

UNITED STATES OF AMERICA  
NUCLEAR REGULATORY COMMISSION

In the Matter of )  
 )  
WASHINGTON PUBLIC POWER ) Docket No. 50-513  
SUPPLY SYSTEM )  
 )  
(Nuclear Project No. 4) )

TESTIMONY OF JAMES T. BOBO REGARDING  
APPLICANT'S FINANCIAL QUALIFICATIONS

I. Background

The evidentiary hearings on radiological health and safety issues were conducted on November 11-13, 1975, at which time the Applicant requested that consideration of its financial qualifications to construct WPPSS Nuclear Project No. 4 ("WNP-4") be deferred. Although findings of fact and conclusions of law made by the Atomic Safety and Licensing Board ("Board") in its Initial Decision (NRCI-75/12 922 (December 22, 1975)), related to both WPPSS and Nuclear Project No. 1 ("WNP-1") and WNP-4, the findings and conclusions relating to financial qualifications related only to WNP-1. See n. 28, NRCI-75/12 at p. 943. The Board noted in its Initial Decision (NRCI-75/12 at p. 928) that it would receive additional evidence from the parties with a view toward supplementing its Initial Decision at a suitable time with appropriate findings relating to the Applicant's financial qualifications to construct WNP-4.

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II. Applicant's Financial Qualifications

My name is James T. Bobo. My business address is Washington Public Power Supply System, 3000 George Washington Way, Richland, Washington. I am the Manager of Finance of the Washington Public Power Supply System ("WPPSS" or "Supply System"). The purpose of my testimony is to summarize and update the information in our license application regarding the Supply System's financial qualifications in terms of NRC regulations (10 CFR §50.33(f)), i.e., that WPPSS possesses, or has reasonable assurance of obtaining, the funds necessary to cover estimated construction costs and related fuel cycle costs for WNP-4.

Washington Public Power Supply System is a municipal corporation and joint operating agency of the State of Washington, organized in January, 1957 pursuant to the laws of Washington. The Supply System is composed of 18 public utility districts and three cities, each of which operates an electrical distribution system with the State of Washington. The Supply System is empowered to acquire, construct and operate facilities for the generation and transmission of electric power and energy, but does not engage in the distribution of electric energy at retail.

The Supply System's sources of construction funds for WNP-4 are typical for those for a public agency, i.e., advances or guarantees from purchasers or prospective purchasers of the output of the project as an interim measure to cover initial expenditures (often followed by the issuance of short-term debt securities), and, for permanent financing, issuance of long-term debt securities. Of course, there is no equity (that is, no invested capital) involved in public agency financing. Since WPPSS itself does not have revenues from a variety of wholesale and retail sales, but only from sales of generation, and since revenues do not exceed costs but rather are limited to reimbursement of costs, there are no internally generated funds in the sense of retained earnings which might be looked to as sources of construction funds. Thus, in the absence of equity or internally generated funds, debt securities are the fundamental source of construction financing.

WPPSS debt securities are of the revenue bond or revenue note type. Revenue bonds or notes are the normal form of debt security for public agency financing of activities such as electric generation construction programs. In any event, WPPSS is authorized by RCW 43.52.3411 only to "issue revenue bonds or warrants payable from the revenues of the utility properties operated by it." The bonds or

notes of the Supply System are negotiable instruments and legal securities for deposits of public monies, and are legal investments for trustees and other fiduciaries, and for savings and loan associations, banks and insurance companies.

WNP-4 and the WPPSS share (90%) of WNP-5 will be financed in the same manner as WPPSS Nuclear Project No. 1, No. 2 and No. 3 ("WNP-1", "WNP-2" and "WNP-3", respectively), i.e., through the issuance of revenue bonds. All projects heretofore undertaken by the Supply System, except WNP-4 and WNP-5, have been financed as separate systems. WNP-4 and the Supply System's ownership interests in WNP-5 will be financed as one system, and the project financing approach used for WNP-1, WNP-2 and WNP-3 will not be altered. Under that approach, the Supply System's Board of Directors adopts a resolution describing the proposed plan and system which sets forth the estimated cost just prior to the issuance of securities. Such a resolution has already been adopted for WNP-4 and WNP-5 for the plan and system and for the issuance of revenue bonds in the amount of \$100 million issued on July 15, 1975. The note and bond resolutions adopted by the Supply System's Board serve as the indentures to the buyers of the securities in which certain covenants are made to such buyers.

The securities for the WNP-4 and WNP-5 will be secured by contractual commitments between the Supply System and approximately 90 public and cooperative utilities (the "Participants") to purchase the entire electrical capability of WNP-4 and ninety percent (90%) of the capability of WNP-5. These contracts are called "Participants' Agreements." Under the Participants' Agreements, the Supply System receives a promise to pay a portion of the costs of acquiring, constructing and operating the facilities. The aggregate of these purchasers' obligations must equal the total costs of the facilities. Each Participant's portion of such costs includes the amount required each year to pay the interest and a portion of the principal on the bonds outstanding, plus the Participant's share of the annual operating costs. The Supply System covenants with the bond holders in the bond resolution to pay this principal and interest from the revenues derived from the operation of the facilities. The Supply System agrees to set aside, in sinking funds, amounts sufficient to pay each year's accrued interest and principal and to deposit all revenues of the Project (WNP-4 and WNP-5) into a Project Revenue Fund. The Supply System further promises not to agree to any modification of the contracts with Participants or others, or amendment of the bond resolution which would adversely affect the rights of the

has ninety Participants consist of 22 municipalities  
Districts and 44 electric cooperatives located  
in the area of the project.



bond holders. Under this arrangement the annual project budget, including retirement of debt and associated interest, is paid by the Participants.

The first level of security for repayment of bonds is the revenues to be derived from operation of the Project. The second level of security is that the Participants are obligated to make payments whether or not the Project is completed, operable or operating, and notwithstanding interruption or curtailment of output. The source of funds for the payment of Project costs is not dependent on actual project revenues, but is "insured" on a broad base through the obligation of the public and cooperative entities. Assurance that such obligations can be met is provided in that the Participants covenant to increase rates to the level necessary to meet their obligations to the Supply System. These rates are not subject to review or approval by any State Agency. In the case of default by a Participant, each other Participant in its class (i.e., cooperative or public agencies) promises to step-up their respective obligation by as much as 25 percent.

This method of financing large electric generating projects and electric systems has been successfully utilized in the Pacific Northwest for many years. It has proven to be a sound economic means of financing and is particularly

well adapted to the needs of the Supply System in undertaking the financing of large nuclear generating projects.

The Supply System has a record of successful financing of generating projects. In 1962, the Supply System began construction and is now operating the Packwood Lake Hydroelectric Project (27,000 kw). Construction costs of this Project were financed by the sale of revenue bonds in the amount of \$13,700,000. All costs, including debt service, have been paid on a current basis and, in addition, excess construction funds have been applied to retire \$519,000 par value of bonds ahead of schedule. The project output is sold to 12 public utility districts. Operating revenues for fiscal year 1975 totaled \$749,460.

The Supply System successfully financed and is now operating the Hanford Generating Project, which is supplied steam by ERDA's N-Reactor. Construction costs were financed by the sale of revenue bonds in 1963 in the total amount of \$122,000,000. All costs, including debt service, have been paid on a current basis and, in addition, excess construction funds have been applied to retire \$34,825,000 par value of bonds ahead of schedule. The Project output is sold to 76 power purchasers, including public utility districts, municipalities, rural electric cooperatives and investor-owned utilities in the Northwest region. Operating revenues for fiscal year 1975 totaled \$30,310,421.

The Supply System is constructing WNP-1, a 1250 MWe nuclear generating plant on ERDA's Hanford Reservation near Richland, Washington. This plant is a duplicate of WNP-4, but financed independently from WNP-4 under Net Billing Agreements. In September of 1975 the Supply System issued the first long-term revenue bonds to finance WNP-1. To date a total of \$355,000,000 in long-term debt has been issued. These securities have been rated Aaa by Moody's Investor Service, Inc. and AAA by Standard and Poor's Corporation. It is estimated that WNP-1 will cost \$1,153,000,000. Commercial operation is scheduled for early fall 1981.

The Supply System is also constructing WNP-2 (formerly Hanford No. 2), a 1100 MWe nuclear generating plant on the Hanford Reservation near WNP-1 and WNP-4. WNP-2 is being financed in the same manner as WNP-1 with the entire capability being sold to public and cooperative bodies under similar Net Billing Agreements. In July of 1973, the Supply System issued the first long-term revenue bonds to finance WNP-2. To date, a total of \$600,000,000 in long-term debt has been issued. These securities were rated Aaa by Moody's Investor Service, Inc. and AAA by Standard and Poor's Corporation. WNP-2 will cost an estimated \$794,000,000. Commercial operation is scheduled for late 1979.



The Supply System has also begun work on two nuclear electric generating plans known as the WNP-3 and WNP-5. These plants will be twin plants located near Aberdeen in Grays Harbor County, Washington. The Supply System has a 70% ownership in WNP-3. The additional 30% is owned by the following four investor-owned utilities:

	<u>Ownership Interest</u>
Pacific Power & Light Company	10%
Portland General Electric Company	10%
Puget Sound Power & Light Company	5%
The Washington Water Power Company	<u>5%</u>
Total Investor-Owned Ownership Interest	30%

The Supply System will own 90% and Pacific Power and Light Company will own 10% of WNP-5. Each plant will have an installed capacity of 1250 MWe and is scheduled for commercial operation in 1982 and 1984, respectively.

Estimated project cost for WNP-3 exclusive of the investor-owned companies financing expenses, is \$1,268,839,000.

Estimated cost of WNP-5 is \$1,271,000,000. The Supply System issued \$250 million of long-term revenue bonds for WNP-3. These long-term securities have been rated Aaa by Moody's Investor Service, Inc. and AAA by Standard and Poor's Corporation.

As noted previously, WNP-4 and the WPPSS share of WNP-5 will be financed in the same manner as WNP-1, WNP-2 and WNP-3, i.e., through the issuance of revenue bonds. All

projects heretofore undertaken by the Supply System, except WNP-4 and WNP-5, have been financed as separate systems. Although WNP-4 and the Supply System's ownership interests in WNP-5 will be financed as one system, the project financing approach used for WNP-1, WNP-2, and WNP-3 will not be altered.

Prior to the execution of necessary Participants' Agreements, initial financing of WNP-4 and WNP-5 was supported to a maximum level of \$100 million by Option Agreements. Based upon the Option Agreements, revenue bonds in the amount of \$100,000,000 were sold in July, 1975. The Option Agreements gave each signer (93 Option Participants, consisting of 25 municipalities, 24 districts and 44 electric cooperatives located principally in Washington, Oregon, Idaho and Montana) an option to obtain a share of the Project's output under the Participants' Agreements at least equal to his Final Option Share. Under the Option Agreements a utility had the same absolute obligations to repay the \$100 million authorized as he would in the Participants' Agreements. However, he was not obligated to execute a Participant's Agreement. The executed Participants' Agreements will replace the Option Agreements, and take over all financial

obligations. Participants' Agreements have been executed ~~by the Participants~~ for 100% of the output of WNP-4 and WNP-5.

An updated estimate of the total cost of WNP-4 (current as of May 31, 1976) is:

(a) Total nuclear production plant costs	\$ 991,463,000 <sup>1/</sup>
(b) Transmission and general plant costs	12,327,000
(c) Nuclear fuel inventory cost <sup>2/</sup> for first core	<u>91,210,000</u>
Total Estimated Cost	\$1,095,000,000

Siting, fuel cycle costs, payments to vendors and preliminary construction expenditures through May 31, 1976, for WNP-4 and WNP-5 are \$21,074,000 and \$7,896,000 respectively. Current estimates for WNP-4 and WNP-5 expenditures (including fuel and owners' cost) are as follows:

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<sup>1/</sup> Including net interest during construction, owner's costs, and allowances for escalation and contingencies.

<sup>2/</sup> Nuclear fuel will be purchased rather than leased.

<u>Year</u>	<u>WNP-4 Expenditures</u>	<u>WNP-5 Expenditures</u>
Thru 1976	\$ 72,997,000	\$ 15,624,000
1977	108,358,000	100,442,000
1978	229,672,000	160,091,000
1979	326,031,000	271,351,000
1980	198,567,000	293,651,000
1981	131,970,000	228,899,000
1982	27,405,000	164,426,000
1983		36,359,000
1984		157,000

After the necessary Participants' Agreements are executed, financing of WNP-4 and WNP-5 will be continued by the issuance of approximately \$2,718,000,000 of tax exempt revenue bonds in series from time to time during the period of construction. The Supply System plans to issue these bonds in the following approximate amounts and on the following schedules:

<u>Date of Issue</u>	<u>Amount</u>
1977	\$300,000,000
1978	300,000,000
1979	450,000,000
1980	600,000,000
1981	750,000,000
1982	318,000,000

Each series of bonds issued will be on a parity with other bonds issued. A schedule summarizing WPPSS construction projects financing activities through June 15, 1976 is attached hereto.



June 15, 1976

PROJECT	TYPE	RATING	SALE DATE	MATURITY	PAR	PROCEEDS RECEIVED	EFFECTIVE INT. RATE
W N P 1	Notes	MIG-1;AA	5/22/74	12/15/1976	\$ 77,000,000	\$ 76,722,800	6.050
W N P 1	Bonds	Aaa;AAA	9/18/75	7/01/2017	175,000,000	172,159,750	7.7269
W N P 1	Bonds	Aaa;AAA	2/04/76	7/01/2017	180,000,000	179,715,934	6.83734
W N P 2	Bonds	A-1;Aa*	6/26/73	7/01/2012	150,000,000	149,628,930	5.650
W N P 2	Bonds	A-1;AA*	7/23/74	7/01/2012	80,000,000	79,864,055	7.2085
W N P 2	Bonds	AA;AA *	11/26/74	7/01/2012	125,000,000	124,458,992	7.6667
W N P 2	Bonds	Aaa;AAA	3/06/75	7/01/2012	125,000,000	126,813,477	6.7097
W N P 2	Bonds	Aaa;AAA	6/03/76	7/01/2012	120,000,000	118,845,130	6.634
W N P 3	Bonds	Aaa;AAA	12/03/75	7/01/2018	150,000,000	147,876,742	7.867599
W N P 3	Bonds	Aaa;AAA	4/13/76	7/01/2018	100,000,000	99,444,851	6.481385
W N P 4/5	Bonds	A-1;A	7/24/75	6/01/1981	100,000,000	99,419,902	7.04099
Total Outstanding					\$1,382,000,000		

NOTES RETIRED

W N P 4/5	Notes		3/20/74	12/15/1975	2,500,000	2,500,000	4.700
W N P 4/5	Notes	MIG-1;A	8/01/74	6/15/1976	15,000,000	15,056,867	8.007
W N P 1	Notes		8/24/72	8/24/1973	1,500,000	1,492,879	2.925
W N P 1	Notes	A-1;AA	2/15/73	12/15/1975	25,000,000	24,984,325	4.270
W N P 2	Notes	A-1;AA	7/01/71	7/01/1974	15,000,000	14,775,100	3.550
W N P 2	Notes	A-1	12/15/72	12/15/1974	40,000,000	40,000,401	3.500
W N P 3	Notes		5/15/73	12/17/1973	2,000,000	2,004,026	4.050
W N P 3	Notes	MIG-1;AA	10/01/73	6/15/1976	29,000,000	29,004,640	4.368

\*The first series of bonds for WNP-2 were upgraded to AAA ratings by both services subsequent to their issuance.