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Docket Nos. 50-400
and 50-518

Voss A. Moore, Assistant Director for L&G, Group 2, RL
WASHINGTON PUBLIC POWER SUPPLY SYSTEM: NUCLEAR PROJECT NOS. 1 & 4

Enclosed is the testimony of Dick Cioni of my staff regarding
the financial qualifications of Washington Public Power Supply
System to design and construct the subject facility. The testimony
is intended for inclusion in the Supplement to the staff's Safety
Evaluation Report.

Donald J. Skovholt
Assistant Director for Quality
Assurance and Guarantees
Division of Reactor Licensing

Enclosure:
As stated

cc: A. Schwender
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| EXNAME | DCioni/mas | Aeltz | DSkovholt | | |
| DATE | 7/3/75 | 7/3/75 | 7/3/75 | | |

FINANCIAL QUALIFICATIONSI. Introduction

Washington Public Power Supply System (WPPSS), a municipal corporation and joint operating agency of the State of Washington, has applied for construction permits for the WPPSS Nuclear Projects Nos. 1 and 4 (hereafter referred to as WNP-1 and WNP-4, respectively).¹ Its membership is made up of 18 operating public utility districts and the cities of Richland, Seattle and Tacoma. It has the authority, to acquire, construct and operate plants and facilities for the generation and transmission of electric power and energy.

WPPSS does not engage in the distribution of power to retail customers. It does not have rates and is not under the jurisdiction of any regulatory agency having control over rates and service of the proposed activity but is reimbursed for the cost of each project, including debt service, by the participants therein. In accordance with the Ten Year Hydrothermal Program of the Pacific Northwest, 104 public and ~~consumer-~~
~~owned~~ utilities (the Participants) and five private utilities (the Companies) have agreed to purchase the entire output of the WNP-1 facility. The output of WNP-4 has been offered to the 104 statutory preference customers (public bodies and cooperatives which have preference and priority to power from the Federal Columbia River Power System pursuant

(1) The Nuclear Regulatory Commission's regulations relating to financial data and information required to establish financial qualifications for applicants for construction permits appear in Paragraph 50.33(f) of 10 CFR Part 50 and Appendix C to 10 CFR Part 50.

to the Bonneville Project Act, as amended) of the Bonneville Power Administration (BPA). As of May, 1975, sufficient Participants have signed or have indicated they ^{intend to subscribe} ~~are in the process of signing~~ to insure ~~subscription~~ ^{of} 100% of the project ^{capacity} ~~output~~. Each of the 104 customers 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 WNP-1 capability during the period 1980 to 1996 and 100% thereafter. The Companies (Portland General Electric Company, Pacific Power & Light Company, Montana Power Company, Puget Sound Power & Light Company, Washington Water Power Company) will purchase 32.47% of the WNP-1 capability during the period

The Participants will purchase 100% of WNP-4 facilities
 1980 to 1996. BPA and each of the Participants have or will enter into one or more contracts for the purchase or exchange of power, the operation and maintenance of facilities or the transmission of power, from WNP-1 and WNP-4 over the Federal Columbia River Power System. ~~with respect to~~
~~the Companies~~

Commercial operation is scheduled for September 1980 and March 1982 for WNP-1 and WNP-4, respectively. ~~from BPA~~ ~~will make available~~ ~~received~~
The Companies will ~~make available~~ ~~received~~
~~from BPA~~ ~~make available~~ ~~received~~

II. Construction Cost Estimate

The applicants most recent estimate of total cost of WNP-1 & WNP-4 can be summarized as follows:

$$\begin{array}{r} 1147 \\ 1009 \\ \hline 2147 \\ 1707.0 \\ \hline 307.7 \end{array}$$
 20%

$$\begin{array}{r} 147 \\ 990 \\ \hline 157 \end{array}$$

$$\begin{array}{r} 1707.0 \\ \hline 307.7 \\ \hline 1707.1 \\ \hline 1370.0 \\ \hline 340.0 \end{array}$$
 16

(dollars in millions)

| | <u>WNP-1</u> | <u>WNP-4</u> | <u>Total</u> |
|--|----------------|------------------|------------------|
| Nuclear production plant | \$932.5 | \$935.9 | \$1,868.4 |
| Transmission distribution and general plant | 13.5 | 10.0 | 23.5 |
| Nuclear fuel-first core | 44.0 | 63.1 | 107.1(A) |
| Total | <u>\$990.0</u> | <u>\$1,009.0</u> | <u>\$1,999.0</u> |

(A) Excludes interest expense *147*

The estimated cost of the nuclear production plant has been compared with costs estimated by the Energy Research and Development Administration's CONCEPT costing model. The CONCEPT costing model estimated the cost of the nuclear production plant to be \$1,707.0 million, compared with the applicant's estimate of \$1,868.4 million, or a difference of less than 10%. Accordingly, we find the applicant's estimate reasonable.

III. Source Of Funds

A. Financing of Project

The entire capability of the WNP-1 facility has been sold by WPPSS to the 104 Participants and 5 Companies, who in turn have agreed to assign its share of the facility's capability to BPA pursuant to Net Billing and Exchange Agreements. These Agreements provide that each Participant and Company is obligated to pay WPPSS its share of project annual costs, including debt service on WPPSS's bonds for WNP-1. The WNP-4 facility's output, as aforementioned,

will be sold to the Participants who will contract for the specific fractions of the plant's lifetime output.

With either WNP-1 or WNP-4, the form of the agreement is the same, a promise to pay a specific share of the Project costs, including debt service, whether or not the Project is completed and it is not dependent upon any Project output. Based upon these contractual commitments of each of the Participants and the Companies to pay their respective portions of the projects' annual cost, including debt service, WPPSS will issue tax-exempt revenue notes and bonds periodically, in amounts sufficient to pay the projects' costs. The governing body of WPPSS authorizes the issuance of revenue notes or bonds for each project based upon a system which commits the facilities and assets of that project to the securities issued to finance its cost.

B. Security For The Revenue Bonds

Principal and interest on the bonds are payable solely from the Bond Fund created by the financing resolution and the money pledged to such Fund are limited to the income, revenues, receipts and profit derived by WPPSS through the ownership and operation of the Project, including all payments to be made to it pursuant to the Net Billing and Exchange Agreements for WNP-1 and Participation Agreements for WNP-4. No Participant will be required to make payments to WPPSS 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 the required payments to WPPSS.

Subsequent to WPPSS's entering into the Net Billing, Exchange and Participation Agreements, the Federal Columbia River Transmission System Act was enacted and signed into law. The Act authorizes BPA to use its revenues without further appropriations of Congress to make expenditures from the Bonneville Power Administration Fund for any purpose necessary or appropriate to carry out the duties imposed upon it by law. BPA has stated to WPPSS and each Participant that it will pay in cash from the Fund any cost billed to the Participants not paid through net billing credits on a parity with other BPA operating expenses and prior to any payments by BPA to the Treasury for repayment of the Federal investment in the Federal Columbia River Power System. BPA 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.

Since the Participants and the Companies 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 solely dependent on actual project revenues, but is insured on a broad base through other revenue producing assets of the Participants and Companies. In the event of a

default of a Participant, other Participants agree to automatic step-ups in their billings (by as much as 25 percent) to satisfy the total Participants' obligations. In the case of default of a Company, the non-defaulting Companies are obligated to satisfy the total Companies' requirements.

C. Project Revenue Bonds Issued And Projected Outlook For Future Issues.

WPPSS owns and operates the Hanford Project, currently one of the two largest producers of electricity generated from nuclear energy in the United States. In 1962, it issued \$122 million of Hanford Project Electric Revenue Bonds, of which \$60 million were outstanding as of March 31, 1975. It also owns and operates the Packwood Lake Hydroelectric Project. In 1962 and 1965, it sold \$10.5 and \$3.2 million of Packwood Lake Hydroelectric Project Revenue Bonds, of which \$13.0 million were outstanding as of March 31, 1975.

WPPSS also has under construction WNP-2 and has issued an aggregate of \$480 million principal amount of revenue bonds in order to pay a portion of the cost of acquiring and constructing this project. It has already begun preliminary work on WNP-1 and in June, 1974 issued \$77 million principal amount of revenue notes in order to pay a portion of the cost of such preliminary work. WPPSS has also begun preliminary work on WNP-3, which will be 70% owned by it 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 million revenue note issue.

The bonds issued by WPPSS have all been offered under the laws of the State of Washington. Each issue has been rated by bond rating agencies. Hanford No. 1 bonds were rated "A-1" by Moody's. Packwood bonds were rated "A" by Moody's. In the issuance of Nuclear Project No. 2 Revenue Notes, Standard & Poor's rated the notes as "AA" and Moody's rates these notes as "A". The Nuclear Project No. 1 Revenue Notes were rated "A-1" by Moody's and "AA" by Standard & Poor. The rating on the series 1973 Nuclear Project No. 2 bond issue was "AA" by Moody's and "A-1" by Standard & Poor. In March, 1975 Moody's revised upward the rating of WPPSS's bonds for WNP-2 from "AA" to "AAA" (bonds rated "AAA" are judged to be of the best quality and carry the smallest degree of investment risk.) Moody's stated that the availability of BPA revenues to this project, the importance of this Project for meeting area power and energy needs, as set forth in the Hydrothermal Power Programs and the net billing agreements combined to support the upward revision in the rating. WPPSS has been advised by its financial consultants that the tax-exempt securities required for financing the contemplated Projects should be readily marketable and very well received by the investment community.

IV. Conclusion

Based on the preceding analysis and our review of the financial information presented in the application and the amendments thereto, and additional financial information available to us, we have concluded that Washington Public Power Supply System is financially qualified to design and construct WNP-1 and WNP-4. This conclusion is based on our

finding that WPPSS's projected project financing method provides reasonable assurance of obtaining the funds necessary to design and construct WNP-1 and WNP-4 over the life of the construction permits.