of WPPSS System No. 6

It is proposed that WPPSS System No. 6 will consist of a 100% ownership share of WPPSS Nuclear Project No. 4, not less than 70% ownership share of WPPSS Nuclear Project No. 5 and not more than 15% ownership share in each of two nuclear electric generating units proposed to be constructed by the Puget Sound Power & Light Company ("Puget") at its Skagit Nuclear Project to be located near Sedro Woolley in Skagit County, Washington.

WPPSS Nuclear Project No. 4 will be located on the Hanford Reservation adjacent to WPPSS Nuclear Project No. 1. It will be a 1,250,000 kilowatt nuclear electric generating station complete with nuclear steam supply system, turbine generator, cooling towers and transmission facilities necessary to connect with the transmission facilities of Bonneville located in the area. Make-up water for cooling purposes will be

obtained from the Columbia River. The project will be a "twin" of WPPSS Nuclear Project No. 1. The Supply System has applied to the NRC for a single construction permit covering construction of WPPSS Nuclear Project No. 1 as well as WPPSS Nuclear Project No. 4.

WPPSS Nuclear Project No. 5 is a 1,240,000 kilowatt nuclear electric generating station to be located adjacent to WPPSS Nuclear Project No. 3 near Satsop in Grays Harbor County, Washington, and will consist of a nuclear steam supply system, a turbine generator unit with a nameplate rating of 1,240,000 kilowatts, cooling towers and transmission facilities necessary to connect with the transmission facilities of Bonneville in the area. Plant cooling will be accomplished by the use of cooling towers with make-up water obtained from groundwater in the area. The project will be a "twin" of WPPSS Nuclear Project No. 3. The Supply System submitted a single application to the NRC for a construction permit for both WPPSS Nuclear Projects No. 3 and No. 5. Under the provisions of the Ownership Agreement for WPPSS Nuclear Project No. 3, the private power companies that have an ownership interest in WPPSS Nuclear Project No. 3 have the option to acquire the same ownership interests in WPPSS Nuclear Project No. 5. Accordingly, the Supply System has offered ownership interests to Pacific Power & Light Company (10%), Portland General Electric Company (10%), The Washington Water Power Company (5%) and Puget (5%). Pacific Power & Light Company has stated its intention to accept its offered ownership interest and Puget has declined to accept its offered ownership interest. Portland General Electric Company and The Washington Water Power Company have not yet determined whether they will accept their offered ownership interests. Until the Ownership Agreements for WPPSS Nuclear Project No. 5 are executed, the Supply System's exact ownership interest will not be known.

The Skagit Nuclear Power Project Units No. 1 and No. 2 are both 1,288,000 kilowatt units each consisting of a nuclear steam supply system, turbine generating unit, associated auxiliary equipment and facilities and transformation and transmission equipment necessary to interconnect the Skagit Nuclear Power Project with the transmission facilities of Bonneville. The extent of the Supply System's participation in Skagit Nuclear Power Project Units No. 1 and No. 2 will depend on a number of factors including the extent to which the private power companies become owners of the WPPSS Nuclear Project No. 5. It is the intent of the Supply System to establish the WPPSS System No. 6 in a total amount of generating capacity equivalent to two nuclear power generating units but not to exceed 2,600,000 kilowatts.

Construction Program

The initial engineering and design of each of the projects in the WPPSS System No. 6 are proceeding. United Engineers and Constructors has been employed as Architect-Engineer and Construction Manager for WPPSS Nuclear Projects No. 1 and No. 4. The current construction program for WPPSS Nuclear Project No. 4 anticipates that certain site preparation work will begin when a limited work authorization is received from the NRC, presently anticipated in the summer of 1975, and that the major construction will begin shortly after the receipt of a construction permit from the NRC, which is presently anticipated in October 1975. The current schedule for WPPSS Nuclear Project No. 4 anticipates initial fuel loading in the fall of 1981 and commercial operation in March 1982. The Supply System has awarded contracts for the acquisition of equipment and services with an estimated total value of \$115,000,000 for WPPSS Nuclear Project No. 4.

The Supply System has employed EBASCO Services, Inc. as Architect-Engineer and Construction Manager for WPPSS Nuclear Projects No. 3 and No. 5. It is anticipated that certain site preparation work will begin shortly after the receipt of a limited work authorization from the NRC, currently expected in October 1975. The major construction is proposed to begin after a construction permit is received from the NRC, expected in March 1976. The current construction schedule anticipates initial fuel loading for WPPSS Nuclear Project No. 5 in the fall of 1982 and commercial operation in March 1983. The Supply System has awarded contracts for the acquisition of equipment and services with an estimated total value of \$145,000,000 for WPPSS Nuclear Project No. 5.

Puget has employed the Bechtel Engineering Corporation as Architect-Engineer and Construction Manager for its two Skagit Nuclear Units. Application to the NRC for a construction permit was made on The current construction schedule anticipates commercial operation of Unit No. 1 by July 1982 and Unit No. 2 by 1985.

Permits and Licenses

Prior to construction of the projects included in WPPSS System No. 6, the Supply System and Puget will have to obtain site certifications from the State of Washington and construction permits from the NRC. Applications for these certifications and permits have been made and both the Supply System and Puget anticipate that they will be granted after all required hearings are completed.

Initial Financing Program

The Supply System has financed the investigations with respect to WPPSS Nuclear Project No. 4 and WPPSS Nuclear Project No. 5 to date from proceeds of the 1974 Notes. Additional funds are required to permit the Supply System to make further investigations and studies and to provide payments with respect to fuel purchase and progress payments on equipment ordered in advance of the time that site certification by the State of Washington and a construction permit by the NRC are obtained and permanent financing is initiated.

Accordingly, the Supply System has entered into Option and Services Agreements with municipalities, districts, and cooperatives (the "Option Participants"), all as more fully described in the Official Statement to which this Summary Report is attached. These agreements provide the security for up to \$100,000,000 of Generating Facilities Revenue Bonds which the Supply System may issue. The Supply System proposes to initially issue \$50,000,000 of Development Bonds to provide the funds necessary to retire the 1974 Notes outstanding and to provide further funds to permit the Supply System to maintain the present construction schedule of each of the projects included in WPPSS System No. 6. Funds are included in this bond issue to pay interest on the Development Bonds to June 1, 1977. Present estimates indicate that the initial \$50,000,000 will finance the Supply System's expected expenditures at least through January 1976 and possibly longer depending on actual expenditure rates as compared to budgeted rates.

The estimated application of proceeds from the sale of the 1974 Notes and the Development Bonds, is as follows:

Application of Proceeds from the 1974 Notes and the Development Bonds

	1974 Notes	Development Bonds	Total
Construction Costs:			
The Projects	\$15,586,000	\$25,314,000	\$40,900,000
Additional Generating Facilities	398,000	2,059,000	2,459,000
Total Construction Costs	\$15,984,000	\$27,373,000	\$43,359,000
Bond Discount and Financing Costs(1)	119,000	900,000	1,019,000
Interest during Construction(2)	2,387,000	6,500,000	8,887,000
Retirement of the 1974 Notes	(17,500,000)	17,500,000	0
Gross Requirements	\$ 990,000	\$52,273,000	\$53,263,000
Less: Investment Income(3)	900,000	2,273,000	3,263,000
Net Requirements	\$ 0	\$50,000,000	\$50,000,000

(1)---Actual costs of issuing 1974 Notes and the estimated costs of issuing the Development Bonds.

(2) --- Interest on the 1974 Notes and the estimated interest on the Development Bonds accruing to June 1, 1977 at an annual interest rate of 6.5%.

(3) --- Estimated interest from investment of the proceeds of the 1974 Notes and the Development Bonds.

The Bond Resolution adopted by the Supply System authorizes the issuance of a total of \$100,000,000 of bonds. The Supply System may issue the remaining amount of this authorization if necessary to meet its commitments undertaken in connection with WPPSS System No. 6.

The Supply System has agreed in the Option and Services Agreements to use its best efforts to issue and sell bonds secured by the Participants Agreements prior to December 1, 1976. If the Supply System is unable to sell such bonds, the Option and Services Agreements provide that each Option Participant will pay its Final Option Share of the interest, principal and premium, if any, on the Development Bonds becoming due after June 1, 1977. In such an event, the Option Participants' total payments will be as follows, assuming a 6.5% interest rate on the Development Bonds:

**Option Participants' Payments
Development Bonds (1)**

Payment Dates	Amount of Development Bonds					
	\$50,000,000(2)			\$100,000,000(3)		
	Interest Payment (000)(4)	Principal Payment (000)(4)	Total Payment (000)(4)	Interest Payment (000)(4)	Principal Payment (000)(4)	Total Payment (000)(4)
December 1, 1977	\$1,625	\$ 0	\$ 1,625	\$3,250	\$ 0	\$ 3,250
June 1, 1978	1,625	11,345	12,970	3,250	22,690	25,940
December 1, 1978	1,256	0	1,256	2,512	0	2,512
June 1, 1979	1,256	12,085	13,341	2,512	24,170	26,682
December 1, 1979	863	0	863	1,727	0	1,727
June 1, 1980	864	12,870	13,734	1,727	25,740	27,467
December 1, 1980	445	0	445	890	0	890
June 1, 1981	445	13,700	14,145	890	27,400	28,290

- (1) Assumes interest rate of 6.5%.
 (2) Initial issue. Assumes no funds remaining.
 (3) Maximum issue. Assumes no funds remaining.
 (4) Assumes no other funds available.

Permanent Financing Program

The current Supply System program anticipates that the Participants' Agreements will be entered into during late 1975. The NRC construction permit for WPPSS Nuclear Project No. 4 is expected during late 1975. The Supply System anticipates that permanent financing to provide funds for construction of WPPSS System No. 6 will be undertaken shortly thereafter.

The Supply System proposes to issue the bonds to provide permanent financing in several series. The proceeds from the bonds issued to provide permanent financing will provide funds to pay the principal of and interest due after June 1, 1977 on the Development Bonds, to pay all of the costs of constructing WPPSS System No. 6 and placing it into operation, including establishing reserve funds therefor, and to pay up to \$50,000,000 of costs of preliminary work on additional generating facilities other than those included in WPPSS System No. 6.

Based upon construction costs of the projects as estimated by the respective Architect-Engineers, it is estimated that the total amount of permanent financing required for WPPSS System No. 6 will be approximately \$2,700,000,000.

Option Participants

The Option Participants all of which are statutory preference customers of Bonneville currently obtain all or part of their power supply and other services from Bonneville. They consist of utility districts, municipalities and electric cooperatives and the number and extent of their participation in the WPPSS System No. 6 by types is as follows:

<u>Types</u>	<u>Number</u>	<u>Total Final Option Shares</u>
Districts		
Municipalities		
Cooperatives		
TOTAL		

* ... Public Utility Districts, ... Peoples Utility Districts and ... Irrigation District.

NOTE: Summary statistical information on the Option Participants is given in Exhibit I of the Official Statement to which this report is attached.

Need for Power

The current estimates of power needs in the early 1980's together with the anticipated completion dates of projects now under construction or planned indicate that Bonneville will not have sufficient energy available from its system to meet all of the requirements of its preference customers beyond the fiscal year 1982-1983. The construction of WPPSS System No. 6 will permit additional amounts of power to be made available to the utilities which sign Participants' Agreements. The current "Long-Range Projection of Power Loads and Resources for Thermal Planning" prepared by the Pacific Northwest Utility Conference Committee and dated March 28, 1975, indicates that the energy load growth of the Option Participants during the period July 1, 1983 through June 30, 1988 will require the addition of approximately 2,600,000 kilowatts of generating resources, slightly in excess of the amount of power proposed to be developed by WPPSS System No. 6.

Conclusions

Based on our studies and analyses of the Supply System proposal for its WPPSS System No. 6, we are of the opinion that:

1. The output of WPPSS System No. 6 is required to meet the load growth of the Option Participants.
2. The Supply System's program for financing the Initial Work is sound and provides a solid basis for proceeding with the Initial Work prior to permanent financing.
3. The Option and Services Agreements provide a sound basis for proceeding with the Initial Work.

We have furnished to you information contained in the Official Statement under the captions "The Option Participants", "Power Supply in the Pacific Northwest and the Hydro Thermal Power Program" and Exhibit I. In our opinion, the information contained therein is correct.

Respectfully submitted,

R. W. BECK AND ASSOCIATES

EXHIBIT III

OPINIONS OF COUNSEL

[LETTERHEAD OF WOOD DAWSON LOVE & SABATINE]

[LETTERHEAD OF HOUGHTON CLUCK COUGHLIN & RILEY]

..... 1975

Board of Directors
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
Richland, Washington

Gentlemen:

**Washington Public Power Supply System,
Generating Facilities Revenue Bonds,
Series of 1975 A, \$50,000,000**

At your request, we have examined into the validity of \$50,000,000 Generating Facilities Revenue Bonds, Series of 1975 A, of Washington Public Power Supply System (the "System"), a municipal corporation of the State of Washington. Said bonds are issuable in coupon form, registrable as to principal only, in the denomination of \$5,000 each, and in fully registered form, without coupons, in the denominations of \$5,000 or multiples thereof. The coupon bonds are numbered from 1 upwards and are dated June 15, 1975. The fully registered bonds are numbered from R-1 upwards and, except fully registered bonds initially issued, which are dated June 15, 1975, shall be dated so that no gain or loss of interest shall result from exchanges or transfers thereof as provided therein and in the Bond Resolution hereinafter mentioned. Said bonds mature without option of prior redemption on June 1 in each of the years and in the amounts and bear interest, payable December 1, 1975, and semi-annually thereafter on June 1 and December 1, as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
1978	\$11,345,000	%	1980	\$12,870,000	%
1979	12,085,000		1981	13,700,000	

Said bonds recite that they are issued under and pursuant to Resolution No. (the "Bond Resolution"), adopted by the Board of Directors of the System on the day of June, 1975, and under the authority of and in full compliance with the Constitution and statutes of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, for the purpose of paying a part of the cost to the System of the construction and acquisition of the Projects (as defined in the Bond Resolution) and for other corporate purposes of the System.

We have examined the Constitution and statutes of the State of Washington, and certified copies of proceedings of the Board of Directors of the System authorizing the issuance of said bonds, including the Bond Resolution, other proofs relating to the issuance of said bonds and an executed coupon bond of said series.

In our opinion, the System is a municipal corporation of the State of Washington, duly created and validly existing; the Bond Resolution has been duly adopted and the provisions thereof are valid and

binding upon the System, and said bonds have been duly authorized and issued in accordance with the Constitution and statutes of the State of Washington and constitute valid and legally binding obligations of the System payable solely from the funds and revenues set forth and provided in the Bond Resolution.

It is also our opinion that the interest on said bonds is exempt from taxation by the United States of America under existing laws and regulations.

Very truly yours,

[LETTERHEAD OF WOOD DAWSON LOVE & SABATINE]

[LETTERHEAD OF HOUGHTON CLUCK COUGHLIN & RILEY]

..... 1975

Board of Directors
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
Richland, Washington

Gentlemen:

**Washington Public Power Supply System,
Generating Facilities Revenue Bonds,
Series of 1975 A, \$50,000,000**

Under the date of 1975, we rendered an opinion approving the validity of the above bonds (the "Bonds") issued pursuant to a resolution (the "Bond Resolution") adopted by the Board of Directors of the Washington Public Power Supply System (the "System") on June, 1975.

We have examined into the validity of of the Option and Services Agreements referred to in the Official Statement of the System, dated June, 1975, relating to the Bonds, between the System and certain of the Option Participants referred to in Exhibit I of said Official Statement (the "Option Participants"). Pursuant to said Agreements the System has granted to of the Option Participants options to purchase ...% of the capability of the Projects (as defined in the Bond Resolution). Said Option and Services Agreements include all Option and Services Agreements providing for the granting of an option to purchase more than% of the capability of the Projects. Of the said Option and Services Agreements—have been executed by municipal corporations and provide for options to purchase a total of more than 80% of the capability of the Projects optioned to municipal corporations, and have been executed by nonprofit or cooperative corporations, and provide for options to purchase more than 80% of the capability of the Projects optioned to nonprofit and cooperative corporations. With respect to the authorization, execution and delivery of said Option and Services Agreements, we have examined certified copies of proceedings of the System and of the Option Participants which are parties thereto, authorizing the execution and delivery of said Option and Services Agreements, and such other documents, proceedings and matters relating to the authorization, execution and delivery of said Option and Services Agreements by each of the parties thereto as we deemed relevant. In our opinion, each of said Option and Services Agreements has been duly authorized, executed and delivered by each of the parties thereto and constitutes a valid and binding agreement, enforceable in accordance with its terms.

In rendering this opinion, we have relied upon the opinion of counsel for each of the Option Participants that the Option and Services Agreement to which such Option Participant is a party has been duly executed and delivered by said Option Participant and is not in conflict with, or in violation of, and will not be a breach of, or constitute a default under, the terms and conditions of any other agreement or commitment by which such Option Participant is bound.

Very truly yours,

ATTACHMENT 4-2

OFFICIAL STATEMENT - WNP NO. 2

Revenue Bonds - Series 1975A - \$125,000,000

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
A Municipal Corporation and a Joint Operating Agency of the State of Washington
Washington Public Power Supply System Nuclear Project No. 2
Revenue Bonds, Series 1975 A

Dated: March 1, 1975

Due: July 1, as shown below

Principal and semi-annual interest (July 1 and January 1, commencing July 1, 1975) payable at Seattle-First National Bank, Seattle, Washington, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois, and The Bank of New York, New York, New York. Coupon bonds in the denomination of \$5,000 registrable as to principal only and fully registered bonds in the denomination of \$5,000 or any multiple thereof and interchangeable. Continental Illinois National Bank and Trust Company of Chicago is Bond Fund and Construction Fund Trustee.

The 1975 A Bonds maturing on July 1, 1999 and on July 1, 2012 are subject to redemption by operation of the Bond Retirement Account at 100% plus accrued interest to satisfy sinking fund installments, on January 1, 1995 and on January 1, 2000, respectively, and on any interest payment date thereafter.

The 1975 A Bonds may be redeemed prior to maturity, at the option of the Supply System, on or after July 1, 1985, as a whole at any time, or in part in inverse order of maturities and by lot within a maturity, on any interest payment date at prices ranging from 103% for the period July 1, 1985, to and including June 30, 1990, to 100% after June 30, 2000, plus accrued interest to the date fixed for redemption in each case, as further described herein. The 1975 A Bonds may also be redeemed under special circumstances as further described herein.

Interest exempt, in the opinion of Bond Counsel, from federal income taxation under existing laws and regulations and specific rulings received from the Internal Revenue Service with respect to the Bonds.

The 1975 A Bonds are being issued to finance a portion of the cost of acquisition and construction of the Washington Public Power Supply System Nuclear Project No. 2. The Project's entire capability has been sold by the Supply System to certain statutory preference customers of the Bonneville Power Administration and assigned by such preference customers to Bonneville under Net Billing Agreements herein described. The 1975 A Bonds and the interest thereon are payable solely from the Bond Fund created by the Resolution and the moneys pledged to such fund are limited to the income, revenues, receipts and profits derived by the Supply System through the ownership and operation by it of the Project, including all payments to be made to the Supply System pursuant to the Net Billing Agreements, and Bond proceeds. The Net Billing Agreements provide that each such preference customer is obligated to pay the Supply System its share of Project annual costs, and Bonneville is obligated to credit the amounts so paid against amounts owed to Bonneville by such preference customers for the power and services it provides, whether or not the Project is completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Project output. The Bonneville Power Administration will use its revenues to pay any costs billed to such preference customers which are not offset under the Net Billing Agreements. See "Security for the Bonds" and "Bonneville Power Administration" herein.

AMOUNTS, MATURITIES, COUPONS AND YIELDS

Amount	Due	Coupon	Yield	Amount	Due	Coupon	Yield
\$2,800,000	1982	6.60%	5.10%	\$1,600,000	1989	6.60%	5.90%
3,200,000	1983	6.60	5.20	1,600,000	1990	6.60	6.00
3,500,000	1984	6.60	5.30	1,800,000	1991	6.60	6.10
3,900,000	1985	6.60	5.45	2,000,000	1992	6.60	6.20
4,300,000	1986	6.60	5.60	2,000,000	1993	6.60	6.25
1,500,000	1987	6.60	5.70	2,300,000	1994	6.60	6.30
1,500,000	1988	6.60	5.80				

\$15,000,000 6.60% Term Bonds Due July 1, 1999
 Price 100%

\$78,000,000 6⁷/₈% Term Bonds Due July 1, 2012
 Price 100%

(Plus Accrued Interest)

The 1975 A Bonds are offered when, as and if issued and received by us and are subject to the approval of legality by Wood Dawson Love & Sabatine, New York, New York, Bond Counsel to the Supply System, and Houghton Cluck Coughlin & Riley, Seattle, Washington, Special Counsel to the Supply System. It is expected that the Bonds in definitive form will be ready for delivery on or about March 27, 1975.

March 6, 1975

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

Principal Office—Richland, Washington

BOARD OF DIRECTORS

A. J. Benedetti*	Rolf E. Jemtegaard
Kirby Billingsley	Harold W. Jenkins
Lane Bray	Thomas F. Kroupa
Gerald C. Fenton	Francis Longo
Ed Fischer*	Quentin Mizer
Alvin E. Fletcher	Howard Prey
John Goldsbury	Edwin W. Taylor
D. E. Hughes*	John L. Toevs
W. G. Hulbert, Jr.*	Gordon Vickery*
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	John J. Welch

* Executive Committee Member.

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Howard Prey	Vice President
Edwin W. Taylor	Secretary

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Deputy Managing Director	L. L. Humphreys
Manager, Planning and Analysis	H. R. Kosmata
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Manager, Project Division	C. E. Love
Manager, Technical Division	Duane L. Renberger
Manager, Administration Division	V. V. Johnson
Manager, Operations Division	R. E. Smith
Manager, Finance Division	James T. Bobo
Treasurer	James D. Perko
Auditor	C. W. Godfrey
Chief Counsel	Richard Q. Quigley

SPECIAL COUNSEL

Houghton Cluck Coughlin & Riley

BOND COUNSEL

Wood Dawson Love & Sabatine

CONSULTING ENGINEER

R. W. Beck and Associates

CONSTRUCTION ENGINEER

Burns and Roe, Inc.

FINANCIAL CONSULTANT

Blyth Eastman Dillon & Co. Incorporated

The information contained in this Official Statement has been obtained from the Supply System and other sources deemed reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information, and nothing contained herein is, or shall be, relied upon as a promise or representation of the Underwriters. This Official Statement, which includes the cover page and exhibits, does not constitute an offer to sell the 1975 A Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement in connection with the offering of the 1975 A Bonds, and if given or made, such information or representation must not be relied upon.

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SUMMARY STATEMENT

(Subject in All Respects to More Complete Information Contained in This Official Statement)

The Supply System

The Supply System, organized in 1957, is a municipal corporation and a joint operating agency of the State of Washington. Its members are 18 operating public utility districts and the Cities of Richland, Seattle and Tacoma, all located in the State of Washington. The Supply System has the authority, among other things, to acquire, construct and operate plants, works and facilities for the generation and transmission of electric power and energy.

In addition to a hydroelectric project, the Supply System presently owns and operates the Hanford Project, a steam electric generating plant operated in conjunction with the United States Energy Resources Development Agency's (formerly the Atomic Energy Commission's) New Production Reactor on the Agency's Hanford Reservation, near Richland, Washington. This steam plant has a name plate rating of 860,000 kilowatts, has been in operation since 1966 and is currently one of the two largest producers of nuclear generated electricity in the United States. The Supply System is currently undertaking, in addition to the Project, the development of four other nuclear generating plants. Two will be located on the Hanford Reservation near the Project and are 1,250,000 kilowatt plants to be in operation by 1982 and 1984, respectively. The other two are 1,240,000 kilowatt plants in Grays Harbor County, Washington. The first of these projects is to be jointly owned by the Supply System (70%) and four investor owned utilities (30%). Joint ownership of the second project is under study. These plants are to be in operation by 1982 and 1984 respectively.

The Joint Power Planning Council, consisting of 110 public and private utilities in the Pacific Northwest and the Bonneville Power Administration, a bureau of the United States Department of the Interior, has planned through the development of the Hydro Thermal Power Program the coordination of existing and future electric resources in the Pacific Northwest. The nuclear electric generating plants, including the Project, which will be constructed and operated by the Supply System are an integral and major part of the planned electric generating power capacity for the region under that Program.

Purpose of Issue

The purpose of the \$125,000,000 Washington Public Power Supply System Nuclear Project No. 2 Revenue Bonds, Series 1975 A, is to finance a portion of the costs of constructing and acquiring the Project. To date the Supply System has issued an aggregate of \$355,000,000 of Bonds for the same purpose. It has been estimated that the total permanent financing required for the Project, including the initial nuclear fuel core and interest during construction, less temporary investment income, will be \$614,000,000.

The Project will be located on the Hanford Reservation but will be financed and accounted for independently of the Supply System's Hanford Project currently in operation on the Reservation and all other current or planned Supply System projects. The Project will consist of a boiling water nuclear electric generating plant with a nominal capacity of 1,100,000 kilowatts, together with associated facilities to deliver the output to the 500 kV transmission facilities of the Federal Columbia River Power System located in the vicinity of the Project.

Construction Contracts and Schedule

The AEC construction permit was obtained on March 19, 1973, at which time construction of the plant proper was started. As of December 31, 1974, equipment and construction contracts totaling \$258 million, covering approximately 75% of the currently estimated total direct construction and equipment costs (including escalation but exclusive of engineering, construction management, and contingencies), had been awarded.

As of December 31, 1974, overall construction was estimated to be 13.0% complete compared to a scheduled 38% completion under the original schedule which contemplated a commercial operation date of September 1, 1977. Commercial operation is presently scheduled for June 1, 1978.

Further information concerning progress of construction, construction schedules, and major contracts is contained in Exhibit III.

**Security for the Bonds — the Participants, Net Billing Agreements,
Effect of New Bonneville Legislation, and Rate Covenant**

The Bonds, including the 1975 A Bonds, and the interest thereon are payable solely from the Bond Fund created by the Resolution, and the moneys pledged to such Fund are limited to the income, revenues, receipts and profits derived by the Supply System through the ownership and operation of the Project, including all payments to be made to the Supply System pursuant to the Net Billing Agreements described herein, and Bond proceeds. Interest on the 1975 A Bonds will be capitalized until September 1, 1977.

The Participants: The Project's entire capability has been sold by the Supply System pursuant to the Net Billing Agreements to 94 Participants, consisting of 27 municipalities, 22 districts and 45 electric cooperatives located principally in Washington, Oregon, Idaho, Montana and California, each of whom is a statutory preference customer of Bonneville. The Participants' shares of the Project's output range from approximately 15% to 0.005%. An aggregate of approximately 22.5% of the output is shared by 64 Participants each of which has a share of less than 1%. See Exhibit I.

Net Billing Agreements: Each of the Participants has entered into a Net Billing Agreement with the Supply System and Bonneville. Pursuant to these agreements, each Participant (i) will make payments to the Supply System for its proportionate share of the Project's annual costs, including debt service, and (ii) has assigned its share of the Project capability to Bonneville. In consideration thereof, Bonneville will credit the payments by the Participants to the Supply System against billings by Bonneville to the Participants for power and certain other services rendered by Bonneville under other contracts. Before Bonneville entered into the Net Billing Agreements it determined that its estimated aggregate billings to each of the Participants would be not less than 115% of Bonneville's net billing obligations to the respective Participants under all agreements providing for net billing. Bonneville has agreed in the Net Billing Agreements that with respect to any future net billing agreements entered into with any of the Participants it will determine that the same estimated 115% coverage is present.

The Participants are obligated, beginning no later than September 1, 1977, to pay the Supply System their proportionate shares of the Project's annual costs, and Bonneville is obligated to make credits as aforesaid, whether or not the Project is completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Project output.

Effect of New Bonneville Legislation: The Net Billing Agreements provide for voluntary and mandatory assignments of a Participant's share if the net billing credits to the Participant by Bonneville are insufficient to offset the Participant's obligations to the Supply System, and, if these assignments are not sufficient to balance the Participant's obligations and net billing credits, for cash payments by Bonneville "subject to the availability of appropriations for such purposes." Subsequent to the Supply System's entering into the Net Billing Agreements, the Federal Columbia River Transmission System Act (see section entitled "Bonneville Power Administration") was enacted and signed into law. The Transmission Act authorizes Bonneville to use its revenues without further appropriations of Congress to make expenditures from the Bonneville Power Administration Fund ("Fund") for any purpose necessary or appropriate to carry out the duties imposed upon the Administrator pursuant to law. These expenditures must be included in Bonneville's budget submitted each year to Congress.

Among the categories specifically included as expenditures that Bonneville may make from the Fund is payment for "the purchase of electric power (including the entitlement of electric plant capability) . . . if such purchase has been heretofore authorized. . . ." Bonneville has stated (see Exhibit VI) to the Supply System and each Participant that, in accordance with the provisions of the Transmission Act, it will pay in cash from the Fund any costs billed to the Participants not paid through net billing credits on a parity with other Bonneville operating expenses and prior to any payments by Bonneville to the Treasury for repayment of the Federal investment in the Federal Columbia River Power System and bonds issued pursuant to the Transmission Act. Bonneville projected revenues which will be available for such purpose are set forth in Exhibit V. Bonneville is obligated by law to charge rates for electric power and transmission of electric power which will recover the "cost of producing and transmitting such electric power.

Rate Covenant: No Participant will be required to make payments to the Supply System except from revenues derived from the ownership and operation of its electric utility properties. Each Participant has covenanted that it will establish, maintain and collect rates or charges for power and energy and other services furnished through its electric utility properties which shall be adequate to provide revenues sufficient to make required payments to the Supply System.

OFFICIAL STATEMENT
OF
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
A Municipal Corporation and a Joint Operating Agency of the State of Washington
relating to its
\$125,000,000
Washington Public Power Supply System Nuclear Project No. 2
Revenue Bonds, Series 1975 A

March 6, 1975

The purpose of this Official Statement, which includes the cover page hereof and the exhibits hereto, is to set forth information concerning Washington Public Power Supply System (the "Supply System"), its Washington Public Power Supply System Nuclear Project No. 2 (the "Project") as is more fully described herein under "The Project" and its \$125,000,000 Washington Public Power Supply System Nuclear Project No. 2 Revenue Bonds, Series 1975 A (the "1975 A Bonds"), in connection with the sale by the Supply System of the 1975 A Bonds and for the information of all who may become holders of such 1975 A Bonds. The 1975 A Bonds are to be issued pursuant to the Revised Code of Washington, Chapter 43.52, as amended (the "Act"), Resolution No. 640 (the "Resolution") adopted June 26, 1973 by the Supply System and a resolution supplemental to the Resolution, Resolution No. 739 (the "Supplemental Resolution") adopted March 6, 1975 by the Supply System. The Supply System has heretofore issued pursuant to the Resolution \$355,000,000 principal amount of bonds for the Project, which bonds, the 1975 A Bonds and all additional series of bonds which may be hereafter issued pursuant to the Resolution to pay the cost of acquiring and constructing the Project are herein called collectively the "Bonds".

THE SUPPLY SYSTEM

The Supply System, a municipal corporation and a joint operating agency of the State of Washington, was organized in January, 1957 pursuant to the Act. Its membership is made up of 18 operating public utility districts and the Cities of Richland, Seattle and Tacoma, all located in the State of Washington. The Supply System has the authority, among other things, to acquire, construct and operate plants, works and facilities for the generation and transmission of electric power and energy. The Supply System has the power of eminent domain, but it is specifically precluded from the condemnation of any plants, works or facilities owned and operated by any city, public utility district or privately-owned electric utility.

The Supply System has its principal office in Richland, Washington. The management and control of the Supply System is vested in a Board of Directors composed of representatives of each of the members. Regular meetings of the Board are held quarterly.

The Executive Committee of the Board administers the business of the Supply System between regular meetings of the Board. The Executive Committee holds regular meetings twice each month and special meetings as often as the business of the Supply System may require.

Members of the Supply System and their respective representatives on the Board of Directors are as follows:

- Public Utility District No. 1 of Benton County John Goldsbury
- Public Utility District No. 1 of Chelan County Kirby Billingsley
- Public Utility District No. 1 of Clallam County Alvin E. Fletcher
- Public Utility District No. 1 of Clark County Ed Fischer*
- Public Utility District No. 1 of Cowlitz County D. E. Hughes*

Public Utility District No. 1 of Douglas County	Howard Prey
Public Utility District No. 1 of Ferry County	Thomas F. Kroupa
Public Utility District No. 1 of Franklin County	Glenn C. Walkley*
Public Utility District No. 2 of Grant County	John L. Toevs
Public Utility District No. 1 of Grays Harbor County	John J. Welch*
Public Utility District No. 1 of Kittitas County	Harold W. Jenkins
Public Utility District No. 1 of Klickitat County	Gerald C. Fenton
Public Utility District No. 1 of Lewis County	Arnold J. James
Public Utility District No. 3 of Mason County	Edwin W. Taylor
Public Utility District No. 2 of Pacific County	Quentin Mizer
City of Richland	Lane Bray
City of Seattle	Gordon Vickery*
Public Utility District No. 1 of Skamania County	Rolf E. Jemtegaard
Public Utility District No. 1 of Snohomish County	W. G. Hulbert, Jr.*
City of Tacoma	A. J. Benedetti*
Public Utility District No. 1 of Wahkiakum County	Francis Longo

*Executive Committee Member

The Supply System presently employs approximately 320 persons, including a highly qualified technical staff whose combined experience in the nuclear field totals over 1500 man-years and whose training includes disciplines in electrical, mechanical, civil and nuclear engineering. Through the operation of the Hanford Project described below the Supply System staff has accumulated substantial experience in the operation of a large steam electric generating facility.

The Supply System's Generating Projects

The Supply System owns and operates an 860,000 kilowatt electric generating plant and associated facilities (the "Hanford Project") located on the Hanford Reservation of the United States Energy Resources Development Agency (the "ERDA"), one of the successor agencies to the Atomic Energy Commission (the "AEC"). The Hanford Project was constructed in accordance with agreements between the Supply System, the United States of America, Department of the Interior, acting by and through the Bonneville Power Administrator ("Bonneville"), and the AEC. The Hanford Project is currently one of the two largest producers of electricity generated from nuclear energy in the United States. Steam is provided for the Hanford Project from the New Production Reactor (the "NPR") owned and operated by the ERDA. In 1963, the Supply System issued \$122,000,000 Hanford Project Electric Revenue Bonds (the "Hanford Project Bonds"), of which \$60,000,000 were outstanding as of January 1, 1975. The Supply System also owns and operates the Packwood Lake Hydroelectric Project with a nameplate rating of 27,500 kVa. In 1962 and 1965, the Supply System sold \$10,500,000 and \$3,200,000 Packwood Lake Hydroelectric Project Revenue Bonds, of which \$13,181,000 were outstanding as of January 1, 1975.

The Supply System has begun preliminary work on a 1,250,000 kilowatt nuclear electric generating plant known as the Washington Public Power Supply System Nuclear Project No. 1. In June 1974 the Supply System issued \$77,000,000 principal amount of revenue notes in order to pay a portion of the costs of such preliminary work. This plant will be constructed on the Hanford Reservation of the ERDA at a site near the Project and is presently scheduled to begin commercial operation in 1982.

The Supply System has also begun preliminary work on a 1,240,000 kilowatt nuclear plant at a site near Satsop, in Grays Harbor County, Washington, to be known as Washington Public Power Supply System Nuclear Project No. 3, which will be 70% owned by the Supply System and 30% owned by four investor owned utilities, and it has financed its ownership share of preliminary work in connection with such plant with the proceeds of a \$29,000,000 note issue. Commercial operation is presently scheduled for 1982.

In response to a request of the Public Power Council, consisting of more than 100 statutory preference customers of Bonneville, the Supply System has also begun preliminary work on the Supply System's Nuclear Project No. 4 and Nuclear Project No. 5. It is presently planned that Nuclear Project No. 4 will be a duplicate plant of the Supply System's Nuclear Project No. 1 on the Hanford Reservation and will be placed in commercial operation in 1984, and that Nuclear Project No. 5 will be a

duplicate plant of the Supply System's Nuclear Project No. 3 at the Satsop site near Aberdeen in Grays Harbor County, Washington and will be placed in commercial operation in 1984. The Supply System has issued \$17,500,000 of revenue notes to finance this work and is planning to issue additional obligations in a total amount up to approximately \$100,000,000 to refund the \$17,500,000 of revenue notes and continue the preliminary work. The Supply System is negotiating with the investor-owned utilities who share ownership in the Supply System's Nuclear Project No. 3 concerning possible sharing of ownership of Nuclear Project No. 5 and the Puget Sound Power & Light Company's Skagit Project to be located in Skagit County, Washington.

All projects heretofore undertaken by the Supply System except Nuclear Projects Nos. 4 and 5 have been financed as separate systems. The obligations issued with respect to each such project are payable solely from the revenues of that project. The Project is similarly being financed as a separate system. It is anticipated that Nuclear Projects Nos. 4 and 5 and, perhaps, the Skagit Project will be financed as one system.

On the basis of the estimated cost and interest during construction for the Supply System's Nuclear Projects Nos. 1, 2 and 3, it is estimated that the Supply System will require long-term financing for these projects between now and 1980 in excess of \$2,000,000,000. The first long-term financings for Project No. 1 and Project No. 3 are projected for late 1975 or early 1976. The first long-term financing for Projects Nos. 4 and 5 and the Skagit Project may occur in late 1975.

The schedule of financing for the Project contemplates, in addition to the sale of the 1975 A Bonds, the sale of additional Bonds totaling approximately \$134,000,000 as described in more detail under the caption "The Project—Project Financing Requirements". The next sale is presently contemplated for the summer of 1975.

SECURITY FOR THE BONDS

Principal of and interest on the Bonds are payable solely from the Bond Fund created by the Resolution and the moneys pledged to such Fund are limited to the income, revenues, receipts and profits derived by the Supply System through the ownership and operation by it of the Project, including all payments to be made to the Supply System pursuant to certain agreements (the "Net Billing Agreements") described below, and Bond proceeds. Interest on the Bonds will be capitalized to September 1, 1977. The Bonds are not general obligations of the Supply System and neither the faith and credit of the Supply System or the State of Washington nor any revenues of the Supply System derived from other projects which have been or which may hereafter be undertaken by the Supply System are pledged to the payment thereof.

The Supply System has entered into Net Billing Agreements with Bonneville and 94 preference customers of Bonneville listed in Exhibit I to this Official Statement (the "Participants"). Pursuant to the Net Billing Agreements (i) the Supply System has sold the Project's entire capability in shares to the Participants which, in turn, have all assigned their respective shares to Bonneville, (ii) each Participant will pay the Supply System its pro rata share of the annual costs (including principal of and interest on the Bonds) of the Project and (iii) in consideration of these assignments, Bonneville will credit the amounts paid by the Participants to the Supply System against amounts owed Bonneville by the Participants for power and services provided under other contracts with Bonneville. This system of offsets or credits is called "net billing".

The Net Billing Agreements provide for voluntary and mandatory assignments of a Participant's share if the net billing credits to the Participant by Bonneville are insufficient to offset the Participant's obligations to the Supply System, and, if these assignments are not sufficient to balance the Participant's obligations and net billing credits, for cash payments by Bonneville "subject to the availability of appropriations for such purposes." Subsequent to the Supply System's entering into the Net Billing Agreements, the Federal Columbia River Transmission System Act (the "Transmission Act"), described under the section entitled "Bonneville Power Administration", was enacted and signed into law. The Transmission Act authorizes Bonneville to use its revenues without further appropriations of Congress

to make expenditures from the Bonneville Power Administration Fund ("Fund") for any purpose necessary or appropriate to carry out the duties imposed upon the Administrator pursuant to law. These expenditures must be included in Bonneville's budget submitted each year to Congress.

Among the categories specifically included as expenditures that Bonneville may make from the Fund is payment for "the purchase of electric power (including the entitlement of electric plant capability) . . . if such purchase has been heretofore authorized. . . ." Bonneville has stated (see Exhibit VI) to the Supply System and each Participant that, in accordance with the provisions of the Transmission Act, it will pay in cash from the Fund any costs billed to the Participants not paid through net billing credits on a parity with other Bonneville operating expenses and prior to any payments by Bonneville to the Treasury for repayment of the Federal investment in the Federal Columbia River Power System and bonds issued pursuant to the Transmission Act. Bonneville's projected revenues which will be available for such purpose are set forth in Exhibit V. Bonneville is obligated by law to charge rates for electric power and transmission of electric power which will recover the "cost of producing and transmitting such electric power."

Payments by the Participants to the Supply System will commence on the date when the Project is ready to be operated on a commercial basis, or January 1, 1977, whichever is earlier; provided that such payments prior to the date the Project is ready to be operated on a commercial basis, or September 1, 1977, whichever is earlier, are limited to such amounts as Bonneville and the Supply System agree may be included in the Annual Budgets, as defined in the Net Billing Agreements. Bonneville and the Supply System have agreed that at least an amount equal to one-half of the maximum annual interest on the Bonds issued prior to September 1, 1977 plus \$6,000,000 will be included in such Annual Budgets for the period January 1 to September 1, 1977. The Resolution provides that such amounts will be used, first, to deposit in the Bond Fund for credit to the Reserve Account the amount required to establish such Account in the amount required by the Resolution; second, to deposit \$3,000,000 in the Reserve and Contingency Fund established in the Resolution and; third, to provide \$3,000,000 for working capital for the Project.

Payments and credits under the Net Billing Agreements are required to be made whether or not the Project is completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the Project output.

THE PROJECT

The Project will be constructed, owned and operated by the Supply System pursuant to an agreement (the "Project Agreement") between the Supply System and Bonneville as part of the Hydro Thermal Power Program, a program designed to meet the anticipated needs for power in the Pacific Northwest. The Hydro Thermal Power Program is described in a later section.

Location of the Project

The Project, with the exception of the administrative service building, is under construction on the Hanford Reservation, approximately three miles west of the Columbia River and 12 miles north of the City of Richland in Benton County, Washington. The Project site has been leased from the ERDA for a term, including options, extending beyond July 1, 2012. A lease of the land in the bed of the Columbia River necessary for the water intake and discharge facilities is to be executed with the Washington State Department of Natural Resources as soon as the area to be leased is finally defined by the Corps of Engineers' permit. The Hanford Reservation lies mostly in Benton County and encompasses 559 square miles of barren desert land in a sparsely settled area of central Washington. The Reservation has served as a nuclear industrial center since 1943. Proximity to nuclear support industries on the Reservation gives the site a decided advantage for a nuclear power project. Favorable geographic, geological, seismological and climatological characteristics, adequate water supply, as well as remoteness from large population centers, are features of the site that also contribute to its desirability for a nuclear power site. Seattle is approximately 160 airline miles from the site and Portland is approximately 180 airline miles from the site.

Description of the Project

The Project will consist of a single unit boiling water reactor electric generating station, having a nominal capacity of approximately 1,100,000 kilowatts, the necessary transformation and related facilities to interconnect the generating station with the Federal Columbia River Power System and an administrative service building. The plant layout and design includes consideration of possible future expansion by the addition of another generating unit.

The seven basic structures comprising the generating station are (1) reactor building, (2) radioactive waste building, (3) turbine-generator building, (4) diesel generator building, (5) cooling towers and circulating water pump house, (6) river makeup water plant and (7) service building.

The nuclear steam supply system will contain a General Electric Company ("GE") boiling water reactor of proven design with a guaranteed rating of 3,330 megawatts thermal. It will supply approximately 14,295,000 pounds of steam per hour at 985 psia. The system will be complete with steam separators and driers, recirculating pumps and subsystems including those required for normal operation and for shutdown.

The turbine-generator will consist of a high-pressure turbine section on the same shaft with three low-pressure turbine sections and an electric generator with a nominal capacity of approximately 1,100,000 kilowatts. Transformation from 25 kV to 500 kV will be provided.

The condenser cooling water will be discharged from the turbine-generator building to six mechanical draft evaporative cooling towers. Makeup water to replace the evaporative losses of the circulating water will be obtained from the Columbia River.

In addition to the service building at the site of the generating station, the Project includes an administrative service building located off-site in the vicinity of Richland, Washington, which has been completed and provides administrative space for the Project and other Supply System activities.

Initial Fuel Core

The initial fuel core is being supplied by GE as part of the reactor contract. The fuel assemblies included in the initial core will be essentially identical to initial core fuel assemblies being supplied by GE to other electric utilities in the United States in the period 1975 through 1981. GE expects to provide over 30 initial fuel cores during that period to some 19 different utilities located in various parts of the United States.

Construction Contracts and Schedule

The Nuclear Regulatory Commission (another successor agency to the AEC) (the "NRC") construction permit was obtained on March 19, 1973 at which time construction of the plant proper was started. The installation of temporary facilities is complete. The reactor building substructure has been completed and the containment vessel which rests on it was 83.2% complete as of December 31, 1974. The substructure for the turbine-generator building has been completed and work is now in progress on the turbine pedestal and the walls of the turbine-generator building. The substructure of the radioactive waste building is complete and work is starting on the superstructure. Concrete work on the spray ponds and service water pump houses is nearing completion. Work has started on the cooling tower bases and the circulating water pump house. As of December 31, 1974, overall construction was estimated to be 13.0% complete compared to a scheduled 38% completion under the original schedule which contemplated a commercial operation date of September 1, 1977.

As of December 31, 1974, equipment and construction contracts totalling \$258,058,567 have been entered into. Further information concerning major equipment and construction contracts is contained in Exhibit III.

The scheduled date of commercial operation has been delayed to June 1, 1978. The Construction Engineer is of the opinion that the program for construction is realistic and a commercial operation date of June 1, 1978 has a reasonable chance of achievement; however, it will require a significant improvement in the rate of construction progress.

Project Financing Requirements

The Bonds heretofore issued were, and the 1975 A Bonds are being, issued to finance a portion of the costs of constructing and acquiring the Project. Additional Bonds necessary to complete the financing of the Project in the estimated aggregate principal amount of \$134,000,000 will be issued in the future. Assuming the additional Bonds will be issued in more than one series, it is expected that the next series will be issued during the summer of 1975. The amount of financing has been based on the actual interest rates for the Bonds heretofore issued, and assumed annual interest rates of 7.25% for the 1975 A Bonds and 7.25% for the balance of the Bonds.

Based on the foregoing the total financing requirements for the Project are shown in the following tabulation. These estimates are based on the Project being placed in commercial operation by June 1, 1978. A significant delay in Project completion would result in an increase in the financing requirements. For further information see page 49 under the caption "Construction Costs and Construction Contracts."

ESTIMATED PROJECT FINANCING REQUIRED

Structures and Improvements	\$ 64,624,500
Reactor Plant Equipment	128,697,900
Turbo-Generating Plant	108,003,000
Accessory Electric Equipment	30,999,900
Miscellaneous Power Plant Equipment	2,779,900
Station Equipment	6,643,100
Temporary Construction Facilities	4,080,800
Subtotal Direct Construction(1)(2)	<u>\$345,829,100</u>
Nuclear Fuel(3)	38,980,000
Sales Tax(4)	19,240,500
Engineering and Construction Management(1)	57,818,000
Owner's Direct Cost(5)	44,100,000
Contingencies(1)	26,478,200
Estimated Bond Discount and Other Financing Expenses	7,326,000
Capitalized Interest During Construction	<u>125,608,000</u>
Gross Requirement	665,379,800
Less: Estimated Income from Temporary Investments	<u>51,379,800</u>
Net Requirement	<u><u>\$614,000,000</u></u>

(1) Based on estimates by Construction Engineer contained in Exhibit III.

(2) Includes escalation.

(3) As estimated by the Supply System.

(4) Includes sales tax on nuclear fuel.

(5) As estimated by the Supply System; includes cost of the administrative service building.

In addition to the foregoing amounts obtained through issuance of Bonds, funds required to make the necessary payments to the Reserve Account in the Bond Fund, to provide working capital, to provide an initial Reserve and Contingency Fund and to provide a contingency for fuel are expected to be obtained under the Net Billing Agreements described below during the period beginning January 1, 1977 and extending to September 1, 1977 as follows:

Reserve Account in Bond Fund(1)	\$21,127,000
Working Capital(2)	3,000,000
Reserve and Contingency Fund(3)	3,000,000
Fuel Contingency(4)	8,000,000
Total	<u>\$35,127,000</u>

- (1) Estimated amount required by the Resolution.
- (2) Amount subject to further analysis and approval by Bonneville and the Supply System.
- (3) Amount required by the Resolution.
- (4) Estimated amount to be provided from advanced net billing to permit leveling of annual fuel costs in the event of a critical period of power supply. Amount subject to further analysis and approval by Bonneville and the Supply System.

If for any reason such amounts (other than the fuel contingency) are not provided under the Net Billing Agreements they will be provided through the issuance of additional Bonds.

Licenses and Permits

The Project site on the Hanford Reservation has been certified for the State of Washington by the Washington State Thermal Power Plant Site Evaluation Council as required by state law. An AEC, now NRC, construction permit was issued for the Project on March 19, 1973. Prior to that date certain site preparation was undertaken in accordance with an exemption issued by the AEC. The certification by the State of Washington and the permits issued by the AEC were the subjects of intensive investigation and public hearings. The construction permit requires that the Project be constructed in accordance with applicable rules and regulations of the AEC, now the NRC, including those formulated to protect the environment and the public. Extensive quality control procedures are being implemented by the Supply System to assure that the requirements of the construction permit with respect to quality of construction of the Project will be met. Prior to operation an operating license must be obtained from the NRC, to which this function has been transferred from the AEC by recent legislation.

Additional permits to be acquired prior to operation of the Project include the following: (1) National Pollution Discharge Elimination System Permit to be issued by the Thermal Power Plant Site Evaluation Council of the State of Washington, (2) permit to be issued by the U. S. Corps of Engineers under the Federal Rivers & Harbors Act of 1899, (3) various building and installation inspection permits by the Washington State Department of Labor and Industries, and (4) a Water Withdrawal Permit, if required, to be issued by the Washington State Thermal Power Plant Site Evaluation Council.

Project Output:

The Project is expected to have a net peaking capability of 1,093,000 kilowatts and is expected to be capable of producing about 7,200,000,000 kilowatt hours annually. During a critical period of power supply in the Pacific Northwest caused by water shortage, it is expected that the Project would be called upon to produce the full amount of energy that it is capable of producing. During other periods, however, there will be times when surplus water will be available to generate power at existing hydroelectric projects thereby permitting a reduction in the total amount of energy produced at the thermal electric projects to be constructed under the Hydro Thermal Power Program, including the Project.

Project Annual Costs

Estimated annual costs of the Project based on 1974 costs of labor and materials escalated to the year 1978 are given in the following table. This table assumes generation of 7,200,000,000 kilowatt

hours annually. The costs reflect those operating costs that would be characteristic of a mature plant. The Supply System anticipates additional expenses of \$250,000 and \$125,000 during the first two operating years, respectively, for Project monitoring.

ESTIMATED PROJECT ANNUAL COSTS

FIXED COSTS:	
Interest and Amortization ⁽¹⁾	\$47,220,000
Payments to Reserve and Contingency Fund	4,722,000
Insurance	2,000,000
Operation and Maintenance (Fixed) ⁽²⁾	5,525,000
Administrative and General ⁽²⁾	1,315,000
Subtotal	\$60,782,000
Less: Surplus of Prior Year's Payment to Reserve and Contingency Fund ⁽³⁾	3,322,000
Total Fixed Costs	\$57,460,000
 VARIABLE COSTS:	
Fuel Cost	\$12,996,000
Operation and Maintenance (Variable) ⁽²⁾	683,000
Taxes	1,440,000
Total Variable Costs	\$15,119,000
TOTAL ANNUAL COSTS	\$72,579,000
Less: Interest Earnings on Reserve Funds	2,249,000
NET ANNUAL COSTS	\$70,330,000
NET ANNUAL COST PER KILOWATT HOUR (7,200,000,000 kWh)	9.77 mills

(1) Based on level debt service, 35-year amortization, the actual annual interest rates on the Bonds heretofore issued, a 7.25% interest rate on the 1975 A Bonds, and a 7.25% annual interest rate on the balance of the Bonds.

(2) Estimated labor and materials costs escalated to 1978 levels.

(3) Computed as follows:

Payment to Reserve and Contingency Fund	\$4,722,000
Less: Estimated amount required for renewals, replacements and additions	1,400,000
Net surplus	\$3,322,000

Net surplus may be used for purposes other than reduction in power costs in accordance with the Resolution.

The total annual costs referred to above are based on level debt service over a 35 year period and on estimated 1978 levels of labor and materials. The Supply System and Bonneville anticipate that maturities of the Bonds will not be scheduled to yield level debt service throughout the period. Variations in annual costs will result from such scheduling to the extent that actual debt service varies from the assumed level debt service.

Reference is made to the reports of R. W. Beck and Associates, included herein as Exhibit II, and Burns and Roe, Inc., included herein as Exhibit III, for additional information regarding the Project and its costs.

BONNEVILLE POWER ADMINISTRATION

Bonneville, a bureau of the U. S. Department of the Interior, was established by the Bonneville Project Act of August 20, 1937, to build transmission facilities and to market power from Federal hydroelectric projects in the Pacific Northwest. Such projects now number 27 with an installed capacity of 10,995,900 kilowatts. These projects and authorized new projects and additions at existing projects will have, when completed, an installed capacity of approximately 28,032,580 kilowatts. Bonneville's transmission facilities include over 12,050 miles of 115 kV to 500 kV ac and 800 kV dc transmission lines. These transmission facilities together with the hydroelectric projects mentioned above comprise the Federal Columbia River Power System.

Bonneville Revenue by Major Classification of Customers(1)

Fiscal Year Ended June 30	Preference Customers	Other Electric Utilities	Industrial	Transmission Service and Other	Total
1968 . . .	\$49,134,719	\$12,515,810	\$39,498,338	\$16,739,045	\$117,887,912
1969 . . .	55,752,314	16,967,117	46,204,161	18,353,608	137,277,200
1970 . . .	58,419,581	20,319,033	50,036,203	18,878,209	147,680,036
1971 . . .	64,078,043	25,120,610	45,418,745(2)	21,060,576	155,677,974
1972 . . .	69,452,035	37,918,589	45,733,067(2)	22,990,720	176,094,411
1973 . . .	74,669,546	37,146,777(3)	44,014,159(2)	21,543,674	177,374,156
1974 . . .	83,034,000	31,515,000(3)	46,162,000(2)	21,343,000(4)	182,054,000(4)

- (1) From Bonneville Summary Financial Data, 1974 data from Federal Columbia River Power System audit, completed in December 1974.
- (2) The decline in industrial revenues was primarily due to shutdown of aluminum potlines in the area and to curtailment by Bonneville of interruptible power to certain of its industrial customers.
- (3) The decline in Other Electric Utilities' revenues was due to low power availability and increased needs of preference customers.
- (4) \$3,000,000 of Transmission Service and Other is estimated.

The major part of the 500 kV and 230 kV backbone transmission system in the Pacific Northwest is owned by Bonneville as a result of its role in constructing transmission facilities as part of the Federal Columbia River Power System. Bonneville transmits over the Federal Columbia River Power System the major portion of the power from 11 nonfederal projects to various private and public utilities in the Pacific Northwest. This system represents approximately 80% of the bulk power transmission capacity for the Pacific Northwest.

The Federal Columbia River Power System has interconnections with other regions in the United States and Canada. Three high voltage transmission line interconnections (two 500 kV ac, one 800 kV dc) of the Pacific Northwest-Pacific Southwest Intertie have been completed and are now in operation. Two 500 kV ac lines interconnect the Federal Columbia River Power System with British Columbia, Canada, and several 230 kV ac lines interconnect the eastern portion of the system with utilities in adjacent Canadian provinces and the Mountain States. These interconnections provide, in addition to mutual support in the event of a breakdown or emergency, the means to carry capacity and energy which is surplus to the Pacific Northwest needs to these areas, and conversely to carry surplus capacity and energy from these areas into the Pacific Northwest.

On October 19, 1974, the President signed into law the Federal Columbia Transmission System Act (Pub. L. No. 93-454), which established a new method for financing Bonneville's construction and operating program. Under the Transmission Act Bonneville is authorized to pay its cost of operating and maintaining the Federal system from its revenues and pay the cost of construction of additional facilities from revenues and revenue bond proceeds. The Bonneville Power Administration Fund is established into which all of Bonneville's revenues (including trust and fund receipts), proceeds from revenue bonds, and appropriations are deposited. Bonneville is authorized to sell up to \$1.25 billion of revenue bonds to the Secretary of the Treasury to finance the construction of additions to the trans-

mission system. By this method of using revenues and revenue bond financing Bonneville expects to avoid the need of additional appropriations of Congress to carry out its program obligations.

The Transmission Act reinforces Bonneville's original mission and authorizes Bonneville to construct additions to the transmission system within the Pacific Northwest to integrate and transmit the electric power from existing or additional Federal or non-Federal generating units, provide service to Bonneville's customers, provide interregional facilities, and maintain the electrical stability and electrical reliability of the Federal system. Bonneville cannot begin constructing any major transmission facilities intended to be used to provide services not previously provided by Bonneville with its own facilities until such construction is specifically approved by Act of Congress.

The Transmission Act also reaffirms Bonneville's obligation to charge rates for electric power and transmission of electric power which will recover the "cost of producing and transmitting such electric power."

In addition the Transmission Act designates Bonneville as the marketing agent for all Corps of Engineers and Bureau of Reclamation generating plants, excepting the Green Springs Project in southern Oregon. Prior to this designation Bonneville was designated marketing agent for these projects by order of the Secretary of the Interior. The formalization of this designation ensures the revenues from the sale of power from these projects will accrue to the Fund to pay Bonneville's expenses.

Additional Power Supply

In addition to the Federal hydroelectric projects, Bonneville has acquired additional power supply and hydro storage to enable it to continue to meet its customers' requirements. Under agreements executed in 1963 by Bonneville, 76 utility customers of Bonneville and the Supply System, Bonneville exchanges firm power from its system for the output of the Hanford Project of the Supply System. In 1964, Bonneville, acting jointly with the U. S. Army Corps of Engineers as the United States Entity, pursuant to the Treaty Between the United States and Canada Relating to the Cooperative Development of Water Resources of the Columbia River Basin, and pursuant to certain agreements executed in connection with such Treaty, obtained certain rights to 15,500,000 acre-feet of hydro storage on the Columbia River in Canada.

Under Phase I of the Hydro Thermal Power Program, Bonneville will obtain through the Net Billing Agreements the capability of the Project upon its completion and through similar agreements the Supply System's share of the capability of Nuclear Project No. 1 and Nuclear Project No. 3 and the City of Eugene, Oregon's 30% share of the Trojan Nuclear Project.

After 1983 Bonneville does not expect to acquire electric power from new thermal projects to meet the load growth of its preference agency customers. Rather, under Phase II of the Hydro Thermal Power Program, Bonneville expects to act as agent for many of its preference customers in acquiring the electric power and energy necessary from thermal projects to meet these customers' future load growth.

Bonneville Contracts

Bonneville markets power to 153 customers, including 109 statutory preference customers in the Pacific Northwest (public bodies and cooperatives which have preference and priority upon power from the Federal Columbia River Power System pursuant to the Bonneville Project Act, as amended) under

the terms of various power sales contracts. Each of the Participants is a preference customer and is a party to at least one such power sales contract requiring payments to Bonneville for the purchase or exchange of power, the operation and maintenance of facilities, or the transmission of power over the Federal Columbia River Power System. Such contracts generally provide for the sale and delivery of firm power to a preference customer in the amount of its requirements for power over and above the generating resources, if any, that the preference customer has available to serve its own loads. Bonneville's obligation to meet a preference customer's requirements is effective for the term of the contract unless Bonneville gives the preference customer at least eight years' prior notice of insufficiency of supply.

These power sales contracts with preference customers are usually for a term of 20 years. Bonneville expects to negotiate new 20 year power sales contracts with all preference customers to supply their load growth requirements until 1983 and fixed amounts thereafter. The Public Power Council and Bonneville are currently studying the allocation of power to these customers after July 1, 1983.

The power sales contracts contain provisions for a rate review once each five years. Rates are proposed by Bonneville and become effective upon confirmation and approval by the Federal Power Commission ("FPC"). In 1974 Bonneville submitted proposed rate increases to the FPC averaging approximately 27% which were confirmed and approved by the FPC effective December 20, 1974 for an interim period ending no later than December 20, 1975. The confirmation and approval of such rates for the full five year period ending December 20, 1979, is now pending before the FPC, and Bonneville expects that the FPC will approve such rates for such period in the near future.

THE HYDRO THERMAL POWER PROGRAM AND POWER SUPPLY IN THE PACIFIC NORTHWEST

The Hydro Thermal Power Program was conceived by the Joint Power Planning Council, consisting of 110 electric cooperatives, public utilities and private utilities in the Pacific Northwest and Bonneville, in order to plan the coordination of existing and future thermal and hydroelectric resources in the Pacific Northwest. The major part of the power supply in the region has been historically from hydroelectric resources, but the remaining hydro projects to be developed will be essentially for peaking power rather than for base load. Thermal power will provide an increasing portion of the base load resources in the future. The combination of hydro peaking and large scale thermal generating plants was found by the Council to be the soundest plan to achieve the aims of the Hydro Thermal Power Program. The principles of Phase I of this Program and the Federal government's participation through Bonneville, the Army Corps of Engineers and the Bureau of Reclamation have been endorsed by current and previous federal administrations and by the Congress.

The members of the Joint Power Planning Council have concluded that the Hydro Thermal Power Program will:

1. Best preserve the environment and natural beauties of the Pacific Northwest.
2. Make efficient and economic use of the Federal Columbia River Power System.
3. Obtain the economies of scale from large thermal generating plants.
4. Meld the output from large thermal generating plants with that from existing hydro generating units and the peaking generation units which will be installed at existing dams, to achieve the most economic and reliable power supply to meet the power requirements of the Pacific Northwest.

The Phase I Hydro Thermal Power Program thermal generating plants are tabulated below:

<u>Plant No.</u>	<u>Principal Sponsor</u>	<u>Location</u>	<u>Type</u>	<u>Rated Capacity (MW)</u>	<u>Probable Energy Date(1)</u>
1	Pacific Power & Light Co. and The Washington Water Power Company (Centralia Project)	Centralia, Wa.	Coal-fired	1,400	(2)
2	Portland General Electric Company (Trojan Project)	St. Helens, Or.	Nuclear	1,130	Dec. 1975
3	Pacific Power & Light Co. (Jim Bridger No. 2)	Rock Springs, Wy.	Coal-fired	500	June 1976
	(Jim Bridger No. 3)	Rock Springs, Wy.	Coal-fired	500	July 1977
4	Washington Public Power Supply System (Nuclear Project No. 2)	Hanford, Wa.	Nuclear	1,100	Oct. 1979
5	Portland General Electric Company (Pebble Springs No. 1)	Arlington, Or.	Nuclear	1,260	July 1982
6	Washington Public Power Supply System (Nuclear Project No. 1)	Hanford, Wa.	Nuclear	1,250	Oct. 1982
7	Washington Public Power Supply System (Nuclear Project No. 3)	Satsop, Wa.	Nuclear	1,240	Sept. 1982

(1) See discussion under Power Requirements and Resources.

(2) Currently in operation at reduced capacity.

The area utilities have identified additional generating projects, referred to as Phase II projects, some of which are currently under development or investigation to meet forecasted load growth. While the specific role of Bonneville has changed somewhat from Phase I of the Hydro Thermal Power Program, the area utilities are continuing to plan and build generation and transmission facilities on a cooperative schedule. Such thermal generating plants are tabulated below:

<u>Plant No.</u>	<u>Principal Sponsor</u>	<u>Location</u>	<u>Type</u>	<u>Rated Capacity (MW)</u>	<u>Probable Energy Date(1)</u>
1	Pacific Power & Light Co. (Jim Bridger Project No. 4)	Rock Springs, Wy.	Coal-fired	333(2)	Sept. 1979
2	Portland General Electric Company (Carty Coal No. 1)	Beardman, Or.	Coal-fired	500	July 1980
3	Puget Sound Power & Light Company (Skagit No. 1) .	Sedro Woolley, Wa.	Nuclear	1,288	Feb. 1983
4	Washington Public Power Supply System (Nuclear Project No. 4)	Hanford, Wa.	Nuclear	1,250	April 1984
5	Washington Public Power Supply System (Nuclear Project No. 5)	Satsop, Wa.	Nuclear	1,240	Mar. 1984
6	Puget Sound Power & Light Company (Skagit No. 2) ..	Sedro Woolley, Wa.	Nuclear	1,288	Feb. 1985
7	Portland General Electric Company (Pebble Springs No. 2)	Arlington, Or.	Nuclear	1,260	July 1985

(1) See discussions under Power Requirements and Resources.

(2) Capability of unit available for use in West Group.

In addition to the foregoing major projects in the Pacific Northwest, The Montana Power Company, Puget Sound Power & Light Company, Pacific Power & Light Company, Portland General Electric Company and The Washington Water Power Company are constructing a coal-fired steam electric generating plant at Colstrip, Montana. A portion of the output of this project will be used outside of the Pacific Northwest coordinated system and the balance of the output will be used by these companies to assist meeting their needs within the Pacific Northwest.

Power Requirements and Resources

Long-range planning of resources in the Pacific Northwest is based on annual forecasts of loads and resources for the area prepared by the Pacific Northwest Utilities Conference Committee. The most recent forecast (February 1, 1975) was made by the Committee for the years 1975-1976 through 1985-1986 (West Group Forecast). Unlike previous forecasts which were prepared using plant sponsors' construction schedules, this most recent forecast was prepared using the "Milestone" concept for determining the dates on which new thermal generating plants could reasonably be expected to be in continuous operation. The "Milestone" concept establishes standard development schedules for each type of thermal plant and identifies, as milestones, certain major events in the development and construction of the plants. These standard "Milestone" plant development schedules are applied to each proposed thermal plant for the purpose of providing a consistent basis for planning the addition of thermal resources. Each plant sponsor will continue to maintain his own construction schedule, which may not be the same as the Milestone schedule used for area resource planning.

An analysis of the most recent forecast, dated February 1, 1975, of the area's loads and resources is shown in the following table:

Year Ending June 30	Loads and Resources(1) Northwest Power Pool West Group(2)						
	Estimated Requirements	Estimated Resources (3)(4)	Surplus (5)	Percent Surplus (5)	The Project	Surplus (5)	Percent Surplus (5)
PEAK CAPABILITY—KILOWATTS (000)							
1976	22,491	22,487	(4)	(0.02)	—	(4)	(0.02)
1977	23,722	23,720	(2)	(0.01)	—	(2)	(0.01)
1978	25,220	26,098	878	3.48	—	878	3.48
1979	26,683	28,107	1,424	5.34	—	1,424	5.34
1980	28,139	28,983	844	3.00	1,100	1,944	6.91
1981	29,515	29,366	(149)	(0.50)	1,100	951	3.22
1982	30,950	29,568	(1,382)	(4.47)	1,100	(282)	(0.91)
1983	32,418	33,070	652	2.01	1,100	1,752	5.40
1984	33,907	34,011	104	0.31	1,100	1,204	3.55
1985	35,483	36,172	689	1.94	1,100	1,789	5.04
1986	37,154	38,389	1,235	3.32	1,100	2,335	6.28
ENERGY CAPABILITY—AVERAGE KILOWATTS (000)(6)							
1976	14,625	13,846	(779)	(5.33)	—	(779)	(5.33)
1977	15,418	14,630	(788)	(5.11)	—	(788)	(5.11)
1978	16,396	14,977	(1,419)	(8.65)	—	(1,419)	(8.65)
1979	17,370	15,136	(2,234)	(12.86)	—	(2,234)	(12.86)
1980	18,196	15,624	(2,572)	(14.13)	497	(2,075)	(11.40)
1981	19,002	16,284	(2,718)	(14.30)	784	(1,934)	(10.18)
1982	19,879	16,598	(3,281)	(16.50)	825	(2,456)	(12.35)
1983	20,728	19,005	(1,723)	(8.31)	825	(898)	(4.33)
1984	21,623	20,718	(905)	(4.19)	825	(80)	(0.37)
1985	22,581	22,401	(180)	(0.80)	825	645	2.86
1986	23,559	23,911	352	1.49	825	1,177	5.00

- (1) Resources forecast under Pacific Northwest Utilities Conference Committee Guidelines.
- (2) Area served by utility members of the Joint Power Planning Council.
- (3) After deducting reserves under Pacific Northwest Utilities Conference Committee Guidelines.
- (4) Not including the Project.
- (5) Parentheses denote negative values.
- (6) Computed under Pacific Northwest Utilities Conference Committee Guidelines.

THE PARTICIPANTS

The Project has 94 Participants, of which 27 are municipalities, 22 are districts and 45 are co-operatives. The municipalities have contracted to purchase approximately 22.6% of the plant capability, the districts have contracted to purchase approximately 56.9% and the cooperatives the remaining 20.5%. Exhibit I attached hereto lists each Participant and indicates its share of the Project capability purchased.

The Participants, all of whom are statutory preference customers of Bonneville, currently obtain all or part of their power supply from Bonneville, and, under their power sales contracts, will have an estimated net billing capacity which in the aggregate is estimated to be in excess of their share of the estimated Project's annual costs paid to the Supply System. Each Participant's share of such annual costs will be net billed or credited against the billings made by Bonneville to the Participant on a monthly basis under its power sales contract(s).

Each of the Participants has executed a Net Billing Agreement, as more fully described below, with the Supply System and Bonneville.

By the Net Billing Agreements, each Participant assigns its share of the Project's capability to Bonneville, and the entire output of the Project will be added to and pooled with the other power sources available to Bonneville.

Since the Participants' payments to the Supply System will be net billed, the cost of the power produced by the Project will be borne by Bonneville customers. Bonneville has assured Congress that "any costs or losses to Bonneville under these agreements will be borne by all Bonneville rate payers through rate adjustments, if necessary."

THE NET BILLING AGREEMENTS

A summary of certain provisions of the Net Billing Agreements follows. The full text of the form of Agreements may be obtained from the Supply System.

The capitalization of any word or words which is not conventionally capitalized (e.g. Project, Participants) indicates that such words are defined in the Net Billing Agreements. (The same practice is followed in the summaries of the Project Agreement and the Resolution which follow.)

Term

Each Net Billing Agreement became effective upon execution and delivery and will terminate on the date that the Project Agreement terminates except as provided in Section 10(c) (see the sub-caption "Termination") and as to accrued obligations and liabilities.

Although the Net Billing Agreements may be terminated prior to the maturity of any Project Bonds, the obligation of each of the Participants thereunder to pay its proportionate share of debt service on any Project Bonds shall continue until the Project Bonds have been retired, and Bonneville will continue to be obligated to offset or credit these payments against payments pursuant to the Participant's Bonneville Contracts.

Ownership and Operation

The Supply System will use its best efforts to arrange for the financing, design, construction, operation and maintenance of the Project.

Sale, Purchase and Assignment

The Supply System sells, and each Participant purchases, its Participant's Share of the Project Capability and each Participant in turn assigns its Participant's Share of such Capability to Bonneville. The amount of each Participant's Share of Project Capability is shown in Exhibit I attached hereto.

The purchase price to be paid by each Participant in each Contract Year will be the amount specified in the Billing Statement rendered to the Participant by the Supply System. The amount of the Billing Statement is determined by multiplying the Annual Budget or any amended Annual Budget by the Participant's Share. The Annual Budget shall provide for all of the Supply System's costs with respect to the Project in the Contract Year, including debt service. The Participant is obligated to pay the Supply System whether or not the Project is completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Project output, and such payments are not subject to reduction and are not conditioned upon the performance or nonperformance by the Supply System or Bonneville or any other Participant under the Net Billing Agreements or any other agreement or instrument.

The Participant assigns and Bonneville accepts the assignment of the Participant's Share. In consideration of such assignment, Bonneville will offset or credit the amounts paid by the Participant to the Supply System under the Net Billing Agreement against amounts owed Bonneville for power purchased and certain services rendered under the Participant's Bonneville Contracts. This system of offsets and credits is termed "net billing". Net billing will begin on January 1, 1977, or the Date of Commercial Operation, whichever is earlier, or at some earlier date if the Project is terminated pursuant to the Project Agreement, as hereinafter described.

Bonneville is obligated to make the offsets and credits specified in the Net Billing Agreements whether or not the Project is completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Project output. Such offsets and credits are not subject to reduction and are not conditioned upon the performance or nonperformance by the Supply System or Bonneville or any other Participant under the Net Billing Agreements or any other agreement or instrument.

Payment

Each Participant is obligated to pay the Supply System on a monthly basis its Participant's Share of the Supply System's annual expenses incurred in connection with the operation of the Project. Each month's payments will be based on the amount of net billing credit received by the Participant during the preceding month on its Bonneville billings. If the credits received from Bonneville are less than the Participant's Share of expenses for a Contract Year, the Participant is nevertheless obligated to pay such Share.

Bonneville has entered into net billing agreements with all of the Participants in connection with the Supply System's Nuclear Projects Nos. 1 and 3 and the Trojan Project. Pursuant to the Net Billing Agreements, Bonneville will offset the amounts it owes under the Net Billing Agreement and all other net billing agreements which it may have in effect with each Participant against the sum of the amounts that such Participant may owe Bonneville for power and certain services, in the proportion that the amount specified in the current Billing Statement bears to the sum of the amounts to be paid by Bonneville under all such agreements for that Contract Year. Each Net Billing Agreement provides that Bonneville and the Participant shall not enter into any agreements providing for payments to the Participant by Bonneville which Bonneville estimates will cause the aggregate of Bonneville's billings to the Participant to be less than 115 percent of the Bonneville net billing obligations to the Participant under all agreements providing for net billing.

If Bonneville is unable to net bill the amounts to be paid to the Supply System because the dollar obligations due Bonneville from a Participant are or are expected to be insufficient to offset Bonneville's dollar obligations to such Participant, Bonneville will use its best efforts to arrange for a voluntary assignment of all or a portion of the Participant's Share to the extent required to eliminate the insufficiency, and the Participant shall make any such assignment so arranged. The other Participants will have the first right to accept such assignment, pro rata among those exercising such right, before such an assignment is made to a customer who is not one of the Participants. If Bonneville is unable to arrange for such an assignment, the Participant will make such assignment to the other Participants, who are obligated to accept it, pro rata, provided that the sum of such assignments to a Participant shall not, without its consent, exceed either 25% of the Participant's Share of Project Capability or its estimated net billing capability.

If all or a portion of the Participant's Share is assigned as described above, the Participant will remain liable to pay the purchase price for its Participant's Share in accordance with its Net Billing Agreement as if such assignment had not been made. Such liability of the Participant will be discharged only to the extent that the assignee of all or a portion of the Participant's Share pays to the Supply System the purchase price for the Participant's Share so assigned.

If assignments cannot be made in amounts sufficient to bring into balance the respective dollar obligation of Bonneville and the Participant and an accumulated balance in favor of the Participant from a previous Contract Year is expected by Bonneville to be carried for an additional Contract Year, such balance and any subsequent monthly net balances that cannot be net billed will be paid in cash to the Participant by Bonneville, subject to the availability of federal appropriations for such purpose.

Bonneville has indicated to the Supply System and the Participants that it will pay in cash from amounts expected to be available in the Bonneville Power Administration Fund any costs billed the Participants which are not paid through net billing credits. (See section entitled "Security for the Bonds.")

If Bonneville is unable to satisfy its obligation to an affected Participant by net billing, assignment or cash payment and determines that this will continue for a significant period, the affected Participant may direct that all or a portion of the energy associated with its Participant's Share be delivered by the Supply System for the Participant's account at a specified point of delivery, either for the expected period of such inability or the remainder of the term of the Net Billing Agreement, whichever is specified by the Participant when it elects to have such energy delivered to it. The amount of energy delivered will be limited to the amount of the Participant's Share for which payment by Bonneville cannot be made. The Participant's obligation to assign its Participant's Share to Bonneville and Bonneville's obligation to make payments to the Participant will then be appropriately modified.

Termination

If the Project is ended pursuant to Section 15 of the Project Agreement, as described below, Supply System will give notice of termination of each Net Billing Agreement effective upon the date of termination of the Project Agreement. Supply System shall then terminate all activities relating to construction and operation of the Project and shall undertake the salvage and disposition or sale of the Project as provided in the Project Agreement. After such termination, the Supply System will make monthly accounting statements to Bonneville and each Participant of all costs associated with such termination. The monthly accounting statements will credit against such costs all amounts received by the Supply System from the disposition of Project assets. Such monthly accounting statements will continue until all Project Bonds are paid or funds are set aside for such payment. If the monthly accounting statements show that such costs exceed such credits, the Participant will pay its portion of such excess costs to the Supply System. The payments will be made at times and in amounts sufficient to discharge on a current basis the Participant's Share of the amount which the Supply System is required to pay into the various funds provided in the Project Bond Resolution for debt service and all other purposes.

Event of Default

The Participant's Share of the Project Capability purchased by the Participant from the Supply System and assigned to Bonneville will be automatically increased for the remaining term of the Net Billing Agreement pro rata with that of other nondefaulting Participants if, and to the extent that, one or more of the Participants is unable, fails, or refuses for any reason to perform its obligations under its Net Billing Agreement; provided however, that the sum of such increases for each Participant, without its consent, may not exceed an accumulated maximum of 25% of its Participant's Share nor shall any such increase cause the estimate of the payments to be made by the Participant to the Supply System to exceed the estimate of Bonneville's billings to the Participant for power and certain services during the period of such increase.

Participant's Rate Covenant and Sources of Payments

No Participant will be required to make payments to the Supply System under its Net Billing Agreement except from revenues derived from the ownership and operation of its electric utility properties and from payments by Bonneville under such Agreement.

The Participant covenants that it will establish, maintain and collect rates or charges for power and energy and other services, facilities and commodities sold, furnished or supplied by it through any of its electric utility properties which shall be adequate to provide revenues sufficient to enable the Participant to make the payments to Supply System pursuant to its Net Billing Agreement and to pay all other charges and obligations payable from or constituting a charge and lien upon such revenues.

Modification of Agreement

The Net Billing Agreements shall not be amended, modified or otherwise changed by agreement of the parties in any manner that will impair or adversely affect the security afforded by its provisions for the payment of the principal, interest and premium, if any, on the Bonds.

Exhibits

The Exhibits described below are an integral part of the Net Billing Agreements.

Exhibit A — A list of the Participants and their respective Participant's Shares.

Exhibit B — Description of the Project.

Exhibit C — Contractual provisions required by Statute or Executive Order and relating to Contract Work hours and safety standards, convict labor, equal opportunity employment and the interest of a member of Congress. Under the provisions of Executive Order 11246 of September 24, 1965 and the Rules and Regulations and relevant Orders of the Secretary of Labor thereunder, the Supply System has been granted a limited exemption from the cancellation, termination, and suspension provisions in the event of non-compliance with the Equal Opportunity Clause contained in the Net Billing Agreements, by the Director, Office of Federal Contract Compliance, U. S. Department of Labor.

THE PROJECT AGREEMENT

The Supply System and Bonneville have entered into the Project Agreement. That Agreement, among other things, provides standards for the design, licensing, financing, construction, fueling, operation and maintenance of the Project, and for the making of any replacements, repairs or capital additions thereto. A summary of some of the provisions of the Project Agreement follows. A copy of the Project Agreement may be obtained from the Supply System.

Term

The Agreement became effective upon its execution and delivery and will terminate when the Project is terminated as provided in Section 15 of the Agreement.

Section 15 provides that the Project shall terminate and the Supply System shall cause the Project to be salvaged, discontinued, decommissioned and disposed of or sold in whole or in part to the highest bidder or bidders, or disposed of in such other manner as the parties may agree when:

(a) Supply System determines it is unable to construct, operate, or proceed as owner of the Project due to licensing, financing, or operating conditions or other causes which are beyond its control.

(b) The parties determine the Project is not capable of producing energy consistent with Prudent Utility Practice or, if the parties disagree, the Project Consultant so determines, or

(c) Bonneville directs the end of Project pursuant to the provisions of Section 11(a), which provide that if the estimated cost of a replacement or repair or capital addition required by a governmental agency exceeds 20 percent of the then depreciated value of the Project, Bonneville may direct that the Supply System end the Project.

Design, Licensing and Construction of the Project

The Supply System will among other things (i) perform its duties and exercise its rights in accordance with Prudent Utility Practice; (ii) use its best efforts to obtain all licenses, permits and other rights and regulatory approvals necessary for the ownership, construction, and operation of the Project; (iii) construct the Project in accordance with Prudent Utility Practice; and (iv) use its best efforts to schedule the Date of Commercial Operation as near as possible to September 1, 1977.

Bonneville will use its best efforts to construct, operate and maintain the necessary facilities to interconnect the Project with the Government's transmission grid so as to be ready to receive the Project's generation on or before the initial test and operation of the Project.

In the Project Agreement "Prudent Utility Practice" at a particular time means any of the practices, methods and acts engaged in or approved by a significant proportion of the electrical utility industry prior to such time, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In evaluating whether any act or proposal conforms to Prudent Utility Practice, Bonneville, the Supply System and any Project Consultant shall take into account the objective to integrate the entire Project Capability with the hydroelectric resources of the Federal Columbia River Power System and to achieve optimum utilization of the resources of that system taken as a whole, and to achieve efficient and economical operation of that system.

Financing

The Supply System will use its best efforts to issue and sell Project Bonds to finance the cost of the Project and the completion thereof, as such costs are defined in the Project Bond Resolution, and to finance the cost of any capital additions, renewals, repairs, replacements or modifications to the Project; provided, however, that such Project Bonds may then be legally issued and sold.

All Project Bond Resolutions are subject to approval by Bonneville, and Bonneville has approved the Resolution and the Supplemental Resolution.

Budgets

Construction Budgets and Annual Budgets will be prepared annually. The Construction Budgets and the Annual Budgets and any revision thereof are to be submitted to Bonneville and are subject to its approval. In the absence of any objection by Bonneville a budget will become effective within 30 days, in the case of the Construction and Annual Budgets, and within 7 days in the case of any revision thereof.

A monthly Construction Budget report shall be prepared by the Supply System and filed with Bonneville showing by major plant accounts or contracts, the cumulative amounts committed and expended to the date of each such report.

Costs incurred by the Supply System in an emergency or to protect the safety of the Project or the public shall be added to the Annual Budget as incurred.

All accounts shall be kept so as to permit conversion to the system of accounts prescribed for electric utilities by the Federal Power Commission.

Operation and Maintenance

The Supply System will operate and maintain the Project in accordance with Prudent Utility Practice and the requirements of government agencies having jurisdiction.

Bonds for Replacements, Repairs and Capital Additions

If in any Contract Year the amounts in the Annual Budget for renewals, repairs and replacements and for capital additions and betterments necessary to achieve design capability or required by governmental agencies ("Amounts for Extraordinary Costs"), whether or not such amounts are costs of operation or costs of construction, exceed the amount of reserves, if any, maintained for such purpose pursuant to the Project Bond Resolution plus the proceeds of insurance, if any, available by reason of loss or damage to the Project, by the lesser of:

(1) \$3,000,000 or

(2) an amount by which the amount of Bonneville's estimate of the total of the net billing credits available in such Contract Year to the Participants and the amounts of such reserves and insurance proceeds, if any, exceeds the Annual Budget for such Contract Year exclusive of Amounts for Extraordinary Costs,

Supply System will, in good faith, use its best efforts to issue and sell Project Bonds to pay such excess.

Bonneville's Approval and Project Consultant

If any proposal or item subject to approval by Bonneville is disapproved by Bonneville and an alternative proposal or item is suggested by Bonneville, Supply System will either adopt such suggestion or, within seven days after receipt of such disapproval, appoint a Project Consultant acceptable to Bonneville to review the proposal or item. Proposals or items found by the Project Consultant to be consistent with Prudent Utility Practice shall become immediately effective. Proposals or items found by the Project Consultant to be inconsistent with Prudent Utility Practice shall be modified to conform to the recommendation of the Project Consultant or as the parties otherwise agree and shall become effective as and when modified. If any proposal or item referred to the Project Consultant has not been resolved and will affect the continuous operation of the Project, Supply System shall continue to operate the Project and may proceed with the item as proposed by Supply System, or as proposed by Bonneville, or as modified by mutual agreement of Supply System and Bonneville. If the Supply System proceeds

with the item as proposed by it, and the item is determined by the Project Consultant to be inconsistent with Prudent Utility Practice, Supply System shall bear any net increase in the cost of construction or operation of the Project resulting from such item without charge to the Project to the extent such item is found by the Project Consultant to be inconsistent with Prudent Utility Practice.

Exhibits

The Exhibits described below are an integral part of the Project Agreement.

Exhibit A—Description of the Project.

Exhibit B—Contractual provisions required by Statute or Executive Order. Under the provisions of Executive Order 11246 of September 24, 1965 and the Rules and Regulations and relevant Orders of the Secretary of Labor thereunder, the Supply System has been granted a limited exemption from the cancellation, termination, and suspension provisions in the event of non-compliance with the Equal Opportunity Clause contained in said Agreement by the Director, Office of Federal Contract Compliance, U. S. Department of Labor.

DESCRIPTION OF 1975 A BONDS AND CERTAIN PROVISIONS OF THE RESOLUTION AND SUPPLEMENTAL RESOLUTION

The following summary is a brief outline of certain provisions contained in the Resolution and the Supplemental Resolution and is not to be considered as a full statement thereof. This summary is qualified by reference to and is subject to the Resolution and the Supplemental Resolution, copies of which may be examined at the principal offices of the Supply System, the Bond Fund Trustee and the Paying Agents for the 1975 A Bonds.

The Bonds and the 1975 A Bonds

The Resolution creates and establishes an issue of Bonds of the Supply System which may be issued from time to time to pay the Cost of Construction of the Project and to establish reserves as therein provided. The 1975 A Bonds are part of such issue.

The 1975 A Bonds will be dated March 1, 1975; principal and semi-annual interest (January 1 and July 1) on coupon 1975 A Bonds and principal on registered 1975 A Bonds will be payable at the option of the holder at Seattle-First National Bank, Seattle, Washington, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois, and The Bank of New York, New York, New York. Payment of interest on fully registered bonds will be made by Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois, which has been appointed the Bond Fund Trustee. The definitive 1975 A Bonds will be issued in coupon form in the denomination of \$5,000, registrable as to principal only, and in fully registered form in the denomination of \$5,000 or any multiple thereof. Coupon 1975 A Bonds and fully registered 1975 A Bonds are interchangeable.

The 1975 A Bonds will mature in the years and amounts and bear interest at the rates per annum shown on the cover page hereof. The 1975 A Bonds maturing on July 1, 1999 and July 1, 2012 will have the benefit of a Bond Retirement Account to operate at the times and in the amounts set forth below. (Res. Secs. 4.5, 4.7; Supp. Res. Sec. 2).

Redemption: The 1975 A Bonds will be subject to redemption prior to maturity at the option of the Supply System on and after July 1, 1985, on at least 30 days' published notice, in whole at any time,

or in part on any interest payment date in inverse order of their maturities and by lot within a maturity, at the respective redemption prices (expressed as percentages of the principal amount) set forth below, together with accrued interest to the date fixed for redemption:

<u>Period During Which Redeemed</u> <u>(Both Dates Inclusive)</u>	<u>Redemption</u> <u>Prices</u>
July 1, 1985 to June 30, 1990	103%
July 1, 1990 to June 30, 1995	102
July 1, 1995 to June 30, 2000	101
July 1, 2000 and thereafter	100

The Supply System further reserves the right to redeem prior to maturity, on at least 30 days' published notice, (a) the 1975 A Bonds maturing on July 1, 1999 and on July 1, 2012, in part on any interest payment date on and after January 1, 1995 and on and after January 1, 2000, respectively, upon payment of the principal amount thereof from sinking fund installments as described below and (b) the 1975 A Bonds maturing on July 1, 2012 in part on any interest payment date on and after July 1, 1983 upon payment of 101% of the principal amount thereof, from excess construction fund proceeds, in each case together with accrued interest to the date fixed for redemption.

The Supply System also reserves the right to redeem the 1975 A Bonds at any time prior to maturity, on at least 30 days' published notice, in whole at any time, or in part in inverse order of their maturities and by lot within a maturity, on any interest payment date, from proceeds received from the sale or disposition of property or in the event the Project is terminated as provided in the Project Agreement, upon payment of the principal amount thereof together with accrued interest to the date fixed for redemption. (Res. Sec. 5.3; Supp. Res. Sec. 3).

Sinking Fund Installments: The 1975 A Bonds due July 1, 1999 are to be retired by mandatory sinking fund installments accumulated in the Bond Retirement Account in the Bond Fund in amounts sufficient to redeem on July 1 of each year, at the principal amount thereof, the principal amount of such Bonds specified for each of the years shown below:

<u>Year</u>	<u>Amount</u>
1995	\$2,595,000
1996	2,775,000
1997	2,970,000
1998	3,205,000
1999	3,455,000

The 1975 A Bonds due July 1, 2012 are to be retired by mandatory sinking fund installments accumulated in the Bond Retirement Account in the Bond Fund in amounts sufficient to redeem on July 1 of each year, at the principal amount thereof, the principal amount of such Bonds specified for each of the years shown below:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2000	\$3,635,000	2007	\$6,245,000
2001	4,005,000	2008	6,690,000
2002	4,320,000	2009	7,210,000
2003	4,570,000	2010	7,805,000
2004	4,975,000	2011	8,390,000
2005	5,340,000	2012	9,060,000
2006	5,755,000		

The sinking fund installments for the 1975 A Bonds due July 1, 1999 and due July 1, 2012 may be applied to the redemption of such Bonds on July 1 of each of the above years or on the immediately preceding January 1.

(Supp. Res. Sec. 2).

Subsequent Series of Bonds

The Supply System covenants to issue additional series of Bonds to the extent required to pay the Cost of Construction of the Project and to establish the reserves required by the Resolution to the extent such reserves are not funded from other sources. Such Bonds may be issued upon compliance with the following principal conditions:

(1) There shall have been delivered to the Supply System a certificate of the Bond Fund Trustee that no default exists in the payment of principal and interest on any outstanding Bond, and there has been delivered to the Bond Fund Trustee a certificate of the Secretary of the Board of Directors of the Supply System that the Net Billing Agreements and Project Agreement are in full force and effect and have not been amended in any manner adversely affecting the Supply System and the holders of the Bonds.

(2) Such Bonds shall be either serial or term bonds or a combination thereof, with the final maturity date to be July 1, 2012.

(3) The Construction Engineer shall certify as to the amount expended for, and the amount remaining available to pay, Cost of Construction and the times funds will be required to pay such Cost, and, if the estimated Cost of Construction has increased, give a statement of the reasons for such increase. (Res. Sec. 3.4).

Additional Indebtedness Other than Bonds

The Supply System may also issue additional bonds ranking on a parity with the Bonds and secured by an equal charge and lien on the revenues of the Project ("additional bonds") for the following purposes:

(1) to comply with an order of any governmental agency with authority to issue, make or enforce an order or decision requiring the installation of additional facilities or modifications at or in the Project;

(2) to comply with requirements of the Project Agreement for the issuance of additional bonds (see "Bonds for Replacements, Repairs and Capital Additions" under "Project Agreement" above);

(3) to refund at any time any Bonds or additional bonds.

The Supply System may not issue any additional bonds unless prior to or simultaneously with the issuance of such bonds the Supply System has in effect valid written contracts for the sale of capability, power and energy of the Project which, in the opinion of the Supply System and of the Consulting Engineer to the Supply System, will produce revenues at least sufficient to enable the Supply System to meet all of its obligations under the Resolution. Such contracts (1) must be for terms extending at least to the final maturity date of the Bonds, (2) unless such contracts are with the parties to the Net Billing Agreements, must be with purchasers which, in the opinion of the Consulting Engineer, have the ability and financial responsibility to meet their obligations under such contracts, and (3) must contain terms with respect to payments for Project capability, power and energy and the items of annual power costs to be included in the price for such project capability, power and energy which are not less favorable to the Supply System than the terms of the Net Billing Agreements.

Additional bonds may be either serial or term bonds or a combination thereof, with the final maturity date to be July 1, 2012, or if the service life of the facilities being financed extends beyond

July 1, 2012, a later date which is not later than the expiration of such service life. A separate bond fund is to be created and payments into such bond fund for the retirement of such additional bonds are to commence within 5 years from the date thereof or, in the case of refunding bonds, at the time when payments with respect to the retirement of the refunded Bonds or additional bonds would be required if such Bonds or additional bonds were not refunded. From the proceeds of sale of additional bonds or revenues of the Supply System available at the time of issuance, an amount equal to the maximum amount of interest to become due on such bonds in any six-month period is to be deposited in the reserve account in such bond fund, and such account is to be maintained at such amount; provided that such amount, in the case of refunding bonds, may be so deposited at the time when the refunded Bonds or additional bonds are no longer deemed outstanding. (Res. Sec. 9.6).

Construction Fund; Application of Bond Proceeds

The Resolution establishes a Washington Public Power Supply System Nuclear Project No. 2 Construction Fund (the "Construction Fund") and a Construction Interest Account and Fuel Account therein, to be held by the Construction Fund Trustee. Continental Illinois Bank and Trust Company of Chicago is Construction Fund Trustee under the Resolution.

The proceeds of sale of the 1975 A Bonds will be applied as follows:

- (a) An amount equal to the interest on the 1975 A Bonds from their date to September 1, 1977, will be credited to the Construction Interest Account in the Construction Fund. (The interest to September 1, 1977 on the Bonds heretofore issued was capitalized from the proceeds of such Bonds.)
- (b) The sum of \$2,382,000 will be credited to the Fuel Account in the Construction Fund.
- (c) The balance of 1975 A Bond proceeds will be deposited in the Construction Fund.

The proceeds of sale of subsequent series of Bonds will be applied as follows:

- (a) An amount equal to the interest on such Bonds to September 1, 1977, will be credited to the Construction Interest Account in the Construction Fund.
- (b) The Supply System will credit to the Fuel Account in the Construction Fund such amounts, if any, as the Supply System determines.
- (c) The balance of the Bond proceeds will be deposited in the Construction Fund.

The Resolution provides that if working capital and the Reserve Account and Reserve and Contingency Fund requirements are not provided for by September 1, 1977, through revenues received pursuant to the Net Billing Agreements, such amounts will be provided from Bond proceeds.

Moneys in the Construction Fund are to be used to pay Cost of Construction of the Project, which includes costs of constructing and acquiring the Project, obtaining permits and licenses and acquiring property and Fuel, trustees' and paying agents' fees, taxes and insurance premiums, the cost of engineering services and administrative and overhead expenses of the Supply System allocable to the acquisition and construction of the Project. The cost of acquiring Fuel will be paid from the Fuel Account.

Moneys in the Construction Interest Account in the Construction Fund will be used to pay interest on the Bonds to September 1, 1977. Whenever moneys in the Construction Interest Account are inadequate to meet interest payments, amounts necessary to meet the deficiency are to be transferred from the Construction Fund to the Construction Interest Account.

The Resolution prescribes certain procedures designed to safeguard payments or transfers from the Construction Fund, including, among others, certificates by the Construction Engineer and a detailed itemization by the Supply System of the amounts to be paid and the purposes thereof.

Moneys remaining in the Construction Fund after payment of all Cost of Construction and after required payments, if any, to the Revenue Fund, Reserve Account and to the Reserve and Contingency Fund are to be transferred to the Bond Retirement Account. (Res. Secs. 6.8-6.13, 7.1; Supp. Res. Sec. 5).

Other Funds Established by the Resolution; Flow of Revenues

The Resolution also establishes a Washington Public Power Supply System Nuclear Project No. 2 Revenue Fund, Bond Fund (including an Interest Account, a Principal Account, a Bond Retirement Account and a Reserve Account), Fuel Fund and Reserve and Contingency Fund. All such funds are to be held by the Supply System, except for the Bond Fund, which is to be held by the Bond Fund Trustee.

Revenue Fund: The gross revenues derived by the Supply System from its ownership and operation of the Project are to be paid into the Revenue Fund. Moneys received prior to September 1, 1977, or the Date of Commercial Operation, whichever is earlier, under the Net Billing Agreements will be credited to a Prepayment Account in the Revenue Fund. Bonneville and the Supply System have agreed that if the Project does not commence commercial operation prior to September 1, 1977, an amount at least equal to one-half of the maximum annual interest on the Bonds issued prior to September 1, 1977, plus \$6,000,000 will be included in the Annual Budget for the Project for the period January 1 to September 1, 1977. Such amount will be credited to the Prepayment Account and used, first, to deposit in the Bond Fund for credit to the Reserve Account, the amount required to establish such Account in the amount required by the Resolution; second, to deposit \$3,000,000 in the Reserve and Contingency Fund and, third, to provide \$3,000,000 for working capital for the Project. Additional working capital may be provided by mutual agreement between the Supply System and Bonneville. Moneys in the Revenue Fund are to be used for the purpose of making required payments into the Bond Fund and any special funds for additional bonds, paying for the costs of operating and maintaining the Project, making required payments into the Fuel Fund and the Reserve and Contingency Fund, making repairs, renewals, replacements, additions, betterments and improvements to, and extensions of, the Project, and paying all other charges or obligations against such revenues. (Res. Sec. 6.1).

Bond Fund: From the gross revenues theretofore paid into the Revenue Fund, the Supply System is to pay monthly into the Bond Fund, for the credit of the Interest Account and the Principal Account, respectively, fixed amounts sufficient in the aggregate to pay the principal of and interest on the Bonds as the same become due and payable. Payments to the Interest Account will commence on September 25, 1977. Prior to that date the Construction Fund Trustee will transfer from the Construction Fund to the Bond Fund Trustee amounts sufficient to pay each installment of interest on the Bonds.

Monthly payments to the Principal Account are to commence not later than September 25, 1977, and be sufficient to pay outstanding serial Bonds as they mature.

Beginning July 25, 1994, the Supply System is also obligated to pay monthly into the Bond Retirement Account amounts sufficient in the aggregate to redeem the 1975 A Bonds maturing July 1, 1999 and July 1, 2012 in the principal amounts and at the times specified under the subcaption "Sinking Fund Installments" under "The Bonds and the 1975 A Bonds". Such amounts are in addition to the amounts required or to be required to be paid into the Bond Retirement Account to redeem the terms bonds of other series of Bonds in the principal amounts and at the times specified in the resolutions authorizing such Bonds. Moneys in the Bond Retirement Account are to be applied by the Bond Fund Trustee to the purchase or redemption of outstanding Bonds.

There is required to be paid into and maintained in the Reserve Account for each series of Bonds outstanding, an amount equal to the largest amount of interest on such Bonds during any six month period from the date of such Bonds to the final maturity date thereof. By September 1, 1977, or the Date of Commercial Operation, whichever is earlier, the Supply System will deposit the required amount

Washington Public Power Supply System

LEGEND

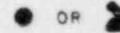
Cooperatives
and Mutuals



Districts
(Public Utility, Peoples
Utility, Irrigation)



Municipalities



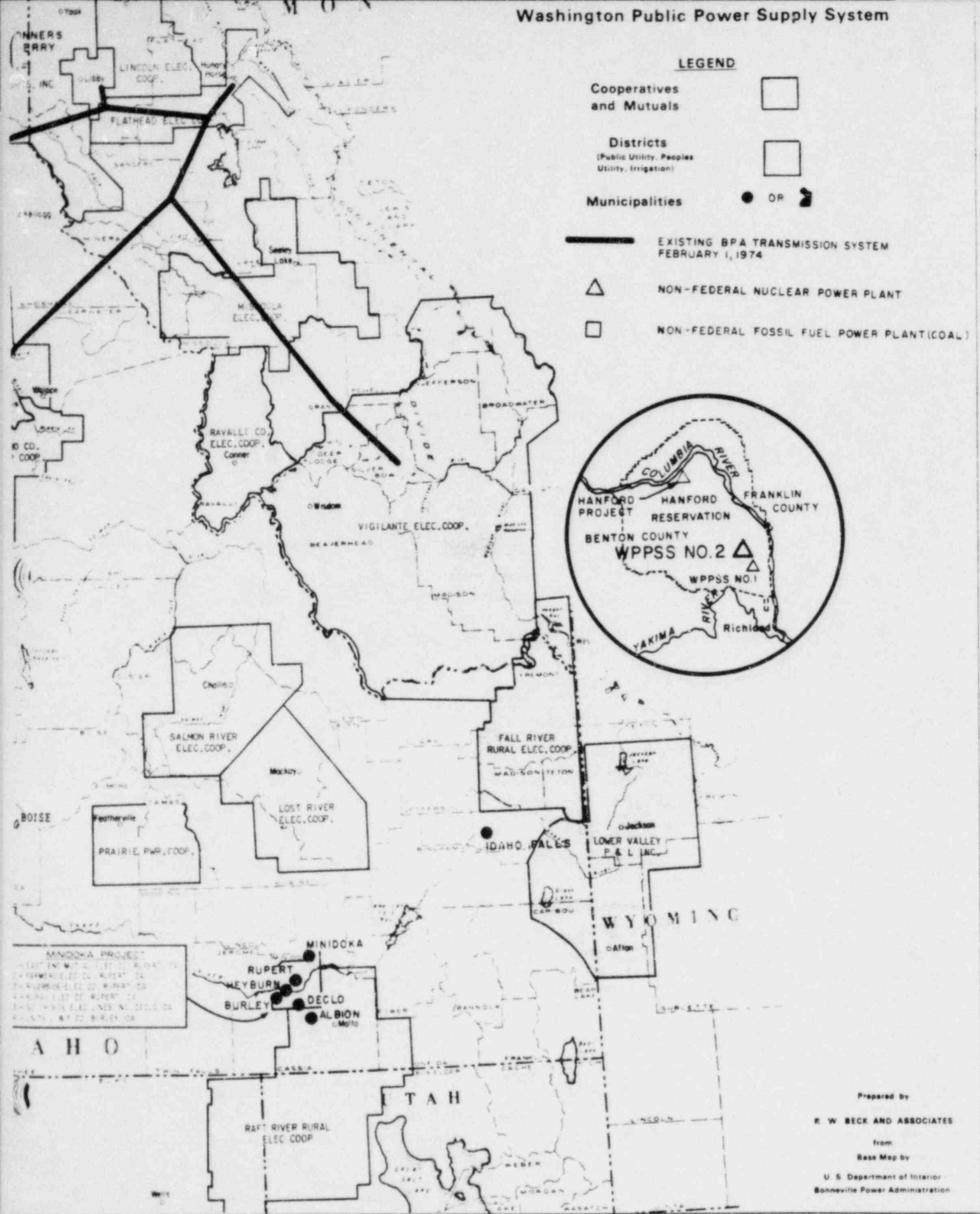
EXISTING BPA TRANSMISSION SYSTEM
FEBRUARY 1, 1974



NON-FEDERAL NUCLEAR POWER PLANT



NON-FEDERAL FOSSIL FUEL POWER PLANT (COAL)



Prepared by
R. W. BECK AND ASSOCIATES
from
Base Map by
U. S. Department of Interior
Bonneville Power Administration

in the Reserve Account either from Bond proceeds or amounts received under the Net Billing Agreements and deposited in the Prepayment Account. The Supply System is required to maintain the required amount in the Reserve Account at all times thereafter by additional payments from the Revenue Fund. If any Bonds are issued after September 1, 1977, or the Date of Commercial Operation, whichever is earlier, the additional amount required to be deposited in the Reserve Account shall be deposited therein from Bond proceeds or revenues available therefor at the time of issuance of the Bonds. (Res. Sec. 6.2).

Fuel Fund: Beginning on the Date of Commercial Operation, all payments for Fuel will be made from the Fuel Fund. After the Date of Commercial Operation, after making the required payments into the Bond Fund and into any separate bond fund for additional bonds and after paying the reasonable and necessary costs of operating and maintaining the Project, including taxes or payments in lieu thereof, the Supply System will transfer to the Fuel Fund the following amounts:

- (1) the amount included in the Annual Budget for Fuel,
- (2) all amounts received as Fuel credits, including the proceeds of the sale of Fuel, and
- (3) any additional amounts necessary to avoid a deficiency in the Fuel Fund. (Res. Sec. 6.4).

Reserve and Contingency Fund: On or before September 1, 1977, or the Date of Commercial Operation, whichever occurs earlier, the Supply System will deposit in the Reserve and Contingency Fund the sum of \$3,000,000 from the Prepayment Account, or, to the extent such moneys are not available, from Bond proceeds. In September 1977, and in each month thereafter, the Supply System is required to pay out of the Revenue Fund into the Reserve and Contingency Fund, after making the required payments into the Bond Fund, any separate bond fund established for additional bonds and the Fuel Fund, and after paying or making provision for payment of the reasonable and necessary cost of operating and maintaining the Project, an amount equal to 10% of the aggregate of the amounts required to be paid during such month into the Interest, Principal and Bond Retirement Accounts in the Bond Fund and into any special funds for interest, principal and bond retirements in respect of additional bonds.

Moneys in the Reserve and Contingency Fund are required to be used to make up deficiencies in the Bond Fund or in any bond funds established for additional bonds for which funds are not available, respectively, in the Construction Fund or Reserve Account or in the construction fund or reserve account in respect of additional bonds. To the extent not required for any such deficiency, moneys in the Reserve and Contingency Fund may be used after the Date of Commercial Operation for any one or more of the following purposes:

- (i) to pay the cost of renewals, replacements and normal additions to and extensions of the Project; and
- (ii) to pay extraordinary operation and maintenance costs, including extraordinary costs of Fuel and the cost of preventing or correcting any unusual loss or damage (including major repairs) to the Project. (Res. Sec. 6.5).

Investment of Funds: The term "Investment Securities" means (i) direct obligations of, or obligations guaranteed by, the United States of America; (ii) general obligation bonds of any state of the United States rated by a nationally recognized bond rating agency in either of the two highest rating categories assigned by such rating agency; (iii) bonds, debentures, notes or participation certificates issued by the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks or the Federal National Mortgage Association or of any agency of the United States or of any corporation wholly owned by the United States; (iv) Public Housing Bonds or Project Notes secured by contracts with the United States or an agency thereof; and (v) time deposits and certificates of deposit of any member of the Federal Reserve

System authorized to do business in the State of Washington, not exceeding 25% of the capital stock and surplus of such member. Moneys in the Revenue Fund not required for immediate disbursement are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable at or prior to the estimated time for the disbursement of such moneys. Moneys in the Interest Account, Principal Account and Bond Retirement Account are to be invested in Investment Securities described in clauses (i) through (iv) above maturing not later than 2 days prior to the respective dates when such moneys will be required for the purposes intended. Moneys in the Reserve Account not required for immediate disbursement are to be invested in Investment Securities described in clauses (i) through (iv) above maturing or redeemable within 7 years from the date of investment. Moneys in the Fuel Fund and Reserve and Contingency Fund not required for immediate disbursement are to be invested in Investment Securities maturing or redeemable within 2 years and 7 years, respectively, from the date of investment. Moneys in the Construction Fund are to be invested by the Construction Fund Trustee in Investment Securities maturing or redeemable within 5 years of the date of investment. (Res. Secs. 6.1, 6.7).

Excess Moneys: Prior to September 1, 1977 or the Date of Commercial Operation, whichever is earlier, excess moneys (as hereinafter defined) in the Reserve Account and the Reserve and Contingency Fund shall be paid into the Construction Fund. Moneys and the value of Investment Securities in the Reserve Account in excess of the amounts required to be maintained in the Reserve Account constitute "excess moneys" in respect of such Account; moneys and the value of Investment Securities in the Reserve and Contingency Fund in excess of \$3,000,000 plus the commitments or obligations incurred by or the requirements of the Supply System for any of the purposes for which the Reserve and Contingency Fund may be used constitute "excess moneys" in respect of such Fund.

If as of any June 30 following September 1, 1977 or the Date of Commercial Operation, whichever is earlier, excess moneys exist in the Reserve and Contingency Fund or the Reserve Account, such moneys shall be paid as follows:

(a) excess moneys in the Reserve and Contingency Fund shall be paid proportionately into the Reserve Account and the reserve account for any series of additional bonds to the extent of any deficiency therein, and the balance of such excess moneys shall be paid into the Revenue Fund; and

(b) excess moneys existing in the Reserve Account shall be paid proportionately into the reserve account for any series of additional bonds to the extent of any deficiency therein, and the balance of such excess moneys shall be paid into the Revenue Fund.

If as of any June 30 following September 1, 1977 or the Date of Commercial Operation, whichever is earlier, there shall exist in the Revenue Fund, after giving effect to any transfer of excess moneys from the Reserve Account and the Reserve and Contingency Fund to such Fund, an amount which exceeds the Supply System's required amount of working capital, the amount of such excess is to be applied to reduce annual power costs under the Net Billing Agreements. The "required amount of working capital" shall be \$3,000,000 or such lesser amount (not less than \$2,000,000) or such greater amount as may be decided upon by the Supply System and Bonneville with the approval of the Consulting Engineer. In addition, if the Supply System and Bonneville agree, all or any part of such excess over required working capital may be applied to the making of repairs, renewals, replacements, additions, betterments and improvements to, and extensions of, the Project, the purchase or redemption of Bonds, or for other purposes in connection with the Project. (Res. Secs. 6.2, 6.5, 6.6).

Certain Covenants

Certain covenants of the Supply System with the holders of the Bonds and the holders of additional bonds are summarized as follows:

The Project: The Supply System will, subject to the Project Agreement, complete construction of the Project at the earliest practicable time, operate the Project efficiently and at reasonable cost, maintain the Project in good condition and comply at all times with the terms of any licenses for the Project. (Res. Sec. 9.1).

Rates: The Supply System will dispose of all capability of and power and energy from the Project solely for the benefit and account of the Project and pursuant to the provisions of the Net Billing Agreements; and the Supply System will maintain and collect rates and charges for capability, power and energy and other services, facilities and commodities sold, furnished or supplied through the Project, which will be adequate, whether or not the generation or transmission of power by the Project is suspended, interrupted or reduced for any reason whatever, to provide revenues sufficient, among other things, (i) to pay the expenses of operating and maintaining the Project, (ii) to make the required payments into the Bond Fund and any special funds for additional bonds, and (iii) to make the required payments into the Fuel Fund and Reserve and Contingency Fund. (Res. Secs. 9.2, 9.3).

Net Billing Agreements and Project Agreement: The Supply System will not consent voluntarily to any amendment or rescission of the Project Agreement or the Net Billing Agreements or take any action under or in connection with such agreements which will reduce the payments provided for therein or which will in any manner impair or adversely affect the rights of the Supply System or of the bondholders. (Res. Sec. 9.4).

Disposition of Properties: The Supply System will not sell, mortgage, lease or otherwise dispose of any properties of the Project unless (a) simultaneous provision is made for the retirement in full of the Bonds and any additional bonds or (b) the properties to be disposed of are unserviceable, inadequate, obsolete or no longer required for use in connection with the Project, in which case \$50,000 of the moneys received therefor are to be transferred to the Reserve and Contingency Fund and the balance is to be paid proportionately into the Bond Retirement Account and bond retirement accounts created for additional bonds, unless such disposition is in connection with the replacement of such properties or the disposition of Fuel, in which case all moneys received from such disposition are to be transferred to the Reserve and Contingency Fund or the Fuel Fund, respectively, or (c) the transfer of such properties in whole or in part is by operation of law, in which case moneys received therefor are to be paid proportionately into the Bond Retirement Account and bond retirement accounts for additional bonds. (Res. Sec. 9.7).

Insurance: The Supply System will keep the Project insured, to the extent such insurance is available at reasonable cost: against risks of direct physical loss, damage to, or destruction of, the Project, at least to the extent that similar insurance is usually carried by private utility corporations operating like properties, and against accidents, casualties or negligence, including liability insurance and employer's liability.

In the event that any loss or damage to the properties of the Project occurs during the period of construction the Supply System is to transfer the insurance proceeds, if any, in respect of such loss or damage to the Construction Fund; any insurance proceeds received by the Supply System in respect of such loss or damage occurring thereafter are to be transferred into the Reserve and Contingency Fund or, in the case of insurance covering loss or damage to Fuel, to the Fuel Fund. (Res. Sec. 9.8).

Books of Account: The Supply System will keep proper books of account, showing the Project as a separate utility system, in accordance with the rules and regulations of the Division of Municipal Corporations of the State Auditor's office of the State of Washington and in accordance with the Uniform System of Accounts prescribed by the Federal Power Commission. Such books of account are to be audited annually by a firm of independent certified public accountants of national reputation. Bondholders may obtain copies of the annual financial statements showing the financial condition of the Project and the annual audit report by sending a written request therefor to the Supply System. (Res. Sec. 9.9).

Consulting Engineer: The Supply System will retain a nationally recognized independent consulting engineer or engineering firm to render continuous engineering counsel in the operation of the Project. In addition to his other duties, the Consulting Engineer shall prepare, not later than 18 months after the Date of Commercial Operation, and each 3 years thereafter, a report based upon a survey of the Project and the operation and maintenance thereof. Each report is to show, among other things, whether the Supply System has satisfactorily performed and complied with certain covenants in the Resolution. The Consulting Engineer is also required to report to the Bond Fund Trustee and the Supply System upon the economic soundness and feasibility of all contemplated renewals, replacements, additions, betterments and improvements to, and extensions of, the Project involving the expenditure of \$100,000 or more. The Consulting Engineer is also required to file annually a certificate with the Bond Fund Trustee describing the insurance then in effect and stating whether or not such insurance complies with the requirements of the Resolution. In the event of any loss or damage in excess of \$100,000, whether or not covered by insurance, the Consulting Engineer is to ascertain the amount of such loss or damage and deliver to the Supply System a certificate setting forth the amount and nature of such loss or damage, together with recommendations as to whether or not such loss or damage should be replaced. Copies of any such triennial report, annual certificate as to insurance, or certificate in respect of any such loss or damage will be sent to bondholders filing with the Supply System written requests therefor. (Res. Sec. 9.10).

Events of Default; Remedies

Under the Resolution, the happening of one or more of the following events constitutes an Event of Default: (i) default in the performance of any obligation with respect to payments into the Revenue Fund; (ii) default in the payment of the principal of or default for 30 days in the payment of interest or any sinking fund installment on any Bonds; (iii) default for 90 days in the observance and performance of any other of the covenants, conditions and agreements of the Supply System in the Resolution; (iv) the sale or conveyance of any properties of the Project except as permitted by the Resolution or the forfeiture through fault of the Supply System of any license, franchise, permit or other privilege necessary or desirable in the operation of the Project; and (v) certain events in connection with the bankruptcy, insolvency or reorganization of the Supply System. (Res. Sec. 11.1).

In case an Event of Default has occurred which has not been cured, each trustee appointed by or pursuant to the provisions of the Resolution is required to exercise such of the rights and powers vested in it by the Resolution and use the same degree of care and skill in the exercise thereof as a prudent man would exercise or use in the circumstances in the conduct of his own affairs. (Res. Sec. 7.6).

If an Event of Default shall have occurred, and shall not have been remedied, the Bond Fund Trustee or the holders of 20% in principal amount of the Bonds and additional bonds then outstanding may declare the principal of all the Bonds and additional bonds and the interest accrued thereon to be immediately due and payable, but such declaration may be annulled under certain circumstances. (Res. Sec. 11.1).

After the occurrence of an Event of Default and prior to the curing of such Event of Default, the Bond Fund Trustee may, to the extent permitted by law, take possession and control of the Project and operate and maintain the same, prescribe rates for Project capability or power sold or supplied through the facilities of the Project, collect the gross revenues resulting from such operation and perform all of the agreements and covenants contained in any contract which the Supply System is then obligated to perform. Such gross revenues, after payment of operating expenses, shall be applied to the payment of principal of and interest on the Bonds and additional bonds. After all sums then due in respect of the Bonds and additional bonds have been paid, and after all Events of Default have been cured or secured to the satisfaction of the Bond Fund Trustee, the Bond Fund Trustee is required to relinquish possession and control of the Project to the Supply System. (Res. Secs. 11.3, 11.4).

The Resolution empowers the Bond Fund Trustee to file proofs of claims for the benefit of the holders of the Bonds in bankruptcy, insolvency, or reorganization proceedings and to institute suit

for the collection of sums due and unpaid in connection with the Bonds, to enforce specific performance of covenants contained in the Resolution or to obtain injunctive or other appropriate relief for the protection of the holders of the Bonds. (Res. Sec. 11.4).

The holders of a majority in principal amount of the Bonds and additional bonds at the time outstanding have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Bond Fund Trustee, or exercising any trust or power conferred upon the Bond Fund Trustee, but the Bond Fund Trustee must be provided with reasonable security and indemnity and also may decline to follow any such direction if it shall be advised by counsel that the action or proceeding so directed may not lawfully be taken or if it in good faith determines that the action or proceeding so directed would involve it in personal liability or that the action or proceeding so directed would be unjustly prejudicial to the holders of Bonds or additional bonds not parties to such direction. No bondholder has any right to institute suit to enforce any provision of the Resolution or the execution of any trust thereunder (except to enforce the payment of principal or interest installments as they mature), unless the Bond Fund Trustee has been requested by the holders of not less than 20% in aggregate principal amount of the Bonds then outstanding to exercise the powers granted it by the Resolution or to institute such suit and unless the Bond Fund Trustee has refused or failed, within 60 days after the receipt of such request and after having been offered adequate security and indemnity, to comply with such request. In the event the Bond Fund Trustee has failed or refused to comply with the aforesaid request, the Resolution provides for the creation of a "Bondholders' Committee". (Res. Secs. 11.4, 11.5).

Amendments; Supplemental Resolutions

Any amendment to the Resolution may be made by the Supply System with the consent of the holders of $66\frac{2}{3}\%$ in principal amount of the Bonds and additional bonds then outstanding and with the consent of the holders of $66\frac{2}{3}\%$ in principal amount of the outstanding Bonds and additional bonds which are adversely affected by any amendment which does not equally affect all other outstanding Bonds and additional bonds, provided that no such amendment shall permit a change in the date of payment of principal of or any installment of interest on any Bond or additional bond or a reduction in the principal or redemption price thereof or the rate of interest thereon without the consent of each bondholder so affected. (Res. Article XII).

Without the consent of any holder of Bonds, the Supply System may adopt supplemental resolutions: to authorize the issuance of subsequent series of Bonds or additional bonds; to add to the covenants of the Supply System contained in, or to surrender any rights reserved to or conferred upon it by, the Resolution; to add to the restrictions contained in the Resolution upon the issuance of additional indebtedness; to confirm as further assurance any pledge under the Resolution of the revenues of the Project or other moneys; otherwise to modify any of the provisions of the Resolution (but no such modification may be effective while any of the Bonds are outstanding); or to cure any ambiguity or correct any defect in the Resolution, provided that the Bond Fund Trustee shall consent thereto. (Res. Article X).

REGISTRATION OF THE 1975 A BONDS BY STATE AUDITOR

The 1975 A Bonds will be registered by the State Auditor of the State of Washington, and a certificate of such registration signed by the State Auditor or a Deputy State Auditor will be endorsed upon each 1975 A Bond in accordance with the provisions of Section 54.24.070 of the Revised Code of Washington, made applicable to the Supply System by the Revised Code of Washington, Section 43.52.3411. Such Section 54.24.070 provides, in part, that any revenue obligations after having been so registered and bearing such certificate shall be held in every action, suit or proceeding in which their validity is or may be brought into question prima facie valid and binding obligations in accordance with their terms.

NEGOTIABLE INSTRUMENTS

The 1975 A Bonds and the interest coupons attached thereto are negotiable instruments to the extent provided by the provisions of Section 54.24.120 of the Revised Code of Washington.

LITIGATION

There is no litigation pending or, to the knowledge of the Supply System, threatened, questioning the corporate existence of the Supply System, the title of the officers of the Supply System to their respective offices, the validity of the 1975 A Bonds, the power and authority of the Supply System to issue the 1975 A Bonds, the validity of the Net Billing Agreements or the Project Agreement, the validity of any other proceeding taken or contract entered into by the Supply System which is in any way related to the Project, or the power and authority of the Supply System to fix, charge and collect rates for the sale of power, energy and capability from the Project as provided in the Resolution.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the Net Billing Agreements, the Project Agreement and the authorization and issuance of the 1975 A Bonds are subject to the approval of Messrs. Wood Dawson Love & Sabatine, Bond Counsel to the Supply System, and Messrs. Houghton Cluck Coughlin & Riley, Special Counsel to the Supply System. Copies of the opinions they propose to render are appended hereto as Exhibit IV.

TAX EXEMPTION

In the opinion of the above named Counsel, the interest on the 1975 A Bonds will be exempt from Federal income taxation under existing laws and regulations and specific rulings issued by the Internal Revenue Service, dated November 18, 1970 and November 30, 1972.

MISCELLANEOUS

The references, excerpts and summaries contained herein of the Net Billing Agreements, the Project Agreement and the Resolution do not purport to be complete statements of the provisions of such documents and reference should be made to such documents for a full and complete statement of all matters relating to the Bonds, the basic agreements securing the Bonds and the rights and obligations of the holders thereof.

The authorizations, agreements and covenants of the Supply System are set forth in the Resolution, and neither this Official Statement nor any advertisement of the 1975 A Bonds are to be construed as a contract with the holders of the 1975 A Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

All of the information relative to the Pacific Northwest, Bonneville, Joint Power Planning Council and Pacific Northwest Utilities Conference Committee have been taken from sources deemed to be reliable but are not guaranteed as to completeness or accuracy.

The delivery of this Official Statement has been duly authorized by the Supply System.

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

EDWIN W. TAYLOR
Secretary

EXHIBIT I

WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT NO. 2

The Participants, their customers and gross revenues, and Participant's Shares of the Project capability.

Participant	1973 Statistics		Participant's Share of Project Capability
	Customers	Revenues	
City of Albion, Idaho	155	\$ 27,169	.00016
City of Bandon, Oregon	1,785	388,710	.00263
Public Utility District No. 1 of Benton County, Washington	16,121	5,111,529	.05350
Benton Rural Electric Association, Inc.	5,050	1,323,228	.00666
Big Bend Electric Cooperative, Inc.	4,380	2,033,780	.01610
Blachly-Lane County Cooperative Electric Association	1,908	755,447	.00272
City of Blaine, Washington	1,213	254,413	.00185
City of Bonners Ferry, Idaho	1,628	401,405	.00182
City of Burley, Idaho	3,977	872,123	.00694
City of Canby, Oregon	2,212	473,313	.00090
City of Cascade Locks, Oregon	597	199,021	.00054
Central Electric Cooperative, Inc.	5,656	1,477,539	.00586
City of Centralia, Washington	6,382	1,168,111	.00739
Central Lincoln Peoples' Utility District	17,997	6,321,978	.04017
City of Cheney, Washington	2,608	666,771	.00539
Public Utility District No. 1 of Clallam County, Washington	10,413	3,009,330	.01769
Public Utility District No. 1 of Clark County, Washington	57,672	15,106,080	.06151
Clatskanie Peoples Utility District	2,288	2,015,406	.01996
Clearwater Power Company	5,537	1,432,813	.00775
Columbia Basin Electric Cooperative, Inc.	3,102	1,067,072	.00673
Columbia Power Cooperative Association, Inc.	1,304	468,909	.00143
Columbia Rural Electric Association, Inc.	1,914	868,810	.00761
Consumers Power, Inc.	9,523	2,688,341	.00453
Coos-Curry Electric Cooperative, Inc.	8,305	2,684,490	.01634
Town of Coulee Dam, Washington	544	160,824	.00137
Public Utility District No. 1 of Cowlitz County, Washington	29,704	11,504,144	.05525
City of Declo, Idaho	91	18,150	.00019
Douglas Electric Cooperative, Inc.	5,355	1,296,211	.00363
City of Drain, Oregon	574	183,381	.00218
East End Mutual Electric Co., Ltd.	321	67,254	.00033
City of Ellensburg, Washington	5,068	1,086,842	.01028
Fall River Rural Electric Cooperative, Inc.	4,313	998,459	.00409(A)
Farmers Electric Co., Ltd.	204	44,158	.00041
Public Utility District No. 1 of Ferry County, Washington	1,427	496,275	.00171
Flathead Electric Cooperative, Inc.	4,188	882,728	.00370
City of Forest Grove, Oregon	4,336	980,130	.00181
Public Utility District No. 1 of Franklin County, Washington	10,421	3,033,105	.02370
Public Utility District No. 1 of Grays Harbor County, Washington	28,635	8,540,248	.03075
Harney Electric Cooperative, Inc.	1,632	999,123	.00719
City of Heyburn, Idaho	711	414,990	.00504
Hood River Electric Cooperative of Hood River County, Oregon	2,103	652,670	.00502
Idaho County Light & Power Cooperative Association, Inc.	1,648	385,282	.00186
City of Idaho Falls, Idaho	13,046	3,257,267	.02376
Inland Power & Light Company	12,802	3,188,311	.01222
Public Utility District No. 1 of Kittitas County, Washington	1,217	337,982	.00220

(A) Fall River Rural Electric Cooperative, Inc. has temporarily assigned its Participant's Share to Public Utility District No. 1 of Snohomish County, Washington.

(Continued on next page)

Participant	1973 Statistics		Participant's Share of Project Capability
	Customers	Revenues	
Public Utility District No. 1 of Klickitat County, Washington	5,999	\$ 1,788,558	.01009
Kootenai Electric Cooperative, Inc.	4,789	1,081,040	.00391
Lane Electric Cooperative, Inc.	7,654	2,019,895	.01452
Public Utility District No. 1 of Lewis County, Washington	15,716	3,703,733	.02274
Lincoln Electric Cooperative, Inc. (Montana)	1,632	528,653	.00255
Lost River Electric Cooperative, Inc.	1,358	372,602	.00202
Lower Valley Power & Light, Inc.	6,659	1,866,175	.00820
Public Utility District No. 1 of Mason County, Washington	2,541	439,058	.00231
Public Utility District No. 3 of Mason County, Washington	12,373	2,898,635	.01446
Town of McCleary, Washington	642	218,860	.00234
City of McMinnville, Oregon	5,692	1,675,956	.01227
Midstate Electric Cooperative, Inc.	4,092	1,105,591	.00488
City of Milton-Freewater, Oregon	3,276	640,998	.00583
City of Minidoka, Idaho	54	7,729	.00005
Missoula Electric Cooperative, Inc.	3,731	859,582	.00294
City of Monmouth, Oregon	1,867	381,692	.00236
Nespelem Valley Electric Cooperative, Inc.	1,110	283,461	.00149
Northern Lights, Inc.	5,844	1,364,914	.00455
Northern Wasco County People's Utility District	2,519	516,771	.00051
Okanogan County Electric Cooperative, Inc.	1,027	207,370	.00190
Public Utility District No. 1 of Okanogan County, Washington	11,667	2,981,689	.01042
Orcas Power and Light Company	3,549	989,451	.00725
Public Utility District No. 2 of Pacific County, Washington	11,218	2,022,730	.01503
City of Port Angeles, Washington	6,995	1,994,158	.02416
Prairie Power Cooperative, Inc.	323	80,390	.00019
Raft River Rural Electric Cooperative, Inc.	1,736	1,106,458	.00853
Ravalli County Electric Cooperative, Inc.	2,195	588,330	.00301
City of Richland, Washington	9,532	2,686,624	.02761
Riverside Electric Company, Ltd.	208	40,857	.00020
City of Rupert, Idaho	2,086	488,714	.00348
Rural Electric Company	1,988	494,773	.00262
Salem Electric	7,150	1,309,752	.00453
Salmon River Electric Cooperative, Inc.	1,277	359,886	.00170
City of Seattle, Washington	259,444	63,848,358	.07193
Public Utility District No. 1 of Skamania County, Washington	2,742	834,987	.00547
Public Utility District No. 1 of Snohomish County, Washington	106,832	28,765,124	.15363
South Side Electric Lines, Inc.	399	149,859	.00073
City of Springfield, Oregon	6,236	1,436,100	.00363
City of Sumas, Washington	322	73,916	.00048
Surprise Valley Electrification Corporation	2,929	808,466	.00323
Tanner Electric	709	176,338	.00122
Tillamook Peoples' Utility District	11,345	2,752,344	.01729
Umatilla Electric Cooperative Association	4,883	1,826,413	.00036
Unity Light and Power Company	1,101	267,900	.00204
Vera Irrigation District No. 15	3,349	645,259	.00701
Vigilante Electric Cooperative, Inc.	3,100	816,425	.00294
Public Utility District No. 1 of Wahkiakum County, Washington	1,967	397,753	.00328
Wasco Electric Cooperative, Inc.	2,309	756,790	.00342
West Oregon Electric Cooperative, Inc.	2,672	673,833	.00182
TOTAL	858,905	\$230,778,352	1.00000

EXHIBIT II

R. W. BECK AND ASSOCIATES

ANALYTICAL AND CONSULTING ENGINEERS

PLANNING
DESIGN
RATES
ANALYSES
EVALUATIONS
MANAGEMENT

200 TOWER BUILDING
SEATTLE, WASHINGTON 98101
TELEPHONE 206-422-9000

SEATTLE, WASHINGTON
DENVER, COLORADO
PHOENIX, ARIZONA
ORLANDO, FLORIDA
COLUMBUS, NEBRASKA
BOSTON, MASSACHUSETTS

FILE NO. SS-1119-NF1-TA

March 1, 1975

Board of Directors
Washington Public Power Supply System
Richland, Washington

Gentlemen:

Subject: Summary Engineering Report
Washington Public Power Supply System
Nuclear Project No. 2

Presented herewith is a summary of our analyses, investigations and studies with respect to the proposal by the Washington Public Power Supply System (the "Supply System") to issue \$125,000,000 of its Washington Public Power Supply System Nuclear Project No. 2 Revenue Bonds, Series 1975 A (the "1975 A Bonds"), for the purpose of paying certain cost of acquiring and constructing a nuclear-fueled electric generating plant with a nominal capacity of approximately 1,100,000 kilowatts and related facilities (the "Project"). The Supply System has issued a total of \$355,000,000 of its Washington Public Power Supply System Nuclear Project No. 2 Revenue Bonds in three series, Series 1973 (the "1973 Bonds"), Series 1974 (the "1974 Bonds") and Series 1974 A (the "1974 A Bonds"). The present program provides that additional revenue bonds will be issued at later dates and in amounts necessary to complete the construction of the Project and place it into operation.

The Supply System is a municipal corporation and a joint operating agency organized under the laws of the State of Washington and has 21 members consisting of 18 public utility districts and 3 municipalities, all located within the State of Washington. The Supply System owns and operates the Packwood Lake Hydroelectric Project of 27,500 kVa of name plate capacity located in Lewis County, Washington, and the steam-electric generating plant of approximately 860,000 kilowatts located in Benton County, Washington, known as the Hanford Project. Steam is provided to this latter project from a nuclear reactor (the "New Production Reactor") owned and operated by the Energy Resources Development Agency (the "ERDA"), a successor agency to the Atomic Energy Commission (the "AEC"), on its Hanford Reservation near Richland, Washington. The Supply System issued \$13,700,000 of Packwood Lake Hydroelectric Project Revenue Bonds, Series of 1962 and 1965, to finance construction of the Packwood Lake Hydroelectric Project and \$122,000,000 of Hanford Project Electric Revenue Bonds, Series of 1963, to finance construction of the Hanford Project. Each of these projects is a separate utility system and the revenues of each are respectively pledged to the separate systems.

The Supply System is undertaking preliminary work on two additional nuclear generating facilities designated as Washington Public Power Supply System Nuclear Project No. 1 and Washington Public Power Supply System Nuclear Project No. 3, which are, as is the Project, an integral part of Phase I of the Hydro Thermal Power Program. The Supply System will have 100% ownership of Nuclear Project No. 1 and 70% ownership of Nuclear Project No. 3. The Supply System's ownership share of the output of these projects has been sold under net billing agreements similar to the Net Billing Agreements for the Project. Each of these projects is a separate utility system and the revenues of each are respectively pledged to each separate system.

In addition, the Supply System has undertaken preliminary financing and preliminary work on two additional nuclear generating facilities known as the Washington Public Power Supply System Nuclear Project No. 4 and Washington Public Power Supply System Nuclear Project No. 5 and is investigating the possibilities of its participation in nuclear generating facilities known as the Skagit Project to be built by Puget Sound Power & Light Company. The Supply System anticipates that its ownership interest in these Projects will be financed as a single utility system.

The Project

The Project is located approximately 12 miles north of the City of Richland and 3 miles west of the Columbia River, in Benton County, Washington, on the Hanford Reservation of the ERDA.

The Project will include a nuclear steam supply system manufactured by the General Electric Company that will employ a boiling water reactor. The nuclear steam supply system will include the necessary auxiliary systems required to control, contain and service the nuclear reactor core. Steam will be supplied to the turbine at approximately 985 psia. After driving the turbine, the steam will be exhausted into the condenser which is cooled with circulating water from mechanical draft cooling towers. Water will be withdrawn from the Columbia River and suitably treated for use as makeup to the cooling tower circulating system. A Westinghouse generator will be the main generating unit and will be rated at 1,231,700 kVA. The generator will be connected to 3 single phase power transformers and two auxiliary transformers. The main power transformers will step up the generator voltage to 500 kV. Delivery into the Federal Columbia River Power System will be over a 18.3 mile 500 kV transmission line to be constructed by Bonneville Power Administration ("Bonneville") between the Project and Bonneville's Hanford Substation. The Project will have a net electrical output of approximately 1,093,000 kilowatts.

Permits and Licenses

The specific site for the Project has been certified for the State of Washington by the Washington State Thermal Power Plant Site Evaluation Council. The Supply System submitted to the AEC a Preliminary Safety Analysis Report and an Environmental Report for the Project which were reviewed by the AEC. The Advisory Committee on Reactor Safeguards of the AEC, on October 19, 1972, concluded that, if due consideration is given to the comments of the Committee, the Project "can be constructed with reasonable assurance that it can be operated without undue risk to the health and safety of the public." Public hearings were conducted in accordance with AEC licensing requirements, and the AEC Licensing Board on March 19, 1973 granted the Supply System a construction permit for the Project.

Construction Program

The construction schedule has been prepared by the Supply System and Burns and Roe, Inc., the Construction Engineer selected by the Supply System to design and supervise construction of the Project. Erection of the containment vessel was started in September 1973. Cooling tower construction was

started in April 1974. The reactor vessel is scheduled for delivery in December 1975, and the turbine generator is scheduled for delivery in June 1975. The Construction Engineer has projected that the Project is eight months behind schedule, and has rescheduled the date of commercial operation to June 1, 1978. The Construction Engineer is of the opinion that the program for construction is realistic and a commercial operation date of June 1, 1978 has a reasonable chance of achievement; however, according to the Construction Engineer, realization of such a commercial operating date will require a significant improvement in the rate of construction progress.

As of December 31, 1974 equipment and construction contract commitments totaled \$258,058,567. Actual expenditures to December 31, 1974 are summarized in the following table:

Total Construction Cost	\$123,487,400
Nuclear Fuel	11,852,700
Bond Discount and Financing Cost	2,664,100
Interest During Construction (Gross)	19,300,000
Total	\$157,304,200

Long Term Financing Program

The long term financing program contemplates the issuance of Bonds to finance the construction and initial operation of the Project in several series. The \$150,000,000 of the 1973 Bonds were the first Bonds issued. Proceeds from the issuance of the 1973 Bonds were used to provide for the payment of the \$55,000,000 of outstanding revenue notes theretofore issued for the Project and to provide additional funds for construction of the Project. The proceeds from the issuance of the \$80,000,000 of the 1974 Bonds and the \$125,000,000 of the 1974 A Bonds are being used to pay the costs of construction of the Project, and the proceeds from the \$125,000,000 of 1975 A Bonds will be used to pay the costs of continuing construction of the Project. Based on present estimates of actual needs by the Construction Engineer and the Supply System, the proceeds from the 1975 A Bonds will be sufficient to continue construction of the Project until the summer of 1976 prior to which the additional Bonds are planned to be issued. The amount of the next issue of Bonds will be determined immediately prior to the time of issuance.

Estimated Financing Required(1)

	<u>Previous Financing</u>	<u>1975 A Bonds</u>	<u>Additional Bonds</u>	<u>Total</u>
Total Construction Costs(2)	\$285,210,000	\$108,145,000	\$ 98,161,800	\$491,516,800
Nuclear Fuel(3)	12,445,000	2,382,000	26,102,000	40,929,000
Bond Discount and Financing Costs	2,664,000	2,250,000	2,412,000	7,326,000
Interest During Construction(4)...	81,903,000	22,656,000	21,049,000	125,608,000
Gross Requirements	<u>\$382,222,000</u>	<u>\$135,433,000</u>	<u>\$147,724,800</u>	<u>\$665,379,800</u>
Less: Estimated Investment Income	<u>27,222,000</u>	<u>10,433,000</u>	<u>13,724,800</u>	<u>51,379,800</u>
Net Requirements	<u><u>\$355,000,000</u></u>	<u><u>\$125,000,000</u></u>	<u><u>\$134,000,000</u></u>	<u><u>\$614,000,000</u></u>

- (1) These estimates are based on the Project being placed in commercial operation by June 1, 1978. A significant delay in Project completion would result in an increase in these costs. See Exhibit III.
- (2) Includes construction costs, engineering and construction management costs, escalation and contingencies, as estimated by the Construction Engineer, and owner's direct cost as estimated by the Supply System.
- (3) As estimated by the Supply System; includes sales tax.
- (4) Based on actual interest rates for the 1973 Bonds, the 1974 Bonds, the 1974 A Bonds and assumed annual interest rates of 7.25% on the 1975 A Bonds and 7.25% on the additional Bonds.

In addition to the foregoing amounts obtained through issuance of Bonds, funds required to make the necessary payments to the Reserve Account in the Bond Fund, to provide working capital, to provide an initial Reserve and Contingency Fund and to provide a contingency for fuel are expected to be obtained under the Net Billing Agreements described below during the period beginning January 1, 1977 and extending to September 1, 1977 as follows:

Reserve Account in Bond Fund(1)	\$21,127,000
Working Capital(2)	3,000,000
Reserve and Contingency Fund(3)	3,000,000
Fuel Contingency(4)	8,000,000
Total	<u>\$35,127,000</u>

- (1) Estimated amount required by the Supply System's Resolution No. 640.
- (2) Amount subject to further analysis and approval by Bonneville and the Supply System.
- (3) Amount required by the Supply System's Resolution No. 640.
- (4) Estimated amount to be provided from advanced net billing to permit leveling of annual fuel costs in the event of a critical period of power supply. Amount subject to further analysis and approval by Bonneville and the Supply System.

If for any reason such amounts (other than the fuel contingency) are not provided under the Net Billing Agreements they will be provided through the issuance of additional Bonds.

Project Output

The Project is expected to have a net peaking capability of 1,093,000 kilowatts and is expected to be capable of producing about 7,200,000,000 kilowatt hours annually. During a critical period of power supply in the Pacific Northwest caused by water shortage, it is expected that the Project would be called upon to produce the full amount of energy that it is capable of producing. During other periods, however, there will be times when surplus water will be available to generate power at existing hydroelectric projects thereby permitting a reduction in the total amount of energy produced at the thermal electric projects to be constructed under the Hydro Thermal Power Program, including the Project.

Cost of Power

Estimates of the annual costs of the Project's operations have been prepared based on 1974 costs of labor and materials escalated to estimated 1978 conditions, the actual interest rate on the 1973 Bonds, the 1974 Bonds and the 1974 A Bonds, and annual interest rates of 7.25% on the 1975 A Bonds and on the additional Bonds. The costs reflect those operating costs that would be characteristic of a mature plant. The total annual costs are estimated to be approximately \$70,330,000 for the generation of 7,200,000,000 kilowatt hours annually amounting to a unit cost of 9.77 mills per kilowatt hour.

The total annual costs referred to above are based on level debt service over a 35 year period. The Supply System and Bonneville anticipate that maturities of the Bonds will not be scheduled to yield level debt service throughout the period. Variations in annual costs will result from such scheduling to the extent that actual debt service varies from the assumed level debt service.

Sale of Power

The entire capability of the Project has been purchased by 94 public agency Participants pursuant to Net Billing Agreements entered into between the Supply System, Bonneville and each Participant. The

Net Billing Agreements obligate the Participants to pay all of the Project Annual Costs as defined in the Agreements. The number of Participants and the extent of participation follows by main categories:

<u>Type</u>	<u>Number</u>	<u>Percent Participation</u>
Districts	22*	56.868
Municipalities	27	22.639
Cooperatives	45	20.493
Total	94	100.000

* 17 Public Utility Districts, 4 Peoples Utility Districts, and 1 Irrigation District.

NOTE: Summary statistical information on the Participants is given in Table A at the end of this report.

Each Participant's share of the output of the Project has been assigned to Bonneville which, in payment for such assignment, will credit the Participant each year, against amounts owing to Bonneville by such Participant, a total amount equal to the payment which the Participant is required to make to the Supply System for such year. This process referred to herein as "net billing" is more fully discussed in the Official Statement to which this report is attached.

Other Proposed Projects

The Supply System is undertaking preliminary work on two nuclear generating facilities in addition to the Project.

The first of these, designated as Washington Public Power Supply System Nuclear Project No. 1, is a 1,250,000 kilowatt project located on the Hanford Reservation near the site of the Project. This project was originally planned to be built at the site of the Hanford Project and to incorporate the Hanford Project generating facilities into its design. It has been determined to move the project to the site near the Project in order to allow continued operation of the Hanford Project beyond 1977. Preliminary work is proceeding on the project at the new location financed with the proceeds of \$77,000,000 of revenue notes issued in June 1974. Present plans provide that the total cost of the project will be financed from the proceeds of the issuance of long-term bonds. Application for site approval has been submitted to the Washington State Thermal Power Plant Site Evaluation Council of the State of Washington and the nuclear steam supply system has been ordered.

The second of these, designated as Washington Public Power Supply System Nuclear Project No. 3, is a 1,240,000 kilowatt project, to be a jointly owned project, with the Supply System owning a 70 percent undivided interest and four investor-owned utilities owning the remaining 30 percent interest. A site for this project has been selected near Aberdeen in Grays Harbor County, Washington. The preliminary work on this project is under way. The Supply System's share of the costs of such preliminary work was financed with the proceeds of \$29,000,000 of short-term notes issued in October 1973. Present plans provide that the Supply System's 70 percent ownership share of the project will be financed through the issuance of long-term bonds.

These three Supply System projects have been approved as part of Phase I of the Hydro Thermal Power Program as more completely described in the statement "The Hydro Thermal Power Program and Power Supply in the Pacific Northwest" which is included in the Official Statement to which this summary engineering report is an exhibit.

In addition to the foregoing projects, the Supply System, pursuant to a request by the Public Power Council, representing more than 100 statutory preference customers of Bonneville in the Pacific Northwest, has also begun preliminary work on the Supply System's Nuclear Project No. 4 and Nuclear Project No. 5 and is investigating other electric generating facilities. It is presently planned that the Supply System's Nuclear Project No. 4 will be a duplicate plant of the Supply System's Nuclear Project No. 1 on the Hanford Reservation, and that the Supply System's Nuclear Project No. 5 will be a duplicate plant of the Supply System's Nuclear Project No. 3 at the Satsop site near Aberdeen in Grays Harbor County, Washington. The Supply System is negotiating with the investor-owned utilities who share ownership in the Supply System's Nuclear Project No. 3 concerning possible sharing of ownership of Nuclear Project No. 5. The Supply System is also investigating the possibility of participating on a joint ownership basis with Puget Sound Power & Light Company and other investor-owned utilities in Puget Sound Power & Light Company's Skagit Project to be located in Skagit County, Washington. The preliminary work of the Supply System on these projects to date is being financed from the proceeds of \$17,500,000 of Washington Public Power Supply System Generating Facilities Revenue Notes which were issued in two series, Series 1974 and Series 1974 A.

Conclusions

Based on our study and analyses of the Supply System's proposal to construct the Project, we are of the opinion that:

1. The output of the Project is required to meet the load growth of the utility systems of the Pacific Northwest under the Hydro Thermal Power Program.
2. The Net Billing Agreements between the Supply System, each Participant and Bonneville provide a sound basis for proceeding with the financing of the construction of the Project through issuance of Bonds as proposed.
3. The estimated cost of the output of the Project is reasonable and comparable to costs expected from similar nuclear projects to be developed within the same time frame.

We have furnished to you information contained in the Official Statement under the captions "Project Financing Requirements", "Project Output", "Project Annual Costs", "The Hydro Thermal Power Program and Power Supply in the Pacific Northwest" and Exhibit I. In our opinion, the information contained therein is correct.

Respectfully submitted,

/s/ R. W. BECK AND ASSOCIATES

Table A

PROJECT PARTICIPANTS
Summary of Financial and Statistical Data

Statistics	1973			Total	1972
	Districts	Municipalities	Cooperatives		Total
CUSTOMERS:					719,855
Residential	318,790	302,463	127,619	748,872	827,247
Total	364,163	341,073	153,669	858,905	24,638,549
ENERGY SALES: kWh (000)	13,428,085	9,178,891	3,608,800	26,215,776	
ENERGY PURCHASES: kWh (000)					5,548,355
Bonneville (Hanford Project Exchange)	2,840,603	164,645	504,981	3,510,229	14,969,997
Bonneville	10,492,063	3,885,033	3,463,010	17,840,106	94,931
Other	18,906	456,376	1,601	476,883	20,613,283
Total Energy Purchases kWh (000) ..	13,351,572	4,506,054	3,969,592	21,827,218	6,064,672
ENERGY GENERATED: kWh (000)	559,258	5,623,623	2,094	6,184,975	26,677,955
Total Energy Requirements kWh (000)	13,910,830	10,129,677	3,971,686	28,012,193	5,856,651
PEAK DEMANDS: kW	2,947,378	1,824,222	935,084	5,706,684	
Operations					
INCOME:					\$ 211,602,809
Total Operating Revenues	\$103,222,718	\$ 84,105,725	\$ 43,449,909	\$ 230,778,352	4,582,846
Other Income (Non-operating)	2,933,956	3,220,764	675,545	6,830,265	\$ 216,185,655
Total Income	\$106,156,674	\$ 87,326,489	\$ 44,125,454	\$ 237,608,617	
OPERATING EXPENSES:					
Purchased Power					\$ 16,573,489
Bonneville (Hanford Project Exchange)	\$ 8,395,736	\$ 526,623	\$ 1,636,781	\$ 10,559,140	45,182,161
Bonneville	31,569,030	10,951,119	10,580,786	53,100,935	1,616,506
Other	235,505	805,992	8,328	1,049,825	\$ 63,372,156
Total Purchased Power Expense ...	\$ 40,200,271	\$ 12,283,734	\$ 12,225,895	\$ 64,709,900	3,566,784
Generating Expense	3,539,398	6,795,666	14,949	10,350,013	\$ 66,938,940
Total Power Supply Expense	\$ 43,739,669	\$ 19,079,400	\$ 12,240,844	\$ 75,059,913	
Other Expense (Including Depreciation and Taxes)	40,450,817	53,525,390	22,917,240	116,893,447	108,997,473
Total Operating Expenses	\$ 84,190,486	\$ 72,604,790	\$ 35,158,084	\$ 191,953,360	\$ 175,936,413
Condensed Balance Sheet					
ASSETS:					
Net Utility Plant	\$293,189,878	\$401,762,021	\$188,594,623	\$ 883,546,522	\$ 840,666,274
Other Property and Investments	73,265,840	52,860,895	9,624,377	135,751,112	90,942,924
Current Assets	49,635,222	30,535,173	20,552,211	100,722,606	98,607,726
Deferred Debits	11,622,466	9,275,701	824,763	21,722,930	19,641,241
Total Assets	\$427,713,406	\$494,433,790	\$219,595,974	\$1,141,743,170	\$1,049,858,165
LIABILITIES:					
Long-Term Debt	\$168,603,405	\$240,602,000	\$156,106,921	\$ 565,312,326	\$ 506,849,933
Current Liabilities	21,427,251	18,974,376	8,350,077	48,751,704	41,829,835
Deferred Credits	8,043,813	788,956	793,532	9,626,301	10,290,402
Reserves	772,192	3,144,137	190,777	4,107,106	3,430,304
Contributions in Aid of Construction ..	8,337,114	9,930,835	6,218,760	24,486,709	22,115,736
Retained Earnings	220,529,631	220,993,486	47,935,907	489,459,024	465,341,955
Total Liabilities	\$427,713,406	\$494,433,790	\$219,595,974	\$1,141,743,170	\$1,049,858,165
Percent Participation	56.868	22.639	20.493	100.000	

EXHIBIT III

Burns and Roe, Inc.

320 Fulton Avenue • Hempstead, New York 11550 • Telephone (516) 483-8000
TWX 510-222-9049 • Cable BUROE HEMPSTEADNY

Main Office
700 Kinderkamack Road
Oradell, New Jersey 07649

March 6, 1975

Board of Directors
Washington Public Power Supply System
Richland, Washington

Subject: Washington Public Power Supply System
Nuclear Project No. 2

Gentlemen:

Burns and Roe, Inc. has been selected and retained by Washington Public Power Supply System to provide engineering, design and construction management services for Washington Public Power Supply System Nuclear Project No. 2 (the "Project") being constructed on the U. S. Atomic Energy Commission's Hanford Reservation, near Richland, Washington.

Burns and Roe's responsibilities cover complete engineering, quality assurance and construction management services and include preparation of plans and specifications, capital cost estimating, site selection, participation in the preparation of applications and reports for such items as the Nuclear Regulatory Commission (the "NRC") construction permit and operating license and Corps of Engineers' permits, economic analyses, project scheduling, review of bids, expediting of vendors and contractors, assistance in plant start-up and test and training of operating personnel, managing of construction contracts and coordination of contractors, direction of contractor work, establishing and administering site safety, security, first-aid and other such site programs, and all related items to result in a complete and successful operating plant.

The Project

The Project will consist of a single-unit, boiling water reactor electric generating station having a nominal capacity of 1,100,000 kilowatts together with the necessary transformation, switching and related 500 kV facilities to interconnect the generating station with the 500 kV facilities of the Federal Columbia River Power System. The plant layout and design, which provides for the initial development of a single 1,100,000 kilowatt unit, includes consideration of the possible future expansion to a station with another generating unit. Following is a summary description of the electric generating station.

The Project will be located on the Hanford Reservation, approximately 3 miles west of the Columbia River and 12 miles north of the City of Richland. The plant will consist of a nuclear steam supply system, turbine-generator, cooling tower and river makeup water pumping and blowdown discharge facilities, complete with structure, auxiliary equipment, instrumentation, controls and other associated accessories.

There will be seven basic structures comprising the overall power plant. These are the reactor building, radioactive waste building, turbine-generator building, diesel generator building and service

building (together comprising the main plant), cooling towers and circulating pumphouse, and river makeup water plant.

All structures will be generally supported on compacted structural fill. The approximate overall dimensions of the main plant will be 420 feet by 360 feet and the maximum height from basement to roof will be 225 feet in the reactor building and 180 feet in the turbine-generator building. The reactor building will be of concrete construction and will include a steel superstructure. Primary containment will be furnished by a separate steel vessel within the reactor building. This vessel will be surrounded by concrete from primary shielding. The radioactive waste disposal facility, which adjoins the reactor building and houses the equipment for treatment of radioactive wastes, will also be concrete.

The turbine-generator building will have a reinforced concrete foundation. The portion above grade will be of insulated metal panels except for the areas enclosed by concrete for radiation shielding.

The nuclear plant will contain a General Electric Company boiling water reactor of proven design. The reactor core will contain 764 fuel bundles each composed of an 8 by 8 rod array of slightly enriched UO_2 pellets with Zircaloy-2 cladding. The assembly will be contained in a Zircaloy-4 reusable coolant flow channel which will provide a fixed flow path for the boiling coolant, serve as a guide surface for the control rod blades and protect the fuel during handling.

Four fuel assemblies will surround each of 185 control rods, which are bottom mounted and hydraulically driven to control reactivity and modulate reactor output. The core and associated internals will be housed in a vertical steel vessel approximately 76 feet high and 21 feet in diameter. The nuclear steam supply system will be complete with steam separators and driers, recirculating pumps and sub-systems including those required for normal operation and for shut down.

The nuclear steam supply system will have a guaranteed rating of 3,300 megawatts thermal and will supply approximately 14,295,000 pounds per hour of steam at 985 psia with feedwater returned at 420 degrees F. This steam to the turbine-generator will result in a guaranteed output of 1,154,745 kilowatts of generation under expected conditions of operation. After subtracting the electrical requirements for station operating auxiliaries, the net plant output will be approximately 1,093,000 kilowatts.

The turbine-generator will be a tandem-compound, 6-flow unit consisting of a high-pressure turbine section on the same shaft with three low-pressure turbine sections and the electric generator. Each low-pressure section will consist of two parallel flow paths, making a total of six parallel steam exhaust paths. The exhaust end of each turbine will contain rotating blades 44 inches in length. The turbine-generator rotates at 1,800 rpm.

The generator will be a three-phase, 60 cycle AC unit rated at 1,231,700 kVA at 0.975 power factor and will generate at 25 kV.

The turbine cycle will include six points of regenerative feedwater heating utilizing extraction steam from the turbine. The feedwater heaters will be arranged in parallel paths, with the lowest pressure heater in the neck of the condenser to effect economies in space and material. Steam exhausting from the turbine will be condensed by circulating water cooled by mechanical draft cooling towers. The condensate will then be returned to the reactor through the demineralizer and feedwater heaters by motor-driven condensate and condensate booster pumps and turbine-driven reactor feed pumps. The turbine-generator plant will be complete with auxiliary systems, pumps, controls, instrumentation, electric switch-gear and fire protection equipment.

The generator electrical output will be transmitted by isolated-phase bus duct to three single-phase main step-up transformers, each having a rating of 380,000 kVA, which raise the voltage from 25 kV to 500 kV for transmission. Also included will be one spare single-phase transformer of the same rating.

The circulating water pumphouse which provides condenser cooling water, fire system water and service auxiliary cooling water will be located south of the plant adjacent to the cooling towers. It will

house three large vertical circulating water pumps totalling approximately 553,000 gpm capacity, complete with water screens and other auxiliaries, and the fire pumps. The condenser cooling water will discharge from the turbine-generator building and return to the six round mechanical draft cooling towers. Makeup water to replace the evaporative losses of the circulating water cooling system will be obtained from the Columbia River by means of three makeup water pumps. Blowdown from the circulating water system will be discharged to the Columbia River downstream of the make-up water intake.

There will be a heavy-duty bridge-type crane in both the turbine-generator and circulating-water buildings for servicing equipment, and in the reactor building for handling both equipment and fuel. A computer will be installed in the central control room for collecting and analyzing data to aid in control rod positioning, plant operations and plant performance analysis.

Diesel generators will be included for emergency use in the event of loss of auxiliary power. The diesel generators will be housed in a separate concrete building located adjacent to the reactor building.

The service building adjacent to the turbine-generator and reactor buildings will house offices, laboratories, locker rooms, lobby, first-aid facilities, machine shop and storerooms.

Construction Progress and Schedule

Construction of the Project was started in August, 1972 under a Construction Permit variance granted by the AEC, predecessor agency to the NRC. The Construction Permit was granted by the AEC on March 19, 1973 at which time construction of the reactor building substructure was started. Construction of the remainder of the main plant was started on May 19, 1973. Erection of the containment vessel was started in September, 1973. Cooling tower construction was started in April, 1974.

The installation of temporary facilities is complete. The reactor building substructure has been completed and the containment vessel which rests on it was 83.2% complete as of December 31, 1974. The substructure for the turbine-generator building has been completed and work is now in progress on the turbine pedestal and the walls of the turbine-generator building. The substructure of the radwaste building is complete and work is starting on the superstructure. Concrete work on the spray ponds and service water pump houses is nearing completion. Work has started on the cooling tower bases and the circulating water pump house. The reactor vessel is scheduled for delivery in December, 1975, and the turbine-generator is scheduled for delivery in June, 1975.

The Project is projected to be about eight months behind schedule. The completion dates have been changed accordingly. Commercial operation is presently scheduled for June 1, 1978. Achievement of this date will require a significant improvement in the rate of construction progress. As of December 31, 1974, overall construction was estimated to be 13.0% complete compared to a scheduled 38% completion under the original schedule which contemplated a commercial operation date of September 1, 1977. Pre-operational testing is expected to begin on certain components in June, 1976 and continue through November, 1977. Fuel loading is scheduled for December, 1977, with start-up and power testing to be conducted prior to May 1, 1978. The estimated costs shown in Exhibit A are based on a commercial operating date of June 1, 1978. If this date is significantly exceeded, the budget will have to be increased.

Construction Costs and Construction Contracts

The total estimated project construction cost of the items under Burns and Roe's scope of responsibility as Engineer, Construction and Quality Assurance Manager is \$447,416,800 as shown in detail in Exhibit A attached to this letter. The capital cost estimate covers all nuclear electric generating plant equipment and construction up to and including the main step-up transformers, Burns and Roe engineering, construction and quality assurance management, site consultants, and sales tax, contingency and escalation applicable to the aforementioned. Nuclear fuel and owner's costs are not included in Exhibit A. It should be noted that the escalation costs have now been distributed in the direct construction cost to make it agree with the Washington Public Power Supply System accounting system.

The total costs of equipment and construction contracts awarded to December 31, 1974 are shown on Exhibit B attached to the letter. As noted on this exhibit these contracts totaling \$258,058,567, include provision for escalation. The amounts for these contracts total approximately 74.6% of the currently estimated total direct construction and equipment costs including escalation but exclusive of engineering, construction management, and contingencies.

The two largest equipment contracts were awarded for the furnishing of the nuclear steam supply system to General Electric Company and for the turbine generator to Westinghouse Electric Corporation. The present contract prices are \$44,060,100 and \$35,074,126, respectively. The nuclear steam supply system contract covers the furnishing of a conventional boiling water reactor, complete with pressure vessel and all related pumps, controls and other equipment as normally furnished by General Electric Company to the electric utility industry. The Westinghouse contract covers the furnishing of a turbine-generator complete with all appurtenances to utilize the output steam from the nuclear steam supply system to generate approximately 1,100,000 kilowatts of electricity. Due to the long engineering and fabrication schedule for these items, they were awarded early in the Project program to meet the scheduled plant construction and operation dates.

The major concrete construction contract for the reactor building, turbine-generator building, diesel-generator building, radioactive waste building and service building was awarded to Bovee and Crail Construction Company on March 20, 1973, and the present contract price is \$32,749,576. The mechanical equipment and piping installation contract for the main plant was awarded to a joint venture, Bovee and Crail Construction Company—General Energy Resources, Inc. on May 10, 1974, and the present contract price is \$60,094,374.

All contracts were awarded on the basis of competitive bidding. The contract awards were made on the basis of the bidder's experience, qualifications, available personnel and facilities as well as price considerations. In our opinion, the vendors and contractors selected are all responsible and well qualified firms for the particular type of work to be performed.

Escalation and Contingencies

As stated previously, the provision for escalation has now been distributed in the construction costs as shown in Exhibit A. Exhibit B shows those contracts for which escalation provisions have been contractually made along with the amount provided in the budget for those contracts. In addition, provision is included in Exhibit A for escalation for contracts not as yet awarded.

An additional allowance of \$26,478,200 was included in the estimated capital cost to cover unforeseen contingency items which may be necessary as the details of design are further developed and as construction progresses.

Conclusions

The Project will include a boiling water reactor of proven design furnished by the General Electric Company—a reactor type already in use in, under construction or planned for many large commercial utility installations. The remainder of the plant is generally similar in design to conventional thermal plants except for the special considerations that are related to using steam from a boiling water reactor, and the components duplicate or are very similar to, those which are now in successful commercial operation. We have examined the plant equipment as to its feasibility, reliability and maintenance characteristics. We determined that the proposed or contemplated items of equipment are either of presently proven design or reasonable extensions of such designs.

It is our considered opinion, with respect to the Project, that:

1. The present plans and design are suitable for the site, and the site is suitable for the Project.
2. The program for construction is realistic and a commercial operation date of June 1, 1978 has a reasonable chance of achievement. However, it will require a significant improvement in the rate of construction progress.
3. The work within the scope of our responsibility will be completed within the present cost estimate provided the date of commercial operation is not delayed significantly beyond June 1, 1978. In the event that this date is significantly exceeded, the budget will have to be increased.
4. There are no major engineering or construction problems associated with the Project that require any untried design methods.
5. The Project is feasible from an engineering and construction standpoint, is of acceptable commercial design and can be expected to operate reliably with normal maintenance.
6. The description of the Project and the statements and summaries of our estimates which appear in the Official Statement to which this report is an exhibit are correct and in conformity with, and a fair and adequate presentation of, the information in this report.

We have reviewed the Project description and capital cost estimates submitted by R. W. Beck and Associates in their report dated March 1, 1975, and confirm that these accurately reflect the Project and its costs insofar as they relate to the items specified herein which are within the scope of responsibility of Burns and Roe, Inc.

Very truly yours,

K. A. ROE
*President and
Chairman of the Board*

EXHIBIT A

ESTIMATED PROJECT CONSTRUCTION COST

CONSTRUCTION COSTS	<u>October, 1974</u>	<u>December, 1974</u>
Structures and Improvements	\$ 63,040,700	\$ 64,624,500
Reactor Plant Equipment	112,443,500	128,697,900
Turbo Generator Units	101,345,500	108,003,000
Accessory Electrical Equipment	27,760,700	30,999,900
Miscellaneous Power Plant Equipment	1,487,500	2,779,900
Station Equipment	6,077,900	6,643,100
Temporary Construction Facilities	3,553,000	4,080,800
Subtotal—Construction Costs	<u>\$315,668,800</u>	<u>\$345,829,100(1)</u>
OTHER DIRECT COSTS		
Sales Tax @ 5%	\$ 15,783,500	\$ 17,291,500
Engineering and Design Construction Management, Site Consultants and Quality Assurance	54,569,700	57,818,000
Subtotal	386,022,000	420,938,600
Escalation	32,595,400	—0— (1)
Contingency	28,799,400	26,478,200
Total Estimated Project Construction Cost	<u>\$447,416,800</u>	<u>\$447,416,800</u>

(1) The escalation has been distributed in the construction costs to make it agree with the Washington Public Power Supply System accounting system.

EXHIBIT B

Awarded Project Equipment and Construction Contracts (As of December 31, 1974)

<u>Item</u>	<u>Contractor</u>	<u>Contract Award Date</u>	<u>Present Contract Amount</u>
Turbine Generator & Accessories	Westinghouse	5/ 2/67	\$ 35,074,126
Nuclear Steam Supply System	General Electric	3/23/71	54,160,100(1)
Condenser and Auxiliaries	Westinghouse	1/14/72	3,249,016
Feedwater Heaters	Southwestern Eng.	1/14/72	2,817,842
Main Step-Up Transformers	Asea, Inc.	7/14/72	2,020,003
Temporary Facilities	Bovee & Crail Const. Corp.	7/24/72	1,565,464
Cooling Towers	Marley Corp.	9/22/72	7,259,150
Reactor Bldg. Substructure	Stewart-Erickson	10/20/72	2,434,113
Primary Containment Vessel	PDM Steel Co.	10/20/72	8,496,801
Turbine Room & Reactor Bldg. Cranes	Whiting Corp.	3/ 9/73	1,040,515
General Construction	Bovee & Crail Const. Corp.	3/30/73	32,749,576
Standard Cast or Forged Steel Valves	Walworth Co.	7/13/73	1,617,266
Diesel Generators	Stewart and Stevenson	7/13/73	1,254,566
Nuclear Valves	Velan Valve Corp.	12/ 3/73	1,418,596
Structural Steel	PDM Steel Co.	3/12/74	4,119,753
Mech. Equip. Installation	Bovee & Crail Const. Corp.—Gen. Energy Resources Inc.	5/10/74	69,364,374(2)
HVAC & Plumbing Installation	The Waldinger Corp.	5/10/74	5,508,695
Instrumentation and Control Boards	General Electric	6/17/74	1,360,850
Electrical Cable	Okonite	7/ 9/74	649,944
Electrical Cable	Raychem	7/ 9/74	2,218,009(3)
Make-Up Water Pump House	McMillan Bros.	12/27/74	3,551,869
Other Miscellaneous Contracts			16,127,939
Total Awarded Equipment and Construction Contracts			<u><u>\$258,058,567</u></u>

(1) Includes \$10,100,000 Estimated Contractual Escalation.

(2) Includes \$ 9,270,000 Estimated Contractual Escalation.

(3) Includes \$201,700 Estimated Contractual Escalation.

EXHIBIT IV
OPINIONS OF COUNSEL

[LETTERHEAD OF WOOD DAWSON LOVE & SABATINE]
[LETTERHEAD OF HOUGHTON CLUCK COUGHLIN & RILEY]

....., 1975

Board of Directors
Washington Public Power Supply System
Richland, Washington

Dear Sirs:

**WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR
PROJECT NO. 2 REVENUE BONDS, SERIES 1975 A, \$125,000,000**

At your request, we have examined into the validity of \$125,000,000 Washington Public Power Supply System Nuclear Project No. 2 Revenue Bonds, Series 1975 A, of Washington Public Power Supply System (the "System"), a municipal corporation of the State of Washington. Said bonds are issuable in coupon form, registrable as to principal only, in the denomination of \$5,000 each, and in fully registered form, without coupons, in the denominations of \$5,000 or multiples thereof. The coupon bonds are numbered from 1 upwards and are dated March 1, 1975. The fully registered bonds are numbered from R-1 upwards and, except fully registered bonds initially issued, which are dated March 1, 1975, shall be dated so that no gain or loss of interest shall result from exchanges or transfers thereof as provided therein and in the Bond Resolution hereinafter mentioned. Said bonds mature on July 1 in each of the years and in the amounts and bear interest, payable July 1, 1975, and semi-annually thereafter on January 1 and July 1, as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
-------------	---------------	--------------------------	-------------	---------------	--------------------------

Said bonds are subject to redemption prior to maturity upon the terms and conditions set forth therein, and recite that they are issued under and pursuant to Resolution No. 640, adopted by the Board of Directors of the System on the 26th day of June, 1973, and a resolution supplemental thereto, Resolution No., adopted by said Board on, 1975 (hereinafter referred to collectively as the "Bond Resolution"), and under the authority of and in full compliance with the Constitution and statutes of the State of Washington, including Titles 43 and 54 of the Revised Code of Washington, for the purpose of acquiring, by purchase or condemnation, and constructing a nuclear electric generating plant and associated facilities as a separate utility system constituting and to be known as the Washington Public Power Supply System Nuclear Project No. 2.

We have examined the Constitution and statutes of the State of Washington, and certified copies of proceedings of the Board of Directors of the System authorizing the issuance of said bonds, including the Bond Resolution, other proofs relating to the issuance of said bonds and an executed coupon bond of said series.

In our opinion, the System is a municipal corporation of the State of Washington, duly created and validly existing; the Bond Resolution has been duly adopted and the provisions thereof are valid and binding upon the System, and said bonds have been duly authorized and issued in accordance with the Constitution and statutes of the State of Washington and constitute valid and legally binding obligations of the System payable solely from the funds and revenues as set forth and provided in the Bond Resolution on a parity with the System's presently outstanding Washington Public Power Supply System Nuclear Project No. 2 Revenue Bonds, Series 1973, Series 1974 and Series 1974 A, and any bonds hereafter issued on a parity therewith pursuant to the Bond Resolution.

It is also our opinion that the interest on said bonds is exempt from taxation by the United States of America under existing laws and regulations and specific rulings issued by the Internal Revenue Service with respect to said bonds, dated November 18, 1970, and November 30, 1972.

Very truly yours,

[LETTERHEAD OF WOOD DAWSON LOVE & SABATINE]

[LETTERHEAD OF HOUGHTON CLUCK COUGHLIN & RILEY]

....., 1975

Board of Directors
Washington Public Power Supply System
Richland, Washington

Dear Sirs:

**WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR
PROJECT NO. 2 REVENUE BONDS, SERIES 1975 A, \$125,000,000**

Under the date of, 1975, we rendered an opinion approving the validity of the above bonds (the "Bonds") issued pursuant to resolutions adopted by the Board of Directors of the Washington Public Power Supply System (the "System") on June 26, 1973 and March 6, 1975 (collectively, the "Bond Resolution").

We have examined into the validity of the Project Agreement (Contract No. 14-03-19121), dated January 4, 1971, between the United States of America, Department of the Interior, acting by and through the Bonneville Power Administrator, and Washington Public Power Supply System, referred to on page 24 of the Official Statement of the System, dated March 6, 1975, relating to the Bonds. With respect to the authorization, execution and delivery of said agreement, we have examined certified copies of proceedings of the Board of Directors of the System authorizing the execution and delivery of said agreement, and such other documents, proceedings and matters relating to the authorization, execution and delivery of said agreement by each of the parties thereto as we deemed relevant. In our opinion, said agreement has been duly authorized, executed and delivered by each of the parties thereto and constitutes a valid and binding agreement enforceable in accordance with its terms.

We have also examined into the validity of of the Net Billing Agreements, referred to on page 21 of said Official Statement, among the United States of America, Department of the Interior, acting by and through the Bonneville Power Administrator, the System, and certain of the Participants referred to in Exhibit I of said Official Statement, which agreements provide for the purchase and assignment of an aggregate of% of the capability of the Project, as such Project is defined in the Bond Resolution, and include all such Net Billing Agreements providing for the purchase and assignment by any Participant of more than% of the capability of the Project. With respect to the authorization, execution and delivery of said Net Billing Agreements, we have examined certified copies of proceedings of the System and of the Participants which are parties thereto, authorizing the execution and delivery of said Net Billing Agreements, and such other documents, proceedings and matters relating to the authorization, execution and delivery of said Net Billing Agreements by each of the parties thereto as we deemed relevant. In our opinion, each of said Net Billing Agreements has been duly authorized, executed and delivered by each of the parties thereto and constitutes a valid and binding agreement, enforceable in accordance with its terms.

In rendering this opinion, we have relied upon the opinion of counsel for each of the Participants that the Net Billing Agreement to which such Participant is a party has been duly executed and delivered by said Participant and is not in conflict with, or in violation of, and will not be a breach of, or constitute a default under, the terms and conditions of any other agreement or commitment by which such Participant is bound.

Very truly yours,

EXHIBIT V
BONNEVILLE POWER ADMINISTRATION
Projected Revenues

(\$ millions)

Fiscal Year Ending June 30	BPA Revenues(1)	BPA Operation and Maintenance Expense(2)	Cost of Purchase and Exchange Power(3)	Net BPA Revenues(4)	WPPSS No. 2 Billing(5)	Surplus Available for Payment to the U. S. Treasury
1975	225.6	42.1	31.9	151.6	0.0	151.6
1976	296.0	45.6	31.1	219.3	0.0	219.3
1977	312.5	49.0	29.9	233.6	25.0	208.6
1978	330.4	49.9	24.9	255.6	70.3	185.3
1979	364.6	51.6	23.2	289.8	70.3	219.5
1980	484.3	54.1	127.3	302.9	70.3	232.6
1981	489.1	55.6	211.3	222.2	70.3	151.9
1982	497.6	56.1	211.1	230.4	70.3	160.1
1983	525.5	56.9	211.4	257.2	70.3	186.9
1984	527.8	57.5	210.9	259.4	70.3	189.1
1985	526.4	57.6	210.9	257.9	70.3	187.6
1986	527.3	57.6	210.9	258.8	70.3	188.5
1987	526.5	57.9	210.9	257.7	70.3	187.4
1988	535.9	58.4	210.7	266.8	70.3	196.5
1989	534.6	58.6	212.0	264.0	70.3	193.7
1990	533.1	59.1	210.5	263.5	70.3	193.2
1991	540.4	59.5	207.2	273.7	70.3	203.4
1992	539.8	59.6	206.6	273.6	70.3	203.3
1993	537.8	59.6	206.6	271.6	70.3	201.3

- (1) Revenues are based on new power wholesale rates effective December 20, 1974 and an anticipated rate increase of 30% in fiscal year 1980. These revenues do not include BPA revenues which will result from the sale of the additional resources acquired from WPPSS Nuclear Projects Nos. 1 and 3.
- (2) Does not include any estimate of BPA's operation and maintenance expenses for transmission facilities associated with WPPSS Nuclear Projects Nos. 1 and 3.
- (3) The cost to BPA of acquiring thermal power through net billing agreements for (a) the Hanford Project, (b) the Trojan Nuclear Project, and (c) the Washington Public Power Supply System Nuclear Projects Nos. 1 and 3. BPA's payments through net billing for Trojan power commenced in January of 1974, and will commence for the WPPSS Nuclear Project No. 1 in January 1980, and Nuclear Project No. 3 in January 1981.
- (4) BPA Revenues minus BPA Operation and Maintenance Expenses and Cost of Purchase and Exchange Power.
- (5) Net billing for the Project will begin no later than September 1, 1977. Any amounts not paid through net billing credits are payable from the BPA Fund on a parity with BPA Operation and Maintenance Expense and Cost of Purchase and Exchange Power.

EXHIBIT VI



OFFICE OF
THE ADMINISTRATOR

United States Department of the Interior

BONNEVILLE POWER ADMINISTRATION

P.O. BOX 9621, PORTLAND, OREGON 97208

In reply refer to: XORS

November 12, 1974

TO: MR. JACK J. STEIN
Managing Director
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
P. O. Box 968
Richland, Washington 99352

All Participants in WPPSS Nuclear Projects Nos. 1, 2 and 3 and the Trojan Project Net Billing Agreements

Gentlemen:

The Supply System is planning to issue an additional \$125 million of long term bonds to finance the construction of its Nuclear Project No. 2. Bonneville, as in the past, is cooperating with the Supply System and its financial advisors in preparing the Official Statement and other supporting documentation which are related to the issue.

As the result of the enactment of the Federal Columbia River Transmission System Act (Pub. L. No. 93-454) there has been significant improvement in the overall security afforded the holders of all bonds issued or to be issued by the Supply System for Nuclear Projects Nos. 1, 2 and 3 and by the City of Eugene for the Trojan Project. Under the provisions of the Transmission System Act Bonneville now has the authority to use its revenues deposited in the Bonneville Power Administration Fund (Fund) "without further appropriation" of Congress "for any purposes necessary or appropriate to carry out the duties imposed upon the Administrator pursuant to law, including . . . (6) purchase of electric power (including the entitlement of electric plant capability) . . . if such purchase has been heretofore authorized . . ." In any year in which net billing credits may be insufficient to offset the amounts owed to any participant these costs would be paid from the Fund on a parity with other Bonneville operating expenses and prior to any payments by Bonneville to the Treasury for repayment of (1) the Federal investment in the Federal Columbia River System, (2) Corps of Engineers and Bureau of Reclamation costs connected with such system, and (3) bonds issued by Bonneville under the Act.

Bonneville's acquisition of the capability of such projects as part of the Hydro-Thermal Power Program was expressly approved by Congress in the Appropriation Acts of 1970 and 1971.

Bonneville, in accordance with the provisions of the Transmission System Act, will pay in cash from the Fund on a parity with other Bonneville operating expenses any costs billed to the Participants for Supply System Nuclear Projects Nos. 1, 2 and 3 and the City of Eugene's share of the Trojan Project which are not paid through net billing credits.

Sincerely,

/s/ DONALD PAUL HODEL
Administrator

ATTACHMENT 5-1

WNP NO. 1 PLANT CAPITAL INVESTMENT SUMMARY

TABLE 5.1
PLANT CAPITAL INVESTMENT

SUMMARY

DATA

Name of plant	WNP-1	Cost basis:	<u>At start of construction</u>
Net capacity	<u>1240 MW(e)</u>		
Reactor type	<u>PWR</u>		
Location	<u>Richland, WA</u>	Type of cooling	

Design and construction period

Month, year NSSS order placed	<u>12/72</u>
Month, year of commercial operation	<u>9/80</u>
Length of workweek	<u>40 hrs.</u>
Interest rate, interest during construction	<u>7%</u>

Run of river	_____
Natural draft cooling towers	_____
Mechanical draft cooling towers	<u> X </u>
Other (describe)	_____

COST SUMMARY

<u>Account Number</u>	<u>Account Title</u>	<u>Total Cost</u>
		(thousand dollars)

DIRECT COSTS

20	Land and land rights.....	\$ <u> - 0 - </u>
----	---------------------------	-------------------------

PHYSICAL PLANT

21	Structures and site facilities.....	149,681
22	Reactor plant equipment.....	149,926
23	Turbine plant equipment.....	88,706
24	Electric plant equipment.....	46,486
25	Misc. plant equipment.....	8,208
	Subtotal.....	\$ 443,007
	Spare parts allowance.....	2,735
	Contingency allowance.....	50,500
	Subtotal.....	\$ 496,242

INDIRECT COSTS

91	Construction facilities, equip't, and services.....	8,879
92	Engineering and const. mg't. services	58,845
93	Other costs.....	77,460
94	Interest during construction & Finance expense	202,794
	Subtotal.....	\$ 347,978
	Start of construction cost.....	844,220
	Escalation during construction (<u>8%</u> yr.)	101,775
	Total plant capital investment (\$ <u>763 /KW</u>)	<u>\$945,995</u>

ATTACHMENT 5-2

WNP NO. 4 PLANT CAPITAL INVESTMENT SUMMARY

PLANT CAPITAL INVESTMENT

SUMMARY

BASIC DATA

Name of plant	<u>WNP-4</u>	Cost basis: <u>At start of construction</u>
Net capacity	<u>1240 MW(e)</u>	
Reactor type	<u>PWR</u>	
Location	<u>Richland, WA.</u>	Type of cooling
<u>Design and construction period</u>		Run of river _____
Month, year NSSS order placed	<u>7/74</u>	Natural draft _____
Month, year of commercial operation	<u>3/82</u>	cooling towers _____
Length of workweek	<u>40 hrs.</u>	Mechanical draft _____
Interest rate, interest during construction	<u>7%</u>	cooling towers _____ X
		Other (describe) _____

COST SUMMARY

<u>Account Number</u>	<u>Account Title</u>	<u>Total Cost</u>
		<u>(thousand dollars)</u>

DIRECT COSTS

20	Land and land rights.....	\$ <u>- 0 -</u>
----	---------------------------	-----------------

PHYSICAL PLANT

21	Structures and site facilities.....	149,061
22	Reactor plant equipment.....	149,926
23	Turbine plant equipment.....	86,729
24	Electric plant equipment.....	46,485
25	Misc. plant equipment.....	6,874
	Subtotal.....	\$ 439,075
	Spare parts allowance.....	2,000
	Contingency allowance.....	50,602
	Subtotal.....	\$ 491,677

INDIRECT COSTS

91	Construction facilities, equip't, and services.....	\$ 6,793
92	Engineering and const. mg't. services	32,725
93	Other costs.....	54,446
94	Interest during construction & Finance expense.....	223,174
	Subtotal.....	\$ 317,138
	Start of construction cost.....	808,815
	Escalation during construction (<u>8%</u> yr.)	137,125
	Total plant capital investment (\$ <u>762 /KW</u>)	\$ <u>545,940</u>

ATTACHMENT 8-1

WNP NO. 1 AUDITED BALANCE SHEET

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AUDITED BALANCE SHEET AND OTHER FINANCIAL INFORMATION

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1
RICHLAND, WASHINGTON

June 30, 1974

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C O N T E N T S

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ERNST & ERNST

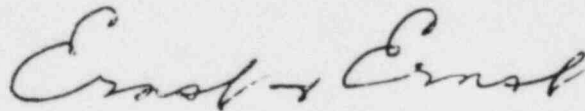
2700 SEATTLE FIRST NATIONAL BANK BUILDING

SEATTLE, WASH. 98154

Board of Directors
Washington Public Power Supply System
Richland, Washington

We have examined the balance sheet of Washington Public Power Supply System Nuclear Project No. 1 as of June 30, 1974. Our examination was 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.

In our opinion, the accompanying balance sheet presents fairly the financial position of Washington Public Power Supply System Nuclear Project No. 1 as of June 30, 1974, in conformity with generally accepted accounting principles.



Seattle, Washington
August 30, 1974

BALANCE

WASHINGTON PUBLIC POWER
NUCLEAR PRO

JUNE

ASSETS

Preliminary costs of utility plant to be constructed - Note C:	
Construction costs	\$ 10,274,302
Advances to governmental agencies	134,482
	<u>10,408,784</u>
Prepayments for nuclear fuel enrichment services	1,473,590
	<u>11,882,374</u>
Special funds - Note D:	
Cash	404,836
United States Government and government agencies' securities-at market, which is lower than amortized cost, and accrued interest of \$621,955	48,724,284
Advances to General Fund of the System	80,712
Amount due from Nuclear Project No. 3	73,042
Amounts due from other funds	72,091
	<u>49,354,965</u>
Sinking funds - Note D:	
Cash	3,134
United States Government and government agencies' securities-at market, which is lower than amortized cost, and accrued interest of \$278,794	37,981,002
	<u>37,984,136</u>
Deferred charges:	
Costs associated with abandoned plant site - Note C	7,405,779
Unamortized debt expense	224,550
	<u>7,630,329</u>
	<u>\$106,851,804</u>

SHEET

JPLLY SYSTEM
JECT NO. 1

30, 1974

LIABILITIES

Nuclear Project No. 1 Revenue Notes - Note D:	
4.25% maturing December 15, 1975, at an effective interest rate of 4.2%	\$ 25,000,000
5.90% maturing December 15, 1976, at an effective interest rate of 6.04%	<u>77,000,000</u>
	\$102,000,000
Less unamortized debt discount	<u>(271,855)</u>
	101,728,145
Special funds - Note D:	
Accounts payable and accrued expenses	4,335,635
Amounts withheld from contractors	<u>103,785</u>
	4,439,420
Sinking funds due to other funds - Note D	72,091
Accrued interest on revenue notes	612,148
Commitments - Notes C and D	
	<u><u>\$106,851,804</u></u>

See notes to balance sheet.

NOTES TO BALANCE SHEET

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

June 30, 1974

Note A - Organization

The Washington Public Power Supply System is a municipal corporation of the State of Washington and was organized in January 1957. Its membership consists of 18 public utility districts and three municipalities which own and operate electric systems within the State of Washington. It is empowered to acquire, construct and operate facilities for the generation and transmission of electric power and energy.

In addition to Nuclear Project No. 1 which is discussed in Note C, the System is operating the Hanford Project (consisting of a steam electric generating plant, utilizing by-product steam energy from the New Production Reactor owned and operated by the United States Atomic Energy Commission, located near Richland, Washington) and the Packwood Lake Hydroelectric Project.

In conjunction with another new project, Washington Public Power Supply System Nuclear Project No. 2, the System had incurred to June 30, 1974 interim financing debt of \$40,000,000 and permanent financing debt of \$150,000,000 to pay for preliminary costs and studies and the initial construction phase of a nuclear electric generating plant. Subsequent to June 30, 1974, the System incurred an additional \$80,000,000 of permanent financing debt for this project. The total cost of this project is estimated at approximately \$567,000,000.

In addition, the System has incurred interim financing debt of \$29,000,000 to pay for preliminary investigation costs of proposed Nuclear Project No. 3. The Project will be constructed and operated by the System pursuant to an agreement between the System and four investor owned utilities. The Project will be 70% owned by the System and 30% by the utilities. The System's share of the cost of this Project is estimated at approximately \$801,000,000.

Further, the Supply System has obtained \$17,500,000 through issuance of Washington Public Power Supply System Generating Facilities Revenue Notes for the purpose of paying the cost of preliminary investigation in connection with the development of additional electric generating facilities.

Separate books of account for each project are maintained by the System.

Note B - Accounting Policies

The Note Resolutions contain provisions relating to creation and administration of special funds and sinking funds maintained by the Project. The Project has adopted accounting policies and practices which are in accordance with generally accepted accounting principles applicable to the utility industry which have been modified with respect to accounting for

NOTES TO BALANCE SHEET (CONTINUED)

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

June 30, 1974

Note B - Accounting Policies (Continued)

securities (see below) to reflect the accounting requirements of the Note Resolutions. Description of significant accounting policies are presented below.

Capitalization of Costs During Construction

During the construction phase of the Project, the System will capitalize all costs of the Project including all general, administrative, interest and other overhead expenses.

Securities

United States Government and government agencies' securities are stated at the lower of amortized cost or market. Income earned on securities is recorded as a reduction of construction costs during the period of construction.

Debt Discount and Expense

Debt discount and expense relating to the issuance of Revenue Notes are amortized on the straight-line method over the terms of the respective notes. Such provisions for amortization are capitalized as costs during the construction period.

Note C - The Project

It was initially contemplated that Nuclear Project No. 1 would consist of a nuclear reactor and topping turbine generator and would be constructed adjacent to the steam electric generating plant of the Hanford Project. It was planned that this Project would then provide the energy source and additional generating capacity to operate the Hanford Project generating plant when the United States Atomic Energy Commission ceased operation of its New Production Reactor. It was contemplated that the Hanford Project would be shutdown on October 31, 1977 to allow for construction of Nuclear Project No. 1.

Because recent studies indicate that generating resources in the Pacific Northwest are expected to be inadequate in the late 1970's and early 1980's, the System has determined that the Hanford Project should be kept available for power production after October 1977. Therefore, the plan for construction of Nuclear Project No. 1 has been modified. The Project as it is now intended will consist of a pressurized water nuclear electric generating plant having a nominal capacity of 1,200,000 kilowatts and is scheduled for

NOTES TO BALANCE SHEET (CONTINUED)

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

June 30, 1974

Note C - The Project (Continued)

commercial operation in September 1980. It will be located at another site on the Hanford Reservation of the Atomic Energy Commission. It is estimated that the cost of the Project will aggregate approximately \$990,000,000.

Preliminary costs of planning for construction and certain equipment totaling approximately \$7,400,000 associated with the original plant site which was abandoned have been recorded as deferred charges. Such costs will be charged to income over the life of the new facilities beginning with the commencement of commercial operations. (See Note D)

The generating plant will be constructed on land to be leased from the Commission. It is contemplated that the lease agreement will provide, among other things, that its term shall continue in effect for a period in excess of the estimated life of Project and be subject to renewal thereafter. It is further contemplated that the lease will contain termination provisions which, among other things, provide for cancellation in the event the System is unable to obtain necessary permits and licenses from regulatory agencies. Rental for the property is expected to be a nominal amount for each year plus any taxes or assessments which may be imposed upon the leasehold.

At June 30, 1974, the Project had entered into certain significant contracts which aggregate approximately \$110 million to provide for services relating to financing, design of the plant, and the supply of nuclear fuel and reactor components.

Because Bonneville Power Administration is a party to the net billing agreements, under which the Administration will acquire the Project capability, the System and the Administration have entered into the Project Agreement, the terms of which extend for the life of the Project. This agreement, among other things, contains provisions with respect to the financing, construction, operation and maintenance of the Project and the making of any replacements, repairs or capital additions thereto and budgeting under the net billing agreements which are explained in Note D.

Also see Note D for a description of Project financing.

Note D - Revenue Notes

On August 24, 1972, the System received the proceeds from the issuance of 2.45% Washington Public Power Supply System Revenue Notes, Series 1972 dated August 24, 1972, due and redeemed August 24, 1973 and payable in the principal amount of \$1,500,000. Of this amount, \$931,062 was allocated to Nuclear Project No. 1 for preliminary planning purposes.

NOTES TO BALANCE SHEET (CONTINUED)

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

June 30, 1974

Note D - Revenue Notes (Continued)

On February 28, 1973, the Washington Public Power Supply System received the proceeds from the issuance of 4.25% Nuclear Project No. 1 Revenue Notes dated February 15, 1973, due December 15, 1975, without option of prior redemption, and payable in the principal amount of \$25,000,000. Proceeds were used in part to redeem the Project's share of the \$1,500,000 1972 notes.

On June 12, 1974, the System received the proceeds from the issuance of 5.90% Nuclear Project No. 1 Revenue Notes dated May 15, 1974, due December 15, 1976, and payable in the principal amount of \$77,000,000.

In 1975 the Supply System expects to adopt a bond resolution to provide for a portion of the permanent financing of the Project.

Security

The Project's entire capability has been sold by the Supply System to 104 statutory preference customers (participants) and 5 investor owned utility customers (companies) of Bonneville Power Administration, an agency of the United States Government. As security for the notes (and proposed Revenue Bonds), the Supply System and Bonneville executed net billing agreements with the participants and exchange agreements with the investor owned companies. The Project's entire capability has been assigned to Bonneville by the participants and the companies pursuant to the respective agreements.

The exchange agreements provide that each of the five companies purchase 6.494% (i.e. 32.47% total) of the Project capability during the period July 1, 1980 to June 30, 1996. The participants have contracted to purchase 100% of the capability thereafter. The companies will exchange their share of Project capability with Bonneville for a certain amount of power with payment to be made by the companies to the Project.

Pursuant to the net billing agreements, the balance of the Project's output has been sold to the participants, which are utilities operating principally in the western United States. The participants are obligated to pay an amount equal to the Project's annual costs, including debt service less any amounts payable by the investor owned companies pursuant to the exchange agreements. The net billing agreements stipulate the percentages of project annual costs and of project output allocated to such utilities. Each such utility is obligated to exchange its percentage of the project output with Bonneville for firm electric energy and capacity which, at Bonneville's firm power rates then in effect, will be equal in dollar value to the utility's share of the project annual costs. Such net billing arrangements will commence on January 1, 1980 or the date of commercial operation, whichever is earlier.

NOTES TO BALANCE SHEET (CONTINUED)

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO.1

June 30, 1974

Note D - Revenue Notes (Continued)

If the System is unable to issue and sell bonds or refunding notes to obtain funds to pay the principal of the Revenue Notes when due, or is unable to proceed with the financing of the Project because of such matters as the inability to obtain necessary permits and licenses, each of the participants will pay its proportionate share of the principal due on the Revenue Notes together with any other costs associated with the termination of the Project.

As part of the net billing agreement, the Project has agreed to pay all termination and standby charges and shutdown costs of the Hanford Project (see Note A) (these charges and costs are estimated to approximate \$9,235,000) in the event that the Hanford Project ceases operation in 1977 or at any time thereafter. Further, commencing January 1, 1980, the Project has agreed to pay all obligations of the Hanford Project. Outstanding Hanford Project Revenue Bonds will aggregate approximately \$48,000,000 at January 1, 1980; interest rates vary between 3% and 3.25%.

Sinking Funds

As other security for the notes, provisions of the Note Resolutions established trustee administered sinking funds. The 1973 and 1974 Note Interest Funds were established for the sole purpose of paying interest on the notes. These funds were established in the aggregate amount of \$14,746,511 which is equal to the interest to be paid on the notes from the date issued to maturity.

The 1974 Note Resolution established the Note Principal Fund for the sole purpose of paying the principal on the previously issued revenue notes. It is contemplated that the balance in the Note Principal Fund, together with interest to accrue on invested amounts through December 15, 1975 will be sufficient to redeem the principal amount of the 1973 Revenue Notes at maturity.

The balances in the sinking funds at June 30, 1974 are as follows:

1973 Note Interest Fund	\$ 1,538,146
1974 Note Interest Fund	11,736,083
1974 Note Principal Fund	<u>24,637,816</u>
	<u>\$37,912,045</u>

NOTES TO BALANCE SHEET (CONTINUED)

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

June 30, 1974

Note D - Revenue Notes (Continued)

Special Funds

Monies received from sale of revenue notes (after establishment of the previously mentioned Note Interest and Principal Funds) were deposited in Preliminary Construction Funds to be used for planning and construction purposes. The balances of these special funds at June 30, 1974 are as follows:

1973 Preliminary Construction Fund	\$ 8,541,117
1974 Preliminary Construction Fund	<u>36,374,428</u>
	<u>\$44,915,545</u>

Note E - Retirement Plan

The System participates in the Washington State Public Employees' Retirement System which provides benefits to the Supply Systems' eligible employees. Cost of the plan to the Project, which is determined by the Retirement System's Board, amounted to \$58,467 during the period August 24, 1972 (inception) through June 30, 1974.

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OTHER FINANCIAL INFORMATION

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ERNST & ERNST

2700 SEATTLE-FIRST NATIONAL BANK BUILDING

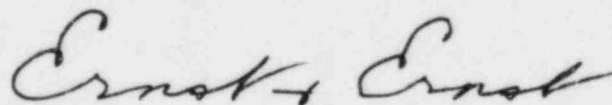
SEATTLE, WASH 98154

ACCOUNTANTS' REPORT ON OTHER FINANCIAL INFORMATION

Washington Public Power Supply System
Richland, Washington

The audited balance sheet of Washington Public Power Supply System Nuclear Project No. 1 and our report thereon are presented in the preceding section of this report. The financial information presented hereinafter, excepting comments regarding funds, was derived from the accounting records tested by us as part of the auditing procedures followed in our examination of the aforementioned balance sheet, and in our opinion it is fairly presented in all material respects in relation to the balance sheet taken as a whole; however, it is not necessary for a fair presentation of the financial position of the Project.

The information shown in the comments regarding funds was obtained from nonaccounting records of the Systems. We compared this information with the Note Resolutions from which it was prepared, and found it to be in agreement therewith.



Seattle, Washington
August 30, 1974

STATEMENT OF FUNDS (CONTINUED)

WASHINGTON PUBLIC WATER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

From August 24, 1972 (inception) to June 30, 1974

	SPECIAL FUNDS			Total Special Funds	SINKING FUNDS				Total Sinking Funds	Special Deposits- Interest	Total of All Funds
	Preliminary Construction Fund	1973 Preliminary Construction Fund	1974 Preliminary Construction Fund		NSSS Interest Fund	1973 Note Interest Fund	1974 Note Interest Fund	NSSS Principal Fund			
Balance consists of:											
Cash		\$ 1,339	\$ 402,997	\$ 404,836			\$ 3,134		\$ 3,134		\$ 407,970
United States Government and government agencies' securities and accrued interest thereon		8,454,796	40,269,468	48,724,284		\$1,558,452	11,748,771		\$24,672,749	37,981,002	86,705,280
Amounts due from other funds, advances and prepaid expenses		1,362,220	51,755	1,413,975							1,413,975
Amounts due to other funds		(1,188,130)		(1,188,130)		(20,336)	(15,822)		(35,933)	(72,091)	(1,260,271)
Accounts payable and amounts withheld from contractors		(89,608)	(4,149,812)	(4,539,420)							(4,539,420)
	\$ -0-	\$ 8,541,117	\$36,174,428	\$44,915,545	\$ -0-	\$1,538,116	\$11,736,083	\$ -0-	\$24,636,816	\$37,912,045	\$82,827,529

STATEMENT OF FUNDS
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

From August 24, 1972 (inception) to June 30, 1974

	SPECIAL FUNDS			Total Special Funds	SINKING FUNDS						Special Interest	Total of All Funds	
	Preliminary Construction Fund	Preliminary Construction Fund	Preliminary Construction Fund		1973 NSSS Interest Fund	1973 Note Interest Fund	1974 Note Interest Fund	1974 NSSS Principal Fund	1974 Note Principal Fund	Total Sinking Funds			
Issuance of Revenue Notes, less discount of \$4,411	\$ 926,651			\$ 926,651									\$ 926,651
Issuance of Revenue Notes, less discount of \$15,675 plus accrued interest from February 15, 1973 of \$35,417		\$21,009,325		21,009,325		\$3,010,417		\$1,000,000		\$ 4,010,417			25,019,742
Issuance of Revenue Notes, less discount of \$277,200 plus accrued interest from May 15, 1974 of \$340,725			\$40,702,380	40,702,380			\$11,736,094		\$24,625,052	36,361,146			77,063,526
Additions:													
Advances from Public Power Council	35,250			35,250									35,250
Net interfund transactions		268,789	107,360	376,149	\$20,062	(244,185)	(15,821)	(100,272)	(35,933)	(376,149)			-0-
Interest earned on United States Government and government agencies' securities	9,449	1,352,136	178,344	1,539,989	334	214,661	44,660	31,334	89,910	330,809			1,920,888
Transfers from other fund accounts	1,188,340	968,896		2,157,236								\$1,416,667	3,573,903
Transfers from other project		73,042		73,042									73,042
	2,159,690	23,672,248	40,988,084	66,820,022	20,396	2,980,893	11,764,933	931,062	24,679,029	40,376,313	1,416,667		108,613,002
Deductions:													
Construction costs (including costs associated with abandoned plant site) exclusive of capitalized financing costs	2,093,869	11,193,057	4,151,130	17,438,056									17,438,056
Costs of fuel and advances (exclusive of capitalized financing costs of \$8,181)		1,530,591	69,300	1,599,891									1,599,891
Disbursement of interest on revenue notes to noteholders					20,396					20,396	1,416,667		1,437,063
Expenses in connection with issuance of Revenue Notes	6,071	197,062	129,382	332,515									332,515
Redemption of Revenue Notes								931,062		931,062			931,062
Disbursement of principal and interest for other project		73,042		73,042									73,042
Repayment of advances from Public Power Council	35,250			35,250									35,250
Revaluation of securities to lower of amortized cost or market		4,643	263,844	268,487		26,080	28,850		41,213	96,143			364,630
Transfers to other fund accounts	20,396	2,132,716		2,153,112		1,416,667				1,416,667			3,573,903
	2,159,690	15,131,181	4,613,656	21,904,527	20,396	1,442,747	28,850	931,062	41,213	2,466,268	1,416,667		25,765,813
BALANCE AT JUNE 30, 1974	0	8,541,067	36,374,428	\$44,915,505	0	\$1,539,156	\$1,736,083	0	4,637,816	837,913,053	0	0	\$482,527,899

COMMENTS REGARDING FUNDS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

June 30, 1974

The Note Resolutions require that various funds be established, held, and administered in trust for the protection of the noteholders. The funds described below may invest in government obligations of the United States and certain of its agencies. Additionally, the Preliminary Construction Fund may invest in certain bank time deposits evidenced by certificates of deposit and secured at all times in the manner provided by the laws of the State of Washington, subject to certain restrictions relative to the amount of capitalization of the Bank issuing such certificates. The Note Resolution also provides for the semiannual transfer from the Note Interest Fund to the Interest Paying Agent Account of amounts equal to the interest installments due on June 15 and December 15 of each year to December 15, 1976.

Other funds will be established in the future pursuant to the proposed bond resolution.

Preliminary Construction Fund

This fund was established to account for the proceeds from issuance of the initial Revenue Notes for Nuclear Project No. 1 and further to account for the expenditure of such monies. The fund balance at June 30, 1974 was zero.

1973 and 1974 Preliminary Construction Funds

Note proceeds reduced by the original amount of the Note Interest Fund and an amount necessary to redeem the initial issue of Project Revenue Notes were deposited to the credit of the Preliminary Construction Funds. The purpose of the Funds is to pay a part of the cost of planning for the acquisition and construction of the Project and placing it into operation. The unexpended balance in the Funds was \$44,915,545, at June 30, 1974.

NSSS Interest and Principal Funds

These funds were established to receive and disburse interest and redemption monies related to the initial Revenue Notes. Such notes have now been redeemed and the Fund balances at June 30, 1974 were zero.

1973 Note Interest Fund

The Fund is required to contain cash and investments, which when added to the income to be earned therefrom, will be sufficient to make semi-annual interest payments on the 1973 Notes for the period from the last semi-annual interest payment to December 15, 1975. The balance in the Fund at June 30, 1974 was \$1,538,146.

COMMENTS REGARDING FUNDS (CONTINUED)

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

June 30, 1974

1974 Note Interest Fund

The Note Fund is required to contain cash and value of investments aggregating the amount of note interest to be paid for the period from the last semiannual interest payment to December 15, 1976. Transfers are made on a semiannual basis to the Interest Paying Agent for purposes of paying the interest to noteholders. The balance in the Fund at June 30 1974 was \$11,736,083.

1973 Note Principal Fund

The Note Principal Fund is required to contain cash and value of investments which at December 15, 1975 will be sufficient to redeem the principal amount of notes then due aggregating \$25,000,000. The balance in the Fund at June 30, 1974 was \$24,637,816. It is anticipated that interest income included with invested capital will aggregate \$25,000,000 by December 15, 1975.

Special Deposit - Interest

In order to pay semiannual interest on the Revenue Bonds, cash is transferred to the Special Deposit - Interest account, which is administered by the Paying Agent bank of the System. Such cash is transferred from the Note Interest Fund on the day preceding the interest payment date.

SCHEDULE OF PRELIMINARY COSTS RELATING TO FUTURE CONSTRUCTION
OF UTILITY PLANT

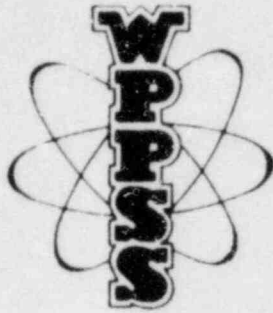
WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 1

June 30, 1974

Construction in progress:		
Structures and improvements	\$ 75,078	
Performance bond on reactor construction	31,565	
Miscellaneous	14,880	\$ 121,523
Engineering Services:		
Architect engineer	9,387,618	
Nuclear fuel consultant	35,975	
Consulting engineer	9,196	9,432,789
Legal Services		4,824
Administrative and General:		
Salaries	147,580	
Office supplies and expenses	65,155	
Regulatory expenses	100,708	
Outside services	18,560	
Employee benefits	7,721	
Miscellaneous	8,249	347,973
		9,907,109
Capitalized finance costs charged to construction:		
Interest paid or accrued on Revenue Notes	692,506	
Less accrued interest received on sale of Revenue Notes	340,725	351,781
Amortization of debt discount and expense		38,781
		390,562
Less interest earned on United States Government and other qualifying investment securities (net of revaluation of investment securities of \$364,630)		23,369
PRELIMINARY COSTS RELATING TO FUTURE CONSTRUCTION OF UTILITY PLANT AT JUNE 30, 1974		\$10,274,302

ATTACHMENT 8-2

WPPSS GENERAL FUND FINANCIAL STATEMENT



Washington Public Power Supply System

GENERAL FUND

FINANCIAL STATEMENT

APRIL 30, 1975

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

GENERAL FUND - GENERATING FACILITIES

BALANCE SHEET

ASSETS	April 30		Increase (Decrease)
	1975	1974	
CURRENT ASSETS:			
General Plant (Net)	\$ 49,300	\$ 60,600	\$ (11,300)
General Fund:			
Cash	8,800	580,500	(571,700)
Investments	575,000	210,000	365,000
Other Current Assets	500	52,500	(52,000)
Total General Fund	584,300	843,000	(258,700)
Generating Facilities:			
Nuclear Fuel - Enrichment Advance	2,833,600		2,833,600
Note Interest - Sinking Funds	1,865,100	210,900	1,654,200
Note Proceeds - Special Funds	10,570,700	2,301,400	8,269,300
Interest & Dividends Receivable	189,600		189,600
Special Deposits - Paying Agents	2,900		2,900
Other Current Assets	211,200	13,500	197,700
Total Generating Facilities	15,673,100	2,525,800	13,147,300
TOTAL CURRENT ASSETS	16,306,700	3,429,400	12,877,300
DEFERRED DEBITS:			
Unamortized Debt Discount & Expenses	71,900	300	71,600
Preliminary Survey & Investigation:			
Nuclear Project #4	733,400	54,100	679,300
Nuclear Project #5	1,552,800		1,552,800
Nuclear Project #6 & 7	272,900		272,900
Skagit	28,800		28,800
Middle Snake - High Mtn. Sheep	3,290,600	3,191,700	98,900
Other Steam Plants & Projects	89,000	89,000	
Total Prelim. Survey & Investigation	5,967,500	3,334,800	2,632,700
Clearing Accounts - General Fund	126,100	(367,300)	493,400
Miscellaneous Deferred Debits	144,000	145,800	(1,800)
TOTAL DEFERRED DEBITS	6,309,500	3,113,600	3,195,900
TOTAL ASSETS	\$ 22,616,200	\$ 6,543,000	\$ 16,073,200

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
 GENERAL FUND - GENERATING FACILITIES
 BALANCE SHEET

LIABILITIES	April 30		Increase (Decrease)
	1975	1974	
GENERATING FACILITIES NOTES	\$ 17,500,000	\$ 2,500,000	\$ 15,000,000
CURRENT LIABILITIES:			
General Fund:			
Warrants Outstanding	486,800	395,800	91,000
Accounts Payable	36,500	12,300	24,200
Other Current Liabilities	41,000	36,900	4,100
Total General Fund	<u>564,300</u>	<u>445,000</u>	<u>119,300</u>
Generating Facilities:			
Warrants Outstanding	74,600		74,600
Accounts Payable	130,400	19,600	110,800
Interest on Long Term Debt	482,900		482,900
Other Current Liabilities	140,900		140,900
Total Generating Facilities	<u>828,800</u>	<u>19,600</u>	<u>809,200</u>
TOTAL CURRENT LIABILITIES	<u>1,393,100</u>	<u>464,600</u>	<u>928,500</u>
OTHER DEFERRED CREDITS:			
A & O Advances	143,200	143,200	
Middle Snake - High Mtn. Sheep Advances	2,292,700	2,292,700	
Membership Dues	149,600	106,500	43,100
Accrued Interest - A & O Advances	144,000	134,900	9,100
Accrued Interest - Middle Snake - HMS	989,300	901,000	88,300
Accrued Vacation - Liability	4,300	100	4,200
TOTAL DEFERRED CREDITS	<u>3,723,100</u>	<u>3,578,400</u>	<u>144,700</u>
TOTAL LIABILITIES	<u>\$ 22,616,200</u>	<u>\$ 6,543,000</u>	<u>\$ 16,073,200</u>

PORTLAND
GENERAL

COMPANY
FINANCIAL
REVIEW
1974

ATTACHMENT 9(a)-1

FIVE INVESTOR-OWNED COMPANIES 1974
ANNUAL REPORT TO STOCKHOLDERS

Balance Sheets

Assets

December 31, 1974 and 1973

	1974	1973
	(Thousands of Dollars)	
Electric Utility Plant:		
In service, at original cost (Note 9)	\$589,036	\$527,525
Less—Reserve for depreciation (Note 1)	97,956	89,344
	<u>491,080</u>	<u>438,181</u>
Construction work in progress, including \$217,273,000 for the Trojan Nuclear Plant at December 31, 1974 (Note 9)	264,847	213,685
Nuclear fuel	29,385	16,470
	<u>785,312</u>	<u>668,336</u>
Other Property and Investments:		
Nonutility property, substantially at cost, less reserve	2,202	1,786
Sales contracts receivable and other	3,004	3,895
	<u>5,206</u>	<u>5,681</u>
Current Assets:		
Cash (Note 10)	11,703	12,195
Receivables:		
Customers' accounts	9,251	8,376
Other accounts and notes	2,249	2,531
Reserve for uncollectible accounts	(355)	(355)
Materials and supplies, at average cost:		
Fuel oil	15,112	3,315
Other	6,707	4,654
Property taxes applicable to subsequent periods	6,774	5,558
Prepayments	1,040	1,113
	<u>52,481</u>	<u>37,387</u>
Deferred Charges:		
Preliminary engineering and survey costs on proposed generating plants	4,154	2,229
Unamortized debt expense	2,522	2,098
Other deferred charges	1,277	2,471
	<u>7,953</u>	<u>6,798</u>
	<u>\$850,952</u>	<u>\$718,202</u>

Balance Sheets

Liabilities

December 31, 1974 and 1973

1974 1973

(Thousands of Dollars)

Capitalization

(see accompanying statements):

Common stock equity	\$241,965	\$187,740
Cumulative preferred stock	80,000	80,000
Long-term debt	335,344	326,083
Total capitalization	<u>657,309</u>	<u>593,823</u>

Current Liabilities:

Long-term debt maturing within one year	27,199	—
Current sinking fund requirements on long-term debt	2,386	2,309
Short-term notes payable (Note 10)	95,791	60,114
Accounts and wages payable	29,253	30,142
Dividends payable	6,774	5,529
Accrued general taxes	10,821	8,908
Accrued income taxes (Note 2)	406	822
Accrued interest	5,346	4,296
	<u>177,976</u>	<u>112,119</u>

Other:

Deferred income taxes—accelerated amortization (Note 4)	7,008	7,549
Deferred investment tax credits (Note 3)	4,417	2,413
Possible additional income taxes and other contingencies (Note 11)	1,989	1,989
Deferred revenue—excess power costs (net of income taxes)	1,937	—
Miscellaneous	316	303
Commitments and contingent liabilities (Note 15)	—	—
	<u>15,667</u>	<u>12,254</u>

\$850,952 \$718,207

The accompanying notes are an integral part of these statements.

Statements of Capitalization

December 31, 1974 and 1973

1974

1973

(Thousands of Dollars)

Common Stock Equity:

Common stock, \$3.75 par value per share, 20,000,000 shares authorized, 13,500,000 and 10,500,000 shares outstanding (Note 12)	\$ 50,625		\$ 39,375	
Other paid-in capital (Note 12)	108,146		72,183	
Capital stock expense	(1,432)		(1,264)	
Retained earnings (Note 13)	84,626		77,452	
Total common stock equity	241,965	36.8%	187,746	31.6%

Cumulative Preferred Stock, \$100 Par Value Per Share, 2,000,000 Shares Authorized (Note 12):

Series outstanding (redeemable at the Company's option):				
9.76% 100,000 Shares, redeemable to November 1, 1980 at \$110 and at reduced amounts thereafter	10,000		10,000	
7.95% 300,000 Shares, redeemable to July 1, 1977 at \$108 and at reduced amounts thereafter	30,000		30,000	
7.88% 200,000 Shares, redeemable to April 1, 1978 at \$108 and at reduced amounts thereafter	20,000		20,000	
8.20% 200,000 Shares, redeemable to July 1, 1978 at \$108 and at reduced amounts thereafter	20,000		20,000	
Total cumulative preferred stock	80,000	12.2%	80,000	13.5%

Long-Term Debt:

First mortgage bonds:				
3 $\frac{1}{8}$ % Series due July 1, 1975	27,199		27,220	
3 $\frac{1}{2}$ % Series due November 1, 1977	5,906		6,166	
3 $\frac{1}{2}$ % Second Series due Nov. 1, 1977	2,798		2,798	
3 $\frac{3}{8}$ % Series due November 1, 1984	8,183		8,383	
4 $\frac{1}{4}$ % Series due September 1, 1986	12,160		12,480	
4 $\frac{7}{8}$ % Series due June 1, 1987	7,800		8,000	
5 $\frac{1}{4}$ % Series due June 1, 1990	12,300		12,600	
5 $\frac{7}{8}$ % Series due November 1, 1991	10,800		10,950	
4 $\frac{7}{8}$ % Series due February 1, 1993	13,872		14,060	
4 $\frac{3}{4}$ % Series due June 1, 1993	16,650		16,875	
4 $\frac{3}{4}$ % Series due April 1, 1994	16,875		17,100	
4.70% Series due March 1, 1995	13,300		13,475	
5 $\frac{1}{8}$ % Series due June 1, 1996	11,550		11,700	
6.60% Series due October 1, 1997	22,725		23,088	
8 $\frac{3}{4}$ % Series due April 1, 1977	20,000		20,000	
9 $\frac{1}{8}$ % Series due November 1, 2000	20,000		20,000	
8% Series due November 1, 2001	20,000		20,000	
7 $\frac{3}{4}$ % Series due November 1, 2002	20,000		20,000	
7.95% Series due April 1, 2003	35,000		35,000	
8 $\frac{3}{4}$ % Series due October 1, 2003	17,000		17,000	
10 $\frac{1}{2}$ % Series due December 1, 1980	40,000		—	
5 $\frac{1}{2}$ % Sinking fund debentures, due 1983	10,500		10,875	
Real estate purchase contracts	606		941	
	365,224		328,711	
Unamortized premium on long-term debt	17		32	
Unamortized discount on long-term debt	(312)		(352)	
	364,929		328,391	
Less—Amounts included in current liabilities (Note 14):				
Long-term debt maturing within one year	(27,199)		—	
Current sinking fund requirements	(2,386)		(2,308)	
Total long-term debt	335,344	51.0%	326,083	54.9%
Total capitalization	\$657,309	100.0%	\$593,829	100.0%

Statements of Income

For the Years Ended December 31

	1974	1973	1972	1971	1970
	(Thousands of Dollars)				
Operating Revenues	\$146,001	\$124,833	\$112,443	\$104,919	\$8
Operating Expenses and Taxes:					
Operation					
Power purchased and interchange—net	37,385	30,798	24,849	22,264	19,477
Production	7,675	5,941	2,357	2,100	1,975
Transmission and distribution	7,914	6,742	5,988	5,500	4,700
Administrative and other	14,806	12,762	12,437	11,781	10,644
Maintenance and repairs (Note 1)	6,397	5,749	4,969	4,636	3,862
Depreciation annuity and interest on 5% sinking fund method (Note 1)	12,060	11,290	9,962	9,231	8,175
Taxes other than income taxes (Note 16)	14,322	12,746	11,964	10,849	10,035
Taxes on income (Notes 2, 3, 4 and 8):					
State	(99)	281	722	921	434
Federal	(732)	1,938	5,408	6,749	3,160
Disposition of utility plant	10	(858)	(125)	—	—
Total operating expenses and taxes	99,738	87,389	78,531	74,091	62,415
Utility operating income	46,263	37,444	33,912	30,828	25,875
Other Income:					
Allowance for funds used during construction (Note 5)	17,004	11,090	4,610	1,789	792
Other income and deductions—net	255	310	338	99	332
Gross income	63,522	48,844	38,860	32,716	26,999
Interest Charges:					
Interest on long-term debt	20,734	18,591	15,132	13,667	11,377
Interest on short-term notes payable	9,488	3,279	848	658	1,779
Other interest and amortization	382	358	311	108	102
Total interest charges	30,604	22,228	16,291	14,433	13,258
Net Income	32,918	26,616	22,569	18,283	13,741
Preferred Dividend Requirement	6,577	5,247	2,196	976	152
Income Available for Common Stock	\$ 26,341	\$ 21,369	\$ 20,373	\$ 17,307	\$11,789
Average Common Shares Outstanding	12,125,000	10,500,000	9,656,667	8,666,667	8,350,000
Earnings Per Average Common Share	\$2.17	\$2.04	\$2.11	\$2.00	\$1.63
Dividends Declared Per Common Share	\$1.52	\$1.48	\$1.42	\$1.38	\$1.30

Management's Discussion and Analysis of Statements of Income follows Notes to Financial Statements.

Statements of Retained Earnings

For the Years Ended December 31

	1974	1973	1972	1971	1970
	(Thousands of Dollars)				
Balance at Beginning of Period	\$ 77,452	\$71,980	\$65,809	\$60,933	\$58,556
Add—Net Income	32,918	26,616	22,569	18,283	13,741
	110,370	98,596	88,378	79,216	72,297
Deduct:					
Dividends declared:					
On common stock	18,810	15,540	13,845	12,075	10,855
On preferred stock	6,577	5,247	2,196	976	152
Write-off over the five-year period ended 1974 of a portion of investment in other nonutility property in compliance with Federal Power Commission requirements	357	357	357	356	357
	25,744	21,144	16,398	13,407	11,364
Balance at End of Period (Note 13)	\$ 84,626	\$77,452	\$71,980	\$65,809	\$60,933

The accompanying notes are an integral part of these statements.

Statements of Sources of Funds Invested in Electric Utility Plant

the Years Ended December 31

	1974	1973	1972	1971	1970
	(Thousands of Dollars)				
Funds Generated internally:					
Income available for common stock	\$ 26,341	\$ 21,369	\$ 20,373	\$ 17,307	\$ 13,589
Depreciation (including amounts charged to other accounts) (Note 1)	12,915	12,095	10,681	9,914	8,739
Investment tax credit adjustments (Note 3)	2,004	1,350	1,063	—	(184)
Income taxes deferred in prior years (Note 4)	(541)	(541)	(541)	(541)	(541)
Allowance for funds used during construction	(17,004)	(11,090)	(4,610)	(1,789)	(792)
	<u>23,715</u>	<u>23,183</u>	<u>26,966</u>	<u>24,891</u>	<u>20,811</u>
Less: Dividends declared on common stock	18,810	15,540	13,845	12,075	10,855
Total funds generated internally	<u>4,905</u>	<u>7,643</u>	<u>13,121</u>	<u>12,816</u>	<u>9,956</u>
Funds Provided from Outside Sources:					
Long-term debt	40,000	52,000	20,000	20,000	39,900
Preferred stock	—	40,000	30,000	—	10,000
Common stock	47,213	—	20,075	19,650	11,955
Short-term notes payable	122,232	113,984	79,750	21,280	21,100
Refinancing of short-term notes payable with long-term financing	(86,555)	(81,370)	(52,250)	(24,480)	(56,050)
Total funds from outside sources	<u>122,890</u>	<u>124,614</u>	<u>97,575</u>	<u>36,450</u>	<u>26,905</u>
Other Funds Provided (Used):					
Retirement of long-term debt	(3,152)	(3,299)	(4,615)	(2,673)	(2,772)
Change in net current assets excluding long-term debt due within one year and short-term notes payable	(12,191)	14,568	827	1,546	(1,305)
Reimbursement by lessor of 1973 construction expenditures	22,800	—	—	—	—
Allowance for funds used during construction	17,004	11,090	4,610	1,789	792
Other—net	1,325	(2,418)	(1,087)	370	979
Total other funds provided (used)	<u>25,786</u>	<u>19,941</u>	<u>(265)</u>	<u>1,032</u>	<u>(2,306)</u>
Funds Invested in Electric Utility Plant	<u>\$153,581</u>	<u>\$152,198</u>	<u>\$110,431</u>	<u>\$50,298</u>	<u>\$34,555</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Notes 1 through 7 Summarize the Company's Significant Accounting Policies.

Note 1. Depreciation.

Provisions for depreciation of utility plant (other than transportation equipment) have been computed on the 5% sinking fund method, as approved by the Public Utility Commissioner of Oregon (the "Commissioner"), and are based upon the estimated service lives of the various classes of property. For regulatory accounting purposes the annuity portion of such provisions is charged to Operating Expenses, whereas the portion representing interest on the depreciation reserve is included in Interest Charges. In the accompanying Statements of Income the annuity and interest portions have been combined under Operating Expenses. The percentages of provisions for depreciation (including the annuity and interest portions) to the total average depreciable plant-in-service balances were 2.0% in 1970, 2.1% in 1971, 2.2% in 1972, 2.3% in 1973 and 2.3% in 1974. The Company's sinking fund method of depreciation yields depreciation provisions that are substantially the same as provisions resulting from the use of straight-line depreciation on a group or composite basis as practiced by the majority of utilities. Provisions for depreciation of transportation equipment and nonutility property have been computed at straight-line rates based upon the estimated service lives of these properties. The Company charges maintenance with the cost of repairs and minor renewals, plant account with the cost of renewals and replacement of property units, and the depreciation reserve with the cost, less net salvage, of property units retired other than land.

Note 2. Federal and State Income Taxes.

The Company, with the approval of the Commissioner, follows flow-through accounting (other than as discussed in Notes 3 and 4) for reductions of income taxes resulting from various provisions in the tax laws which has the effect of passing such reductions on to the Company's customers. See Note 8 for details of income tax reductions.

Note 3. Investment Tax Credits.

As authorized by the Commissioner, the Company followed flow-through accounting for investment tax credits prior to 1972, which had the effect of decreasing income tax expense by \$184,000 in 1970 and \$423,000 in 1971 after giving effect to the following adjustments: during 1968, the Company deferred two-thirds (estimated at \$368,000) of the investment tax credit realized in 1968 arising from the completion of the Company's portion of the 500,000-volt Pacific Northwest-Southwest Intertie; the deferred investment tax credit was taken into income over a two-year period commencing January 1, 1969; this deferral was approved by the Commissioner. Effective January 1, 1972 the Company, with the approval of the Commissioner, elected to defer the tax reductions resulting from job development investment tax credits.

Had the Company continued to use flow-through accounting for such credits, income tax expense would have been decreased by \$1,063,000 in 1972, by \$1,350,000 in 1973 and by \$2,004,000 in 1974. As a result of the accounting change, however, income tax expense was decreased by \$37,000 in 1972, by \$80,000 in 1973 and by \$156,000 in 1974 after the deferral (less related amortization) of \$1,100,000, \$1,430,000 and \$2,160,000 of such credits. The deferred tax reductions are being amortized to income over a 30-year period, the approximate life of the related properties.

Had the Company followed deferred accounting for investment tax credits prior to 1972, income tax expense as reported would have been increased by \$33,000 in 1970, \$258,000 in 1971 and decreased by \$165,000 in 1972, 1973 and 1974.

Note 4. Amortization of Defense Facilities.

Prior years' tax reductions attributable to the excess of five-year amortization of defense facilities over depreciation computed substantially on the sum of the years-digits method were deferred by crediting the reductions to Deferred Income Taxes-Accelerated Amortization. Pursuant to an order of the Commissioner, the amounts deferred are being restored to income over the twenty-five years following the amortization period.

Notes to Financial Statements (Continued)

Note 5.
**Allowance for Funds Used
During Construction (ADC).**

ADC is defined in the Federal Power Commission (FPC) Uniform System of Accounts as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. ADC is capitalized as part of the cost of utility plant and is credited to Other Income. ADC is not capitalized for income tax purposes. The Company is currently using a 7% rate, which has been in effect since 1968, on construction expenditures other than nuclear fuel which is capitalized at the actual interest rate of the nuclear core notes. See Note 10(d). The amount of ADC capitalized has increased substantially subsequent to 1970, reflecting the increase in the Company's construction program expenditures.

Note 6.
Debt Premium, Discount and Expense.

Debt premium, discount and expense are being amortized over the lives of the respective issues.

Note 7.
Retirement Plan.

The Company has a retirement plan for the benefit of its employees. The Company funds pension costs accrued. Prior service costs of the plan are being amortized over a 25-year period. Such unfunded prior service costs at December 31, 1973, (latest actuarial valuation date), which are not recorded in the accounts, are estimated to be \$1,758,000 before income tax offsets. This amount had not changed materially at December 31, 1974. Retirement plan costs were as follows:

For the Years Ended December 31	1974	1973	1972	1971	1970
	(Thousands of Dollars)				
Charged to:					
Operations	\$ 738	\$ 749	\$ 746	\$ 650	\$ 618
Other than income accounts	823	730	711	579	544
Total cost	<u>\$ 1,561</u>	<u>\$ 1,479</u>	<u>\$ 1,457</u>	<u>\$ 1,229</u>	<u>\$ 1,162</u>

Note 8.

For the Company's accounting policies relating to income taxes see Notes 2, 3 and 4. The following table shows the detail of taxes on income and the items used in computing the differences between the statutory Federal income tax rate and the Company's effective rate.

For the Years Ended December 31	1974	1973	1972	1971	1970
	(Thousands of Dollars)				
State Income Taxes:					
Charged to Operating Expenses and Taxes:					
Currently payable	\$ (91)	\$ 209	\$ 730	\$ 929	\$ 442
Deferred in prior years	(8)	(8)	(8)	(8)	(8)
Total	<u>\$ (99)</u>	<u>\$ 281</u>	<u>\$ 722</u>	<u>\$ 921</u>	<u>\$ 434</u>
Charged to Other Income and Deductions—Net	<u>\$ 34</u>	<u>\$ 25</u>	<u>\$ 18</u>	<u>\$ 5</u>	<u>\$ 14</u>
Federal Income Taxes:					
Charged to Operating Expenses and Taxes:					
Currently payable	\$ (2,203)	\$ 1,121	\$ 4,878	\$ 7,282	\$ 3,877
Deferred in prior years	(533)	(533)	(533)	(533)	(533)
Investment tax credit adjustments	2,004	1,350	1,063	—	(184)
Total	<u>(732)</u>	<u>1,938</u>	<u>5,408</u>	<u>6,749</u>	<u>3,160</u>
Charged to Other Income and Deductions—Net	<u>219</u>	<u>67</u>	<u>10</u>	<u>(20)</u>	<u>21</u>
Total	<u>\$ (513)</u>	<u>\$ 2,005</u>	<u>\$ 5,418</u>	<u>\$ 6,729</u>	<u>\$ 3,181</u>
Computed Federal income taxes applying statutory rate (48%) to income before income taxes	<u>\$15,523</u>	<u>\$13,885</u>	<u>\$13,789</u>	<u>\$12,450</u>	<u>\$8,338</u>
Reductions in taxes resulting from:					
Excess tax over book depreciation	4,662	3,668	3,276	2,794	2,923
Costs capitalized for books and expensed for tax	1,968	1,537	951	511	404
Allowance for funds used during construction	8,162	5,323	2,213	859	380
Investment tax credit	156	80	37	423	184
Income taxes deferred in prior years	533	533	533	533	533
State income taxes	(19)	158	400	452	229
Adjustments of prior years accrued income taxes	(277)	86	608	(137)	307
Property taxes expensed—excess tax over book	516	16	130	219	60
Other minor items	335	479	223	67	151
Total	<u>16,036</u>	<u>11,880</u>	<u>8,371</u>	<u>5,721</u>	<u>5,197</u>
Federal income taxes	<u>\$ (513)</u>	<u>\$ 2,005</u>	<u>\$ 5,418</u>	<u>\$ 6,729</u>	<u>\$ 3,181</u>
Company's effective rate	(1.6%)	6.9%	18.9%	25.9%	18.3%

The Company does not anticipate that the cash outlay for income taxes will substantially exceed the amounts to be accrued as income tax expense for the next three years.

Note 9.

The Company's Indenture of Mortgage and Deed of Trust, dated July 1, 1945, as supplemented, securing the first mortgage bonds issued by the Company constitute a direct first mortgage lien on substantially all property and franchises, other than expressly excepted property owned by the Company.

Note 10.

Short-term borrowings consisted of the following:

December 31	1974	
	(Thousands of Dollars)	
Bank loans (a)	\$52,100	\$26,900
Commercial paper (b)	--	5,500
Pollution control bonds (c)	27,000	27,000
Less: bond held by Company	(8,125)	--
funds held in trust	(2,459)	14,260
Nuclear core notes (d)	27,275	13,400
Total short-term borrowings (e)	<u>\$95,791</u>	<u>\$60,114</u>

(a) **Bank loans.** At December 31, 1973, the Company had credit agreements with banks, maturing August 31, 1974, which provided that the Company could borrow at the prime commercial rate in effect on the date of borrowing, prepay and reborrow from time to time up to a maximum amount of \$150,000,000. The credit agreements provided for a commitment fee of $\frac{1}{2}$ of 1% per annum on the unused commitment.

The Company has a new credit agreement with banks, effective August 30, 1974 and maturing August 31, 1976, which provides that the Company may borrow, prepay and reborrow from time to time up to a maximum amount of \$150,000,000. The interest rate on the first \$75,000,000 of the commitment is the prime commercial rate in effect from time to time and on the balance 115% of the prime commercial rate in effect from time to time. The new credit agreement provides for a commitment fee of $\frac{1}{2}$ of 1% per annum on the unused commitment and a service fee determined by multiplying \$1,875,000 at the end of each quarter by the average daily prime commercial rate percentage in effect during such quarter. The unused commitments were \$121,500,000 at December 31, 1973 and \$97,900,000 at December 31, 1974.

It is understood that the Company will maintain compensating cash balances under the credit agreements, however, there are no legal restrictions to the withdrawal of such balances. The compensating balances were calculated as follows:

December 31	1974	
	(Thousands of Dollars)	
Compensating cash balance requirements	\$10,500	\$10,000
Less—Float*	<u>3,119</u>	<u>1,250</u>
	<u>\$ 7,381</u>	<u>\$ 8,749</u>

* Float is the difference between the balances recorded on the Company's books and the balances shown on the bank statements.

(b) **Commercial paper.** The Company issues commercial paper from time to time at varying interest rates. The Company expects that a sum equal to the amount of commercial paper outstanding at any time will not be borrowed under the credit agreement discussed above, but will be reserved by the Company for the purpose of back-up support for such commercial paper.

(c) **Pollution control bonds.** The Company has entered into an agreement with the Port of St. Helens, Oregon (the "Port") to provide up to \$60,000,000 of financing for the pollution control facilities at the Trojan Nuclear Plant. The Company will lease the facilities to the Port and in turn sublease the facilities from the Port.

At December 31, 1973, the Port had issued \$27,000,000 of 6 $\frac{3}{8}$ % short-term pollution control bonds to a bank on a private placement basis. The short-term pollution control bonds matured in November 1974 and the Port issued \$27,000,000 of 8 $\frac{1}{4}$ % short-term refunding pollution control bonds. The Company had received \$12,714,000 at December 31, 1973 and \$24,541,000 at December 31, 1974 for completed pollution control facilities; the balance of the proceeds having been placed in trust for investment pending completion of the facilities.

The Port plans to issue up to \$60,000,000 of long-term pollution control bonds to the public, and a portion of the proceeds will be used to refinance the \$27,000,000 of short-term refunding pollution control bonds. On December 10, 1974 the Supreme Court of the State of Oregon refused to review the decision of an intermediate appellate court confirming the right of the Port to issue such pollution control bonds. The issuance of the long-term pollution control bonds is contingent upon receiving a favorable tax ruling from the Internal Revenue Service. If a favorable tax ruling is not received, the lease and sublease will be terminated and the Company will repay the short-term refunding pollution control bonds then outstanding and compensate the bank for the taxable status of the interest thereon.

Notes to Financial Statements (Continued)

(d) **Nuclear core notes.** The Company has entered into an agreement, which may be terminated each year, to finance Trojan Plant nuclear cores up to a maximum of \$35,000,000. Under the agreement, a trust issues its short-term notes supported by a bank's irrevocable letters of credit. The agreement provides for the Company to repay the nuclear core notes outstanding as the nuclear cores are consumed. The interest rate on the nuclear core notes is the current rate in effect for the trust's short-term notes. In addition, the Company must pay a fee of $\frac{1}{2}$ of 1% per annum on the average daily outstanding amount of such notes.

In June 1974 the Company entered into an agreement to finance nuclear cores for a second nuclear plant up to a maximum amount of \$40,000,000. The terms of this agreement are substantially identical to those in the Trojan agreement. The first financing under this agreement took place in August 1974.

(e) **Aggregate short-term borrowings.** The weighted average interest rate for the outstanding short-term borrowings was 8.5% at December 31, 1973 and 10.1% at December 31, 1974. The maximum amount of such borrowings outstanding was \$62,664,000 during 1973 and \$141,076,000 during 1974, the average daily amounts outstanding were \$33,112,000 and \$84,808,000 and the weighted average daily interest rates were 8.1% and 10.1% for the respective years. The interest rates are calculated by using the rates of such borrowings but excluding the fees discussed above and the effect of the compensating cash balances.

Note 11.

Provisions for Possible Additional Income Taxes and Other Contingencies were provided from income in years prior to 1970 as directed by the Commissioner. The Commissioner has assumed jurisdiction over this item and has ordered that no portion of it shall be disposed of without his permission, but has indicated that he will permit it to be used for additional income taxes or for any other purpose from which the Company's customers may derive benefit.

Note 12.

The following changes occurred in the Common Stock, Cumulative Preferred Stock and Other Paid-in Capital accounts (Dollar Amounts in Thousands):

	Common Stock		Cumulative Preferred Stock		Other Paid-in Capital
	Number of Shares	\$3.75 Par Value	Number of Shares	\$100 Par Value	
Outstanding, December 31, 1969	7,900,000	\$29,625	—	\$ —	\$ 30,253
Sales of stock	600,000	2,250	100,000	10,000	9,705
Outstanding, December 31, 1970	8,500,000	31,875	100,000	10,000	39,958
Sales of stock	1,000,000	3,750	—	—	15,900
Outstanding, December 31, 1971	9,500,000	35,625	100,000	10,000	55,858
Sales of stock	1,000,000	3,750	300,000	30,000	16,325
Outstanding, December 31, 1972	10,500,000	39,375	400,000	40,000	72,183
Sales of stock	—	—	400,000	40,000	—
Outstanding, December 31, 1973	10,500,000	39,375	800,000	80,000	72,183
Sales of stock	3,000,000	11,250	—	—	35,963
Outstanding, December 31, 1974	13,500,000	\$50,625	800,000	\$80,000	\$108,146

On January 23, 1975 the Company issued 300,000 shares of 11.50% Series Cumulative Preferred Stock for net proceeds of \$29,020,000.

Note 13.

Retained Earnings of \$74,660,000 at December 31, 1973 and \$82,052,000 at December 31, 1974 are not restricted for cash dividends under the provisions of the Indenture of Mortgage and Deed of Trust, dated July 1, 1945, securing the Company's first mortgage bonds.

Note 14.

Under the terms of the indentures securing the Company's first mortgage bonds and debentures, the following principal amounts of bonds and debentures become due for redemption through sinking funds and maturities during the years 1975 through 1979.

	Sinking Fund Requirements			
	Aggregate Requirements	Bonds	Net Remaining Sinking Fund Requirements	First Mortgage Bond Maturities
		Required as of December 31, 1974		
		(Thousands of Dollars)		
1975	\$3,468	\$1,082	\$2,386	\$27,199
1976	3,378	611	2,767*	—
1977	3,628	75	3,553*	28,160
1978	3,598	—	3,598*	—
1979	4,249	—	4,249*	—

Sinking funds in amounts of \$250,000 in 1976, \$725,000 in 1977, \$1,050,000 in 1978 and \$1,701,000 in 1979 may be satisfied by pledging available additions equal to 166% of the sinking fund requirement.

Note 15.

(a) New construction for the year 1975 is estimated at \$140,000,000, excluding the proposed new headquarters complex which is expected to be financed by a sale-lease back arrangement. Purchase commitments outstanding, relating principally to construction, totaled approximately \$251,500,000 at December 31, 1973 and \$241,700,000 at December 31, 1974. The Company has made substantial commitments under long-term agreements to provide nuclear cores for its Trojan Nuclear Plant and its proposed additional nuclear plants. Such agreements may be terminated and would require payment of termination charges.

(b) The Company has entered into long-term power purchase contracts, expiring from 2005 to 2018, for portions of power from public utility districts' plants on the Columbia River. Power purchase prices are based on a proportional share of the operating and debt service costs of each project whether or not operable. The agreements provide that the districts insure the plants to the extent deemed adequate by them. Significant statistics regarding these projects are as follows:

Kilowatts available to the Company (name plate rating)	874,700
Estimated current annual operating and debt service costs	\$13,500,000

(c) All of the Company's hydroelectric plants are licensed by the FPC. Upon the expiration of a major license, a new license may be granted to the Company or upon payment to the Company of its "net investment" therein, not to exceed fair value, plus severance damages, the projects may be taken over by the United States or licensed to a new licensee. The licenses provide that after an initial 20-year period earnings in excess of a specified return are to be set aside in an amortization reserve which may reduce the "net investment" in the projects. The original license on the Oak Grove Hydroelectric Plant—Project No. 135 expired in 1972 and the Company made application for a new license for that Project. The United States has not acted to take over the Project or to issue a new license. Annual licenses have been issued on the same terms and conditions as the original license. Preliminary studies of "net investment" on Project No. 135 have been made by the Company and the FPC staff. In the opinion of management, the final determination of "net investment" as of the expiration of the annual license will not have a significant effect on the financial position of the Company.

The remaining major licenses expire from 2001 to 2006. The minor part license on the Bull Run Hydroelectric Plant—License 477—expired in November 1974. An annual license has been issued on the same terms and conditions as the original license.

The Company holds state licenses covering all or portions of certain hydroelectric projects which are also covered by licenses under the Federal Power Act. Such licenses expire between 2002 and 2011. Each of the state licenses, except one, contains provisions similar to the Federal Power Act licenses with respect to amortization reserves and authorizes the State of Oregon to take over the project when it is fully amortized. Under state law, the state or any municipality may acquire a project subject to state license upon not less than two years' notice at the fair value thereof but not exceeding the then "net investment," or otherwise may acquire a project by condemnation proceedings.

Notes to Financial Statements (Continued)

(d) The minimum annual rental commitments of the Company under all noncancelable leases at December 31, 1974 are as follows:

	Basic	Non-capitalized Financing Leases	Sub-lease Rentals* (Credit)	Total
(Thousands of Dollars)				
1975	\$ 1,103	\$ 4,368	\$ (50)	\$ 5,421
1976	1,049	4,365	(50)	5,364
1977	918	4,363	(12)	5,269
1978	854	4,363	—	5,217
1979	688	4,363	—	5,051
1980-1984	3,442	21,812	—	25,254
1985-1989	1,973	21,812	—	23,785
1990-1994	1,606	21,713	—	23,319
Remainder	7,031	18,442	—	25,473
Total	<u>\$18,664</u>	<u>\$105,601</u>	<u>\$(112)</u>	<u>\$124,153</u>

During 1973 the Company entered into 25-year leases of combustion turbines located at two of its generating plants. In August 1974 the Company entered into 25-year leases of combustion turbines located at its Beaver plant site. The total lease commitments for the combustion turbines represent \$104,196,000 of the amount shown above as noncapitalized financing leases. The present value of these leases computed upon the 5.9% interest rates (1973 leases) and 6.56% interest rates (1974 leases) implicit in the leases was approximately \$24,744,000 at December 31, 1973 and \$53,155,000 at December 31, 1974. In the event of certain contingencies the Company may be required to purchase the turbines from the lessor at a maximum price of \$59,281,000 in 1975 and at decreasing amounts thereafter. Such purchase would reduce the \$104,196,000 of lease commitments to the extent of lease payments then remaining. At the expiration of each lease the Company has options to (i) renew the lease for five years at the then fair rental value or (ii) purchase the turbines at the then fair market value. Substantially all other leases with options to renew provide for negotiation of the amount of rental at the time of exercising such options. Other leases with options to purchase are not material.

If all noncapitalized financing leases had been capitalized during the years 1972, 1973 and 1974, the effect on the Company's average net income would have been less than 3% during such years. If all present noncapitalized financing leases were capitalized, the Company does not anticipate that the impact on net income in future years would exceed 3% of average net income.

Note 16.

Supplementary Income Information:

For the Years Ended December 31	1974	1973	1972	1971	1970
(Thousands of Dollars)					
Taxes other than income taxes, charged directly to tax expense					
Property	\$10,790	\$ 9,700	\$ 9,330	\$ 8,613	\$ 8,007
Payroll	807	692	521	452	415
City taxes and license fees	2,446	2,131	1,866	1,674	1,506
Other	279	223	227	110	107
Total	<u>\$14,322</u>	<u>\$12,746</u>	<u>\$11,964</u>	<u>\$10,849</u>	<u>\$10,035</u>
Rentals charged to operation expense accounts*					
Basic rentals	\$ 991	\$ 960	\$ 922	\$ 902	\$ 870
Contingent rentals**	166	141	172	154	141
Noncapitalized financing leases	2,869	455	14	15	15
Total	<u>\$ 4,026</u>	<u>\$ 1,556</u>	<u>\$ 1,108</u>	<u>\$ 1,071</u>	<u>\$ 1,026</u>

* See Note 15 d) for details concerning the Company's long-term lease commitments.

** Based on kwh of gross generation at certain Company hydroelectric projects.

The amounts of maintenance and repairs, depreciation and taxes other than income taxes included in the Statements of Income but not set out separately therein are not material.

The amounts of depreciation and amortization of intangible assets, advertising costs and research and development costs were not material.

Report of Independent Public Accountants

To the Board of Directors and Stockholders of Portland General Electric Company:
We have examined the balance sheets and statements of capitalization of Portland General Electric Company (an Oregon corporation) as of December 31, 1974 and 1973, and the related statements of income, retained earnings and sources of funds invested in electric utility plant for the five years ended December 31, 1974. Our examination was 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.

In our opinion, the financial statements referred to above present fairly the financial position of Portland General Electric Company as of December 31, 1974 and 1973, and the results of its operations and sources of funds invested in electric utility plant for the five years ended December 31, 1974, in conformity with generally accepted accounting principles applied, except for the change (with which we concur) in the method of accounting for investment tax credits as described in Note 3, on a consistent basis during the periods.

Portland, Oregon,
February 14, 1975.

Arthur Andersen & Co.

Management's Discussion and Analysis of Statements of Income

Numerical Notes refer to Notes to Financial Statements.

(a) Operating Revenues:

Total operating revenues increased \$7,524,000 during 1972, \$12,390,000 during 1973 and \$21,168,000 during 1974. The 1972 increase was primarily due to an increase in total kilowatt-hour sales in 1972 over 1971. Energy conservation measures resulted in lower than anticipated sales to ultimate customers in 1973 and 1974. To the extent that the reduction occurred during the winter months of 1973-1974 and reduced the necessity to operate the Company's combustion turbines, the result was a lower cost of power produced. The 1973 and 1974 increases are primarily due to the impact of general rate increases. In October 1973, the Company was granted a rate increase of 22.5%, including an 11% interim increase in April 1973. Commencing in September 1974 the Company was permitted to add 2.0 mills per kwh to all bills in order to recover the cost of power in excess of 4.8 mills per kwh during the 1974-1975 winter. Excess power costs amounted to \$2,866,000 during the last four months of 1974, all of which is included in 1974 revenues. The 9.7% rate increase granted the Company in late December 1974 had no effect on 1974 revenues.

**(b) Power Purchased and
Interchange—Net and Production:**

These costs increased \$2,842,000 during 1972, \$9,533,000 during 1973 and \$8,321,000 during 1974. The increase in 1972 was primarily due to the related increase in total kilowatt-hour sales referred to in (a) above. The increase in 1973 and 1974 results from several factors. Until September 1, 1973, the Bonneville Power Administration ("Bonneville") was contractually obligated to supply all of the Company's firm power requirements in excess of its other power resources. Since that date, this resource has been replaced by other energy sources, generally at costs in excess of Bonneville rates. During 1973 and 1974 the Company added combustion turbine generating capacity. The combustion turbines were acquired under long-term leases and the lease payments are included as production expenses. Although the combustion turbines have been operated for relatively minor periods, such operation together with the lease payments have increased the Company's production expenses.

(c) Other Operation and Maintenance Expenses:	Expenses in these categories have increased due to the effect of inflation and the increase in the number of customers and the number of Company employees.
(d) Taxes Other Than Income Taxes:	These taxes have increased in all periods, primarily because of additions to electric utility plant and increased operating revenues.
(e) Taxes on Income:	Taxes on income decreased \$1,540,000 during 1972, \$3,911,000 during 1973 and \$3,050,000 during 1974. Changes in Federal and state income taxes are generally related to changes in income before income taxes; however, the Company's income tax accounting policies do not utilize full interperiod income tax allocation. The two most significant items resulting in differences between book and tax income are excess tax over book depreciation and allowance for funds used during construction (ADC) which is not taxable for income tax purposes. During 1972, 1973 and 1974, ADC resulted in a significant portion of the decrease in taxes on income. See Notes 2, 3 and 4 for the Company's income tax accounting policies and Note 8 for details of taxes on income. Reference is also made to Note 3 for the change, effective January 1, 1972, in the accounting principles with respect to the method of accounting for investment tax credits.
(f) Allowance for Funds Used During Construction (ADC):	ADC increased \$2,821,000 during 1972, \$6,480,000 during 1973 and \$5,914,000 during 1974. The increases are related to the substantial increase in the Company's construction program expenditures. See Note 5.
(g) Interest Charges on Long-Term Debt and Short-Term Notes Payable and Preferred Dividend Requirements:	The Company's annual construction expenditures have increased significantly since 1970. This has required substantial external financings through the sale of long-term debt and equity securities and the use of short-term notes payable. These financing requirements resulted in increased interest charges on borrowings of \$1,655,000 during 1972, \$5,890,000 during 1973 and \$8,352,000 during 1974 and resulted in increased preferred dividend requirements of \$1,220,000, \$3,051,000 and \$1,330,000 during such years. A part of these increases has been capitalized. See (f) above.

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Balance Sheets

Assets

	December 31 1974	December 31 1973
	(Thousands of Dollars)	
UTILITY PLANT (Notes 1, 2, 8 and 14):		
Electric plant, at original cost	\$672,269	\$576,912
Less accumulated depreciation	92,766	81,074
Net utility plant	<u>579,503</u>	<u>495,838</u>
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property, at cost	879	796
Investment in and advances to subsidiaries (Note 1)	2,843	2,790
Other investments, at cost	880	1,465
Total other property and investments	<u>4,602</u>	<u>4,961</u>
CURRENT ASSETS:		
Cash (Note 9)	3,701	1,294
Accounts receivable (Note 1)	17,904	13,172
Materials and supplies, at average cost	9,433	5,596
Current portion of deferred income taxes (Note 1)	900	—
Prepayments	1,326	1,195
Total current assets	<u>33,264</u>	<u>21,257</u>
DEFERRED CHARGES:		
Advance under power contract	906	937
Unamortized debt expense	1,069	772
Accumulated income taxes (Note 1)	829	703
Thermai plant feasibility costs	—	707
Prepaid power costs	—	2,573
Other	1,104	1,524
Total deferred charges	<u>3,908</u>	<u>7,216</u>
	<u>\$621,277</u>	<u>\$529,272</u>

The accompanying notes are a part of the financial statements

Liabilities and Capital

	December 31 1974	December 31 1973
	(Thousands of Dollars)	
CAPITALIZATION:		
Shareholders' investment:		
Common stock (Notes 6 and 13)	\$ 49,979	\$ 43,855
Additional paid-in capital (Notes 7 and 13)	34,689	26,975
Earnings reinvested in the business (Note 3)	81,391	73,202
Total common equity	166,059	144,032
Preferred stock (Note 4)	37,122	39,345
Convertible preference stock (Note 5)	14,814	14,814
Total shareholders' investment	217,995	198,187
Long-term debt (Note 8)	318,749	256,116
Total capitalization	536,744	454,303
NOTES PAYABLE TO BANKS (Note 9)	30,500	41,000
CURRENT LIABILITIES:		
Commercial paper	15,700	6,000
Accounts payable	4,704	4,679
Accrued expenses:		
Taxes	12,457	9,649
Salaries and wages	1,667	1,547
Interest	4,226	2,175
Other	2,441	653
Total current liabilities	41,195	24,703
DEFERRED TAX CREDITS (Note 1):		
Accumulated investment tax credits	3,754	2,449
Accumulated income tax credits	1,223	833
Total deferred tax credits	4,977	3,282
OTHER DEFERRED CREDITS:		
Customer advances for construction (Note 1)	3,213	2,942
Other	2,572	1,230
Total other deferred credits	5,785	4,172
ACCUMULATED PROVISION FOR SELF-INSURANCE	2,076	1,812
COMMITMENTS AND CONTINGENCIES (Notes 2 and 11)		
	<u>\$621,277</u>	<u>\$529,272</u>

Statements of Income

	Years Ended December 31	
	1974	1973
	(Thousands of Dollars)	
OPERATING REVENUES (Note 1)	<u>\$142,393</u>	<u>\$116,902</u>
OPERATING EXPENSES:		
Operation:		
Purchased and interchanged power — net	32,163	25,582
Other	26,024	23,148
Maintenance	6,401	6,140
Depreciation (Note 1)	13,850	12,331
Taxes other than Federal income taxes	17,042	14,861
Federal income taxes (Notes 1 and 10):		
Payable currently	7,335	2,958
Deferred investment tax credits	1,305	919
Deferred — other	(637)	266
Total operating expenses	<u>103,483</u>	<u>86,205</u>
OPERATING INCOME	<u>38,910</u>	<u>30,697</u>
OTHER INCOME — NET:		
Allowance for funds used during construction (Note 1)	4,423	1,899
Miscellaneous — net	1,795	1,414
Total other income — net	<u>6,218</u>	<u>3,313</u>
INCOME BEFORE INTEREST CHARGES	<u>45,128</u>	<u>34,010</u>
INTEREST CHARGES:		
Interest and amortization on long-term debt	18,723	15,670
Other	5,020	2,877
Total interest charges	<u>23,743</u>	<u>18,547</u>
NET INCOME	<u>21,385</u>	<u>15,463</u>
LESS DIVIDEND ACCRUALS:		
Preferred stock	2,240	1,495
Convertible preference stock	1,074	1,074
Total dividend accruals	<u>3,314</u>	<u>2,569</u>
NET INCOME FOR COMMON STOCK	<u>\$ 18,071</u>	<u>\$ 12,894</u>
COMMON SHARES — WEIGHTED AVERAGE:		
Outstanding	4,483,216	4,379,832
Assuming full conversion of preference stock	4,932,140	4,828,806
EARNINGS PER COMMON SHARE (Note 1):		
Assuming no conversion of preference stock	\$4.03	\$2.94
Assuming full conversion	\$3.88	\$2.89

The accompanying notes are a part of the financial statements.

Statements of Earnings Reinvested in the Business

	Years Ended December 31	
	1974	1973
	(Thousands of Dollars)	
BALANCE AT BEGINNING OF YEAR.....	\$ 73,202	\$ 68,778
NET INCOME	21,385	15,463
Total.....	<u>94,587</u>	<u>84,241</u>
DEDUCTIONS:		
Cash dividends paid:		
Preferred stock	2,307	1,294
Convertible preference stock.....	1,074	1,074
Common stock†	8,693	8,671
Expenses relating to issuance of equity securities:		
8% Preferred stock, 150,000 shares	248	—
Common stock, 600,000 shares	874	—
Total deductions	<u>13,196</u>	<u>11,039</u>
BALANCE AT END OF YEAR (Note 3).....	<u>\$ 81,391</u>	<u>\$ 73,202</u>

†1974 and 1973, \$1.98 per share.

The accompanying notes are a part of the financial statements.

Statements of Changes in Financial Position

	Years Ended December 31	
	1974	1973
	(Thousands of Dollars)	
Funds Provided by Operations:		
Net income	\$ 21,385	\$ 15,462
Add (deduct) items not affecting working capital in the current period:		
Depreciation, including amounts charged to other expense accounts	14,751	13,131
Equity portion of allowance for funds used during construction	(1,701)	(733)
Deferred investment tax credits and income taxes — net	1,568	1,185
Other	803	238
Total from Operations	<u>36,806</u>	<u>29,287</u>
Other Funds Provided (Applied):		
Issuance of first mortgage bonds	60,000	—
Issuance of equity securities	13,183	15,283
Increase (decrease) in notes payable to banks	(10,500)	25,000
Proceeds of pollution control bonds — net	3,852	2,738
Additions to utility plant — net of equity portion of allowance for funds used during construction	(97,094)	(62,330)
(Increase) decrease in prepaid power costs	2,573	(2,573)
Payment of dividends	(12,074)	(11,039)
Reacquired securities	(2,152)	(569)
Miscellaneous — net	920	1,343
Decrease in working capital	<u>\$ (4,486)</u>	<u>\$ (2,860)</u>
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	\$ 2,407	\$ (2,880)
Accounts receivable	4,732	724
Materials and supplies	3,837	1,453
Current portion of deferred income taxes	900	—
Prepayments	131	399
(Increase) decrease in current liabilities:		
Commercial paper and accounts payable	(9,725)	(3,649)
Accrued expenses and other	(6,768)	1,093
	<u>\$ (4,486)</u>	<u>\$ (2,860)</u>

The accompanying notes are a part of the financial statements.

Notes to Financial Statements

1) SUMMARY OF ACCOUNTING POLICIES — The Company's accounting policies conform to generally accepted accounting principles and to accounting requirements of regulatory authorities. Significant policies are described below.

Utility Plant — Utility plant includes taxes incurred and allowances for funds used during construction. It is the general policy of the Company to charge the cost of maintenance and repairs to operating expenses and other appropriate accounts. The cost of renewals and betterments is charged to appropriate utility plant accounts, except the cost of minor replacements which is charged to maintenance expense. The original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, accumulated depreciation is charged only with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Investment in Subsidiaries — The investment in subsidiaries is stated on an equity basis. The assets, revenues, earnings, and earnings reinvested in the business of the subsidiaries are not material in relation to those of the Company.

Accounts Receivable and Operating Revenues — The Company bills its customers on a monthly and bi-monthly cyclical basis. Accounts receivable and operating revenues include only amounts billed. They do not include an estimated accrual for service between the last cyclical billing and the end of the year.

Customer Advances for Construction — Customer advances for construction may be refunded in whole or in part or may be transferred to utility plant. Such credits represent amounts paid by customers and others toward utility plant improvements, principally underground distribution facilities.

Depreciation and Amortization — The Company provides for depreciation on a straight-line basis for all depreciable property, except for 15.6% of such property (principally hydro-electric production property) which is depreciated on a 6 percent compound-interest method.

The annual depreciation provisions recorded in the Company's accounts were equivalent to the following percentages of the original cost of depreciable utility plant:

	1974	1973
Straight-line method (%)	3.1	3.0
Compound interest method (%)	.85	.81

Federal Income Taxes — In computing depreciation for Federal income tax purposes, the Company uses depreciation methods and estimated asset lives which differ from those used in its financial statements. In addition, the allowance for funds used during construction and certain taxes during construction are treated differently for income tax and financial statement purposes. Principally as a result of these factors, the Company's effective tax rate varies from the statutory Federal income tax rate (see Note 10).

The Company normalizes, with the approval of the Washington Utilities and Transportation Commission, the tax effects of (1) liberalized and asset depreciation range depreciation on production property additions after 1969 and 1970, respectively; (2) job development investment credits; (3) the provision for self-insurance in excess of deductible losses; and (4) certain accrued property taxes.

Allowance for Funds Used During Construction — The allowance for funds used during construction represents the estimated portion of interest and equity costs of capital funds which are applicable to utility plant while under construction. The composite rate used by the Company to capitalize the cost of funds devoted to construction was 7.8% for 1974 and 1973.

Earnings per Common Share — Earnings per common share are computed as follows: Earnings per common share assuming no conversion of preference stock; the net income for common stock is divided by the weighted average number of common shares outstanding.

Earnings per common share assuming full conversion; the aggregate of the net income for common stock plus the dividends accrued on convertible preference stock is divided by the aggregate of the weighted average number of common shares outstanding plus the number of shares that would be outstanding if the convertible preference stock were fully converted.

2) UTILITY PLANT EXPENDITURES — Expenditures for utility plant during 1975 are expected to approximate \$90,700,000. The Company's construction program for the years 1976 through 1977, subject to continuing review and adjustment, is estimated at \$304,300,000. Certain purchase commitments have been made in connection with the construction program.

3) EARNINGS REINVESTED IN THE BUSINESS — Earnings reinvested in the business unrestricted as to payment of cash dividends on common stock amount to approximately \$51,100,000 at December 31, 1974 under provisions of the most restrictive covenants applicable to the preferred and preference stocks and long-term debt.

4) PREFERRED STOCK, \$100 PAR VALUE — 1,000,000 SHARES AUTHORIZED

	Number of Shares		
	4.84%	4.70%	8%
Authorized for each series	150,000	150,000	150,000
Outstanding, January 1, 1974	120,012	123,437	150,000
Acquired for sinking fund during 1974	4,407	820	17,000
Outstanding, December 31, 1974	115,605	122,617	123,000
Available for future sinking fund requirements	7,395	6,383	17,000

The preferred stock may be redeemed by the Company at the following redemption prices per share plus accrued dividends:

- 4.84% Series — \$103 prior to May 15, 1977 and \$102 thereafter.
- 4.70% Series — \$102 prior to May 15, 1979 and \$101 thereafter.
- 8% Series — \$108, \$105 and \$103 prior to February 15, 1978, 1983 and 1988, respectively, and \$101 thereafter.

The Company is required to deposit funds annually in a sinking fund sufficient to redeem the following number of shares of each series at \$100 per share plus accrued dividends: 4.84% series and 4.70% series, 3,000 shares each; 8% series, 4,000 shares from 1975 through 1984 and 5,000, 6,000 and 1,000 shares through 1989, 2003 and 2004, respectively. These requirements may be satisfied by delivery of reacquired shares.

5) CONVERTIBLE PREFERENCE STOCK, \$50 PAR VALUE — 700,000 SHARES AUTHORIZED:

	Shares
	7.25%
Authorized for the 7.25% series	300,000
Outstanding January 1, and December 31, 1974	296,290

The convertible preference stock may be redeemed at par plus accrued dividends.

The Company must keep available for conversion of its preference stock 448,924 shares of its authorized and unissued \$10 par value common stock, based on conversion values for preference stock and common stock of \$50 and \$33, respectively.

6) COMMON STOCK, \$10 PAR VALUE:

	Shares
Authorized	6,000,000
Outstanding January 1, 1974	4,385,250
Issued to trustee of employee investment plan	12,502
Sold to public	600,000
Outstanding December 31, 1974	4,997,752

7) ADDITIONAL PAID IN CAPITAL:

	(Thousands of Dollars)
Balance January 1, 1974	\$26,976
Excess of proceeds over par value of common stock issued to trustee of employee investment plan	156
Excess of proceeds over par value of common stock issued to the public	6,900
Excess of par value over cost of preferred stock reacquired for annual sinking fund requirements	657
Balance December 31, 1974	\$34,689

8) LONG-TERM DEBT, AT DECEMBER 31, 1974:

	Outstanding (Thousands of Dollars)
First Mortgage bonds:	
10 ³ / ₄ % series, due 1983	\$ 30,000
3 ¹ / ₂ % series, due 1984	25,000
4 ¹ / ₈ % series, due 1988	30,000
4 ⁵ / ₈ % series, due 1991	15,000
4 ⁵ / ₈ % series, due 1993	40,000
4 ³ / ₄ % series, due 1994	15,000
5 ¹ / ₄ % series, due 1996	20,000
6 ⁵ / ₈ % series, due 1997	20,000
7 ¹ / ₂ % series, due 1999	20,000
9 ¹ / ₂ % series, due 2000	29,700
7 ³ / ₄ % series, due 2002	30,000

Notes to Financial Statements (Continued)

8¾% series, due 2004	\$ 30,000
Total First Mortgage bonds	304,700
Debentures, 5¼%, due 1983	8,486
5½% pollution control revenue bonds, series 1973, due 1998 (\$20,000,000 net of funds on deposit with trustee of \$13,409,000)	6,591
Notes payable	525
	320,302
Less unamortized discount — net of premium	1,553
Total	\$318,749

The effective interest cost approximates the coupon rate during the life of the bonds.

The Company is required to make annual sinking and improvement fund payments to the trustee equal to one percent of the aggregate principal amount of each series of first mortgage bonds outstanding, as provided in the respective indentures, except for the 10¾% series, due 1983, which has no sinking fund provision. The aggregate amount of such requirements for 1975 is \$2,447,000 and for each of the years 1976 through 1979 is \$2,747,000. This requirement may be met by the substitution of certain credits as provided in the mortgage.

The Company is also required to make an annual sinking fund payment sufficient to redeem (at special redemption prices not to exceed 100.75 percent of principal) \$375,000 principal amount of debentures on November 1 of each year through 1982. This requirement may be satisfied by delivery of reacquired debentures. At December 31, 1974, \$889,000 of reacquired debentures were available to meet future sinking fund requirements.

Substantially all properties of the Company are subject to the lien of the first mortgage bonds.

9) NOTES PAYABLE TO BANKS — Notes payable to banks represent borrowings under a credit agreement with twenty-one banks, which provides for a maximum commitment by the banks of \$50,000,000 with interest on borrowings at 105% of the prime rate. The agreement also provides for a fee of ¼ of 1% per annum on the unused commitment. The borrowings carry an average interest rate of 12% at December 31, 1974 and mature April 1, 1975. It is informally understood that the Company will maintain compensating balances on a yearly average basis equal to 5% of the total line of credit based on monthly bank statement balances. The normal daily in check clearances through the depository banks substantially meets this compensating balance requirement. On April 1, 1975 loans outstanding under the agreement will be refinanced with notes due April 1, 1976 under a new credit agreement completed in March 1975 (see page 12).

The Company has a supplemental credit agreement with the banks providing for an additional credit line of \$5,000,000 with interest on borrowings at 107% of the prime rate. This credit line expires March 31, 1975. The Company has informally agreed to maintain compensating balances equal to 15% of this supplemental line.

10) FEDERAL INCOME TAXES — The Company's effective Federal income tax rate was 27.2% for 1974 and 21.1% for 1973. The difference between these effective rates and the 48% Federal income tax statutory rate comprises:

	1974	1973
Items on which the tax effect has not been deferred in accordance with regulatory requirements:		
Depreciation expense deducted for income tax purposes in excess of depreciation expense included in the financial statements, net of liberalized depreciation treated as a timing difference	11.1%	16.4%
Allowance for funds used during construction included as income in the financial statements and excluded from taxable income	7.2	4.7
Certain taxes included in the cost of utility plant in the financial statements and deducted for income tax purposes	2.7	3.5
Other	(0.2)	2.3
	20.8%	26.9%

11) CONTINGENCIES — By complaint filed in the United States District Court dated July 18, 1972, the Muckleshoot Indian Tribe has sued the Company for \$45,000,000 for diversion and conversion of water from the White-Stuck River, and for an injunction

Notes to Financial Statements (Continued)

against further diversions. In the opinion of general counsel, the Company has substantial defenses in this litigation and there is little likelihood of significant recovery against the Company.

The Montana Department of Natural Resources and Conservation has recommended the denial of the application for a construction permit for two additional generating units at Colstrip, Montana, in which the Company is to have a 25% interest. Hearings are to be held in connection with the application. In the event the application is ultimately denied, the Company may have to charge operations with cancellation charges of approximately \$1,600,000 and construction expenditures of \$2,400,000 incurred to date. Should any such charges to operations be necessary, the Company will request the approval of the Washington Utilities and Transportation Commission to amortize the charges over a period of years.

12) EMPLOYEE PENSION PLAN — The Company has a noncontributory pension plan covering substantially all of its employees. The total cost of this plan for 1974 and 1973 was \$2,300,000 and \$1,800,000, respectively, including approximately \$725,000 and \$587,000, respectively, charged to construction. Effective January 1, 1974 the plan was amended to increase plan benefits which had no material effect on net income. Unfunded prior service costs are being amortized over a period of approximately thirty years. The Company's policy is to fund pension cost accrued. At December 31, 1974, unfunded past service costs were approximately \$10,392,000. The actuarially computed value of vested benefits exceeds by approximately \$8,600,000 the value (based primarily on market) of the pension fund.

13) EMPLOYEE INVESTMENT PLAN — The Company has a qualified employee investment plan under which prescribed payroll deductions as designated by the employees are deposited monthly with a trustee and are used to purchase a diversified investment portfolio. The Company makes a monthly contribution to the trust fund equal to 35% of the basic contribution of each participating employee. The basic contribution is limited to 6% of the employee's regular earnings. Under the investment plan agreement, all Company contributions are used by the trustee to purchase common stock directly from the Company at a value established by sales at specified dates on the New York Stock Exchange.

During 1974 and 1973 the Company contributed approximately \$240,000 and \$253,000, respectively, in cash to the plan and the trustee purchased from such contributions 12,802 and 9,706 shares, respectively, of common stock. Proceeds from such sales were credited to the common stock and additional paid-in capital accounts on the books of the Company.

14) RESTATEMENTS — In accordance with regulatory requirements effective January 1, 1974, contributions in aid of construction have been reclassified as a reduction of the cost of utility plant. Utility plant as of December 31, 1973 has been restated to reflect this change resulting in a reduction of \$12,954,000. Previously such contributions were shown separately among the liabilities.

Auditors' Report

To the shareholders of Puget Sound Power & Light Company

We have examined the balance sheet of Puget Sound Power & Light Company as of December 31, 1974 and the related statements of income, earnings reinvested in the business and changes in financial position for the year then ended. Our examination was 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. We previously examined and reported on the financial statements of the Company for the year 1973.

In our opinion, the aforementioned financial statements present fairly the financial position of Puget Sound Power & Light Company at December 31, 1974 and 1973, and its results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In addition, we have read certain historical accounting information included in the nonfinancial statement sections of this annual report, as identified therein; have compared it to data taken from the audited financial statements; have subjected it to audit procedures; have verified its mathematical accuracy. In our opinion, such data is fairly stated in relation to the audited financial statements taken as a whole.

COOPERS & LYBRAND

February 12, 1975, except as to Note 9 with respect to which the date of this report is March 25, 1975.

Seattle, Washington

Fiscal Agents

Common Stock: *Transfer Agents, The Chase Manhattan Bank, N.A., New York, and Rainier National Bank, Seattle; Registrars, Irving Trust Company, New York, and Pacific National Bank of Washington, Seattle.*

Convertible Preference Stock: *Transfer Agents, The Chase Manhattan Bank, N.A., New York, and Rainier National Bank, Seattle; Registrars, Irving Trust Company, New York, and Pacific National Bank of Washington, Seattle.*

Preferred Stock: *4.84% and 4.70% series: Transfer Agent, Rainier National Bank, Seattle; Registrar, Pacific National Bank of Washington, Seattle. 8% series: Transfer Agents and Registrars, Manufacturers Hanover Trust Company, New York, and Rainier National Bank, Seattle.*

First Mortgage Bonds: *Trustee and Registrar, The First National Bank of Boston, Boston.*

Debentures: *Trustee and Registrar, Continental Illinois National Bank and Trust Company, Chicago.*

Historical Summary of Operations and Statistical Record

SUMMARY OF OPERATIONS* (Thousands of Dollars)	1974	1973	1972
Operating revenues:			
Residential	\$ 72,722	\$ 65,249	\$ 61,429
Commercial	36,230	32,920	29,849
Industrial	15,145	12,502	11,451
Other	18,295	6,231	5,424
Total operating revenues	<u>142,393</u>	<u>116,902</u>	<u>108,153</u>
Operation and maintenance	64,588	54,870	51,212
Depreciation	13,850	12,331	11,204
Taxes other than income taxes	17,042	14,861	13,257
Federal income taxes	8,003	4,143	3,926
Total operating expenses	<u>103,483</u>	<u>86,205</u>	<u>79,599</u>
Operating income	38,910	30,697	28,547
Other income — net	6,218	3,313	2,217
Income before interest charges	<u>45,128</u>	<u>34,010</u>	<u>30,764</u>
Interest charges	23,743	18,547	14,720
Net income	<u>21,385</u>	<u>15,463</u>	<u>16,044</u>
Preferred and convertible preference stock dividend accrual	3,314	2,569	2,296
Net income on common stock	<u>\$ 18,071</u>	<u>\$ 12,894</u>	<u>\$ 13,748</u>
Common shares outstanding — weighted average	4,483,216	4,379,882	4,367,056
Earnings per common share — assuming no conversion	\$4.03	\$2.94	\$3.15
— assuming full conversion	\$3.88	\$2.89	\$3.08
Dividends per share of common stock	\$1.98	\$1.98	\$1.91
Pay-out ratio on common stock	49.1%	67.3%	60.6%
STATISTICAL RECORD			
KWH generated, purchased and interchanged (Millions):			
Total Company generated	1,794	1,490	1,436
Purchased power	10,350	9,225	9,140
Interchanged power (net)	474	(737)	(897)
Total output	<u>12,618</u>	<u>9,978</u>	<u>9,679</u>
Losses and Company use	(847)	(658)	(793)
Total energy sales	<u>11,771</u>	<u>9,320</u>	<u>8,886</u>
Electric energy sales — KWH (Millions):			
Residential	5,040*	4,913*	4,856
Commercial	2,043*	2,349*	1,865
Industrial	2,050*	2,041*	1,865
Other	2,638*†	317*	295
Total energy sales	<u>11,771*</u>	<u>9,320*</u>	<u>8,886</u>
Total average number of customers	<u>403,409</u>	<u>393,553</u>	<u>379,726</u>
Per residential customer:			
Annual use (KWH)	13,856	13,563	14,151
Annual revenue	\$199.94	\$184.09	\$178.99
Average rate per kilowatt-hour	1.44¢*	1.33¢*	1.26¢
Peak load — Kilowatts (thousands)	2,058	2,077	2,115
Capability at time of peak load — Kilowatts (thousands)	2,379	2,233	2,260
Capitalization ratios:*			
Long-term (excluding bank loans)	59.4%	56.4%	58.7%
Preferred stock	6.9	8.6	5.8
Convertible preference stock	2.8	3.3	3.4
Common shareholders' investment	30.9	31.7	32.1
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Total regular employees (December 31)	<u>1,819</u>	<u>1,779</u>	<u>1,692</u>

*Audit procedures applied, see Auditors' Report. †Includes 2,364 KWH (millions) of firm and non-firm energy sold to other utilities.

1971	1970	1969	1964
\$ 54,432	\$ 49,897	\$ 47,025	\$ 30,783
26,222	24,023	21,906	13,883
8,986	8,824	8,520	6,018
4,461	3,878	3,448	2,247
<u>94,101</u>	<u>86,622</u>	<u>80,899</u>	<u>52,931</u>
45,274	41,703	39,820	27,219
10,467	8,525	7,860	4,375
10,851	10,829	10,052	6,480
1,692	450	721	952
<u>68,284</u>	<u>61,627</u>	<u>58,453</u>	<u>39,026</u>
25,817	25,055	22,446	13,905
1,914	1,090	723	747
<u>27,731</u>	<u>26,145</u>	<u>23,169</u>	<u>14,652</u>
13,868	13,100	11,441	6,279
<u>13,863</u>	<u>13,045</u>	<u>11,728</u>	<u>8,373</u>
2,333	2,366	1,454	1,370
<u>\$ 11,530</u>	<u>\$ 10,679</u>	<u>\$ 10,274</u>	<u>\$ 7,003</u>
4,112,676	3,953,799	3,953,501	3,593,501
\$2.80	\$2.70	\$2.60	\$1.95
\$2.76	\$2.67	\$2.59	—
\$1.82	\$1.76	\$1.70	\$1.60
65.0%	65.2%	65.4%	82.1%
1,404	1,250	1,238	1,136
7,606	7,165	7,153	4,172
(177)	(226)	(701)	(626)
<u>8,833</u>	<u>8,189</u>	<u>7,690</u>	<u>4,632</u>
(806)	(782)	(749)	(594)
<u>8,027</u>	<u>7,407</u>	<u>6,941</u>	<u>4,088</u>
4,557	4,164	3,928	2,460
1,722	1,545	1,392	737
1,506	1,492	1,449	760
242	206	172	131
<u>8,027</u>	<u>7,407</u>	<u>6,941</u>	<u>4,088</u>
<u>367,741</u>	<u>354,752</u>	<u>339,560</u>	<u>258,940</u>
13,711	13,042	12,919	10,556
\$163.77	\$156.23	\$154.67	\$132.09
1.19¢	1.20¢	1.20¢	1.25¢
1,850	1,711	1,613	1,139
2,186	1,896	1,807	1,372
56.3%	58.7%	55.9%	53.9%
6.5	6.9	7.8	11.8
3.8	3.9	4.3	—
33.4	30.5	32.0	34.3
100.0%	100.0%	100.0%	100.0%
<u>1,665</u>	<u>1,679</u>	<u>1,724</u>	<u>1,564</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS FOR THE YEARS 1974 AND 1973

The interim and general rate increase accounted for about \$11.5 million of the increase in operating revenues for 1974. The general rate increase was in effect only during the last two months of 1974 and is expected to increase revenues for 1975. Increased sales to other utilities accounted for an additional \$11.1 million of increased 1974 operating revenues. Although the Company expects to sell power to other utilities in the future, the amount of such sales depends primarily on the availability of power in excess of the Company's requirements.

The increase in operation and maintenance expenses for 1974 is due to increased purchased power costs and to inflationary factors resulting in increased wage rates and material and supply costs.

The increase in depreciation expense for 1974 and 1973 is due to increased depreciable electric plants and to an increase in depreciation rates in 1974.

Taxes other than Federal income taxes increased in 1974 and 1973 due to increased revenues, property valuations and salaries and wages upon which the other taxes are based, together with increased tax rates.

Federal income taxes were significantly higher in 1974 primarily due to the increase in taxable income.

The increases in other income for 1974 and 1973 were due to 1) increases in the allowance for funds used during construction which is attributable to higher levels of construction expenditures and 2) an increase in interest income from funds invested by the trustee of the 8.90% pollution control bonds.

The higher interest charges in 1974 and 1973 are due to higher levels of short-term debt as well as higher short-term interest rates and to the issuance of additional bonds in 1972, 1973 and 1974 at interest rates in excess of prior average rates.

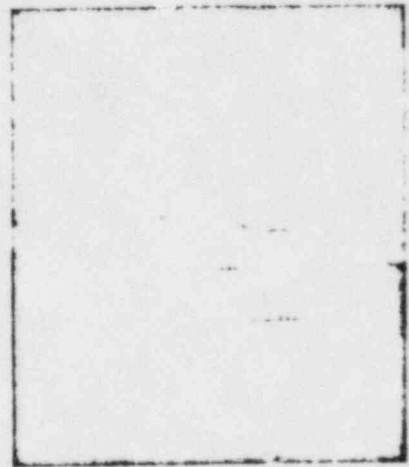
Earnings Per Common Share and Operating Revenues by Quarter for 1974 and 1973

	1974		1973	
	Earnings per common share	Operating revenues (Thousands of Dollars)	Earnings per common share	Operating revenues (Thousands of Dollars)
First Quarter	\$1.48	\$ 37,898	\$1.42	\$ 34,898
Second Quarter	1.15	36,077	1.11	35,153
Third Quarter	.54	33,727	.53	34,553
Fourth Quarter	.86	34,727	.88	32,298
For the Year	\$4.03*	\$142,392*	\$3.94*	\$136,902*

*Based upon average common shares outstanding assuming no conversion of preference stock.

Common Stock Price Ranges and Dividends Per Share by Quarter for 1974 and 1973

	1974		
	Price Range High - Low	Dividends Per Share	
First Quarter	28 $\frac{1}{2}$ - 25 $\frac{1}{2}$	\$.49 $\frac{1}{2}$	
Second Quarter	25 $\frac{1}{2}$ - 19 $\frac{1}{2}$.49 $\frac{1}{2}$	
Third Quarter	21 $\frac{1}{2}$ - 18 $\frac{1}{2}$.49 $\frac{1}{2}$	
Fourth Quarter	21 $\frac{1}{2}$ - 18 $\frac{1}{2}$.49 $\frac{1}{2}$	
	1973		
	Price Range High - Low	Dividends Per Share	
First Quarter	34 $\frac{1}{2}$ - 30 $\frac{1}{2}$	\$.49 $\frac{1}{2}$	
Second Quarter	31 $\frac{1}{2}$ - 29 $\frac{1}{2}$.49 $\frac{1}{2}$	
Third Quarter	29 $\frac{1}{2}$ - 26 $\frac{1}{2}$.49 $\frac{1}{2}$	
Fourth Quarter	29 - 23 $\frac{1}{2}$.49 $\frac{1}{2}$	



FINANCIAL AND OPERATING SUPPLEMENT

THE WASHINGTON WATER POWER COMPANY

EAST 1411 MISSION

SPOKANE, WASHINGTON 99207

For Our Shareholders	Unit	1977	1973	1972	1971	1970
Earnings per share						
Average	Dollars	2.11	2.04	1.96	1.88	1.81
Outstanding	Dollars	2.11	2.02	1.96	1.86	1.81
Dividends per share	Dollars	1.49	1.44	1.39	1.36	1.33
Payout ratio	Per Cent	71	71	71	72	73
Book value per share	Dollars	20.14	19.60	19.03	18.38	17.77
Shares outstanding	Millions	6.8	6.8	6.5	6.4	6.2

On What We Sell

Total revenues	Millions of \$	110.0	93.0	82.8	77.0	72.1
Gas revenues	Millions of \$	33.6	26.4	25.8	23.0	21.2
Electric revenues:						
Total	Millions of \$	74.5	65.2	55.6	52.6	50.7
General business	Millions of \$	53.3	50.7	48.6	46.0	43.9
Kilowatt-hours						
Total	Millions of Kwh	7,923	6,803	6,402	5,795	5,539
General business	Millions of Kwh	4,873	4,747	4,604	4,344	4,075
Residential						
Use per customer	Kwh	12,857	12,667	12,498	11,960	11,351
Revenue per kwh	Cents	1.21	1.19	1.19	1.21	1.25

On Expenses and Provisions

Operating expenses	Millions of \$	20.7	18.1	14.4	13.3	12.5
Depreciation and maintenance	Millions of \$	12.7	11.4	9.7	9.5	8.1
Purchased power	Millions of \$	9.7	8.9	7.4	6.2	6.7
Purchased gas	Millions of \$	23.5	15.3	15.0	12.2	10.6
Taxes	Millions of \$	14.9	14.1	12.4	13.6	13.3

On Our Power Resources

Available resources	Megawatts	1,112	1,135	1,133	1,121	1,130
Other purchases (sales)	Megawatts	55	(28)	(58)	(8)	(1)
Available resources-net	Megawatts	1,167	1,107	1,075	1,113	1,129
Peak demand	Megawatts	1,095	1,062	1,076	934	899
Annual load factor	Per Cent	61	60	58	63	64
Requirements	Millions of Kwh	5,721	5,557	5,456	5,134	4,872

Our Property Investment

Plant expenditures	Millions of \$	27.1	25.0	23.4	24.5	24.8
Plant investment	Millions of \$	471.4	446.3	423.9	407.0	389.7
Net plant	Millions of \$	344.3	366.0	349.1	335.9	314.9

() Denotes Decrease

RATE OF GROWTH

	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	5 Years		10 Years	
							<u>1969-74</u>	%	<u>1964-74</u>	%
	176	168	158	148	139	134	20	57		
	170	168	158	148	139	134	24	51		
	128	121	118	112	108	106	16	41		
	73	72	75	76	78	79	(3)	(10)		
	17.37	16.71	16.32	16.01	15.76	15.71	16	29		
	6.2	5.8	5.8	5.8	5.8	5.7	10	19		
	69.0	65.4	61.5	55.2	52.0	50.2	59	119		
	18.9	17.2	14.0	11.9	11.2	10.8	78	211		
	48.8	47.0	46.5	42.2	39.7	38.4	53	94		
	42.8	40.4	38.3	37.3	35.7	34.5	25	54		
	5,438	5,413	6,202	4,443	4,185	4,116	46	92		
	3,952	3,681	3,400	3,323	3,150	3,050	23	60		
	11,129	10,413	9,952	9,861	9,735	9,712	16	32		
	1.29	1.33	1.36	1.36	1.36	1.35	(6)	(10)		
	11.6	10.9	11.0	10.1	9.8	9.9	78	109		
	7.7	7.3	7.3	6.6	6.2	5.8	65	119		
	6.5	6.2	6.7	5.8	5.5	4.0	49	143		
	9.9	9.6	7.8	5.9	5.7	5.7	137	312		
	13.6	13.0	11.0	9.8	8.7	9.3	10	60		
	1,075	1,080	1,141	1,145	1,140	1,121				
	(125)	(125)	(215)	(230)	(160)	(125)				
	950	955	926	915	980	996				
	835	917	750	684	672	764				
	64	56	63	67	64	55				
	4,681	4,474	4,143	4,016	3,776	3,673	22	56		
	16.9	13.3	10.1	11.9	11.7	8.1	60	234		
	363.8	348.3	336.1	326.8	317.0	306.8	30	54		
	300.1	288.8	281.0	276.2	269.3	262.3	28	46		

Condensed Balance Sheet at December 31st

(Thousands of Dollars)

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
ASSETS				
Plant Investment				
Electric production plant	\$195,816	\$188,159	\$182,122	\$180,000
Other electric plant	198,932	185,687	172,403	161,751
Total electric	394,748	373,846	354,525	341,750
Gas plant	63,544	60,157	57,963	54,403
Other plant	13,149	12,331	11,379	10,622
Total	471,441	446,334	423,867	406,964
Depreciation and amortization	87,976	80,325	74,777	71,074
Net plant	383,465	366,009	349,090	335,890
Other investments	16,256	15,973	10,433	9,055
Current assets	16,906	13,662	12,052	12,781
Other	3,426	3,159	2,584	2,676
Total	\$420,053	\$398,803	\$374,159	\$360,404

LIABILITIES

Capitalization				
Common stock	\$111,702	\$110,795	\$105,383	\$ 85,027
Retained earnings	25,535	21,863	18,408	35,231
Total equity	137,237	132,658	123,791	120,258
First mortgage bonds	200,370	200,370	180,370	180,370
Debenture bonds	34,604	35,342	36,047	36,810
Bank notes	27,000	12,000	15,000	8,000
Unamortized debt premium	526	—	—	—
Total capitalization	309,732	380,370	355,208	345,438
Current liabilities	17,445	13,463	14,509	11,730
Other	2,872	1,732	1,675	640
Contributions in aid of construction	—	3,218	2,767	2,500
Total	\$420,053	\$398,803	\$374,159	\$360,404

CAPITALIZATION RATIOS

Equity	31.4	34.9	34.9	34.1
Debt	68.6	65.1	65.1	65.9

<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
\$167,549	\$155,315	\$148,985	\$146,959	\$146,645	\$146,032	\$146,308
<u>194,374</u>	<u>148,024</u>	<u>142,793</u>	<u>137,458</u>	<u>132,659</u>	<u>129,438</u>	<u>122,799</u>
321,923	303,339	291,778	284,456	279,504	275,470	269,107
54,114	50,438	47,017	42,603	38,545	33,224	29,914
<u>10,431</u>	<u>10,007</u>	<u>9,534</u>	<u>9,070</u>	<u>8,781</u>	<u>8,256</u>	<u>7,839</u>
386,468	363,764	348,329	336,129	326,830	316,950	306,860
<u>67,843</u>	<u>63,665</u>	<u>59,495</u>	<u>55,113</u>	<u>50,659</u>	<u>47,622</u>	<u>44,528</u>
318,625	300,119	288,834	281,016	276,171	269,328	262,332
7,804	6,096	4,708	2,969	2,791	2,780	2,599
15,594	29,269	13,614	12,191	11,172	11,051	10,310
<u>2,598</u>	<u>3,092</u>	<u>6,984</u>	<u>3,630</u>	<u>3,302</u>	<u>3,079</u>	<u>2,917</u>
<u>\$344,621</u>	<u>\$338,575</u>	<u>\$314,140</u>	<u>\$299,806</u>	<u>\$293,436</u>	<u>\$286,238</u>	<u>\$278,158</u>

\$ 79,356	\$ 79,183	\$ 70,557	\$ 70,297	\$ 70,068	\$ 69,878	\$ 69,617
<u>31,393</u>	<u>28,948</u>	<u>26,646</u>	<u>24,441</u>	<u>22,684</u>	<u>21,277</u>	<u>21,068</u>
110,749	108,131	97,203	94,738	92,752	91,155	90,685
180,370	160,370	160,370	160,370	160,370	140,370	140,370
22,556	23,274	24,032	24,620	25,209	25,795	25,259
14,000	16,160	18,360	7,360	2,300	16,000	6,000
<u>327,675</u>	<u>307,935</u>	<u>299,965</u>	<u>287,088</u>	<u>280,630</u>	<u>273,320</u>	<u>262,114</u>
14,094	28,199	11,982	10,869	11,017	11,082	14,050
576	456	380	127	129	199	192
<u>2,276</u>	<u>1,915</u>	<u>1,813</u>	<u>1,722</u>	<u>1,660</u>	<u>1,637</u>	<u>1,602</u>
<u>\$344,621</u>	<u>\$338,575</u>	<u>\$314,140</u>	<u>\$299,806</u>	<u>\$293,436</u>	<u>\$286,238</u>	<u>\$278,158</u>

33.8	35.1	32.4	33.0	33.1	33.4	34.6
66.2	64.9	67.6	67.0	66.9	66.6	65.4

Income Data

(Thousands of Dollars)

	1974	1973	1972	1971
Operating Revenues:				
Electric	74,573	\$65,167	\$55,618	\$52,570
Gas	32,536	26,424	25,808	23,033
Water	677	549	471	423
Steam Heat	1,262	859	957	953
Total	110,055	92,999	82,854	76,987
Operating Revenue Deductions:				
Maintenance	4,552	3,650	3,287	3,172
Power purchased	9,686	8,900	7,410	6,230
Gas purchased	23,491	15,280	14,944	12,169
Other operating expenses	20,747	18,059	14,434	13,314
Federal and state income taxes	5,866	4,731	5,115	5,639
Other taxes	9,031	9,350	8,385	7,917
Depreciation	8,363	7,779	6,445	6,320
Total	81,656	67,759	60,020	54,771
Operating income	28,442	25,240	22,834	22,216
Other Income (Deductions):				
Equity in subsidiary earnings	(405)	576		
Allowance for funds used during construction	701	466	2,049	1,471
Other—net	6	116	(504)	(290)
Total other income (deductions)—net	302	1,158	1,545	1,181
Interest Charges:				
Interest on long-term debt	14,112	13,125	12,075	11,634
Other	113	169	81	233
Total interest charges	14,225	13,294	12,156	11,867
Income before the following item	13,877	13,104	12,223	11,530
Transferred from retained earnings— restricted certain reductions in Federal income taxes	517	542	542	542
Net income available for dividends and other corporate purposes	14,394	13,646	12,765	12,072
Common dividends	12,500	9,649	9,058	8,736

(1974 figure)

<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
\$50,665	\$48,849	\$47,037	\$46,468	\$42,234	\$39,738	\$38,408
20,161	18,939	17,215	14,027	11,896	11,193	10,835
446	434	404	390	461	416	268
821	770	705	640	596	620	650
<u>72,093</u>	<u>68,992</u>	<u>65,361</u>	<u>61,525</u>	<u>55,187</u>	<u>51,967</u>	<u>50,161</u>
2,581	2,494	2,228	2,476	2,001	1,880	1,753
6,704	6,526	6,246	6,729	5,832	5,466	3,966
10,550	9,878	9,551	7,751	5,911	5,662	5,664
12,468	11,576	10,881	10,961	10,132	9,834	9,880
6,063	6,544	6,252	4,461	3,670	2,872	3,625
7,413	7,091	6,794	6,539	6,175	5,848	5,691
5,566	5,199	5,075	4,853	4,547	4,290	4,095
<u>51,345</u>	<u>49,308</u>	<u>47,027</u>	<u>43,770</u>	<u>38,268</u>	<u>35,852</u>	<u>34,674</u>
20,748	19,684	18,334	17,755	16,919	16,115	15,487
921	403	463	40	96	99	16
393	(245)	(361)	(372)	(433)	(848)	(629)
<u>1,314</u>	<u>158</u>	<u>102</u>	<u>(332)</u>	<u>(337)</u>	<u>(749)</u>	<u>(613)</u>
11,300	9,751	9,126	8,761	8,433	7,831	7,639
94	82	74	63	101	58	45
<u>11,394</u>	<u>9,833</u>	<u>9,200</u>	<u>8,824</u>	<u>8,534</u>	<u>7,889</u>	<u>7,684</u>
10,668	10,009	9,236	8,599	8,048	7,477	7,190
542	542	542	542	542	542	542
11,210	10,551	9,778	9,141	8,590	8,019	7,732
8,223	7,707	7,030	6,843	6,485	6,242	6,108

Sales Data

	1974	1973	1972	1971
Revenues (in thousands):				
Electric				
Residential	\$ 25,851	\$24,564	\$23,452	\$21,874
Commercial	16,108	15,482	15,050	14,364
Industrial	10,350	9,702	9,191	8,877
Street and highway lighting	979	929	885	866
Total general business	53,341	50,677	48,578	46,001
Railroads and railways	9*	24	25	37
Other electric utilities	19,774	13,173	5,785	5,401
Total energy sales	73,124	63,874	54,388	51,439
Other	1,409	1,293	1,230	1,139
Total electric	74,533	65,167	55,618	52,578
Gas				
Residential	12,694	11,016	11,013	9,758
Commercial	7,176	5,711	5,459	4,915
Industrial—Firm	8,357	5,745	5,468	4,935
Industrial—Interruptible	5,212	3,762	3,646	3,176
Total gas sales	33,439	26,234	25,586	22,787
Other	157	190	222	246
Total gas	33,596	26,424	25,808	23,033
Water	677	549	471	420
Steam Heat	1,292	859	957	953
Total revenues	\$110,098	\$92,999	\$82,854	\$76,947

Industrial Revenue (in thousands):

Electric				
Mining and smelting	\$ 3,849	\$ 3,660	\$ 3,002	\$ 3,397
Lumber and wood products	1,810	1,770	2,207	1,703
Paper manufacturing	1,855	1,458	1,465	1,481
Other	2,835	2,814	2,517	2,296
Total	\$10,349	\$ 9,702	\$ 9,191	\$ 8,877
Largest single customer	\$ 2,076	\$ 1,977	\$ 1,905	\$ 1,797
Gas				
Mining and smelting	\$ 3,740	\$ 2,547	\$ 2,274	\$ 2,127
Lumber and wood products	1,300	899	772	596
Paper manufacturing	4,862	3,193	3,440	3,153
Other	3,803	2,668	2,628	2,238
Total	\$13,705	\$ 9,507	\$ 9,114	\$ 8,114
Largest single customer	\$ 4,324	\$ 3,063	\$ 3,276	\$ 2,972

<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
\$20,892	\$21,418	\$19,326	\$18,457	\$18,028	\$17,534	\$17,124
13,549	12,930	12,092	11,358	10,720	10,042	9,434
8,630	6,526	6,218	7,696	7,810	7,451	7,235
<u>877</u>	<u>642</u>	<u>801</u>	<u>771</u>	<u>746</u>	<u>691</u>	<u>668</u>
43,948	42,846	40,437	38,274	37,304	35,718	34,461
52	41	80	147	165	167	150
<u>5,470</u>	<u>4,937</u>	<u>5,591</u>	<u>7,006</u>	<u>4,008</u>	<u>3,135</u>	<u>3,103</u>
49,470	47,824	46,108	45,427	41,478	39,020	37,714
<u>1,195</u>	<u>1,025</u>	<u>929</u>	<u>1,041</u>	<u>756</u>	<u>718</u>	<u>694</u>
50,665	48,849	47,037	46,468	42,234	39,738	38,408
8,447	7,803	6,692	5,808	5,443	5,008	4,760
3,991	3,794	3,265	2,839	2,615	2,350	2,247
4,535	4,382	4,191	2,467	842	741	671
<u>3,106</u>	<u>2,899</u>	<u>3,064</u>	<u>2,906</u>	<u>2,985</u>	<u>3,082</u>	<u>3,145</u>
20,079	18,938	17,212	14,020	11,885	11,181	10,823
<u>82</u>	<u>1</u>	<u>3</u>	<u>7</u>	<u>11</u>	<u>12</u>	<u>12</u>
20,161	18,939	17,215	14,027	11,896	11,193	10,835
446	434	404	390	461	416	268
<u>821</u>	<u>770</u>	<u>705</u>	<u>640</u>	<u>596</u>	<u>620</u>	<u>650</u>
<u>\$72,093</u>	<u>\$68,992</u>	<u>\$65,361</u>	<u>\$61,525</u>	<u>\$55,187</u>	<u>\$51,967</u>	<u>\$50,161</u>
\$ 3,330	\$ 3,438	\$ 3,335	\$ 3,133	\$ 3,190	\$ 3,002	\$ 2,914
1,608	1,649	1,571	1,355	1,349	1,330	1,265
1,434	1,429	1,400	1,292	1,291	1,282	1,263
<u>2,258</u>	<u>2,110</u>	<u>1,912</u>	<u>1,908</u>	<u>1,980</u>	<u>1,837</u>	<u>1,793</u>
<u>\$ 8,630</u>	<u>\$ 8,626</u>	<u>\$ 8,218</u>	<u>\$ 7,688</u>	<u>\$ 7,810</u>	<u>\$ 7,451</u>	<u>\$ 7,235</u>
<u>\$ 1,735</u>	<u>\$ 1,902</u>	<u>\$ 1,816</u>	<u>\$ 1,592</u>	<u>\$ 1,570</u>	<u>\$ 1,538</u>	<u>\$ 1,549</u>
\$ 2,060	\$ 2,048	\$ 2,060	\$ 1,327	\$ 1,411	\$ 1,298	\$ 1,327
442	436	418	286	204	109	105
2,888	2,826	2,763	1,717	184	168	167
<u>2,251</u>	<u>1,971</u>	<u>2,014</u>	<u>2,043</u>	<u>2,028</u>	<u>2,248</u>	<u>2,222</u>
<u>\$ 7,641</u>	<u>\$ 7,281</u>	<u>\$ 7,255</u>	<u>\$ 5,373</u>	<u>\$ 3,827</u>	<u>\$ 3,623</u>	<u>\$ 3,816</u>
<u>\$ 2,723</u>	<u>\$ 2,644</u>	<u>\$ 2,579</u>	<u>\$ 1,550</u>	<u>\$ 1,364</u>	<u>\$ 1,285</u>	<u>\$ 1,316</u>

Sales Data (Continued)

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
Electric Revenue—% of total				
Residential	34.6	37.7	42.2	41.6
Commercial	21.7	23.8	27.1	27.4
Gas Revenue—% of total				
Residential	37.8	41.7	43.0	42.3
Commercial	21.4	21.6	21.3	21.3
Customers (average per year)				
Electric				
Residential	166,558	162,328	157,205	151,640
Commercial (1)	19,957	19,555	19,250	19,111
Industrial (1)	1,401	1,425	1,306	1,267
Street and highway lighting	249	250	264	262
Total general business	188,165	183,558	178,025	172,260
Railroads and railways	1	1	1	1
Other electric utilities	13	12	11	13
Total electric	188,179	183,571	178,037	172,294
Gas				
Residential	61,858	58,968	55,540	51,670
Commercial	7,383	6,827	6,250	5,714
Industrial—Firm	282	279	265	238
Industrial—Interruptible	18	20	20	22
Total gas	69,541	66,094	62,075	57,644
Water	9,596	9,235	8,739	8,339
Steam Heat	273	280	289	305
Total customers	267,589	259,180	249,140	238,581
Kilowatt-hours sold (in thousands):				
Residential	2,141,425	2,056,186	1,964,783	1,813,690
Commercial	1,165,787	1,143,976	1,131,923	1,076,254
Industrial	1,532,762	1,514,416	1,475,648	1,422,540
Street and highway lighting	32,131	32,107	32,116	31,419
Total general business	4,873,105	4,746,685	4,604,470	4,343,933
Railroads and railways	1,612	4,127	4,276	6,252
Other electric utilities	3,048,002	2,052,141	1,793,113	1,445,071
Total energy sales	7,922,710	6,802,953	6,401,859	5,795,256
Therms sold (in thousands):				
Residential	80,467	81,632	83,934	77,873
Commercial	59,596	58,366	57,989	57,242
Industrial—Firm	111,310	108,087	110,075	108,171
Industrial—Interruptible	72,346	81,538	85,143	78,812
Total therm sales	313,619	329,623	337,141	322,100

Note (1) Segregation of commercial and industrial made on the basis of utilization of energy and not on size of the account.

<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
41.2	41.9	41.1	39.7	42.7	44.1	44.6
26.7	26.5	25.7	24.4	25.4	25.3	24.6
41.9	41.5	38.9	41.4	45.8	44.8	44.0
19.8	20.0	19.0	20.2	22.0	21.0	20.7
146,616	142,806	139,881	136,337	134,029	132,071	130,509
19,078	18,935	18,854	18,749	18,627	18,406	18,349
1,278	1,212	1,191	1,146	1,206	1,172	1,165
<u>360</u>	<u>361</u>	<u>374</u>	<u>350</u>	<u>379</u>	<u>391</u>	<u>332</u>
167,332	163,314	160,300	156,582	154,241	152,040	150,355
1	1	1	1	1	1	1
<u>11</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>11</u>	<u>15</u>	<u>14</u>
167,344	163,324	160,311	156,594	154,253	152,056	150,370
47,550	43,016	38,766	34,900	31,734	28,656	25,934
5,596	5,285	4,843	4,350	3,961	3,638	3,348
232	221	205	191	169	144	141
<u>24</u>	<u>26</u>	<u>27</u>	<u>27</u>	<u>27</u>	<u>29</u>	<u>28</u>
53,402	48,548	43,841	39,478	35,891	32,467	29,451
8,046	7,808	7,410	7,021	6,812	6,547	5,247
<u>313</u>	<u>315</u>	<u>316</u>	<u>317</u>	<u>322</u>	<u>317</u>	<u>324</u>
<u>229,105</u>	<u>219,995</u>	<u>211,878</u>	<u>203,410</u>	<u>197,278</u>	<u>191,387</u>	<u>185,392</u>
1,665,681	1,569,313	1,456,636	1,356,815	1,321,623	1,285,709	1,267,521
999,027	936,375	858,564	785,492	725,650	669,572	626,018
1,377,039	1,391,121	1,334,448	1,226,383	1,244,803	1,166,194	1,134,296
<u>33,610</u>	<u>32,774</u>	<u>31,812</u>	<u>31,246</u>	<u>30,866</u>	<u>28,577</u>	<u>27,030</u>
4,075,357	3,951,563	3,681,460	3,399,933	3,323,032	3,150,052	3,054,866
9,077	7,052	13,782	24,963	28,269	28,596	25,588
1,503,096	1,478,961	1,717,778	2,726,645	1,091,851	1,006,441	1,035,503
<u>5,587,530</u>	<u>5,437,626</u>	<u>5,413,020</u>	<u>6,201,741</u>	<u>4,443,172</u>	<u>4,185,089</u>	<u>4,115,953</u>
68,652	64,524	54,497	47,016	43,730	40,461	38,295
44,145	41,620	35,470	30,218	27,261	24,415	23,360
105,863	102,564	99,484	85,215	12,540	11,065	9,454
81,040	77,157	81,720	77,249	79,316	81,482	83,297
300,720	286,861	271,171	258,927	162,847	157,423	154,406

Load and Resource Data-Electric

	1974	1973	1972	1971
Net System Requirements (kilowatt-hours in thousands)				
Energy sales (from "sales data" sec.)	7,592,719	6,602,993	6,491,859	5,755,285
Sales outside system	(2,794,797)	(1,797,924)	(1,530,132)	(1,203,797)
Energy losses	572,459	551,717	554,165	512,352
Net system requirements	5,720,717	5,556,746	5,455,832	5,139,634
Net System Resources (kilowatt-hours in thousands)				
Thermal generation	653,793	768,274	3,739,825	3,510,839
Hydro generation	3,794,954	3,014,347	3,403,146	2,950,353
Purchased power	3,986,293	3,175,792	3,403,146	2,950,353
Net interchange	91,922	396,627	(118,358)	(179,612)
Power generated and received	8,531,959	7,355,040	7,024,583	6,381,379
Net deliveries outside system	2,811,242	1,798,294	1,559,751	1,247,558
Net system resources	5,720,717	5,556,746	5,455,832	5,139,634
Net System Peak Loads and Available Resources (kilowatts)				
Plant capability	850,500	814,400	812,000	821,200
Long-term purchase contracts	261,000	321,000	321,000	399,500
Total system capability	1,111,500	1,135,400	1,133,000	1,120,700
Other purchase (sales) arrangements	55,000	(28,000)	(58,000)	(8,000)
Available resources-net (excl. non-firm purch.)	1,166,500	1,107,400	1,075,000	1,112,700
Net system peak demand	1,065,000	1,062,000	1,076,000	934,000
Annual load factor (per cent)	61.3	59.7	57.7	62.6
Net System Resources Expense (thousands of dollars)				
Generation expense	\$ 7,743	\$ 6,204	\$ 2,315	\$ 2,082
Receipts				
Purchases	9,605	8,939	7,258	6,362
Net interchange	81	(39)	152	(122)
Total receipts	9,686	8,900	7,410	6,230
Other production expenses	272	194	184	176
Total production expense	17,099	15,298	9,909	8,488
Net deliveries outside system	(18,452)	(11,689)	(4,457)	(4,209)
Net system resources expense	(\$ 7,743)	\$ 3,409	\$ 5,452	\$ 4,293

() Red figure

<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
5,587,530	5,437,626	5,410,020	6,201,741	4,443,172	4,185,089	4,115,953
(1,283,644)	(1,251,710)	(1,518,229)	(2,598,713)	(922,366)	(831,793)	(861,845)
<u>568,549</u>	<u>497,018</u>	<u>891,791</u>	<u>530,571</u>	<u>494,928</u>	<u>422,632</u>	<u>419,239</u>
<u>4,872,435</u>	<u>4,682,934</u>	<u>4,474,455</u>	<u>4,142,599</u>	<u>4,015,714</u>	<u>3,775,928</u>	<u>3,673,447</u>
3,435,662	3,544,857	3,601,502	3,454,946	3,631,753	3,172,169	3,158,000
2,603,757	2,476,074	2,378,659	2,471,029	2,153,506	1,430,524	1,507,807
<u>126,548</u>	<u>(36,734)</u>	<u>(116,350)</u>	<u>846,480</u>	<u>(795,411)</u>	<u>94,280</u>	<u>(58,510)</u>
6,165,967	5,954,147	6,063,811	6,772,455	4,989,848	4,606,973	4,607,297
1,293,532	1,303,213	1,589,356	2,629,856	<u>974,134</u>	<u>921,045</u>	<u>933,850</u>
<u>4,872,435</u>	<u>4,680,934</u>	<u>4,474,455</u>	<u>4,142,599</u>	<u>4,015,714</u>	<u>3,775,928</u>	<u>3,673,447</u>
811,000	821,800	829,400	829,200	830,100	826,900	808,100
<u>319,000</u>	<u>253,000</u>	<u>251,000</u>	<u>312,000</u>	<u>315,300</u>	<u>312,600</u>	<u>313,100</u>
1,130,000	1,074,800	1,080,400	1,141,200	1,145,400	1,139,500	1,121,200
<u>(149,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>(215,000)</u>	<u>(230,000)</u>	<u>(160,000)</u>	<u>(125,000)</u>
981,000	949,800	955,400	926,200	915,400	979,500	996,200
865,000	835,000	917,000	750,000	684,000	672,000	764,000
<u>64,3</u>	<u>64,0</u>	<u>55,5</u>	<u>63,1</u>	<u>67,0</u>	<u>64,1</u>	<u>54,7</u>
\$ 1,963	\$ 1,990	\$ 1,853	\$ 2,094	\$ 1,953	\$ 1,864	\$ 1,654
6,713	6,501	6,169	6,745	5,945	5,389	3,889
<u>(9)</u>	<u>29</u>	<u>77</u>	<u>(16)</u>	<u>(113)</u>	<u>77</u>	<u>77</u>
6,704	6,526	6,246	6,729	5,832	5,466	3,966
<u>158</u>	<u>149</u>	<u>150</u>	<u>141</u>	<u>135</u>	<u>137</u>	<u>150</u>
8,825	8,605	8,255	8,964	7,920	7,467	5,770
<u>(4,265)</u>	<u>(3,884)</u>	<u>(4,226)</u>	<u>(6,175)</u>	<u>(3,291)</u>	<u>(2,258)</u>	<u>(2,268)</u>
<u>\$ 4,560</u>	<u>\$ 4,781</u>	<u>\$ 4,029</u>	<u>\$ 2,779</u>	<u>\$ 4,629</u>	<u>\$ 5,209</u>	<u>\$ 3,502</u>

	1974	1973	1972	1971
Plant Expenditures (Gross) (in thousands):				
Electric				
Production	\$ 21,700	\$ 7,150	\$ 7,028	\$12,120
All other	14,851	14,597	11,955	8,900
Total electric	22,741	21,747	18,983	21,020
Gas	3,479	2,307	3,753	2,879
Other	809	934	678	440
Total plant expenditures	\$27,119	\$24,988	\$23,414	\$24,479

Miscellaneous Data (End of Year):

Employees

Payroll and Benefits (in thousands):

Charged to operations	\$10,667	\$10,515	\$10,200	\$ 9,775
Total	\$16,665	\$15,729	\$14,866	\$13,926

Years of Service:

Less than 10 years	478	507	505	491
10 to 20 years	263	259	272	290
20 years or more	361	337	323	330
Total	1,108	1,103	1,100	1,111

Shareholders

1 to 20 shares	4,467	4,504	4,555	4,698
21 to 99 shares	6,510	6,531	6,591	6,778
100 to 299 shares	14,672	14,640	14,168	14,274
300 to 999 shares	4,320	4,310	3,969	3,926
1,000 shares and over	676	867	828	800
Total	30,645	31,052	30,111	30,461

Miles of pole-line

Transmission	1,997	1,998	1,985	1,987
Distribution (under 60 kv)	7,500	7,539	7,356	7,076
Feet of Gas Mains (in thousands)	10,374	9,941	9,710	9,230

Plant statistics-- end of year (Kw):

Nameplate rating	854,730*	854,730	626,530	636,520
Maximum capability	1,061,822*	1,063,000*	820,200	831,000

*Includes WWP's 15% share of capacity of its subsidiaries which maximum capacity is 1,400,000 kw. Total plant capacity at the end of 1974 is 1,176,622 kw.

1974
REPORT TO
SHAREHOLDERS



THE MONTANA POWER COMPANY

SUMMARY OF OPERATIONS, 1974-1970

THE MONTANA POWER COMPANY AND SUBSIDIARIES

	1974	1973	1972	1971	1970
Balance Sheet Items (000)					
Total utility plant	\$ 541,382	\$ 473,323	\$ 428,119	\$ 405,294	\$ 386,431
Nonutility property	54,252	30,021	20,991	16,855	15,399
Total plant and property	595,643	503,344	449,110	422,149	401,830
Less reserves for depreciation and depletion	130,438	122,995	114,833	107,086	99,727
Net plant and property	465,196	380,349	334,277	315,063	302,103
Capitalization Ratios:					
Total common equity	43.7%	46.0%	49.4%	50.7%	50.3%
Preferred stock	4.5	5.7	6.5	7.0	7.3
Long-term debt and notes payable	51.8	48.3	44.1	42.3	42.4
Income Statement Items (000)					
Total operating revenues	\$ 117,762	\$ 108,048	\$ 95,647	\$ 88,227	\$ 86,675
Electric revenues	73,275	69,887	62,452	57,714	56,539
Natural gas revenues	43,741	37,426	32,494	20,342	29,517
Other revenues	746	735	701	671	619
Operation expense	\$ 50,588	\$ 39,320	\$ 32,268	\$ 27,349	\$ 25,054
Maintenance expense	5,085	4,796	4,120	3,306	3,408
Depreciation and depletion	8,165	7,612	7,162	6,927	6,959
Taxes (including deferred taxes)	22,010	26,176	25,016	25,411	25,403
Nonoperating income (net)	2,417	1,275	1,019	1,256	646
Allowance for funds used during construction	3,830	1,193	506	212	93
Interest charges	14,187	9,793	7,325	6,743	6,945
Preferred dividends	1,209	1,209	1,209	1,209	1,209
Income available for common stock	\$ 22,765	\$ 21,610	\$ 20,072	\$ 18,750	\$ 18,436
Earnings per share of common stock	\$ 2.98	\$ 2.88	\$ 2.67	\$ 2.49	\$ 2.45
Dividends per share of common stock	\$ 1.80	\$ 1.80	\$ 1.695	\$ 1.68	\$ 1.68
Average shares outstanding (000)	7,633	7,509	7,512	7,515	7,512
Dividend payout	62.0%	62.5%	63.5%	67.5%	68.6%
Times fixed charges earned	* 2.4	3.4	3.9	4.0	3.9
Times fixed charges and preferred dividends earned	2.2	3.0	3.4	3.4	3.3
*Operating ratio	65.1%	59.6%	57.8%	55.2%	53.3%
Operation expense as percent of revenue	43.0%	36.4%	33.7%	31.0%	28.9%
Maintenance expense as percent of revenue	4.3%	4.4%	4.3%	3.7%	3.9%
Taxes as percent of revenue	18.7%	24.2%	26.2%	28.8%	29.3%
Average number of employees	1,511	1,400	1,323	1,287	1,280
Customers and Use					
Electric customers	195,279	189,843	184,502	179,204	174,026
Natural gas customers	99,059	96,429	93,527	90,296	87,400
**System capability, kilowatts	1,025,325	1,092,272	1,089,700	1,086,900	1,016,600
**Peak load, kilowatts	872,000	897,000	913,000	878,000	822,000
Residential electric service:					
Average number of customers	165,560	160,758	156,157	151,334	147,325
Kwh use per customer	6,303	6,324	6,307	6,032	5,772
Average revenue per kwh	2.46¢	2.45¢	2.25¢	2.24¢	2.26¢

NOTE: Balance sheet and income statement items based on accounts required by Public Service Commission of Montana.

*Operation, maintenance, depreciation and depletion expense and taxes other than income taxes as percentage of operating revenues.

**System capability and peak loads revised to include power received from Bonneville Power Administration and U. S. Bureau of Reclamation and delivered to their customers in Company's service area; system capability includes power purchased under firm contracts.

Management's Discussion and Analysis of the Consolidated Statement of Income

1974 operating revenues increased \$9,713,000, due principally to increased sales of electric power to other utilities, which were up \$2,016,000, and higher gas rates granted to offset the increased cost of purchased gas and royalty expense, which went up \$6,826,000 (see Note 6 to the Consolidated Financial Statements). Revenues were adversely affected by weather conditions and some effect of energy conservation by our customers.

Operation expense increased \$11,268,000. Principal factors were the cost of purchased power, which rose \$1,337,000; gas exploration and development, which was up \$1,050,000, and purchased gas and production royalty expense, which increased \$7,714,000.

Nonoperating income, net, increased \$1,142,000, due principally to income from coal operations of Western Energy Company and other non-utility operations, and the temporary investment of unexpended pollution control bond funds.

Income tax expense decreased \$4,458,000 as increases in operating revenues were offset by increased expenses, interest charges and other tax deductions, resulting in a lower taxable income (see Note 1 to the Consolidated Financial Statements). Allowance for funds used during construction, a nontaxable component of other income, increased \$2,637,000 as a result of greater construction expenditures. Interest on long-term debt increased \$2,951,000 due to the sale of additional bonds in 1974, and other interest expense was up \$1,443,000 due to increased short-term borrowing and higher interest rates.

For the year 1973, operating revenues increased \$12,401,000 over the previous year, principally due to

electric and gas rate increases granted in October, 1972, and amounting to approximately \$9,600,000, and increases in natural gas rates of \$1,387,000 granted in July, 1973, to offset higher costs of purchased Canadian gas. Operation expense in 1973 increased \$7,052,000, primarily because of higher costs of thermal generation and purchased power amounting to \$2,397,000, a \$927,000 increase in gas exploration and development expense, and a \$2,111,000 increase in the cost of purchased gas. Maintenance expense was up \$647,000, of which \$274,000 was attributable to electric generation and \$234,000 to distribution systems.

Income tax expense in 1973 increased \$4,599,000 and the provision for deferred income taxes decreased \$5,465,000 because of the 1972 payment of back rentals for the use of Indian lands at the Kerr hydroelectric project (see Note 1 to the Consolidated Financial Statements). Other taxes increased \$1,623,000, principally because of a \$466,000 increase in ad valorem taxes and a \$790,000 increase in the Montana corporation license tax related to the Kerr payment. Allowance for funds used during construction increased \$687,000 as a result of construction activities, and interest on long-term debt increased \$2,364,000 due to the sale of securities in 1973.

Other Years: The operating revenue increase of \$7,420,000 experienced in 1972 was due principally to increased electric and gas rates granted in October, 1972, amounting to approximately \$1,800,000; system growth; weather conditions, and the resumption of normal operations by a major industrial customer following a 1971 work stoppage in the copper industry which adversely affected revenues in that year.

Market and Dividend Information on Voting Securities

The range of prices of the Company's common stock on the New York Stock Exchange for the last two years, and the dividends paid, have been as follows:

	High	Low	Dividend per Share
1973			
1st quarter	\$36	\$32-3/4	\$0.43-1/2
2nd quarter	34-1/2	32-1/4	0.45
3rd quarter	34-1/8	28	0.45
4th quarter	34-3/4	29-3/4	0.45
1974			
1st quarter	\$34-5/8	\$29-1/8	\$0.45
2nd quarter	30-3/4	20-1/4	0.45
3rd quarter	23-1/4	20-5/8	0.45
4th quarter	24-3/4	20-5/8	0.45

Shares of the Company's two series of preferred stock are traded over-the-counter. The range of bid prices (no asking prices quoted except "offer wanted") and quarterly dividends have been as follows:

\$6 Preferred: Quarterly dividend, \$1.50 per share. Bid prices: 1973, 1st quarter, \$79; 2nd quarter, \$79-80; 3rd quarter, \$75-78; 4th quarter, \$76. 1974, 1st quarter, \$76; 2nd quarter, \$69-76; 3rd quarter, \$62-69; 4th quarter, \$61-62.

\$4.20 Preferred: Quarterly dividend, \$1.05 per share. Bid prices: 1973, 1st quarter, \$51; 2nd quarter, \$51; 3rd quarter, \$50-51; 4th quarter, \$50. 1974, 1st quarter, \$50; 2nd quarter, \$42-50; 3rd quarter, \$39-42; 4th quarter, \$38-39.

CONSOLIDATED STATEMENT OF INCOME

THE MONTANA POWER COMPANY AND SUBSIDIARIES

(Based on accounts prescribed by the Public Service Commission of Montana and the Federal Power Commission — Note 1)

	Year ended December 31	
	1974	1973
OPERATING REVENUES:		
Electric	\$ 73,274,444	\$ 69,887,058
Natural gas (Note 6)	43,741,176	37,425,729
Water	745,922	735,599
	<u>117,761,542</u>	<u>108,048,386</u>
OPERATING EXPENSES AND TAXES:		
Operation	50,587,810	39,319,400
Maintenance (Note 1)	5,085,257	4,796,348
Depreciation and depletion (Note 1)	8,165,214	7,611,899
U.S. and Canadian income taxes (Note 1)	7,694,105	12,152,009
Provisions for deferred taxes on income (Note 1):		
Accelerated depreciation and amortization	1,325,213	1,245,575
Kerr Project charges	(516,361)	(516,361)
Investment tax credit — net	698,435	600,057
Other taxes	12,807,732	12,694,760
	<u>85,847,405</u>	<u>77,903,687</u>
OPERATING INCOME	<u>31,914,137</u>	<u>30,144,699</u>
OTHER INCOME AND DEDUCTIONS		
Nonoperating income — net	2,417,069	1,274,749
Allowance for funds used during construction (Note 1)	3,829,905	1,193,302
	<u>6,246,974</u>	<u>2,468,051</u>
INCOME BEFORE INTEREST CHARGES	<u>38,161,111</u>	<u>32,612,750</u>
INTEREST CHARGES		
Interest on long-term debt	12,044,770	9,093,979
Other interest	2,142,462	699,235
	<u>14,187,232</u>	<u>9,793,214</u>
NET INCOME	<u>\$ 23,973,879</u>	<u>\$ 22,819,536</u>
Net income per share of common stock (based upon average number of shares outstanding) after dividends of \$1,209,534 on preferred stocks	<u>\$2.98</u>	<u>\$2.88</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

THE MONTANA POWER COMPANY AND SUBSIDIARIES

(Based on accounts prescribed by the Public Service Commission
of Montana and the Federal Power Commission — Note 1)

	Year ended December 31	
	1974	1973
SOURCE OF FUNDS		
Current operations:		
Net income	\$ 23,973,879	\$22,819,536
Items not requiring current outlays:		
Depreciation, depletion and amortization	11,083,770	10,779,069
Provisions for deferred taxes on income	2,953,979	1,656,069
Allowance for funds used during construction	(3,829,905)	(1,193,302)
Other — net	302,826	563,620
	<u>34,484,549</u>	<u>34,624,992</u>
Sale of common stock under stock option plan	643,450	106,899
Sale of common stock in public offering	27,450,000	
Sale of long-term debt	89,927,700	24,906,250
Guaranty of pollution control liability less funds on deposit with trust	4,495,794	1,826,624
Short-term borrowing	3,500,000	10,000,000
Changes in other assets and liabilities — net	(889,714)	560,181
	<u>\$159,611,779</u>	<u>\$72,024,946</u>
APPLICATION OF FUNDS		
Gross additions to property and plant	\$102,599,067	\$56,892,184
Allowance for funds used during construction	(3,829,905)	(1,193,302)
	<u>98,869,162</u>	<u>55,698,882</u>
Retirement of long-term debt	30,297,300	573,329
Dividends on common and preferred stock	15,316,650	14,726,619
Preliminary survey and investigation charges	2,569,563	92,577
Capital stock and long-term debt expense	1,952,745	210,376
Increase in working capital (excluding debt)	10,606,359	723,163
	<u>\$159,611,779</u>	<u>\$72,024,946</u>
INCREASE (DECREASE) IN WORKING CAPITAL COMPONENTS (EXCLUDING DEBT)		
Cash	\$ 6,914,628	\$ 839,573
Accounts receivable	4,866,358	240,130
Materials and supplies	3,166,257	1,242,747
Prepayments and other assets	1,321,675	1,489,185
Dividends payable	(551,700)	(114,644)
U.S. and Canadian income taxes	1,134,475	660,724
Other taxes	(177,141)	(7,036,728)
Accounts payable and other liabilities	(6,068,193)	(2,587,824)
	<u>\$ 10,606,359</u>	<u>\$ 723,163</u>

CONSOLIDATED BALANCE SHEET THE MONTANA POWER COMPANY AND SUBSIDIARIES
(Based on accounts prescribed by the Public Service Commission of Montana— Note 1)

ASSETS	December 31	
	1974	1973
PROPERTY AND PLANT IN SERVICE AND UNDER CONSTRUCTION:		
Utility properties:		
Electric	\$312,448,099	\$294,959,058
Natural gas	134,346,922	128,299,516
Water and common utility	17,897,108	17,122,637
Construction work in progress	76,690,086	32,942,209
Nonutility property (includes \$18,793,934 and \$4,241,791 construction work in progress)	54,251,483	30,021,182
	<u>595,633,698</u>	<u>503,344,602</u>
Less— Accumulated depreciation and depletion	130,438,399	122,995,212
	<u>465,195,299</u>	<u>380,349,390</u>
MISCELLANEOUS INVESTMENTS (at cost)	2,713,211	2,476,114
CURRENT ASSETS:		
Cash (Note 4)	15,365,000	8,450,372
Accounts receivable, less allowance for doubtful accounts	17,570,630	12,704,272
Materials and supplies (principally at average cost)	7,146,653	3,980,396
Prepayments and other assets	4,191,374	2,869,699
	<u>44,273,657</u>	<u>28,004,739</u>
DEFERRED CHARGES:		
Preliminary survey and investigation charges	3,557,182	987,619
Unamortized debt expense	879,066	370,080
Extraordinary property loss (Note 1)	398,744	471,243
Headwater benefit charges (Note 1)	190,409	380,818
Kerr Project charges (Note 1)	6,763,447	7,655,330
Deferred taxes attributable to Kerr Project charges	<u>(3,915,737)</u>	<u>(4,432,098)</u>
	7,873,111	5,432,992
	<u>\$520,055,278</u>	<u>\$416,263,235</u>
LIABILITIES		
CAPITALIZATION:		
Shareholders' investment:		
Capital stock (Note 2):		
Preferred	\$ 21,983,500	\$ 21,983,500
Common	141,493,045	113,399,595
Capital stock expense (Note 2)	(1,882,006)	(479,334)
Capital surplus	16,205,181	16,205,181
Earnings retained for use in the business (Notes 1 and 3)	40,118,368	31,461,139
	<u>217,918,088</u>	<u>182,570,081</u>
Treasury stock— common (at cost) (Note 2)	<u>(271,412)</u>	<u>(271,412)</u>
	217,646,676	182,298,669
Accumulated income tax reductions resulting from accelerated depreciation and amortization (Note 1)	15,285,142	13,624,240
Long-term debt (Note 3)	<u>216,876,619</u>	<u>152,939,191</u>
	449,808,437	348,862,100
CURRENT LIABILITIES:		
Notes payable to banks (Note 4)	34,000,000	30,500,000
Long-term debt— portion due within one year	110,000	
Dividends payable	4,238,694	3,686,994
U S and Canadian income taxes	2,300,789	3,435,264
Other taxes	5,482,800	5,305,659
Accounts payable and other liabilities	<u>16,320,874</u>	<u>10,252,681</u>
	62,453,157	53,180,598
DEFERRED CREDITS:		
Customer advances for construction	2,221,528	2,114,613
Investment tax credit (Note 1)	<u>4,577,787</u>	<u>4,090,447</u>
	6,799,315	6,205,060
RESERVES FOR INJURIES, DAMAGES, EMPLOYEES PROVIDENT AND OTHER	994,369	938,717
CONTRIBUTIONS BY CUSTOMERS FOR CONSTRUCTION OF PROPERTY (Note 1)		7,076,760
	<u>\$520,055,278</u>	<u>\$416,263,235</u>

CONSOLIDATED BALANCE SHEET THE MONTANA POWER COMPANY AND SUBSIDIARIES

(Based on accounts prescribed by the Federal Power Commission — Note 1)

ASSETS	December 31	
	1974	1973
PROPERTY AND PLANT IN SERVICE AND UNDER CONSTRUCTION:		
Utility properties:		
Electric	\$290,634,795	\$273,144,779
Natural gas	134,346,922	128,299,516
Water and common utility	17,897,108	17,122,637
Construction work in progress	76,690,086	32,942,209
Nonutility property (includes \$16,793,934 and \$4,241,791 construction work in progress)	<u>54,426,747</u>	<u>30,197,421</u>
	573,995,658	481,706,562
Less — Accumulated depreciation and depletion	<u>130,416,148</u>	<u>122,972,961</u>
	443,579,510	358,733,601
MISCELLANEOUS INVESTMENTS (at cost)	2,713,211	2,476,114
CURRENT ASSETS:		
Cash (Note 4)	15,365,000	8,450,372
Accounts receivable, less allowance for doubtful accounts	17,570,630	12,704,272
Materials and supplies (principally at average cost)	7,146,653	3,980,396
Prepayments and other assets	<u>4,191,374</u>	<u>2,869,699</u>
	44,273,657	28,004,739
DEFERRED CHARGES:		
Preliminary survey and investigation charges	3,557,182	987,619
Unamortized debt expense	879,066	370,080
Extraordinary property loss (Note 1)	398,744	471,243
Headwater benefit charges (Note 1)	190,409	380,818
Kerr Project charges (Note 1)	6,763,447	7,655,330
Deferred taxes attributable to Kerr Project charges	<u>(3,915,737)</u>	<u>(4,432,098)</u>
	7,873,111	5,432,992
	<u>\$498,439,489</u>	<u>\$394,647,446</u>

LIABILITIES

CAPITALIZATION:		
Shareholders' investment:		
Capital stock (Note 2):		
Preferred	\$ 21,983,500	\$ 21,983,500
Common	141,493,045	113,399,595
Discount and expense on capital stock (Note 2)	(2,382,006)	(979,334)
Earnings retained for use in the business (Notes 1 and 3)	<u>35,207,760</u>	<u>26,550,531</u>
	196,302,299	160,954,292
Treasury stock — common (at cost) (Note 2)	<u>(271,412)</u>	<u>(271,412)</u>
	196,030,887	160,682,880
Long-term debt (Note 3)	<u>216,876,619</u>	<u>152,939,191</u>
	412,907,506	313,622,071
CURRENT LIABILITIES:		
Notes payable to banks (Note 4)	34,000,000	30,500,000
Long-term debt — portion due within one year	110,000	
Dividends payable	4,238,694	3,686,994
U.S. and Canadian income taxes	2,300,789	3,435,264
Other taxes	5,482,800	5,305,659
Accounts payable and other liabilities	<u>16,320,874</u>	<u>10,252,681</u>
	62,453,157	53,180,598
DEFERRED CREDITS:		
Customer advances for construction	2,221,528	2,114,613
Investment tax credit (Note 1)	<u>4,577,787</u>	<u>4,090,447</u>
	6,799,315	6,205,060
RESERVES FOR INJURIES, DAMAGES, EMPLOYEES PROVIDENT AND OTHER:	994,369	938,717
CONTRIBUTIONS BY CUSTOMERS FOR CONSTRUCTION OF PROPERTY (Note 1)		7,076,760
ACCUMULATED INCOME TAX REDUCTIONS RESULTING FROM ACCELERATED DEPRECIATION AND AMORTIZATION (Note 1)	<u>15,285,142</u>	<u>13,624,240</u>
	<u>\$498,439,489</u>	<u>\$394,647,446</u>

CONSOLIDATED STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

THE MONTANA POWER COMPANY AND SUBSIDIARIES

(Based on accounts prescribed by
the Public Service Commission of Montana — Note 1)

	Year ended December 31	
	1974	1973
Balance at beginning of year	\$31,461,139	\$43,368,222
Add — net income	23,973,879	22,819,536
	<u>55,435,018</u>	<u>66,187,758</u>
Deduct:		
Dividends (cash):		
Preferred stock — \$6.00 series	957,534	957,534
— \$4.20 series	252,000	252,000
Common stock — \$1.80 per share	14,107,116	13,517,085
Transfer to common stock (Note 4)		20,000,000
	<u>15,316,650</u>	<u>34,726,619</u>
Balance at end of year (Notes 1 and 3)	<u>\$40,118,368</u>	<u>\$31,461,139</u>

CONSOLIDATED STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

THE MONTANA POWER COMPANY AND SUBSIDIARIES

(Based on accounts prescribed by
the Federal Power Commission — Note 1)

	Year ended December 31	
	1974	1973
Balance at beginning of year	\$26,550,531	\$38,457,614
Add — net income	23,973,879	22,819,536
	<u>50,524,410</u>	<u>61,277,150</u>
Deduct:		
Dividends (cash):		
Preferred stock — \$6.00 series	957,534	957,534
— \$4.20 series	252,000	252,000
Common stock — \$1.80 per share	14,107,116	13,517,085
Transfer to common stock (Note 2)		20,000,000
	<u>15,316,650</u>	<u>34,726,619</u>
Balance at end of year (Notes 1 and 3)	<u>\$35,207,760</u>	<u>\$26,550,531</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Summary of Significant

Accounting Policies:

The Company's accounting policies conform to generally accepted accounting principles as applied in the case of regulated public utilities and are in accordance with the accounting requirements and rate-making practices of the regulatory authorities having jurisdiction.

Principles of Consolidation:

The consolidated financial statements include the accounts of all wholly owned subsidiaries. The net assets of the subsidiaries as shown by their books at December 31, 1974 exceeded the Company's cost of investment by \$7,832,073 representing undistributed net income of the subsidiaries since acquisition which is included in consolidated earnings retained for use in the business. The current assets and liabilities of the subsidiaries operating in Canada are expressed in United States dollars at the year-end rate of exchange; other assets and liabilities are expressed at rates prevailing at the time of the transactions. Revenue and expense amounts for each month are translated at the average rate of exchange in effect during the month. The exchange adjustments from translation of Canadian currency are not material in 1974, 1973 or in the aggregate and are included in other reserves.

Financial Statement Presentation:

The Company maintains accounts to conform to the accounting requirements of both the Public Service Commission of Montana (PSC) and the Federal Power Commission (FPC) for purposes of complying with the Montana statutes which give the PSC broad regulatory jurisdiction over the affairs of the Company and for purposes of complying with federal laws which give the FPC jurisdiction over licensed projects and the transmission and sale of power in interstate commerce.

Financial statements are presented in this report based on the accounting requirements of both Commissions. Because of the extensive jurisdiction which the PSC has over the Company's affairs, including rates, services, securities issues and creation of liens, it is the opinion of the Company that the financial statements based on the requirements of Montana law and of the PSC represent the proper presentation of the financial position and the results of operations of the Company. (Approximately 95% of the Company's revenues are derived from intrastate services at rates fixed by the PSC.) However, the FPC has the right to prescribe books of accounts to be maintained for its purposes and in view of the 1964 decision of the U.S. Court of Appeals for the Fourth Circuit in the case of *Appalachian Power Company v. the Federal Power Commission* which held that, in that case, the FPC accounts were basic accounts and must be presented in reports to stockholders, financial statements based on the requirements of that Commission are also presented.

It will be noted that the differences between the two presentations relate primarily to Utility Properties, Capital Surplus, and Earnings Retained for Use in the

Business. These differences exist because of divergent findings of the two Commissions, in their respective property reclassification orders in 1945, as to corporate cost and "original cost" of certain properties, and as to disposition of amounts classified as Electric Plant Acquisition Adjustments. Since 1959, there has been no difference affecting the income statement.

Pursuant to an order from the PSC, accumulated income tax reductions resulting from accelerated depreciation and amortization on utility property are recorded as Earnings Retained for Use in the Business — Restricted, but in the accompanying balance sheets, these tax reductions have been reclassified.

Depreciation and Depletion:

Provisions for depreciation and depletion are recorded at amounts substantially equivalent to calculations made on straight line and unit of production methods by application of various rates based on useful lives of properties determined from studies and computations made by competent engineers. During the years ended December 31, 1974 and 1973, the provisions for depreciation and depletion approximated 2% of the depreciable and depletable property at the beginning of the year.

Maintenance and repairs of property and replacements and renewals of items determined to be less than units of property are charged to operating expenses. The cost of units of property retired or otherwise disposed of, adjusted for removal costs and salvage, is charged to the accumulated provisions for depreciation and depletion, and the cost of related replacements and renewals is added to utility plant. Gain or loss is recognized upon the sale or other disposition of land or utility plant constituting an operating unit or system.

Allowance for Funds Used

During Construction:

As provided by the applicable regulatory systems of accounts, the Company capitalizes into plant in service a fixed percent on the cost of utility construction projects that exceed minimum requirements both as to dollar expenditures and duration of the period of construction. An amount equal to the amount capitalized is shown on the Consolidated Statement of Income as "Allowance for Funds Used During Construction," as an item of Other Income. The allowance was computed at the rate of 7% for the years 1974 and 1973 and equaled 16% and 5% of Net Income for the years 1974 and 1973, respectively.

Assuming that funds used to finance construction during 1974 and 1973 were provided in the same proportion as the Company's average capitalization ratios and using the Company's average actual cost of debt during the five years ended December 31, 1974, the common equity component of the allowance for funds used during construction expressed as percentages of earnings for common stock was 9.9% and 3.7% for 1974 and 1973, respectively. The amount of the allowance varies from year to year with the Company's construction program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exploration and Development Costs:

The Company and its subsidiaries account for exploration and development costs incurred on or related to hydrocarbon leases on the individual property unit basis. This results in capitalization of costs related to the acquisition of leases and producing properties and the amortization of these costs over their productive lives. Nonproductive exploration and drilling costs are charged to expense currently.

Capitalization of Pollution

Control Facilities:

The Company, pursuant to an agreement dated June 1, 1973, has unconditionally guaranteed the payment of principal and interest on \$20,000,000 County of Rosebud, Montana 5¼% Pollution Control Revenue Bonds due June 1, 2003. The Company is capitalizing the cost of purchasing, acquiring, constructing and installing the equipment being acquired with the proceeds of these bonds and will depreciate the equipment over its useful life. Interest payments on the debt are charged to expense currently. Unexpended proceeds of the bond issue on deposit with the Trustee are temporarily invested and the earnings are included in Other Income.

Contributions in Aid of Construction:

Effective January 1, 1974, the FPC has ordered that contributions by customers for construction of property will be accounted for as a reduction in the original cost of the utility property rather than accumulating these contributions in a separate account and presenting this amount on the liability side of the balance sheet.

At December 31, 1973 the accumulated customer contributions amounted to \$7,076,760. Effective January 1, 1974 this amount has been transferred to the utility properties section of the balance sheet. To the extent these historical amounts are associated with utility property and plant currently in service, the original cost has been reduced, the remaining amounts have been transferred to accumulated provisions for depreciation and depletion. This change affects the presentation of financial statements but will have no effect on the Company's earnings as this amount has consistently been excluded from plant investment for rate-making purposes.

Costs Deferred to Future

Operating Periods:

During 1970 management concluded that use of the Madison natural gas storage field be discontinued and the facilities abandoned. This extraordinary property loss after applicable taxes is being charged to income over a period of ten years commencing July 1, 1970 as authorized by the PSC.

On January 15, 1971, the FPC issued an order ap-

proving a settlement agreement determining payments due the United States for headwater benefits provided by its Canyon Ferry hydroelectric project for the period 1953 through 1970. The settlement exceeded amounts accrued by the Company through 1970 and the net additional expense after applicable taxes is being charged to income over a period of five years commencing January 1, 1971 as authorized by the FPC and the PSC.

In 1972 pursuant to an FPC order, the Company paid additional annual charges for use of Indian Lands at the Kerr Project for the period 1959 through 1971. The Company received authorization from the PSC and FPC to amortize to electric operating expense over ten years the amount of the additional charges and interest not previously charged against income or recoverable from downstream beneficiaries. This results in an annual charge of \$376,000 after reduction for income taxes.

Interest Charged to Nonutility Property:

Interest on borrowed funds expended principally for the construction or acquisition of certain nonutility mining properties not in service is being capitalized in nonutility property. The amount of interest capitalized was \$1,700,000 in 1974 and \$189,000 in 1973, the first year in which interest was incurred on funds borrowed for construction or acquisition of such properties.

Income Tax Expense:

Income tax depreciation of property acquired after 1970 is based on IRS Class Life Asset Depreciation Regulations utilizing accelerated methods and depreciation of property acquired prior to 1971 is based on IRS Guideline Class Lives utilizing accelerated methods for electric utility property only. In accordance with the accounting requirements of regulatory authorities, the Company provides deferred income taxes on the difference between actual income tax depreciation and straight line depreciation using IRS Guideline Class Lives and also provides deferred income taxes on the difference between income tax depreciation and financial accounting depreciation for principal nonutility properties.

As more fully described above, during 1972 the Company deducted for income tax purposes the additional annual charges and interest paid for use of Indian lands at the Kerr Hydroelectric Project for the period May 22, 1959 through December 31, 1971; and in 1973 began capitalizing interest on borrowed funds expended principally for the construction or acquisition of nonutility mining property not in service. The timing difference resulting from deferral of these costs to future operating periods for financial accounting purposes as well as other timing differences in principal nonutility operations have been normalized.

The remaining differences, some of which are permanent in nature between depreciation and depletion

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

used in determining taxable income and net income for financial accounting purposes primarily due to differences between IRS Guideline Class Lives and financial accounting lives, together with other differences between taxable income and financial accounting income, are accounted for as net current reductions in income tax provisions.

The reduction in current federal income tax resulting from the investment tax credit on utility properties is being taken into income based on the various lives of the assets giving rise to the credit. In 1974 the Company adopted the flow-through method of accounting for the investment tax credit on its principal nonutility properties which has not been significant to date.

U.S. and Canadian income taxes charged to costs and expenses are as follows:

	Year ended	
	December 31 1974	December 31 1973
	(Thousands of dollars)	
Current	\$ 7,355	\$12,345
Deferred:		
Accelerated depreciation and amortization	1,661	1,349
Kerr Project charges	(449)	(449)
Interest charged to nonutility property	831	91
Investment tax credit—net	631	656
Miscellaneous items	348	76
	<u>\$10,377</u>	<u>\$14,068</u>

Actual income tax expense is reconciled to "expected" income tax expense, which is computed by applying the U.S. income tax rate of 48% to income before tax, as follows:

	Year ended	
	December 31 1974	December 31 1973
	(Thousands of dollars)	
Actual income tax expense	\$10,377	\$14,068
Adjustments for tax effects of:		
Excess of utility income tax depreciation utilizing the straight line method and guideline class lives over financial accounting depreciation	1,689	1,638
Allowance for funds used during construction	1,838	573
Tax deductions capitalized in utility plant for financial accounting purposes	863	612
Excess of income tax deductions over financial accounting income in Canadian utility operations	671	272
Miscellaneous items—net	1,050	543
Computed "expected" income tax expense	<u>\$16,488</u>	<u>\$17,706</u>

The Company has made no provision for U.S. or Canadian income taxes on the cumulative undistributed earnings of Canadian subsidiaries, as these earnings are expected to remain invested for an indefinite period of time and, in addition, any remittance of these amounts would result in no material amounts of such taxes by operation of the relevant statutes currently in effect and by utilization of available tax credits and deductions. All other subsidiaries are included in the Company's consolidated U.S. income tax return.

Gain or Loss on Reacquisition Of Long-term Debt:

The difference between the amounts paid upon reacquisition of long-term debt and the principal amount, adjusted for unamortized discount or premium and expenses, is included currently in nonoperating income. For the years 1974 and 1973, the gains resulting from the reacquisition of long-term debt in connection with sinking fund requirements are not material.

NOTE 2 — Capital Stock:

Capital stock consists of the following:

Preferred (cumulative, no par value):

Authorized — 3,000,000 shares

Issued and outstanding:

\$6.00 series	159,589 shares	\$ 15,958,900
\$4.20 series	60,000 shares	6,024,600
		<u>\$ 21,983,500</u>

Common (no par value):

Authorized — 22,000,000 shares

Issued and outstanding, including

9,900 shares held in treasury:

December 31, 1974—		
8,747,356 shares		\$141,493,045
December 31, 1973—		
7,521,358 shares		\$113,399,595

The preferred stock is redeemable at the option of the Company on thirty-day notice at \$110 per share for the \$6.00 series and \$103 per share for the \$4.20 series, plus accumulated dividends. The liquidation price of preferred shares is \$100, plus accumulated dividends.

On November 26, 1974 the Company sold in a public offering 1,200,000 shares of common stock at a price of \$22.875 per share aggregating \$27,450,000 which was added to the capital stock account. Underwriting expense and other costs in connection with the issue amounting to \$1,402,672 were charged to capital stock expense.

The Board of Directors authorized an increase in the stated value of common stock of \$20,000,000 in March 1973, by a transfer of that amount from Earnings Retained for Use in the Business.

The Board of Directors, in accordance with the Company's common stock option plan, may authorize, before June 18, 1979, the grant of options to officers and other key employees to purchase 239,521 additional shares of the no par common stock of the Company. Options granted shall be at not less than the closing price on the New York Stock Exchange on the date the options are granted and become exercisable after two

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

years, provided there are no unexpired prior option contracts. Options must be exercised in the order granted and expire five years from date of grant. At December 31, 1974 there were 40,775 shares under option at an average price of \$28.00 per share, all of which were exercisable. During 1974 no options were granted, options on 130,548 shares expired or were forfeited by death, retirement or resignation of the option holder and options on 25,998 shares were exercised at an average price of \$24.75 aggregating \$643,451 which was added to the capital stock account.

NOTE 3 — Long-term Debt:

Long-term debt consists of the following:

	December 31 1974	December 31 1973
First mortgage bonds		
8-1/4% series, due 1974	\$	\$ 29,996,438
2-7/8% series, due 1975	39,190,799	39,194,359
8-3/4% series, due 1981	29,767,500	
3-1/8% series, due 1984	6,043,120	6,047,740
4-1/2% series, due 1989	15,027,574	15,029,509
7-1/2% series, due 2001	24,808,594	24,801,341
8-5/8% series, due 2004	60,155,750	
Sinking Fund Debentures:		
3-1/4%, due 1979	10,639,725	11,130,127
7-1/2%, due 1998	24,913,750	24,910,124
Guaranty of County of Rosebud, Montana, 5-3/4% Pollution Control Revenue Bonds, due 2003	19,867,389	19,862,929
Funds on deposit with Trustee	<u>(13,537,582)</u>	<u>(18,033,376)</u>
	<u>\$216,876,619</u>	<u>\$152,939,191</u>

The principal amount of long-term debt is shown adjusted for unamortized debt discount and premium, which amounted to a net discount of \$393,799 and \$320,433 at December 31, 1974 and 1973, respectively. These amounts are being amortized over the period the related bonds are outstanding.

In March 1974 the Company sold \$60,000,000 8-5/8% First Mortgage Bonds due 2004 and in November 1974 the Company sold \$30,000,000 8-3/4% First Mortgage Bonds due 1981.

The agreement securing the 3-1/4% debentures due 1979 provides that the Company must deliver to the trustee, for a retirement sinking fund, \$540,000 cash or principal amount of debentures each year through 1978. At December 31, 1974 and 1973, the Company had acquired \$430,000 and \$595,000, respectively, principal amount of 3-1/4% debentures which qualify for future sinking fund requirements and which, accordingly, have been applied in the balance sheet as a reduction of this debt. The agreement securing the 7-1/2% Sinking Fund Debentures due in 1998 provides that the Company must deliver to the trustee for a retirement sinking fund a minimum of \$500,000 cash or principal amount of debentures each year from 1979 through 1997. Sinking fund requirements under the first mortgage bonds are being met through property additions. Other required principal payments on long-term debt for the years 1975 through 1979 are \$39,188,000, 2-7/8% First Mortgage Bonds on October 1, 1975 and \$9,000,000, 3-1/4% Sinking Fund

Debentures on May 1, 1979 which are expected to be refunded with other long-term obligations.

The Company's Mortgage and Deed of Trust to Morgan Guaranty Trust Company of New York dated October 1, 1945, as supplemented, imposes a direct first mortgage lien on all physical properties owned or thereafter acquired, exclusive of subsidiary company assets and certain property and assets specifically excepted from said lien. At December 31, 1974 and 1973, the undepreciated book value of assets subject to the lien was \$469,078,000 and \$401,526,000, respectively. The obligations collateralized are First Mortgage Bonds in the principal amount of \$175,188,000 and \$115,188,000 at December 31, 1974 and 1973, respectively.

Long-term debt agreements impose no material restrictions on the availability of retained earnings at December 31, 1974 and 1973 for dividends. Earnings retained for use in the business shown by the PSC financial statements exceed such retained earnings shown by the FPC financial statements by \$4,910,608 which the FPC might contend are not available for payment of dividends (Note 1).

NOTE 4 — Short-term Borrowing:

The Company is currently authorized by the PSC to issue unsecured promissory notes in aggregate principal amount not to exceed \$120,000,000. Informal borrowing arrangements with lending commercial banks currently provide for lines of credit aggregating \$90,000,000, of which \$56,000,000 is unused at December 31, 1974. Unsecured promissory notes are issued to lending commercial banks for six-month periods, bear interest at the lender's prime rate in effect from time to time and may ordinarily be prepaid without penalty.

The average interest rate on outstanding notes payable was 10% at December 31, 1974 and 1973. The maximum amount of notes payable outstanding during 1974 and 1973 was \$84,000,000 and \$30,500,000, respectively. The approximate weighted average of notes payable outstanding was \$39,356,000 and \$7,336,000 with an average annual interest rate of 11.6% and 9.3% for 1974 and 1973, respectively.

Compensating balances were \$12 million and \$4 million at December 31, 1974 and 1973, respectively, and are included in current assets in the Consolidated Balance Sheet. These balances, which include amounts normally maintained for working capital requirements, are subject to withdrawal but the Company currently anticipates its balances will approximate ten percent of the line of credit and ten percent of the borrowing thereunder on a moving average basis or twenty percent of the line of credit.

NOTE 5 — Retirement Plans:

The Company maintains trustee, noncontributory retirement plans covering employees who attain retirement age, normally age 65, and have completed one year of service. During the year 1973 the market value of the assets held by the trustees approximated the actuarially-computed prior service costs. Accordingly,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

costs of the plans for 1973 funded and charged to expense relate principally to current service and were \$574,361.

For the year ended December 31, 1974, cost of the plans funded and charged to expense was \$640,410 which related to current services only. At such date the market value of the assets held by the trustees had declined to approximately \$8,750,000 and the actuarially-computed liability for services prior to January 1, 1974, the most recent period for which this information is available, amounted to approximately \$16,300,000.

The Company has in the past determined annual pension expense subject to the review of an independent firm of consulting actuaries. The Company has engaged that firm to review the plans and recommend changes to bring them into compliance with the requirements of the Employee Retirement Income Security Act of 1974 as to participation, vesting, funding and the appropriate provisions for pension costs including amortization of unfunded prior service liabilities. At this time the effect of the act on annual pension expense and unfunded vested liability for prior service is not known.

NOTE 6 — Contingencies and Commitments:

Operating revenues for 1974 include approximately \$5.5 million pursuant to the Montana Public Service Commission 1974 rate adjustment order authorizing the Company to increase natural gas rates to offset the increased costs of purchased gas and royalty expense of gas produced in Canada and Montana. In January 1975 a district court invalidated this Commission order in two separate appeals seeking review of the Commission's decision under Montana law. The Montana Supreme Court immediately issued a stay of the district court order which will be in effect pending a final Supreme Court decision on the appeal of each case being perfected by the Company. The stay order allows the Company to continue passing on its higher purchased gas costs and royalty expense to its customers until final determination of the validity of the Commission's order. If the Commission's order is invalidated by a final Supreme Court ruling, the amount collected, pursuant to this order, may be subject to refund. The Company cannot predict the outcome of this litigation; however, if the Commission's order is not sustained, it would materially affect the Company's revenue and earnings.

In January 1975, the Montana Department of Natural Resources and Conservation issued its final environmental impact statement on the proposed jointly owned steam electric generating plant units 3 and 4 and associated facilities at Colstrip, Montana and recommended to the Montana Board of Natural Resources and Conservation that the application for a certificate of environmental compatibility and public need for the plant and associated facilities as required under the Montana Utility Siting Act of 1973 be denied. The Board after holding a hearing will either grant or deny the application as filed or grant it upon such terms, conditions or modifications as the Board may deem appropriate.

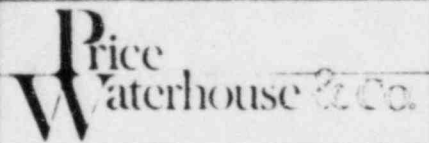
The Company's share of expenditures to date and estimated cancellation costs approximate \$5,000,000.

The Company's hydroelectric projects are operated under licenses issued by the FPC which expire at various times through 1998. When a license expires, it may be reissued to the Company, issued to a new licensee or the facility may be taken over by the United States. In either of the last two events the Company would be entitled to compensation equivalent to its net investment in the project, not to exceed fair value, plus severance damages. In determining net investment in the project, the licenses provide that there may be deducted the amount contained in an amortization reserve which shall be accumulated from a portion of the amount earned in excess of a specified reasonable rate of return after twenty years of operation under the license. The amount of these amortization reserves, if any, relating to the Company's hydroelectric projects cannot be ascertained with accuracy at this time because of various uncertainties regarding methods of calculation. However, management at this time believes that any such amortization reserves are not material in relation to the Company's investment in property and plant or to shareholders' equity.

Rental expense was \$3,505,000 and \$3,197,000 including delay rentals of \$1,867,000 and \$1,439,000 for 1974 and 1973, respectively. Minimum annual rentals under noncancellable leases consist of \$975,000 hydroelectric project rentals under terms of licenses issued by the FPC above, the largest of which is \$950,000 applicable to the Kerr hydroelectric project which license expires in 1980 (for which the Company intends to apply for relicensing), and \$209,000 transmission line rentals. Minimum transmission line rentals are based on negotiated percentages of physical plant costs and variable operating costs and do not contain renewal options. The transmission line rental agreements continue to 2015. The minimum rental commitments under noncancellable leases for each of the five succeeding years, each of the next three five year periods, and the remainder based upon agreements in effect on December 31, 1974 are disclosed below:

	Hydroelectric	Transmission Line	Total
1975	\$ 975,000	\$ 209,000	\$1,184,000
1976	975,000	209,000	1,184,000
1977	975,000	209,000	1,184,000
1978	975,000	209,000	1,184,000
1979	975,000	209,000	1,184,000
1980 through 1984	522,000	1,046,000	1,568,000
1985 through 1989	125,000	1,046,000	1,171,000
1990 through 1994	121,000	1,046,000	1,167,000
Remainder 1995 through 2015	97,000	4,254,000	4,351,000

At December 31, 1974, in connection with their continuing construction program, the Company and its subsidiaries had entered into purchase commitments which amounted to approximately \$48,000,000.



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February 7, 1975

To the Board of Directors of
The Montana Power Company

We have examined the consolidated financial statements of The Montana Power Company and its subsidiaries for the two years ended December 31, 1974 and 1973, appearing on pages fourteen through twenty-three of this report. As explained in Note 1 to the financial statements, the Company maintains accounts to conform to the accounting requirements of both the Public Service Commission of Montana and the Federal Power Commission, financial statements based on the accounts prescribed by both Commissions are presented in this report. Our examinations, which were directed to both sets of financial statements, 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 described more fully in Note 1, the differences between these two sets of financial statements arise from a decision of the Federal Power Commission which has resulted in the exclusion of some \$21,600,000 of Company's costs from the property accounts with a corresponding reduction in shareholders' investment. The Public Service Commission of Montana recognizes such amounts as legitimate costs of utility property and permits the Company to earn a return thereon. Because the Public Service Commission of Montana has the major jurisdiction over the affairs of the Company, including rates and securities issues, the financial statements based on its accounting requirements, in our opinion, are the more useful to the Company's shareholders.

In 1974 the Company has included in operating revenues approximately \$5,500,000 which has been billed to customers in accordance with a 1974 order of the Public Service Commission of Montana allowing the Company to pass on to all customers increased costs of purchased natural gas and royalties on natural gas produced. The validity of the Commission's order is being contested and all amounts collected pursuant to the order may be subject to refund on final disposition of the matter. The Company and their counsel cannot predict the outcome of this litigation with any certainty at this time and no provision for any refunds which may result has been made in the accounts; see Note 6.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to above been known, the accompanying statements based on the accounts prescribed by the Public Service Commission of Montana present fairly the consolidated financial position of The Montana Power Company and its subsidiaries at December 31, 1974 and 1973, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Also, in our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to above been known, the accompanying financial statements based on the accounts prescribed by the Federal Power Commission present fairly the consolidated financial position of The Montana Power Company and its subsidiaries at December 31, 1974 and 1973, the results of their operations and the changes in their financial position for the years then ended, in conformity with the applicable accounting regulations and orders of the Federal Power Commission consistently applied.

Price Waterhouse & Co.



Pacific Power & Light Company • Annual Report 1974

SUMMARY OF CONSOLIDATED OPERATIONS

	1974	1973	1972	1971	1970
	<i>Thousands of Dollars</i>				
OPERATING REVENUES:					
Electric	\$ 216,789	\$ 220,377	\$ 190,170	\$ 171,679	\$ 152,842
Steam Heating	2,124	1,465	1,538	1,369	1,298
Water	2,438	2,188	1,815	1,563	1,545
Telephone	25,628	11,905	6,552	5,619	4,932
TOTAL OPERATING REVENUES	246,979	235,935	200,075	180,230	160,617
OPERATING EXPENSES:					
Operation and maintenance	111,882	100,193	91,981	75,757	69,051
Depreciation	30,901	26,062	21,097	19,960	17,943
Taxes other than income taxes	24,087	22,365	19,723	17,440	16,812
Income taxes	(2,740)	7,472	10,250	9,451	5,919
TOTAL OPERATING EXPENSES	164,130	156,092	133,051	122,608	109,725
NET UTILITY OPERATING INCOME	82,849	79,843	67,024	57,622	50,892
OTHER INCOME (DEDUCTIONS):					
Allowance for funds used during construction	16,799	7,887	12,324	10,447	5,357
Equity in earnings of joint ventures	7,132	3,707	525		
Other income—net of deductions	3,203	42	(206)	(836)	132
Minority interest	(805)	(167)	(20)	(3)	(3)
Income taxes	(4,129)	(1,053)	(62)	483	169
OTHER INCOME (DEDUCTIONS)—NET	7,200	10,416	12,561	10,091	5,655
INCOME BEFORE INTEREST CHARGES	105,049	90,259	79,585	67,713	56,547
INTEREST CHARGES	50,920	36,717	31,703	28,829	25,496
NET INCOME	54,129	53,542	47,882	38,884	31,051
Preferred dividend requirements	8,407	8,407	6,815	5,115	3,693
NET INCOME APPLICABLE TO COMMON STOCK	\$ 45,722	\$ 45,135	\$ 41,067	\$ 33,769	\$ 27,358
Average number of shares of common stock					
outstanding (in thousands)	22,498	19,881	18,292	17,074	16,234
Per common share:					
Net income	\$2.03	\$2.27	\$2.25	\$1.98	\$1.69
Dividends declared	\$1.60	\$1.575	\$1.47	\$1.40	\$1.28

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUMMARY OF OPERATIONS

The decline in electric operating revenues for the year ended December 31, 1974 as compared with the year ended December 31, 1973 is principally the result of reduced sales for resale and inadequate levels of electric rates in relation to continuing increases in operating costs and interest costs. Such increases were substantially offset by related reductions in income taxes, additional equity in earnings of joint ventures, and increased allowance for funds used during construction with the result that net income increased slightly for 1974 as compared to 1973. The decline in electric operating revenues is expected to reverse as the effect of increased electric rates is reflected in such revenues. See page 4 for information regarding electric rate increases put into effect during 1974. The decrease in net income per common share for the year ended December 31, 1974 as compared with the year ended December 31, 1973 reflects an increase in the number of common shares outstanding. The increase in operating expense, including fuel and other production expense, for the years ended December 31, 1973 and 1974 over the respective prior years, results from the Company's increasing steam-electric generation in relation to the portion of energy generated and purchased from hydroelectric sources. Operating expenses also increased due to increases in depreciation, maintenance, administrative and general expense which are related to increased utility plant put into service, as well as to higher costs of labor and materials. The increased amounts of interest and dividends reflect additional capital obtained to finance the Company's continuing construction program (see page 5). See Notes to Financial Statements for information relating to accounting for income taxes, allowance for funds used during construction, equity in earnings of joint ventures and telephone operations. See also "Revenues, Expenses and Income" on page 4 for further discussion of 1974 versus 1973 operations.

PACIFIC POWER & LIGHT COMPANY

CONSOLIDATED BALANCE SHEET

ASSETS

	DECEMBER 31	
	1974	1973
	<i>Thousands of Dollars</i>	
UTILITY PLANT (Note 1):		
Utility plant in service:		
Electric	\$1,240,995	\$1,173,775
Steam heating	2,765	2,957
Telephone	100,553	96,289
Water	24,020	21,212
TOTAL	1,368,333	1,294,233
Less accumulated provision for depreciation and amortization	228,902	206,884
UTILITY PLANT IN SERVICE—NET	1,139,431	1,087,349
Construction work in progress	325,639	165,148
Utility plant held for future use	4,757	5,299
Electric plant acquisition adjustments	3,720	3,916
UTILITY PLANT—NET	1,473,547	1,261,712
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property (less accumulated provision for depreciation and amortization—1974, \$212,000; 1973, \$191,000)	2,823	1,929
Investment in joint ventures (Notes 1 and 2)	14,214	12,119
Other	5,761	6,124
TOTAL OTHER PROPERTY AND INVESTMENTS	22,798	20,172
CURRENT ASSETS:		
Cash (Note 3)	7,357	8,718
Working funds and deposits	1,461	1,157
Temporary cash investments	2,840	1,663
Accounts receivable:		
Customers (less accumulated provision for uncollectible accounts—1974, \$556,000; 1973, \$582,000)	16,395	17,197
Other	11,038	9,298
Materials and supplies (at average cost or less)	20,470	13,180
Prepayments	1,492	1,605
TOTAL CURRENT ASSETS	61,053	52,818
DEFERRED DEBITS:		
Unamortized debt expense	2,341	2,198
Preliminary survey and investigation charges	7,665	4,389
Jobbing and other work in progress	8,888	6,838
Other	12,138	8,680
TOTAL DEFERRED DEBITS	31,032	22,105
TOTAL ASSETS	\$1,580,410	\$1,356,617

(See accompanying Notes to Financial Statements)

LIABILITIES

	DECEMBER 31	
	1974	1973
	<i>Thousands of Dollars</i>	
CAPITALIZATION:		
Capital stock and retained earnings (Notes 4 and 8):		
Preferred stock (Schedule 1)	\$ 117,236	\$ 117,236
Common stock (Schedule 1)	75,350	66,936
Premium on capital stock	232,179	186,487
Installments received on common stock	11	22
Capital stock expense	(8,104)	(6,046)
Retained earnings	135,187	125,484
TOTAL CAPITAL STOCK AND RETAINED EARNINGS	551,859	490,119
Long-term debt (Schedule 2)	749,169	637,814
TOTAL CAPITALIZATION	1,301,028	1,127,933
 CURRENT LIABILITIES:		
Long-term debt currently maturing	13,878	8,808
Notes payable to banks	69,400	50,873
Commercial paper	43,665	11,000
Accounts payable	35,490	38,794
Dividends declared	11,379	10,353
Taxes accrued	24,253	27,144
Interest accrued	14,975	10,537
Other current liabilities	6,916	6,312
TOTAL CURRENT LIABILITIES	219,956	163,821
 DEFERRED CREDITS:		
Customer advances for construction	4,183	2,704
Accumulated deferred investment tax credits (Note 1)	7,954	10,047
Accumulated deferred income taxes (Note 1):		
Accelerated amortization	27,367	29,034
Liberalized depreciation	10,260	6,080
Repair allowance	7,184	5,161
Other deferred credits	974	2,556
TOTAL DEFERRED CREDITS	57,922	55,582
 OPERATING RESERVES		
	1,146	1,681
 MINORITY INTEREST IN SUBSIDIARY COMPANIES		
	8,378	7,790
 COMMITMENTS AND CONTINGENT LIABILITIES (Note 6)		
TOTAL LIABILITIES	\$1,588,430	\$1,356,007

(See accompanying Notes to Financial Statements)

STATEMENT OF CONSOLIDATED INCOME

	Years ended December 31	
	1974	1973
	Thousands of Dollars	
OPERATING REVENUES:		
Electric	\$216,789	\$220,277
Steam heating	2,124	1,465
Water	2,438	2,185
Telephone (Note 2)	25,628	11,905
TOTAL OPERATING REVENUES	246,979	235,935
OPERATING EXPENSES:		
Operation:		
Electric utility:		
Power purchased and interchanged—net	25,213	26,121
Fuel expense	16,939	16,894
Other production	5,654	4,611
Transmission and distribution	11,460	10,344
Customer service expense	9,899	9,464
Other utilities	5,833	3,693
Administrative and general	18,014	15,675
Maintenance	18,870	13,391
Depreciation	30,901	26,062
Taxes—other than income	24,087	22,365
Federal and state income taxes (Notes 1 and 5)	(2,740)	7,472
TOTAL OPERATING EXPENSES	164,130	136,092
NET UTILITY OPERATING INCOME	82,849	79,843
OTHER INCOME (DEDUCTIONS):		
Allowance for funds used during construction (Note 1)	16,799	7,887
Equity in earnings of joint ventures (Notes 1 and 2)	7,132	3,707
Interest, dividends and other income	4,445	1,142
Other deductions	(1,242)	(1,100)
Minority interest	(805)	(167)
Income taxes	(4,129)	(1,053)
OTHER INCOME (DEDUCTIONS)—NET	22,200	10,416
INCOME BEFORE INTEREST CHARGES	105,049	90,259
INTEREST CHARGES:		
Interest on long-term debt	42,798	30,892
Amortization of debt discount, premium and expense—net	232	161
Other interest	7,890	5,664
TOTAL INTEREST CHARGES—NET	50,920	36,717
NET INCOME	\$ 54,129	\$ 53,542
Earnings per share, based on average number of common shares outstanding during each year (after recognition of preferred dividend requirements of \$8,407,000 for 1974 and 1973)	\$2.03	\$2.27

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	Years ended December 31	
	1974	1973
	Thousands of Dollars	
Balance, January 1	\$125,484	\$111,492
Net income	54,129	53,542
Total	179,613	165,034
Deduct:		
Cash dividends:		
Preferred stock	8,407	8,407
Common stock	36,019	31,144
Total deductions	44,426	39,551
Balance, December 31	\$135,187	\$125,484

(See accompanying Notes to Financial Statements)

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

SOURCE OF FUNDS	Year Ended December 31	
	1974	1973
	Thousands of Dollars	
From Operations:		
Net income	\$ 54,129	\$ 53,542
Non-cash charges (credits) to income:		
Depreciation	30,901	26,062
Deferred income taxes—net	4,536	2,662
Investment tax credit adjustments—net	(2,093)	2,277
Allowance for funds used during construction	(16,799)	(7,867)
Undistributed earnings of joint ventures	(2,095)	(462)
Minority interest in net income of subsidiaries	805	167
Other—net	(419)	421
TOTAL FROM OPERATIONS	<u>68,965</u>	<u>76,782</u>
From Outside Sources:		
Long-term debt	137,155	45,593
Common stock	51,984	37,107
Net increase in short-term debt	56,262	57,081
Net decrease in temporary investments		8,810
TOTAL FROM OUTSIDE SOURCES	<u>245,401</u>	<u>148,591</u>
Other Sources:		
Decrease (increase) in working capital (excluding short-term debt and temporary cash investments)	(7,185)	18,857
Other—net	6,684	(5,975)
TOTAL SOURCE OF FUNDS	<u>\$313,865</u>	<u>\$238,255</u>
APPLICATION OF FUNDS:		
Construction expenditures:		
Utility plant	\$258,992	\$173,010
Nonutility plant	213	128
Total construction expenditures	259,205	173,138
Less allowance for funds used during construction	16,799	7,867
Construction expenditures—net	242,406	165,251
Purchase of Telephone Utilities, Inc., less working capital acquired:		
Property—net		61,653
Other assets and liabilities—net		(2,573)
Long-term debt assumed		(33,492)
Dividends:		
Preferred stock	8,407	8,407
Common stock	36,019	31,143
Long-term debt reduction	25,856	7,866
Net increase in temporary investments	1,177	
TOTAL APPLICATION OF FUNDS	<u>\$313,865</u>	<u>\$238,255</u>

(See accompanying Notes to Financial Statements)

This 1974 Annual Report has been prepared by the Company to provide general and statistical information concerning the Company, and not in connection with any sale, offer for sale or solicitation of an offer to buy any securities.

CAPITAL STOCK and LONG-TERM DEBT

SCHEDULE 1

CAPITAL STOCK

Description	Issued and Outstanding	
	Number of Shares	Thousands of Dollars
5% preferred, cumulative, authorized, 126,544 shares of \$100 par value each	126,544	\$ 12,654
Serial preferred, cumulative, authorized, 1,500,000 shares of \$100 par value each:		
4 3/4%	9,815	984
7.00% non-callable	18,050	1,806
6.00% non-callable	5,932	593
5.00%	42,060	4,200
5.40%	70,000	7,000
4.72%	100,000	10,000
4.56%	100,000	10,000
8.92%	150,000	15,000
9.08%	300,000	30,000
7.96%	250,000	25,000
No par serial preferred, authorized, 4,000,000 shares		
Total preferred stock	1,172,360	\$117,236
Common, authorized, 50,000,000 shares of \$3.25 par value each	23,184,623	\$ 75,350

SCHEDULE 2

LONG-TERM DEBT

Pacific Power & Light Company First Mortgage Bonds:	December 31	
	1974	1973
	Thousands of Dollars	
3 1/4% Series due Nov. 1, 1974	—	\$11,434
3 1/4% Series due 1977	\$ 29,000	29,000
3 1/4% Series due April 1, 1978	4,500	4,500
3 1/4% Series due Aug. 1, 1979	4,951	4,951
3 1/4% Series due 1980	9,000	9,000
4 1/4% Series due June 1, 1981	5,849	5,849
3 1/4% Series due 1982	12,500	12,500
3 1/4% Series due Sept. 1, 1982	7,500	7,500
4 1/4% Series due Oct. 1, 1982	6,157	6,157
9 1/4% Series due 1983	70,000	—
3 1/4% Series due March 1, 1984	8,659	8,659
3 1/4% Series due 1984	8,000	8,000
3 1/2% Series due Aug. 1, 1984	30,000	30,000
3 1/4% Series due 1985	10,000	10,000
4 1/4% Series due May 1, 1986	14,454	14,454
4 1/4% Series due 1988	15,000	15,000
4 1/4% Series due July 1, 1988	20,000	20,000
5 1/4% Series due 1990	20,000	20,000
4 1/4% Series due 1992	35,000	35,000
4 1/2% Series due Dec. 1, 1992	32,000	32,000

LONG-TERM DEBT

	December 31	
	1974	1973
	Thousands of Dollars	
4 1/2% Series due 1993	35,000	35,000
4 1/2% Series due 1994	35,000	35,000
5 1/4% Series due 1995	35,000	35,000
8 1/4% Series due 1999	25,000	25,000
8 1/4% Series due Nov. 1, 1999	20,000	20,000
9 1/4% Series due 2000	25,000	25,000
7 1/4% Series due 2001	40,000	40,000
8 1/4% Series due Oct. 1, 2001	35,000	35,000
7 1/4% Series due 2002	30,000	30,000
8 1/4% Series due 2004	6,000	—
Rawlins Electric Company—		
First Mortgage Bonds:		
4 1/2% Series due 1975	90	93
6 1/4% Series due 1977	128	132
Guaranty of Pollution Control Revenue Bonds, 6 1/2% Series due 2003 (\$25,000,000) outstanding less \$7,755,000 held by Trustee at December 31, 1973	25,000	17,245
4 3/4% Convertible Debentures due 1974	—	1,792
Miscellaneous	1,060	852
Unamortized premium and discount on long-term debt	(3,262)	(2,101)
Total long-term debt of Pacific Power & Light Company	690,586	567,017
Subsidiaries:		
Telephone Utilities, Inc.—		
2 1/4% First Mortgage Notes due 1990-1999	909	951
4 1/2%-10 1/4% First Mortgage Notes due 1975-1998	20,163	21,708
7 1/4% Second Mortgage Note due 1980	11,000	11,000
5 1/4%-9 1/4% Unsecured Notes due 1978-1998	12,875	13,149
Total Telephone Utilities, Inc.	44,947	46,808
Other Subsidiaries—		
7%-8% Unsecured Notes due in installments through 1997	1,953	2,056
9 1/4% Unsecured Note due 1975	—	8,000
10%* Unsecured Note due in installments through 1978	4,683	6,933
7 1/4% Unsecured Note due 1980	7,000	7,000
Total long-term debt of subsidiaries	58,583	70,797
Total long-term debt	\$749,169	\$637,814

*Interest rate at December 31, 1974; rate is based on prime rate plus 3%; such rate to be not less than 6% nor more than 10%.

Substantially all of the utility plant is subject to the liens of the mortgages underlying the First Mortgage Bonds and Notes.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation—

The consolidated financial statements include the accounts of the Company and its subsidiaries, all majority-owned, since dates of organization or acquisition. The Company and such subsidiaries are herein sometimes referred to as the "Companies." All significant intercompany transactions and balances have been eliminated.

Financial statements for 1973, which originally included the subsidiaries on the equity basis of accounting, have been restated to the consolidated basis of presentation. This restatement had no effect on previously reported net income.

Investments in unincorporated joint ventures are included in the financial statements on the equity basis.

Regulatory Authorities—

Utility operations of the Companies are subject to regulation with respect to accounting and rates by Federal agencies and the public regulatory agencies of the various states in which the Companies operate.

Utility Plant—

Utility plant in service is stated substantially at original cost. Additions to utility plant include the cost of contracted services, direct labor and material, indirect charges for engineering, supervision and similar overhead items, and an allowance for funds used during construction (AFDC) which represents the net cost of borrowed funds used for such purposes and a reasonable rate on other funds. AFDC was applied to construction generally at an annual rate of 7% in 1973 and through June 30, 1974, and at an annual rate of 8% beginning July 1, 1974.

Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to operating expense—maintenance.

Depreciation of utility plant is computed under the straight-line method based on the estimated service lives of the various classes of property. The percentage relationship of provisions for depreciation of utility plant in service (averaged) was 2.57% in 1974 and 2.58% in 1973.

Income Taxes—

The Company includes the operations of its subsidiaries in a consolidated Federal income tax return. Income tax provisions of the individual companies are computed on a separate return basis.

For income tax purposes, the Companies generally

compute depreciation under the liberalized methods allowed by the Asset Depreciation Range System (ADR) which became effective in 1971. For electric, steam heating, and water utility properties, deferred income taxes are provided for the excess of the tax reductions attributable to the use of ADR over the use of liberalized depreciation methods and guideline lives used prior to the adoption of ADR. The tax reductions relating to the difference between such prior liberalized methods and book depreciation are flowed through to net income. For telephone utility properties, deferred income taxes are provided for the total tax reduction resulting from the excess of the ADR method over book depreciation.

Federal income tax reductions resulting from the investment tax credit relating to utility plant other than telephone are deferred and amortized to income over five-year periods for those related to mass property additions and ten-year periods for those related to major additions. Investment tax credits relating to telephone plant are deferred and amortized to income over the estimated useful life of the property.

Deferred income taxes accumulated prior to 1964 resulting from accelerated amortization of certain properties under Necessity Certificates are being amortized to income.

Retirement Plans—

Substantially all employees of the Companies are covered under various retirement plans. Current service costs are funded as the liability accrues, based on actuarial determinations. Prior service costs are being amortized over periods ranging up to 30 years.

Account Reclassifications—

In accordance with certain Federal Power Commission orders effective January 1, 1974, the following reclassifications have been made on a retroactive basis:

Contributions in aid of construction, which is an accumulation of amounts received from customers for construction, were credited to the applicable plant accounts.

Unamortized premium and discount on long-term debt have been combined into a single account in the long-term debt section of the balance sheet.

2. SUBSIDIARIES AND JOINT VENTURES:

The operations of Telephone Utilities, Inc. (T.U.) are included in the consolidated financial statements since October 1, 1973, at which time the Company had acquired by purchase approximately 66% of the outstanding common stock of T.U., a Washington company operating telephone properties, through

subsidiaries, principally in Washington, Oregon, Idaho and Nevada. On November 30, 1973, the Company exchanged all of the outstanding common stock of its subsidiary, Northwestern Telephone Systems, Inc., for an additional 1,800,000 common shares of T.U. This transaction resulted in the Company's ownership of approximately 80% of the outstanding common stock of T.U.

Investments in joint ventures at December 31, 1974 and 1973, include \$13,918,000 and \$11,902,000, respectively, representing the 50% equity interest in Decker Coal Company, an unincorporated joint venture. The Company's equity in the accounts of Decker for the years ended December 31, 1974 and 1973 are summarized as follows (in thousands):

	1974	1973
Assets	\$17,231	\$13,694
Liabilities	3,313	1,792
Joint venture capital	13,918	11,902
Revenues	16,527	9,014
Expenses	9,711	5,769
Joint venture income before applicable income taxes	6,816	3,245

3. COMPENSATING BALANCES:

Substantially all of the funds included in cash are in the form of demand deposits and include compensating balances informally required by banks under credit arrangements with respect to outstanding short-term loans and unused lines of credit. These balances may be withdrawn without restriction for use as general operating funds on a day-to-day basis, provided the Company maintains average bank balances totaling 10% of the banks' commitment under the credit arrangements or 15% of the outstanding borrowings, whichever is greater. Average balances required during the years ended December 31, 1974 and 1973 were \$6,500,000.

4. CAPITAL STOCK:

Under the Employees' Stock Purchase Plan, 28,397 shares of common stock were held by the Company as Trustee and 109,706 shares of unissued common stock were reserved for unpaid subscriptions of the participants in the Plan at December 31, 1974. In addition, 253,943 shares were reserved for future offerings under the Plan.

In June 1973, the Company sold 1,600,000 shares of its common stock to the public for \$35,666,000 and in April 1974 sold 2,500,000 shares of its common stock to the public for \$50,557,000.

In December 1974, the Company's shareholders approved an increase in authorized common stock from 25,000,000 shares to 50,000,000 shares.

5. INCOME TAXES:

Provisions for income taxes in 1974 and 1973 were less than the amounts computed by applying the statutory Federal income tax rate of 48% to income before tax. The reasons for these differences are as follows (in thousands):

	1974	1973
Computed income tax based on Statutory Federal income tax rate	\$26,904	\$29,398
Reduction in tax resulting from:		
Allowance for funds used during construction	(8,061)	(3,897)
Excess of tax over book depreciation (flow-through basis)	(10,208)	(10,262)
Ad valorem, payroll and sales taxes capitalized	(2,237)	(1,647)
Investment tax credit restored	(1,570)	(1,573)
Other items capitalized and miscellaneous differences	(3,439)	(3,492)
Total income tax expense	1,389	8,525
Amount charged to other income	(4,129)	(1,053)
Federal and state income tax expense included in operating expenses	<u>\$ (2,740)</u>	<u>\$ 7,472</u>

Income tax expense consists of the following (in thousands):

	1974	1973
Taxes currently payable (refundable):		
Federal	\$ (1,459)	\$ 2,593
State	405	993
Deferred income taxes:		
Deferred	6,588	4,659
Restored	(2,052)	(1,997)
Investment tax credit adjustments—net	(2,093)	2,277
Total income tax expense	<u>\$ 1,389</u>	<u>\$ 8,525</u>

Deferred income taxes relate primarily to timing differences between book and tax depreciation amounts.

6. COMMITMENTS AND CONTINGENT LIABILITIES:

The Company's construction program contemplates expenditures of \$242,000,000 in 1975, including \$117,304,000 budgeted for the Jim Bridger steam-electric project near Rock Springs, Wyoming. This project is described elsewhere in this report. The Company has substantial commitments in connection with the foregoing.

Rentals under lease commitments of the Companies for the years ended December 31, 1974 and 1973 were as follows (in thousands):

	1974	1973
Gross rentals charged to:		
Operating expenses	\$1,598	\$1,537
Other income accounts	628	628
Utility plant, clearing, and sundry accounts	2,294	1,526
Total	4,520	3,691
Less rentals from subleases	778	722
Net rentals	<u>\$3,742</u>	<u>\$2,969</u>

The minimum gross rental commitments of the Companies under all noncancelable leases for the periods indicated are as follows (in thousands):

1975	\$ 3,251
1976	3,170
1977	3,061
1978	2,968
1979	2,770
1980-1984	11,343
1985-1989	9,725
1990-1994	7,626
Remainder	8,925
Total	<u>\$52,839</u>

Rental payments are calculated upon the basis of elapsed time. Substantially all options to renew existing leases provide for negotiation of the amount of rental at the time of exercising such options. Except for relatively minor leases, there are no existing options to purchase or escalation clauses. The Companies are also committed to pay all taxes and expenses of operation (other than depreciation) and maintenance applicable to the leased property, except for the property under several relatively minor leases.

7. EMPLOYEES' RETIREMENT PLANS:

Retirement plan costs were \$3,739,000 in 1974 and \$3,430,000 in 1973, of which \$311,000 and \$344,000, respectively, were for prior service. Of these costs, \$1,399,000 and \$1,206,000, respectively, were applicable to construction payroll and were charged to plant accounts. Unfunded prior service cost at January 1, 1974 (exclusive of interest), was approximately \$6,250,000. Of this total liability, approximately \$2,998,000 represented the amount by which vested benefits exceeded the pension fund assets. In September 1974, the Federal 1974 Pension Reform Act was enacted and will become applicable to the Companies, in pertinent part, in 1975. The Companies have estimated that retirement plan costs will increase approximately \$300,000 to \$700,000 annually as a result of such Act.

8. SUBSEQUENT EVENTS:

In January 1975, the Company sold 3,500,000 shares of its common stock to the public for \$55,580,000.

ACCOUNTANTS' OPINION

To the Directors and Stockholders of
PACIFIC POWER & LIGHT COMPANY:

We have examined the consolidated balance sheet and the schedules of capital stock and long-term debt of Pacific Power & Light Company and subsidiaries as of December 31, 1974 and 1973, and the related statements of consolidated income, retained earnings, and changes in financial position for the years then ended. Our examination was 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.

In our opinion, the above-mentioned consolidated financial statements and schedules present fairly the financial position of the companies at December 31, 1974 and 1973, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, to the consolidated basis of presentation as explained in the second paragraph of Note 1 to Financial Statements.

Portland, Oregon
February 28, 1975

HASKINS & SELLS

CONSOLIDATED FINANCIAL RATIOS

As of December 31

	1974	1973	1972	1971	1970
<i>Thousands of Dollars</i>					
CAPITALIZATION:					
Mortgage bonds	\$ 167,788	\$ 549,229	\$ 549,216	\$ 519,243	\$ 444,250
Guaranty of pollution control bonds—net	25,000	17,245	—	—	—
Convertible debentures	—	1,792	1,877	2,013	2,354
Long-term notes	—	—	5,090	15,000	25,000
Long-term subsidiary debt	58,583	70,797	11,515	2,331	2,317
Installment contracts	1,060	852	1,153	777	1,149
Unamortized premium and discount on debt	(3,262)	(2,101)	(1,907)	(1,550)	(490)
TOTAL LONG-TERM DEBT	749,169	637,814	566,874	537,834	474,500
Preferred stock	117,236	117,236	117,236	92,236	62,236
Common stock and retained earnings	434,623	372,883	321,700	270,508	259,372
TOTAL CAPITALIZATION	\$1,301,028	\$1,127,933	\$1,005,810	\$ 900,578	\$ 796,108
RATIOS:					
Mortgage bonds	51.33%	48.69%	54.61%	57.66%	55.80%
Guaranty of pollution control bonds—net	1.92	1.53	—	—	—
Convertible debentures	—	0.16	0.19	0.22	0.30
Long-term notes payable	—	—	.50	1.67	3.14
Long-term subsidiary debt	4.50	6.28	1.14	0.26	0.29
Installment contracts	0.08	0.08	0.11	0.08	0.14
Unamortized premium and discount of debt	(0.25)	(0.19)	(0.19)	(0.17)	(0.06)
TOTAL LONG-TERM DEBT	57.58	56.55	56.36	59.72	59.61
Preferred stock	9.01	10.39	11.66	10.24	7.81
Common stock and retained earnings	33.41	33.06	31.98	30.04	32.58
TOTAL CAPITALIZATION	100.00%	100.00%	100.00%	100.00%	100.00%

ENERGY SALES, CUSTOMER and OTHER STATISTICS

	1974	1973	1972	1971	1970
ENERGY SALES (Thousands of kilowatt-hours):					
Residential	5,653,332	5,529,310	5,235,260	4,962,472	4,558,470
Commercial	3,418,127	3,388,342	3,184,198	2,940,770	2,752,649
Industrial	5,286,592	5,230,515	5,076,847	4,828,399	4,761,404
Government and Municipal	141,144	157,407	152,374	139,354	149,045
TOTAL GENERAL BUSINESS	14,499,195	14,305,574	13,648,679	12,870,995	12,221,568
Sales for resale—temporary	1,434,813	2,864,894	2,394,948	1,091,960	667,991
—other	526,575	525,611	509,671	448,132	417,551
Interdepartmental	15,996	13,139	14,288	13,832	13,872
TOTAL ENERGY SALES	16,476,579	17,709,218	16,567,586	14,424,919	13,320,982
Power plant output—including power purchased (Thousands of kilowatt-hours)	18,218,967	19,472,017	18,215,458	15,837,969	14,668,302
Kilowatts of generating capacity installed at year-end	2,320,279	2,320,279	2,097,626	1,365,018	1,365,268
Number of customers at year-end:					
Electric	540,876	524,487	507,746	480,383	460,197
Water	25,840	24,820	24,252	23,774	23,345
Steam heating	628	683	714	724	755
Telephone stations served	115,757	107,719	38,406	35,700	34,207
Residential electric service statistics:					
Number of customers at year-end	467,522	453,691	437,930	412,532	399,708
Kilowatt hour sales per customer—average	12,251	12,691	12,331	12,237	11,539

MARKET AND DIVIDEND INFORMATION

COMMON STOCK:

The Company's Common Stock, \$125 Par Value, is listed on the New York and Pacific Stock Exchanges. The following table shows the high and low sales prices of the Common Stock on the New York Stock Exchange during the respective periods indicated as reported in *The Wall Street Journal*.

	1974				1973			
	Quarter:	1st	2nd	3rd	4th	1st	2nd	3rd
High	25 ¹ / ₂	21 ¹ / ₈	18 ¹ / ₂	17 ¹ / ₂	26 ¹ / ₈	24 ⁷ / ₈	25 ¹ / ₈	25 ³ / ₈
Low	21	17 ¹ / ₂	15	13 ³ / ₈	22 ⁷ / ₈	22 ¹ / ₈	21 ³ / ₄	20 ¹ / ₂

Quarterly cash dividends have been paid at the rate of 37¹/₂ cents per share for the first and second quarters of 1973 and at 40 cents per share for each quarter thereafter.

PREFERRED STOCK:

The following table shows the high and low sales prices of the Company's 5% Cumulative Preferred Stock, \$100 Par Value, on the American Stock Exchange.

	1974				1973			
	Quarter:	1st	2nd	3rd	4th	1st	2nd	3rd
High	66	63	55	53 ³ / ₄	68 ¹ / ₂	68	65 ¹ / ₂	65
Low	59 ¹ / ₄	51 ¹ / ₂	51 ¹ / ₂	50	63 ¹ / ₂	63 ¹ / ₄	61 ⁷ / ₈	58 ³ / ₄

The Company's ten series of Serial Preferred Stock, \$100 Par Value, are traded over-the-counter. Although the following table of quarterly price ranges for 1973 and 1974 is based on the best available bid prices for the periods indicated, the stock is closely held and infrequently traded and, therefore, the prices quoted should be treated as reasonable approximations.

	1974				1973				
	Quarter:	1st	2nd	3rd	4th	1st	2nd	3rd	4th
4.52% No quotations available.									
7.00% High	80	80	NQ	NQ	84	83	80	80	
Low	80	NQ	NQ	NQ	83	NQ	NQ	NQ	
6.00% High	70	66	NQ	NQ	73	70	70	70	
Low	NQ	NQ	NQ	NQ	70	NQ	NQ	NQ	
5.00% High	57	55	43	NQ	62 ¹ / ₂	61	61 ¹ / ₂	58	
Low	57	NQ	NQ	NQ	61	NQ	58	NQ	
5.40% High	67	60	NQ	NQ	69	67	NQ	67	
Low	NQ	NQ	NQ	NQ	68	NQ	NQ	NQ	
4.72% High	55	52	NQ	42	61	NQ	NQ	60	
Low	53	NQ	NQ	NQ	60	NQ	NQ	NQ	
4.56% High	55 ¹ / ₂	50	NQ	41	56	57 ³ / ₄	NQ	55	
Low	52	NQ	NQ	NQ	55	55	NQ	NQ	
8.92% High	104	98	84	84	107	106	106	104	
Low	101	85	79	76	105	106	103	103	
9.08% High	104 ¹ / ₂	100	81	85 ¹ / ₂	108	108	104	104	
Low	103	87	80	77	107	108	NQ	NQ	
7.96% High	94	84	71	74 ⁷ / ₈	102	NQ	NQ	100	
Low	88	75	70	68	102	NQ	NQ	NQ	

NQ—No quote available

Quarterly cash dividends were paid on each class of the Company's Preferred Stock at their stated rates during 1973 and 1974.

TO OUR FELLOW SHAREHOLDERS AND EMPLOYEES

Dear Shareholders and Employees:

I am pleased to have the opportunity to address you today. The past year has been a challenging one for our company, but we have remained focused on our core mission and our commitment to our shareholders and employees. We have made significant progress in several key areas, and I am confident that we are well-positioned for a bright future.

Our primary focus has been on improving our operational efficiency and reducing costs. We have implemented a number of initiatives that have resulted in significant savings, which we have reinvested in our research and development efforts. This investment is essential for us to stay competitive in a rapidly changing market.

In addition, we have placed a strong emphasis on our employees. We believe that our employees are our greatest asset, and we are committed to providing them with the resources and support they need to succeed. We have invested in training and development programs, and we have created a work environment that is supportive and collaborative.

Finally, we have maintained our commitment to our shareholders. We have provided regular updates on our financial performance and our strategic initiatives, and we have listened to your feedback. We are confident that our actions have earned your trust and support.

As we look ahead, we are optimistic about the future of our company. We believe that our focus on operational efficiency, employee development, and shareholder communication will continue to drive our success. We are committed to delivering long-term value to our shareholders and providing a great workplace for our employees.

Thank you for your continued support and loyalty. We are proud to be part of this journey with you.

THE WASHINGTON WATER POWER COMPANY

BALANCE SHEET

DECEMBER 31, 1974 AND 1973

ASSETS

	1974	1973
UTILITY PLANT:		
Electric	\$386,675,066	\$367,277,773
Gas	63,263,179	59,745,809
Other	12,972,916	12,315,674
Construction work in progress	8,529,513	6,994,255
Total	471,440,674	446,333,511
Accumulated depreciation and amortization	87,975,479	80,324,545
Utility plant— net	<u>383,465,195</u>	<u>366,008,966</u>
INVESTMENTS:		
Subsidiary companies	15,696,230	14,801,436
Other	560,203	1,171,309
Total investments	<u>16,256,433</u>	<u>15,972,745</u>
CURRENT ASSETS:		
Cash in banks and working funds	475,789	521,899
Receivables:		
Customers— net	9,438,903	8,422,044
Other	2,338,850	1,790,627
Materials and supplies (average cost)	4,272,442	2,681,803
Other	379,574	246,112
Total current assets	<u>16,905,558</u>	<u>13,662,485</u>
DEFERRED DEBITS:		
Unamortized debt expense	1,659,135	1,764,289
Preliminary survey and investigation charges	940,606	873,015
Other	825,759	1,000,023
Total deferred debits	3,425,500	3,637,327
TOTAL	<u>\$420,052,686</u>	<u>\$399,281,523</u>

See Notes to Financial Statements.

LIABILITIES

	1974	1973
LONG-TERM DEBT (Note 2)	\$262,498,573	\$248,270,561
COMMON STOCK — No par; authorized, 10,000,000 shares; outstanding — 1974, 6,815,077 shares; 1973, 6,769,535 shares (Note 3)	111,701,939	110,794,876
RETAINED EARNINGS	21,199,164	16,984,113
ACCUMULATED AMOUNT INVESTED IN THE BUSINESS EQUIVALENT TO REDUCTIONS IN FEDERAL INCOME TAXES RESULTING FROM ACCELERATED AMORTIZA- TION (RECORDED AS RETAINED EARNINGS — RE- STRICTED FOR FUTURE FEDERAL INCOME TAXES IN ACCOUNTS MAINTAINED PURSUANT TO STATE REGU- LATORY REQUIREMENTS)	4,336,417	4,878,457
CURRENT LIABILITIES:		
Currently maturing long-term debt	668,000	586,000
Accounts payable	5,091,162	2,816,123
Payable to subsidiary companies	1,236,537	
Taxes accrued	6,556,943	6,207,249
Interest accrued	2,570,527	2,563,871
Other	1,321,822	1,310,078
Total current liabilities	17,444,991	13,483,321
DEFERRED CREDITS:		
Investment tax credits	1,162,778	1,191,558
Other	1,708,824	460,622
Total deferred credits	2,871,602	1,652,180
CONTRIBUTIONS IN AID OF CONSTRUCTION		3,218,015
TOTAL	\$420,052,686	\$399,281,523

See Notes to Financial Statements.

THE WASHINGTON WATER POWER COMPANY

STATEMENT OF INCOME AND RETAINED EARNINGS

For the Years Ended December 31, 1974 and 1973

	1974	1973
OPERATING REVENUES:		
Electric	\$74,532,739	\$65,166,750
Gas	33,596,386	26,424,089
Other	1,969,307	1,407,726
Total operating revenues	<u>110,098,432</u>	<u>92,998,565</u>
OPERATING REVENUE DEDUCTIONS:		
Operating expenses	58,426,481	45,898,028
Federal and state income taxes	5,866,070	4,730,767
Other taxes	9,001,135	9,350,218
Depreciation	8,362,829	7,779,240
Total operating revenue deductions	<u>81,656,515</u>	<u>67,758,253</u>
OPERATING INCOME	<u>28,441,917</u>	<u>25,240,312</u>
OTHER INCOME (DEDUCTIONS):		
Allowance for funds used during construction	700,796	466,518
Equity in earnings (losses) of subsidiary companies	(405,206)	575,720
Other — net	5,992	115,697
Total other income (deductions) — net	<u>301,582</u>	<u>1,157,935</u>
INTEREST CHARGES:		
Interest on long-term debt	14,812,061	13,124,931
Other	122,666	169,619
Total interest charges	<u>14,934,727</u>	<u>13,294,550</u>
INCOME BEFORE THE FOLLOWING ITEM	<u>13,808,772</u>	<u>13,103,697</u>
TRANSFER — From accumulated amount invested in the business equivalent to reductions in Federal income taxes resulting from accelerated amortization	542,040	542,040
NET INCOME AVAILABLE FOR DIVIDENDS AND OTHER CORPORATE PURPOSES	14,350,812	13,645,737
\$2.11 a share in 1974; \$2.04 in 1973 — based on average shares.		
DEDUCT — Cash dividends	(10,135,761)	(9,649,054)
\$1.49 a share in 1974; \$1.44 in 1973.		
RETAINED EARNINGS, JANUARY 1	16,984,113	12,987,430
RETAINED EARNINGS, DECEMBER 31	<u>\$21,199,164</u>	<u>\$16,984,113</u>

See Notes to Financial Statements.

THE WASHINGTON WATER POWER COMPANY

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1974 and 1973

	1974	1973
SOURCE OF FUNDS:		
From operations:		
Net income	\$14,350,812	\$13,645,737
Depreciation and amortization	8,796,996	8,046,518
Investment tax credit adjustments — net	(33,378)	121,202
Allowance for funds used during construction	(700,796)	(466,518)
Undistributed (earnings) losses of subsidiary companies	405,206	(575,720)
Non-cash income transfer	(542,040)	(542,040)
Total from operations	<u>22,276,800</u>	<u>20,229,179</u>
From other sources:		
Bank borrowings	33,000,000	18,000,000
Sale of bonds		20,000,000
Sale of common stock	247,303	5,411,351
Issuance of common stock in Columbia Gas Company merger	659,760	
Changes in other working capital components — net	636,596	(2,733,543)
Changes in other non-current balance sheet items — net	600,093	(573,422)
TOTAL FUNDS PROVIDED	<u>\$57,420,552</u>	<u>\$60,333,565</u>
APPLICATION OF FUNDS:		
Repayment of bank borrowings	\$18,000,000	\$21,000,000
Construction expenditures	26,473,388	24,466,259
Cash dividends	10,135,761	9,649,054
Investments in subsidiary companies	1,300,000	4,611,252
Acquisition of Columbia Gas Company (primarily net utility plant)	855,403	
Redemption of debentures	656,000	607,000
TOTAL FUNDS APPLIED	<u>\$57,420,552</u>	<u>\$60,333,565</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1974 AND 1973

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SYSTEM OF ACCOUNTS—

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Power Commission (FPC) and adopted by the appropriate State regulatory commissions.

UTILITY PLANT—

The cost of additions to utility plant, including an allowance for funds used during construction, and replacements of units of property and betterments, is capitalized. Maintenance and repairs of property and replacements determined to be less than units of property are charged to operating expenses. Costs of depreciable units of property retired plus costs of removal less salvage are charged to accumulated depreciation.

DEPRECIATION—

Depreciation provisions are computed by a method of depreciation accounting utilizing unit rates for electric hydro production plants and composite rates for other properties. Such rates are designed to provide for retirements of properties at the expiration of their service lives. The rates include annuity and interest components, in which the interest component for electric hydro production plant is six per cent and for other property is zero per cent. Depreciation of transportation equipment is provided on the basis of miles or hours of operation. The ratio of depreciation provisions to average depreciable property was 1.94% in 1974 and 1.89% in 1973.

SUBSIDIARIES—

The Company accounts for its investments in subsidiary companies on the equity method, whereby earnings or losses of subsidiaries are reflected in other income and added to or deducted from the cost of investments in the balance sheet.

RETIREMENT PLAN—

The Company has a Trusteed Retirement Plan covering its regular full-time employees. Pension costs are computed on the basis of accepted actuarial methods and include current service costs and amortization of prior service costs over 15 years. The costs of the plan (\$960,000 in 1974 and \$856,000 in 1973) are borne by the Company. The Company's policy is to fund pension cost accrued.

INCOME TAXES—

Provisions for income taxes are based generally on income and expense as reported for financial statement purposes, adjusted principally for the allowance for funds used during construction, certain expenses capitalized, and the excess of tax depreciation (computed primarily on accelerated methods) over book depreciation. In accordance with requirements of regulatory authorities having jurisdiction over rates, the Company's tax provisions reflect the current tax reductions arising from such timing differences.

Investment tax credits are accounted for on the "flow-through" method whereby credits on new production facilities are amortized over a five-year period and credits on other plant placed in service are credited to Federal income tax expense currently. Such treatment is in accordance with directives of regulatory authorities and resulted in a reduction of Federal income tax expense of \$850,000 in 1974 and \$882,000 in 1973.

The Company and its subsidiaries file consolidated Federal income tax returns. Subsidiaries are charged or credited with the tax effects of their operations and investment credits.

During a 60-month period ended February 1958, provisions for Federal income taxes gave effect to accelerated amortization, for tax purposes only, of 65% of the depreciable cost of the Cabinet Gorge Hydroelectric Project. Accounting for the resultant reductions in Federal income taxes was as prescribed by an order of the Washington Utilities and Transportation Commission. The order provided that during the 60-month period the reduction in taxes was to be segregated from net income and accumulated in an account entitled Retained Earnings-Restricted, and that the amount so accumulated be transferred (\$542,040 annually) to retained earnings over the following 25-year period, during which period and continuing throughout the life of the property, Federal income taxes are expected to be greater than they would have been if accelerated amortization had not been claimed.

1974 RECLASSIFICATIONS

In 1974, pursuant to FPC instructions, amounts received from customers for electric construction, formerly classified as Contributions in Aid of Construction, have been applied as a reduction of related plant accounts. Also, unamortized debt premium has been classified with related long-term debt.

2. LONG-TERM DEBT

	December 31	
	1974	1973
First mortgage bonds:		
3 1/2% Series due 1980	\$ 20,325,000	\$ 20,325,000
4 1/2% Series due 1982	20,000,000	20,000,000
4 1/2% Series due 1988	26,500,000	26,500,000
4 1/2% Series due 1983	15,000,000	15,000,000
4 1/2% Series due 1989	15,000,000	15,000,000
4 1/2% Series due 1994	30,000,000	30,000,000
4 1/2% Series due 1995	10,000,000	10,000,000
6% Series due 1996	20,000,000	20,000,000
6 1/2% Series due 2000	20,000,000	20,000,000
7 1/2% Series due 2003	20,000,000	20,000,000
Total	200,470,000	200,370,000
Sinking fund defeasures:		
4 1/2% due 1976	7,750,000	8,092,000
4 1/2% due 1983	7,750,000	7,000,000
4 1/2% due 1990	5,100,000	5,250,000
6 1/2% due 1991	15,000,000	15,000,000
Total	34,600,000	35,342,000
Unamortized debt premium	574,573	568,561
Notes payable—banks:		
Due November 1, 1974		12,000,000
*Due December 1, 1975	27,000,000	
Total long-term debt	\$262,448,573	\$248,270,561

* Notes payable—banks represent borrowings under a \$35,000,000 line of credit with interest at the prime commercial loan rate. \$18,000,000 of the borrowings thereunder was used to prepay the notes which were due November 1, 1974. In December 1974 the Company filed a registration statement with the Securities and Exchange Commission relating to a proposed sale of 300,000 shares of previously unissued common stock and \$5,000,000 principal amount of First Mortgage bonds due 2005. The Company expects these securities to be sold in February 1975 with the proceeds to be used to prepay notes payable banks and to carry forward the Company's construction program.

3. COMMON STOCK

In 1973 the Company sold 250,000 shares of its no-par common stock for \$5,112,500. In 1974, 32,538 shares were issued to acquire Columbia Gas Company which was merged into the Company.

Under the Company's Employees' Stock Purchase Plan, 12,554 shares were issued during 1974 and 14,725 in 1973 at \$19.95 a share. At December 31, 1974, 3,157 shares are yet to be issued at \$19.95 a share. On May 10, 1974 the Company's shareholders approved an amendment to the Plan providing that a maximum number of 150,000 shares may subsequently be issued.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

HASKINS & SELLS
Certified Public Accountants

2100 Seattle-First National Bank Building
Seattle, Washington 98154

The Washington Water Power Company:

We have examined the balance sheet of The Washington Water Power Company as of December 31, 1974 and 1973 and the related statements of income and retained earnings and changes in financial position for the years then ended. Our examination was 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.

In our opinion, the accompanying financial statements present fairly the financial position of the Company at December 31, 1974 and 1973 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

January 24, 1975

Frank Sells

A TEN YEAR SUMMARY (Thousands of \$)

	1974	1973	1972	1971	1970
OPERATING REVENUES:					
Electric	\$ 74,533	\$ 65,167	\$ 55,618	\$ 52,578	\$ 50,665
Gas	33,556	26,424	25,828	23,033	20,161
Other	1,969	1,402	1,428	1,376	1,357
Total operating revenues	<u>110,058</u>	<u>92,999</u>	<u>82,854</u>	<u>76,987</u>	<u>72,183</u>
OPERATING REVENUE DEDUCTIONS:					
Operating expenses	58,426	45,899	40,075	34,896	32,313
Federal and state income taxes	5,866	4,731	5,115	5,638	6,053
Other taxes	9,001	9,350	8,385	7,917	7,411
Depreciation	8,363	7,779	6,445	6,320	5,558
Total operating revenue deductions	<u>81,656</u>	<u>67,759</u>	<u>60,020</u>	<u>54,771</u>	<u>51,345</u>
OPERATING INCOME	<u>28,442</u>	<u>25,240</u>	<u>22,834</u>	<u>22,216</u>	<u>20,743</u>
OTHER INCOME (DEDUCTIONS):					
Allowance for funds used during construction	701	466	2,049	1,471	921
Equity in earnings of subsidiary companies	(405)	576			393
Other	6	116	(504)	(290)	
Total other income (deductions)—net	<u>302</u>	<u>1,158</u>	<u>1,545</u>	<u>1,181</u>	<u>1,314</u>
TOTAL INTEREST CHARGES	<u>14,935</u>	<u>13,294</u>	<u>12,155</u>	<u>11,867</u>	<u>11,394</u>
INCOME BEFORE THE FOLLOWING ITEM	<u>13,809</u>	<u>13,104</u>	<u>12,223</u>	<u>11,530</u>	<u>10,663</u>
TRANSFER — From accumulated amount invested in the business equivalent to reductions in Federal income taxes resulting from accelerated amortization					
	<u>542</u>	<u>542</u>	<u>542</u>	<u>542</u>	<u>542</u>
NET INCOME AVAILABLE FOR DIVIDENDS AND OTHER CORPORATE PURPOSES	<u>\$ 14,351</u>	<u>\$ 13,646</u>	<u>\$ 12,765</u>	<u>\$ 12,072</u>	<u>\$ 11,210</u>
Earnings per Share (Average Shares)	\$ 2.11	\$ 2.04	\$ 1.96	\$ 1.88	\$ 1.80
Earnings per Share (Outstanding Shares)	\$ 2.11	\$ 2.02	\$ 1.96	\$ 1.86	\$ 1.80
Dividends per Share	\$ 1.49	\$ 1.44	\$ 1.39	\$ 1.36	\$ 1.32
Gross Utility Plant:					
Electric	\$394,748	\$373,846	\$354,525	\$341,739	\$321,923
Gas	63,514	60,157	57,963	54,403	54,114
Other	13,149	12,331	11,379	10,822	10,431
Total	<u>\$471,441</u>	<u>\$446,334</u>	<u>\$423,857</u>	<u>\$406,964</u>	<u>\$386,468</u>
Average Electric Customers	188,178	183,571	178,037	172,294	167,344
Kwh Sales (in millions):					
General Business	4,873	4,747	4,604	4,344	4,075
Other Sales*	3,050	2,056	1,798	1,451	1,513
Total	<u>7,923</u>	<u>6,803</u>	<u>6,402</u>	<u>5,795</u>	<u>5,588</u>
Electric Residential Service Averages:					
Number of Customers	166,558	162,328	157,205	151,640	146,616
Annual Use Per Customer (Kwh)	12,857	12,667	12,498	11,960	11,361
Revenue Per Kwh (in cents)	1.21	1.19	1.19	1.21	1.25
Gas Residential Service Averages:					
Number of Customers	61,858	58,968	55,540	51,670	47,550
Revenue Per Therm (in cents)	15.78	13.50	13.12	12.53	12.30
Total Payroll (Thousands of \$)	\$ 15,144	\$ 14,092	\$ 13,429	\$ 12,654	\$ 11,641
Employees at December 31	1,108	1,103	1,100	1,111	1,093

*Includes surplus energy sales to other utilities.

1969	1968	1967	1966	1965
24,419	\$ 47,037	\$ 46,468	\$ 42,234	\$ 39,738
18,019	17,215	14,027	11,896	11,193
1,204	1,109	1,030	1,057	1,036
68,992	65,361	61,525	55,187	51,967
31,474	28,906	27,917	23,876	22,842
6,544	6,252	4,461	3,670	2,872
7,091	6,794	6,539	6,175	5,848
5,199	5,075	4,853	4,547	4,290
43,128	47,027	43,770	38,268	35,852
19,684	18,334	17,755	16,919	16,115
403	463	40	96	99
245	(361)	(372)	(433)	(848)
158	102	(332)	(337)	(749)
9,533	9,200	8,824	8,534	7,839
12,009	9,236	8,599	8,048	7,477
542	542	542	542	542
\$ 10,551	\$ 9,778	\$ 9,141	\$ 8,590	\$ 8,019
\$ 176	\$ 168	\$ 158	\$ 148	\$ 139
\$ 170	\$ 168	\$ 158	\$ 148	\$ 139
\$ 128	\$ 121	\$ 118	\$ 112	\$ 108
\$ 3,339	\$291,778	\$284,456	\$279,504	\$275,469
57,438	47,017	42,603	38,545	33,224
10,007	9,534	9,070	8,781	8,257
\$ 13,784	\$348,329	\$336,129	\$326,830	\$316,950
153,324	160,311	156,594	154,253	152,056
3,552	3,681	3,400	3,323	3,150
1,455	1,732	2,802	1,120	1,035
5,435	5,413	6,202	4,443	4,185
11,536	139,881	136,337	134,029	132,071
11,129	10,413	9,952	9,861	9,735
129	133	136	136	136
43,115	38,766	34,900	31,734	28,656
1,119	12,28	12,35	12,45	12,38
1,115	\$ 10,106	\$ 9,382	\$ 8,962	\$ 8,712
1,115	1,079	1,071	1,076	1,083

MANAGEMENT'S DISCUSSION OF THE STATEMENT OF INCOME

The improvement in revenues for the periods ending subsequent to December 31, 1972 is attributable to increased electric sales for resale, increased natural gas rates to offset the increased cost of purchased natural gas, and system growth.

Inflationary factors and increase in purchased natural gas cost resulted in increased operating expenses for the twelve months ended December 31, 1974. Increased operating expenses in 1973 resulted primarily from placing the Centralia Steam Electric Plant in service.

Credits to income for allowance for funds used during construction are primarily the result of construction related to the Company's one-third ownership in an underground gas storage project at Chehalis which was placed in service in 1970, and the Company's 15% ownership in the Centralia Steam Electric Generating Plant which was placed in service December 31, 1972.

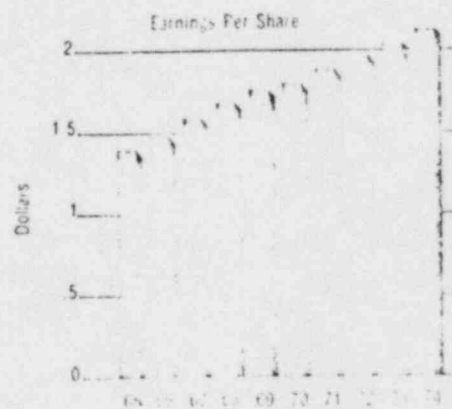
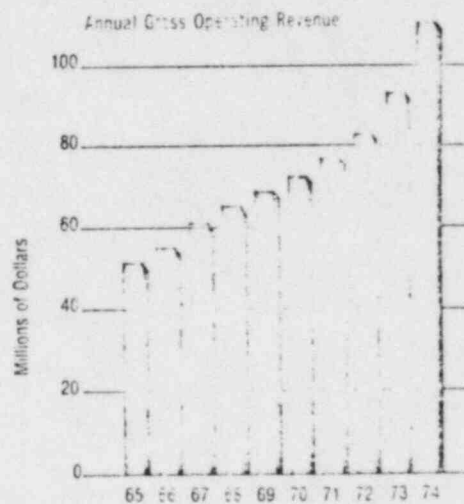
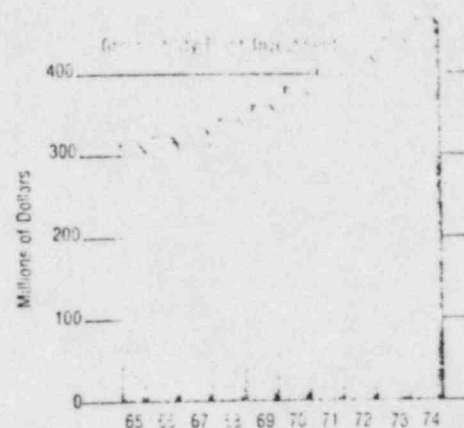
Interest charges in 1974 increased due to increased interest rates on and higher levels of bank borrowings.

Dividends and Price Range of Common Stock

The Company has paid dividends, without interruption, on outstanding shares of its Common Stock since 1899 and has increased the total dividend for each of the past twelve years. On December 13, 1974, the dividend was raised to its present rate of 38 cents per share (equivalent to an annualized rate of \$1.52). Dividends paid and the high and low prices of the Company's Common Stock on the New York Stock Exchange for the periods indicated were as follows:

	Dividends Per Share	Price Range	
		High	Low
1973 1st Quarter	0.36	22 ³ / ₄	20 ¹ / ₂
2nd Quarter	0.36	21 ¹ / ₂	20 ¹ / ₂
3rd Quarter	0.36	21 ³ / ₈	18 ⁵ / ₈
4th Quarter	0.36	20 ¹ / ₂	17 ³ / ₄
1974 1st Quarter	0.37	21	19
2nd Quarter	0.37	20 ⁵ / ₈	17 ¹ / ₂
3rd Quarter	0.37	18	15 ³ / ₄
4th Quarter	0.38	17 ⁵ / ₈	15 ³ / ₄

The Common Stock of the Company is listed on the New York, Pacific, and Spokane stock exchanges.



ATTACHMENT 9(c)-1

PROSPECTUS-MOST RECENT SECURITY ISSUE-
INVESTOR-OWNED COMPANIES

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No dealer, salesman or other person is authorized to give any information or to make any representations not contained in this Prospectus in connection with the offer made by this Prospectus, and any information or representations not contained herein must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus is not an offer to sell, or a solicitation of an offer to buy, by any Underwriters in any jurisdiction in which it is unlawful for such Underwriters to make such an offer or solicitation.

\$30,000,000

The Montana Power Company

First Mortgage Bonds,
8 $\frac{3}{4}$ % Series due 1981

PROSPECTUS

Kidder, Peabody & Co.
Incorporated

Smith, Barney & Co.
Incorporated

Halsey, Stuart & Co. Inc.
Affiliate of Bache & Co. Incorporated

PROSPECTUS

\$30,000,000

The Montana Power Company

First Mortgage Bonds, 8 $\frac{3}{4}$ % Series due 1981

Interest payable June 1 and December 1

Redeemable on 30 days' notice, at the option of the Company at prices set forth herein, provided that, prior to December 1, 1979, no such redemption may be made at the general redemption prices through refunding by the application of monies borrowed at an interest cost to the Company of less than 8.90% per annum.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to Company(1)(3)
Per Unit	100%	.775%	99.225%
Total	\$30,000,000	\$232,500	\$29,767,500

- (1) Plus accrued interest from December 1, 1974 to date of delivery.
- (2) The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.
- (3) Before deducting expenses estimated at \$95,000.

The Bonds are offered by the several Underwriters named herein, subject to prior sale, when, as and if issued and accepted by them and subject to the approval of counsel. It is expected that the Bonds will be ready for delivery in New York City on or about December 5, 1974.

Kidder, Peabody & Co.
Incorporated

Smith, Barney & Co.
Incorporated

Halsey, Stuart & Co. Inc.
Affiliate of Bache & Co. Incorporated

The date of this Prospectus is November 26, 1974.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS HEREBY OFFERED AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

The Montana Power Company ("Company") is subject to the information requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Certain information, as of particular dates, concerning the directors and officers of the Company, their remuneration, options granted to them and any material interests of such persons in transactions with the Company is disclosed in proxy statements distributed to shareholders and filed with the Commission. Such reports, proxy statements and other information can be inspected at the public reference room of the Commission at 1100 L Street, N.W., Washington D. C.; and copies of such material can be obtained from the Commission at prescribed rates. Such material can also be inspected at the New York and Pacific Stock Exchanges.

OFFERINGS

The Company proposes to sell to the public through underwriters \$30,000,000 principal amount of its First Mortgage Bonds, Series due 1981 ("New Bonds") and, on or about the same date, 1,200,000 shares of Common Stock, without par value ("Additional Shares"). Neither the sale of the New Bonds nor the sale of the Additional Shares is dependent upon the sale of the other. Each issue is offered by a separate prospectus.

THE COMPANY

The Company, a Montana corporation, is a public utility engaged principally in the generation, purchase, transmission and distribution of electricity and the production, purchase, transmission and distribution of natural gas in Montana. Its executive office is located at 40 East Broadway, Butte, Montana 59701. Its telephone number is (406) 723-5421.

The Company has four wholly-owned active subsidiaries: Canadian-Montana Gas Company Limited, which explores for, produces, purchases and gathers natural gas in Alberta, Canada; Canadian-Montana Pipe Line Company, which transmits natural gas in Alberta to the Company's facilities at the International Boundary; Altana Exploration Company, which explores for and produces oil and natural gas in Canada; and Western Energy Company ("Western Energy"), which mines and sells coal.

PROSPECTUS HIGHLIGHTS

The following material is qualified in its entirety by the detailed information and the financial statements and notes appearing elsewhere in this Prospectus.

The Offering (See Cover and Pages 2, 5, 20-23 and 41)

Company	The Montana Power Company
Bonds to Be Offered	\$30,000,000 First Mortgage Bonds
Sinking Fund	None
Maturity Date	December 1, 1981
Interest Payment Dates	June 1 and December 1
Offering Date	November 26, 1974
Additional Securities to Be Offered	1,200,000 additional shares of Common Stock
Use of Proceeds	To repay bank loans and to finance construction

The Company (See Pages 2 and 10-19)

Business	Electric and gas utility
Service Area	Western two-thirds of Montana (96,000 square miles)
Estimated 1974 Population of Service Area	587,000
Operating Revenue Sources (12 months ended September 30, 1974)	63.4% electric, 36.0% gas, 0.6% water
Sources of Electric Generation (12 months ended September 30, 1974)	79.1% hydro, 18.7% coal, 1.5% gas, 0.7% oil
Rate Matters	See "Business—Regulation"

Financial Information (Based on Accounts Prescribed by the Public Service Commission of Montana) (See Pages 6-9 and 25-40)

Selected Income Statement Data:

	12 Months Ended	
	September 30, 1974	December 31, 1973
Operating Revenues	\$114,785,000	\$108,048,000
Net Income	\$ 22,786,000	\$ 22,819,000
Ratio of Earnings to Fixed Charges		
Actual	3.29	4.59
Pro Forma*	2.62	—

Capitalization:

	At September 30, 1974			
	Actual	Ratio ^a	As Adjusted ^b	Ratio
Long-term Debt	\$184,017,000	49.4%	\$214,017,000	49.9%
Preferred Stock	\$ 21,617,000	5.8%	\$ 21,617,000	5.0%
Common Equity	\$166,999,000	44.8%	\$193,129,000	45.1%
Total Capitalization	\$372,633,000	100.0%	\$428,763,000	100.0%
Notes Payable to Banks	\$ 58,500,000		\$ 23,000,000	

* Adjusted to reflect the proposed sales of the New Bonds and Additional Shares

GENERAL PROBLEMS OF THE UTILITY INDUSTRY

The utility industry, in general, is currently experiencing problems including those of fossil fuel shortages, obtaining adequate rate increases, obtaining sufficient capital on reasonable terms, compliance with environmental regulations, project licensing and construction delays, the effects of energy conservation and adequate gas supply.

These problems are being experienced in varying magnitude among different companies and areas. The Company considers that its experience with these problems is relatively favorable but is unable to predict their future impact on it. The following statements are intended only as a brief outline, subject to more complete information set forth elsewhere in this Prospectus.

Fossil Fuel: The Company's wholly-owned subsidiary, Western Energy Company, has coal mining leases covering approximately 610 million recoverable tons, and pending Federal mining lease applications covering an additional 180 million recoverable tons, of low-sulfur (averaging 0.7% by weight) coal reserves at Colstrip, Montana, where mining operations are being conducted. The reserves under lease at Colstrip plus additional undeveloped reserves in eastern Montana are adequate to provide fuel for all of the Company's present and projected thermal electric generating plants. However, pending legislation to regulate surface mining, if enacted, could adversely affect the Company's ability to mine these reserves and the cost of so doing. (See "Business—Electric Property," "Business—Future Generation" and "Business—Coal Properties.")

Rate Regulation: On August 30, 1974, the Public Service Commission of Montana authorized a continuing rate adjustment procedure for the Company to flow through its increased purchased gas costs and royalty expenses projected by the Company to be at least \$12,000,000 annually as of July 1, 1974. This order has been challenged by two actions filed in a State District Court. The Company cannot predict the outcome of this litigation, but if the Commission's order were not sustained, it would materially affect the Company's revenues and earnings. The border price of gas from Canada, which constitutes more than 80% of the Company's supply, will be increased from approximately 64¢ to \$1 per Mcf, effective January 1, 1975. Unless the Commission's order should be invalidated, the Company expects to flow through this increased gas expense to its customers by Commission approval of increased rate schedules pursuant to procedures established by this order. Failure to recover this gas expense, estimated at \$15,000,000 on an annual basis, would have a material adverse effect on the Company's earnings. (See "Business—Regulation.")

Obtaining Sufficient Capital: While the Company, like other utilities, has been faced with high interest rates and pressure on stock prices, it has been able to obtain sufficient funds to finance its construction program as scheduled. The Company estimates that it will require approximately \$438,000,000 from internal and external sources during 1975 through 1979 to finance its construction program and refund maturing securities. In addition, Western Energy will require approximately \$24,600,000 from internal and external sources during this period to finance its construction program. The Company's ability to sell additional securities on favorable terms will depend on general market conditions and its ability to obtain rate increases sufficient to generate earnings necessary to attract capital. (See "Use of Proceeds and Construction Program" and "Business—Regulation.")

Environmental Compliance: The Company does not believe that material expenditures will be required for additional pollution control equipment at existing facilities, but is incurring substantial capital costs to meet environmental regulations applicable to the Colstrip generating units, and may incur additional costs and expenses not presently foreseeable. (See "Use of Proceeds and Construction Program" and "Business—Environment.")

Licensing and Construction Delays: The Company has not experienced any substantial delays in the construction of the Colstrip Nos. 1 and 2 generating units, but depending upon the outcome of pending litigation, could experience delay in the construction of Colstrip Nos. 3 and 4 generating units. (See "Business—Environment.")

Energy Conservation: The Company believes that the energy conservation movement has had some retarding effect on the use of electricity and natural gas, but cannot accurately estimate its magnitude. (See "Electric Operating Statistics" and "Gas Operating Statistics.")

Gas Supply: The Company currently has an adequate supply of natural gas to meet the requirements of its present customers, and new residential and commercial customers are being accepted. Inasmuch as more than 80% of its gas supply is imported from Canada, the Company's future supply will be influenced materially by Canadian governmental determinations as to the requirements of that Country and the amounts of gas available for export. (See "Business—Natural Gas.")

USE OF PROCEEDS AND CONSTRUCTION PROGRAM

The net proceeds, estimated at \$55,720,000, to be received by the Company from the proposed sales of the New Bonds and the Additional Shares, together with internally-generated funds, will be used to finance construction and repay short-term borrowings incurred for that purpose. The amount of the Company's short-term borrowings estimated to be outstanding at the time of the sales is \$50,000,000, exclusive of Western Energy which is financed separately.

Estimated construction expenditures of the Company and its subsidiaries, exclusive of Western Energy, for 1974 total \$74,400,000, of which \$47,000,000 had been expended through September 30. The total 1974 estimate includes \$61,000,000 for electric facilities (including \$5,900,000 for environmental protection), \$3,900,000 for natural gas facilities, \$300,000 for water facilities, \$2,900,000 for common utility facilities and \$6,300,000 for oil and gas exploration and development. The Company estimates that construction expenditures of the Company and its subsidiaries, exclusive of Western Energy, will be \$94,000,000 in 1975 and will total approximately \$390,000,000 for the five-year period, 1975-1979, including \$63,000,000 for environmental protection. For further information with respect to electric generating units, see "Business—Future Generation".

In addition, the Company must refinance approximately \$39,000,000 of 2 3/8 % First Mortgage Bonds in 1975 and \$9,000,000 of 3 1/4 % Sinking Fund Debentures in 1979.

The Company intends to finance environmental protection facilities for the first two units of a new generating station being constructed at Colstrip, Montana from the proceeds of the 1973 sale of \$20,000,000 (\$16,741,000 available at September 30, 1974) and the anticipated sale of up to \$10,000,000 of pollution control bonds by Rosebud County in 1975. The balance required to finance the five-year construction program and to refinance the maturing bonds will be provided by internally-generated funds, short-term borrowings and the sales of such securities as may be appropriate from time to time.

Western Energy's construction expenditures are estimated at \$22,500,000 in 1974 (\$11,700,000 expended at September 30, 1974), \$21,500,000 in 1975 and \$24,600,000 for the five-year period, 1975-1979. Western Energy's requirements will be provided by internally-generated funds and such other methods, including borrowings guaranteed by the Company, as may be appropriate from time to time.

These expenditures are subject to continuing review and may increase or decrease with fluctuations in costs and revisions of the estimated need for additional facilities and resources.

During the five years ended 1973, gross property additions of the Company and its subsidiaries amounted to \$144,966,000, and gross property retirements and adjustments in the same period were \$13,969,000.

CAPITALIZATION

The consolidated capitalization and notes payable to banks of the Company as of September 30, 1974, based on accounts prescribed by the Public Service Commission of Montana (Note 1) and as adjusted to reflect the estimated proceeds from the proposed sales of the New Bonds and the Additional Shares, is as follows:

	September 30, 1974 Outstanding		As Adjusted	
	Amount (000)	Ratio	Amount (000)	Ratio
Long-Term Debt (Note 3).....	\$184,017	49.4%	\$214,017	49.9%
Preferred Stock (less \$366,000 expense) (Note 2).....	21,617	5.8%	21,617	5.0%
Common Equity:				
Common Stock (less \$113,000 expense) (Note 2).....	113,930		140,060	
Capital Surplus	16,205		16,205	
Treasury Stock—Common	(271)		(271)	
Retained Earnings	37,135		37,135	
Total Common Equity	166,999	44.8%	193,129	45.1%
Total Capitalization	\$372,633	100.0%	\$428,763	100.0%
Notes Payable to Banks:				
Company	\$ 35,500(a)		—	
Western Energy	23,000		\$ 23,000	
	\$ 58,500		\$ 23,000	

(a) See "Use of Proceeds" with respect to repayment of notes payable to banks, which are expected to aggregate \$50,000,000 on November 26, 1974.

() Denotes red figure.

Numbered notes above refer to Notes to Consolidated Financial Statements.

The consolidated capitalization ratios as of September 30, 1974, based on accounts prescribed by the Federal Power Commission and including the estimated proceeds from the proposed sales of the New Bonds and Additional Shares, were approximately 52.6% long-term debt, 5.3% preferred stock and 42.2% common equity.